



ESRB
European Systemic Risk Board
European System of Financial Supervision



Notification template for Article 124 of the Capital Requirements Regulation (CRR) – Risk Weights

Template for notifying the European Banking Authority (EBA), European Central Bank (ECB) and European Systemic Risk Board (ESRB) of higher risk weights being set for immovable property pursuant to Articles 125(1) and 126(1) CRR or on applying stricter criteria than those set out in Articles 125(2) and 126(2) CRR

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation¹);
- notifications@esrb.europa.eu when notifying the ESRB;
- portal.eba.europa.eu when notifying the EBA.

The ESRB will publish the risk weights and criteria for exposures referred to in Articles 125, 126 and 199(1)(a) of the CRR as implemented by the relevant authority. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure².

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please submit the notification template in a format that allows the information to be read electronically.

1. Notifying national authority	
1.1 Name of the notifying authority	Central Bank of Ireland
1.2 Country of the notifying authority	Ireland
2. Scope of the notification and description of the measure	
2.1 Exposures secured by mortgages on residential property	<p>a) Do you intend to set a higher risk weight than that set out in Article 125(1) CRR for exposures fully and completely secured by mortgages on residential property? No</p> <p>b) If yes, please specify:</p> <ul style="list-style-type: none"> - Which risk weight you intend to change. Please specify the new risk weight to be set (between 35% and 150%). - To which part(s) of your Member State territory will the new risk weight for exposures set out above apply?

¹ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

² On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

	<ul style="list-style-type: none"> - To which property segment(s) will the new risk weight for exposures set out above apply? <p>NA</p> <p>c) Do you intend to apply stricter criteria than those set out in Article 125(2) CRR for exposures fully and completely secured by mortgages on residential property?</p> <p>NO</p> <p>d) If yes, please specify:</p> <ul style="list-style-type: none"> - What criteria you intend to add or tighten. - To which part(s) of your Member State territory the stricter criteria set out above will apply? - To which property segment(s) will the new risk weighting for exposures set out above apply? <p>NA</p>
<p>2.2 Exposures secured by mortgages on commercial immovable property</p>	<p>e) Do you intend to set a higher risk weight than that set out in Article 126(1) CRR for exposures fully and completely secured by mortgages on commercial immovable property?</p> <p>NO</p> <p>f) If yes, please specify:</p> <ul style="list-style-type: none"> - What risk weight you intend to set. Please specify the new risk weight to be set (between 50% and 150%). - To which part(s) your Member State territory will the new risk weight set out above apply? - To which property segment(s) will the new risk weight set out above apply? <p>NA</p> <p>g) Do you intend to apply stricter criteria than those set out in Article 126(2) CRR for exposures fully and completely secured by mortgages on commercial immovable property?</p> <p>No</p> <p>h) If yes, please specify:</p> <ul style="list-style-type: none"> - What criteria you intend to add or tighten. - To which part(s) of your Member State territory will the stricter criteria set out above apply? - To which property segment(s) will the new risk weight set out above apply? <p>NA</p>
<p>2.3 Other relevant information</p>	<p>Any other relevant information.</p> <p>The Central Bank of Ireland is the authority designated responsible for the application of Article 124(2) CRR in Ireland (See Statutory Instrument 711/2020). Following this designation the Central Bank conducts the annual assessment relating to Article 124(2) in the context of its macroprudential remit.</p>

	<p>Based on the annual assessment and taking account of the scope and nature of applicable exposures, it was not considered that there was an inadequacy in the risks weights set out in Article 125(1) or 126(1) which would adversely affect financial stability.</p> <p>This assessment noted:</p> <ul style="list-style-type: none"> • Only a limited number of firms have exposures backed by residential or commercial property whose risk weights are calculated under the standardised approach. • Estimates indicate that exposures backed by residential or commercial property whose risk weights are calculated under the standardised approach account for only a modest share of total exposures of the retail banking sector in aggregate. • Further, in order to be considered fully and completely secured, exposures need to meet certain conditions (See CRR Articles 125(2) and 126(2)). At present, only a proportion of relevant exposures would meet (or be shown to meet) these criteria. <p>As such, the Central Bank will not apply discretion to set higher risk weights or indeed impose stricter criteria beyond the baseline requirements of the CRR for these exposure classes.</p> <p>This removes the stricter measures – outlined below - which the Central Bank had previously applied through the use of the discretion. That is:</p> <p>-A 35 per cent risk weight for exposures fully and completely secured by mortgages on residential property but only where the loan-to-value (LTV) at market value does not exceed 75 per cent, in contrast to the CRR baseline LTV of 80 per cent. In all other cases a 100 per cent risk weight applied unless the exposure satisfied the definition of retail exposure under the CRR, in which case a 75 per cent risk weight applied.</p> <p>-A 75 per cent risk weight assigned to exposures to mortgages secured by residential investment properties, if the exposure met the definition of ‘retail exposure’ under Article 123 CRR. Otherwise, a 100 per cent risk weight applied.</p> <p>-For commercial property, the Central Bank required that a 100 per cent risk weight was applied to exposures fully and completely secured by mortgages.</p> <p>The impact of the removal of these stricter criteria is seen as limited from a financial stability perspective.</p>
3. Timing for the measure	
3.1 Timing for the decision	<p>What is the date of the official decision? <u>For SSM countries when notifying the ECB:</u> provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken.</p> <p>08/11/2021</p>
3.2 Timing for publication	<p>What is the date of publication for the notified measure?</p> <p>25/11/2021</p>
3.3 Disclosure	<p>Information about the strategy for communicating the notified measure to the market.</p>

