THE CENTRAL BANK OF HUNGARY

European Systemic Risk Board
Francesco Mazzaferro
Head of Secretariat

Germany
Frankfurt am Main
Sonnemannstrasse 22
60314

Reference No: 115666-2/2015
Budapest, 10 July 2015

Subject: Notification of the European Systemic Risk Board (hereby ESRB) on the increase of the required minimum level of the Liquidity Coverage Ratio (LCR) in Hungary

Dear Mr. Mazzaferro,

Hereby I would like to notify the ESRB that Magyar Nemzeti Bank (hereinafter: MNB) intends to accelerate the gradual increase of the required Liquidity Coverage Ratio (LCR) in Hungary, setting the required level at 100% from 1 April 2016. Parallel to this decision, the MNB also plans to repeal the two short-term liquidity regulations currently in force, namely the one on the balance sheet coverage ratio and the other on the deposit coverage ratio. By these regulatory steps, the MNB wishes to ensure a strong and reliable liquidity regime in Hungary through requiring reassuringly solid liquidity buffers financial institutions should maintain.

Part Six of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (thereafter the CRR) sets out the Liquidity Coverage Ratio (thereafter LCR) as the single binding liquidity coverage requirement for credit institutions. Commission Delegated Regulation (EU) 2015/61 (thereafter DA) has defined further details of the liquidity requirements set out in CRR.

Both Regulations expect credit institutions to comply with these requirements from October 1, 2015 at a 60 % rate gradually increasing to 100 % by January 1, 2018. Article 412(5) of CRR and Article 38(2) of the DA however offer the option for member states and competent authorities to require domestically authorised institutions, or a subset of those institutions, to maintain a higher liquidity coverage ratio up to 100 % until the binding minimum standard is fully introduced at a rate of 100 % in accordance with Article 460 of CRR.

Based on the decision of the Member State, the MNB, pursuant to Article 34(2)(c) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank, has been designated to set short term liquidity coverage requirements as a macroprudential authority. Having regard to this mandate MNB has already issued MNB Decree 24/2014 (VI. 27) requiring credit institutions to adhere to requirements expressed in the form of a balance sheet coverage ratio and a deposit coverage ratio.
The Financial Stability Council of MNB (thereafter FSC) has discussed the status of short term liquidity coverage requirements being in force and the upcoming EU-level regulations and decided that the currently binding requirements in the form of the balance sheet coverage ratio and the deposit coverage ratio have to be repealed and the EU-level requirements specified in the form of LCR have to have a shortened phase-in period in order to ensure a strong and reliable liquidity regime in Hungary. The 2008 financial crisis highlighted that the drying up of financial markets can cause severe liquidity tensions in the banking system. In order to prevent such situations, it is essential – from a prudential perspective – to assure that banks have sufficient liquidity buffers, which can increase the banks' shock-absorbing capacity. Along this line, the FSC has also reviewed the minimum necessary time period for introducing the fully fledged LCR requirements.

The FSC has reviewed how a prospective accelerated introduction of the LCR requirements would interact with the currently binding and the planned liquidity and maturity mismatch requirements for the Hungarian banking sector. The FSC has found that with the concurrent withdrawal of the balance sheet coverage and deposit coverage requirements there would be no meaningful collusion as the other relevant requirements[1] affect different types of liquidity and funding risks. Overall the MNB has decided that, following the introduction of EU-level LCR requirements at 60% on October 1, 2015 and their increase to 70% on January 1 2016, it expects domestically authorized institutions to comply with the 100% requirement by April 1 2016. Based on the evaluation of the MNB, this phase-in period will provide sufficient time for the institutions to comply with the heightened requirements. With this decision Hungary joins the Netherlands[2] and the UK[3], that have already decided to set higher requirements with the aim of safeguarding their national financial system against short term liquidity risks.

Detailed amendments

Pursuant to Article 38(2) of the DA in accordance with Article 412(5) of the CRR, Members States or competent authorities may require domestically authorised institutions, or a subset of those institutions, to maintain a higher liquidity coverage requirement up to 100 % until the binding minimum standard is fully introduced at a rate of 100 % in accordance with the DA. In case of Hungary pursuant to Article 34(2)(c) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank on the

[1] The Mortgage Funding Adequacy Requirement, the Foreign Exchange Coverage Ratio and the Foreign Funding Adequacy Ratio on all of which the ECB issued its opinion on May 21, 2015. (CON/2015/15).

[2] http://www.toezicht.dnb.nl/7/50-232882.jsp

[3] http://www.bankofengland.co.uk/pra/Documents/publications/ps/2015/ps1115.pdf

basis of the decision of the FSC, within the strategic framework determined by the Monetary Council, the governor of the MNB shall regulate, in a decree, […]. c) the short-term liquidity coverage requirements for the minimum level of liquidity concerning the institutions.

Under this mandate, following the consultation with the ECB and with the market participants, the MNB intends to adopt a decree implementing the accelerated introduction of LCR requirements along the following timeline.

Table 1: Expected timeline for the introduction of EU-level LCR in Hungary

Legally binding requirements	Date of application
60 % of LCR (as determined in the DA)	1 October 2015
70 % of LCR (as determined in the DA)	1 January 2016
100 % of LCR (as determined by the MNB decree)	1 April 2016

The abovementioned decree is expected to be adopted at the end of August 2015. In parallel MNB will also repeal MNB Decree 24/2014 (VI. 27) requiring credit institutions to adhere to requirements expressed in the form of a balance sheet coverage ratio and a deposit coverage ratio. In order to effectively control the implementation of the draft decree, until the modification of the data-reporting requirements along the lines of the DA, the MNB plans to determine temporary data provision obligations for the entities covered by the draft decree.

Legislative process

The MNB initiated a consultation procedure with the ECB regarding the planned macroprudential regulatory steps. Following the consultation procedure with the ECB and the notification of the ESRB, the decree will be approved by the FSC, and the decree will be published in the Official Gazette.

The planned date of the adoption of the MNB decrees repealing the currently binding short-term liquidity requirements and at the same time introducing the accelerated LCR requirements is set for the end of August, 2015.

Sincerely Yours:

Marton Nagy
Executive Director
Financial Stability and Lending Incentives

MAGYAR NEMZETI BANK

Enclosure – Unofficial translation of Draft Decree (in English)

Decree No.
…/2015 (… …) of the Governor of the Magyar Nemzeti Bank
on the minimum level of the liquidity coverage ratio

Having regard to the authorisation by the subsection kc) in Article 171(1) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank and acting within scope of duty laid down in Article 4(7) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank, I hereby decree the following:

Section 1 This Decree shall apply to credit institutions subject to Commission Delegated Regulation (EU) 2015/61 (hereinafter: credit institution).

Section 2 For the purposes of this Decree the following definitions shall apply:
1. *liquidity coverage ratio:* the ratio calculated in accordance with Commission Delegated Regulation (EU) 2015/61.

Section 3 The credit institution shall maintain a liquidity coverage ratio of 100 per cent at all times.

Section 4 This Decree shall enter into force on 1 April 2016, and shall be repealed as of 1 January 2018.

Section 5 This Decree lays down provisions required for the implementation of
1. Article 412(5) of Regulation (EU) No. 575/2013/EU of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012; and
2. Article 38(2) of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

Section 6 The preliminary consultation of this draft Decree pursuant to the sixth indent of Article 2(1) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions has been done.

Dr György Matolcsy
Governor of the Magyar Nemzeti Bank