

**BANK OF GREECE**  
**EUROSYSTEM**

**Supervision of Credit and Related Financial Institutions Department**

Athens, 23 April 2013

**Circular No. 457**

To be communicated also to the managements of credit and financial institutions (4)

**Re: Endorsement of the Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (2011/C 342/01)**

1. With its above-mentioned Recommendation, the European Systemic Risk Board (ESRB) calls upon national supervisory authorities to take measures in order to address risks associated with lending in foreign currencies. Among these measures, host supervisors are recommended to communicate to the relevant home supervisors all current or new measures taken in the respective Member State regarding foreign currency lending to residents. The purpose of the Recommendation is to ensure that such measures are complied with not only by credit or financial institutions having their head office in the Member State concerned, but also by all other credit or financial institutions operating in the territory of that Member State through branches or through the provision of cross-border services.

Against this background, the Bank of Greece, as home supervisor, decided (Credit and Insurance Committee Decision 65/2/22.03.2013) to endorse the ESRB Recommendation of 21 September 2011 (2011/C 342/01) on lending in foreign currencies, taking into consideration the criterion of proportionality in the implementation of recommendations B to F, and clarifying the following with regard to the application of recommendations G and A:

**Recommendation G “Reciprocity”**

The Bank of Greece will publish on its website the measures communicated to it by host supervisors as above, and calls upon all institutions supervised by the Bank to comply with these measures, at the individual, sub-consolidated and consolidated levels, i.e. to apply them

to all loans granted by any undertakings in their group operating in the territory of the Member State that has adopted the measures, provided that such loans:

(i) are denominated in a currency other than that of the Member State that has enacted the measures; and

(ii) are granted, through a branch or through the provision of cross-border services, to unhedged borrowers (i.e. borrowers without a financial hedge or a hedge in the form of income in foreign currency such as export receipts or remittances) domiciled in the Member State (Section 2, paragraphs 1 and 2, indent 1 (a) of the above Recommendation).

**Recommendation A. “Risk awareness of borrowers”**

With this Recommendation, the European Systemic Risk Board (ESRB) calls upon national supervisory authorities to take measures to ensure that borrowers are provided with adequate information regarding the risks involved in foreign currency lending. In this context, the Bank of Greece draws the attention of credit institutions to their obligation to comply with the provisions of Bank of Greece Governor’s Act 2501/2002, in particular Section B, paragraph 2 points iv, x and xi, as clarified by our Department’s document with ref. no. 484/19.03.2007, paragraph 1, and by Decision 178/3/19.07.2004 of the Banking and Credit Committee, paragraph 2. Specifically:

In the case of foreign currency loan agreements, credit institutions should inform their customers regarding the way and the factors which might affect the benchmark rate, as well as of the risks associated with exchange rate variations. Pre-contractual information to customers shall also include the possibility and cost of hedging against foreign exchange or interest rate risks. Furthermore, in order to ensure that customers are aware of the implications of exchange rate or interest rate changes for their loan instalments, credit institutions should provide examples illustrating how the loan instalments (principal and interest payments) might rise, assuming:

(a) as exchange rate, the highest negative fluctuation of the domestic currency against the currency of denomination, of the past three years; (b) as benchmark (foreign) interest rate, its highest level of the past three years.