	<p>The outcome of the annual review will feature in the Central Bank of Ireland Financial Stability Review (FSR) 2021:II. The Central Bank uses the FSR to communicate its macroprudential policy actions in the wider context of an assessment of the risks facing and the resilience of the Irish financial system. FSR 2021:II is due for publication on 25 November.</p>
<p>3.4 Timing for application</p>	<p>What is the intended date for application of the measure?</p> <p>The measures will come into effect upon publication of an updated published notice to firms. This “notice”, entitled ‘<i>Implementation of Competent Authority Options and Discretions in the European Union (Capital Requirements) Regulations 2014 and Regulation (EU) No 575/2013</i>’ addresses the manner in which the Central Bank intends to exercise the Competent Authority options and discretions that are provided for in the CRR and the Capital Requirements Directive. It is intended that an updated “notice” will be published on the Central Bank of Ireland website here. This publication will coincide with the publication of FSR 2021: II, referenced above.</p> <p>Click here to enter a date.</p>
<p>3.5 Frequency/review</p>	<p>Does your decision to set higher risk weights have an expiry date? When will the decision be reviewed?</p> <p>The Central Bank will review the measure in 2022.</p>
<p>4. Reason for setting higher risk weights or stricter criteria than those set out in Articles 125(2) or 126(2) CRR</p>	
<p>4.1 Regulatory context</p>	<p>What are the current risk weights applied to exposures secured by mortgages on residential property and on commercial immovable property?</p>
<p>4.2 Risk weights versus actual risks</p>	<p>Specify the reasons why the risk weights for exposures to one or more property segments fully secured by mortgages on residential property or on commercial immovable property located in one or more parts of your Member State territory do not reflect the actual risks of these exposures and put your answers in perspective vis-à-vis the real estate markets of other European Member States.</p>
<p>4.3 Motivation</p>	<p><u>a) Loss experience</u></p> <ul style="list-style-type: none"> - Provide details about the loss experience in the real estate market of your Member State that has led you to conclude that higher risk weights must be set or stricter criteria applied than those set out in Articles 125(2) and 126(2) CRR. - Which of the data referred to in Article 430a CRR were considered in your assessment? - Provide any other indicators and other relevant information on the basis of which the assessment was made. If possible, please provide the data (preferably in an Excel file). <p><u>b) Forward-looking real-estate market developments</u></p> <ul style="list-style-type: none"> - Describe the forward-looking real-estate market developments that led you to conclude that higher risk weights should be set or stricter criteria applied than those set out in Articles 125(2) and 126(2) CRR. - Provide the indicators and any other relevant information on the basis of which the assessment was made. If possible, please provide the corresponding data (preferably in an Excel file).

	<p>c) Financial stability considerations</p> <ul style="list-style-type: none"> - What are the financial stability considerations that were taken into account? - Please include: <ul style="list-style-type: none"> o the factors that could 'adversely affect current or future financial stability' as referred to in Article 124(2)(2) CRR; and, o the indicative benchmarks that you took into account in determining the higher risk weights. - Provide the indicators and any other relevant information on the basis of which the assessment was made. If possible, please provide the data (preferably in an Excel file).
5. Sufficiency, consistency and non-overlap of the policy response	
<p>5.1 Sufficiency of the policy response</p>	<p>For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy.</p> <p>Note that the ESRB will use the assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State.</p> <p>Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response.</p>
<p>5.2 Consistency of application of the policy response</p>	<p>For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1³, and they must be implemented in accordance with the common principles set out in the relevant legal texts.</p> <p>Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time.</p> <p>Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response.</p>
<p>5.3 Non-overlap of the policy response</p>	<p>For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs from a risk addressed by other active tools in the same Member State, or be complementary to another tool in that Member State which addresses the same systemic risk.</p> <ul style="list-style-type: none"> - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other.
6. Cross-border and cross-sector impact of the measure	

³ Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

<p>6.1 Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2⁴)</p>	<p>Assessment of the cross-border effects of implementation of the measure.</p> <p>a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector⁵ and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used.</p> <p>b. Assessment of the:</p> <ul style="list-style-type: none"> o cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); o cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); o overall impact on the Single Market of implementation of the measure.
<p>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</p>	<p>Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)?</p> <p>Is there scope for "leakages and regulatory arbitrage" in other jurisdictions?</p>
<p>7. Miscellaneous</p>	
<p>7.1 Contact person(s)/mailbox at notifying authority</p>	<p>Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries.</p> <p>Eoin O'Brien eoin.obrien@centralbank.ie macroprudential@centrbank.ie</p>
<p>7.2 Any other relevant information</p>	
<p>7.3 Date of the notification</p>	<p>Please provide the date on which this notification was uploaded/sent. 22/10/2021</p>

⁴ Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2) (OJ C 97, 12.3.2016, p. 9).

⁵ Available on the ESRB's website at www.esrb.europa.eu.