Template for notifying national macroprudential measures not covered by CRR/CRD

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB.

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Magyar Nemzeti Bank (MNB)
1.2	Name of the macroprudential measure that is notified.	Amendment of 3 regulations: • the restoration of the Foreign Exchange Funding Adequacy Ratio (FFAR) requirement to its earlier state (before 24 March 2020), • the restoration of the Foreign Exchange Coverage Ratio (FECR) requirement to its earlier state (before 24 March 2020) and • the modification of the Interbank Funding Ratio (IFR).
2. Description of the measure		
2.1	Description of the measure.	**<u>Modification of the FFAR regulation:</u>** The temporary modification of the measure in effect from 24 March 2020, according to which the FX liabilities from financial customers with a residual maturity of over one year are subdivided into groups according to residual maturity, with different weights for different maturities, was repealed. Thus, the FFAR regulation is restored to accept FX funds with a residual maturity over one year as 100% stable funds, regardless of the funding partner or fund type. **<u>Modification of the FECR regulation:</u>** The temporary modification of the measure in effect from 24 March 2020, according to which the limit on the FX mismatches between assets and liabilities relative to the

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		balance sheet total narrowed from 15 per cent to 10 per cent is repealed. Thus, the FECR limit is restored to 15 percent. **Modification of the IFR regulation:** The on-balance sheet liabilities related to derivative transactions with financial companies and arising from the revaluation of these transactions are exempted in determining the IFR.
2.2	Legal basis and process of implementation of the measure.	As macroprudential authority in Hungary, the MNB has the power to issue legally binding regulations in order to reduce systemic risks, as stipulated in Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act). Article 171 (1) k) kc) of the MNB Act authorises the Governor of the MNB to decree the measures required to prevent the build-up of systemic risks and to reduce systemic risks, and to increase the resilience of the financial intermediary system, within the strategic framework defined by the Monetary Council, based on the decision of the Financial Stability Board, including requirements for the reduction of systemic liquidity risks. Furthermore, Article 4 (7) of the MNB Act states that the MNB shall explore risks threatening the financial intermediary system as a whole, it shall help to prevent the build-up of systemic risks, and shall help to mitigate or eliminate the systemic risks that may already exist.
2.3	Coverage	The scope of the measures remains unchanged. The FFAR and the FECR requirements shall apply to credit institutions operating as companies limited by shares and the Hungarian branches of foreign credit institutions, as well as the credit institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover building societies, the Magyar Fejlesztési Bank Zrt., the Magyar Export-Import Bank Zrt. and the Központi Elszámolóház és Értéktár (Budapest) Zrt.. Banks and banking groups subject to the proposed regulation need to comply on a sub-consolidated level. The IFR requirement applies to credit institutions operating as companies limited by shares and the

		Hungarian branches of foreign credit institutions, as well as the institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover building societies, the Magyar Fejlesztési Bank Zrt., the Magyar Export-Import Bank Zrt. and the Központi Elszámolóház és Értéktár (Budapest) Zrt. Banks and banking groups subject to the proposed regulation need to comply on a sub-consolidated level.
2.4	Any other relevant information.	In case of the FFAR and the FECR, the regulations in effect before 24 March 2020 were restored.
3. Timing		
3.1	Timing of the decision	The Financial Stability Board (FSB) of the MNB reached a decision regarding the amendments on 7 September 2020.
3.2	Timing of the publication	The decree was published in the Official Gazette on 16 September 2020.
3.3	Disclosure	Due to the restoring, loosening nature of the measures, no consultations took place with participants before the official publication of the Decree, but comments received from institutions since the last modification of the measures were taken into account.
3.4	Timing of the application	The amendment of the measures came into effect on 17 September 2020.
3.5	End date (if applicable)	There is no end date set for the regulations, measures are reviewed regularly.
4. Reason for the activation of the measure		

4.1	Description of the macroprudential risk to be addressed.	The worldwide spread of the coronavirus pandemic could have a significant negative economic and financial impact. In order to counteract the emerging systemic risks, ensure a safely financed banking system and sustain its contribution to economic growth, the immediate revision of the national macroprudential tools addressing funding risks was warranted in March 2020. The MNB continuously monitored the development of risks and the effects of the coronavirus epidemic on the financial system, on the basis of which it considered it necessary to review these transitional measures. As the risks targeted by the measures were not materialized at the sectoral level and the epidemic situation did not lead to a substantial change in the financing structure and in the availability of proper funding, it was justified to restore the previous requirements for FFAR and FECR and to withdraw the temporarily tightened measures. The restoration could increase the room for maneuver of banks active in some specialized financial services in terms of funding, which could also support a more efficient future operation of the domestic foreign exchange swap market. The on-balance sheet liabilities related to derivative transactions with financial corporations and arising from the revaluation of these transactions are exempted from the IFR requirement, as they show significant volatility for banks active in the foreign exchange swap market, thus making it harder for institutions to plan their compliance and triggering unwanted adjustments.
4.2	Description of the indicators on the basis of which the measure is activated.	The FSB of the MNB has considered numerous factors while deciding on the current set of measures. These include the FX mismatch between assets and liabilities, maturity mismatch between FX assets and liabilities of credit institutions, the distribution of the maturity of FX assets and liabilities, the share of long-term FX funds relative to all FX liabilities and indicators related to the development of the FX swap market.

4.3	Effects of the measure.	The repeal of the March 2020 tightening in the FFAR and FECR may improve some banks' accommodation capacities with no harm to the main objectives of stable funding. The modification of the IFR will make it easier for institutions to plan their compliance, avoiding unwanted adjustment. The amendment will only have a significant (positive) impact on a few banks with specialised business models; on most of the institutions, the impact is expected to be negligible.
5. Cross-border and cross-sector impact of the measure		
5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	The regulation is not expected to have a significant impact on the cross-border activities of banks, or on the internal market. However, the MNB will monitor the impact of the new measures regularly.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The MNB expects no material leakages and regulatory arbitrage within Hungary. However, the MNB will monitor the impact of the new measures regularly.
5.3	Request for reciprocation	The MNB does not request the ESRB to issue a recommendation to other Member States to reciprocate the measure.
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	**Mr. Gergely Fábián**, Executive Director Executive Directorate for Financial System Analysis and Statistics Phone: +36 (1) 428 2600/1874 E-mail: fabiang@mnb.hu **Mr. Tamás Nagy**, Director Directorate for Financial System Analysis

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6.2	Any other relevant information.	