

## Notification template for borrower-based measures

Please send/upload this template to:

- [macropru.notifications@ecb.europa.eu](mailto:macropru.notifications@ecb.europa.eu) when notifying the European Central Bank (ECB);
- [DARWIN/ASTRA](#) when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure<sup>1</sup>.

E-mailing/uploading this template to the above addresses constitutes 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 the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	<i>Financial and Capital Market Commission (FCMC).</i>
1.2	Country of the notifying authority	<i>Latvia.</i>
1.3	Type of borrower-based measure	Please select one of the measures listed below: <ul style="list-style-type: none"> <li><input type="checkbox"/> Debt-service-to-income (DSTI)</li> <li><input type="checkbox"/> Loan-to-income (LTI)</li> <li><input type="checkbox"/> Loan-to-value (LTV)</li> <li><input type="checkbox"/> Debt-to-income (DTI)</li> <li><input type="checkbox"/> Loan maturity</li> <li><input checked="" type="checkbox"/> <i>Other (extension of the scope of application of borrower-based measures applicable as of 1 June 2020)</i></li> </ul>
1.4	Type of notification	What do you intend to notify? <ul style="list-style-type: none"> <li><input type="checkbox"/> Activation of a new measure</li> <li><input checked="" type="checkbox"/> <i>Change to an existing measure</i></li> <li><input type="checkbox"/> Extension of an existing measure</li> <li><input type="checkbox"/> Termination of an existing measure</li> </ul>

<sup>1</sup> 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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	<p>Provide a detailed description of the measure, including:</p> <ul style="list-style-type: none"> <li>- The nature and value(s) of the restrictions imposed by the measure, as applicable. If the measure varies depending on certain characteristics of the loan or borrower, please specify all such cases.</li> <li>- Whether exceptions from the measure are allowed. If so, please specify the nature and size(s) of the exceptions, as applicable.</li> </ul> <p><i>As previously notified on 30 March 2020, borrower-based measures applicable when providing housing or consumer loans to Latvian residents were extended as of 1 June 2020 to include among others the following requirements: (i) a maximum DSTI of 40%; (ii) a maximum DTI of 6; (iii) maximum maturity threshold of 30 years for housing loans and 7 years for consumer loans and (iv) a maximum 70% LTV for buy-to-let loans.</i></p> <p><i>To limit any potential leakage of these measures through regulatory arbitrage by credit institutions located in other Member States that are authorized to provide financial services in Latvia, the Credit Institution Law Section 6 was amended on 29 April 2021 (in force as of 19 May 2021) to ensure that starting from 1 January 2022 these requirements are also applicable to lenders authorised in other Member States offering loans to natural persons in Latvia via branch or direct cross-border operations.</i></p>
2.2	Definition of the measure	<p>Please provide a detailed definition of each variable used in the construction of the indicator which is subject to the restrictions, as applicable (e.g. define what constitutes the value of the loan (L) and what counts towards valuation of the collateral (V) for an LTV indicator).</p> <p>Please include:</p> <ol style="list-style-type: none"> <li>a) Value of the loan/debt (for loan/debt-to-income), or value of the loan/debt instalments (for loan/debt service-to-income indicators) <ul style="list-style-type: none"> <li>- What types of loans are included?</li> </ul> </li> <li>b) Value of the collateral <ul style="list-style-type: none"> <li>- What type of collateral can be included?</li> </ul> </li> </ol>

		<p>c) Income</p> <ul style="list-style-type: none"> <li>- Is it gross or net income? What types of incomes are considered? If average income is considered, how long is the period considered?</li> </ul> <p><i>Amendments are applicable to credit institutions authorised in other Member States that are authorised to offer financial services in Latvia as per General Goods Provisions (Freedom of Establishment and Freedom to Provide Services).</i></p>
2.3	<p>Legal basis and process of implementation of the measure</p>	<p>Specify the legal basis and process of implementation of the measure. Please include:</p> <ul style="list-style-type: none"> <li>- how the notified measure is implemented;</li> <li>- whether or not the notified measure is legally binding (e.g. a recommendation); <ul style="list-style-type: none"> <li>o if the measure is non-legally binding, please provide the reasons why this choice was made and provide details of the means by which compliance with this measure can be fostered.</li> </ul> </li> </ul> <p><i>The Credit Institution Law Section 6 was amended on 29 April 2021 (in force as of 19 May 2021) to ensure that borrower-based requirements covered in the existing FCMC Regulations for Credit Risk Management (Regulations No 242 of 22 December 2020) pursuant to Sections 34.<sup>2</sup> (4) and 55 of the Credit Institution Law and Sections 119.<sup>1</sup> (3) and 122.<sup>1</sup> (4) of the Financial Instruments Market Law are applicable also to credit institutions authorised in other Member States that are authorised to offer financial services in Latvia as per General Goods Provisions (Freedom of Establishment and Freedom to Provide Services) to limit any potential regulatory arbitrage in light of their significant share in the domestic credit portfolio. The measure is legally binding and will apply from 1 January 2022.</i></p> <p><i>The letter stating proposed changes in the FCMC Regulations for Credit Risk Management was sent to branches registered in Latvia on 8 April 2021. As regards credit institutions that have not registered a branch in Latvia but operate solely according to the Freedom to</i></p>

		<p><i>Provide Services act the respective information will be delivered via Conditions Attached to Operations by Way of the Freedom to Provide Services in Latvia available in the FCMC homepage</i></p> <p><i>(<a href="https://www.fktk.lv/en/law/general/general-good-provisions/freedom-to-provide-services/">https://www.fktk.lv/en/law/general/general-good-provisions/freedom-to-provide-services/</a> (section "Credit Institutions"))). For credit institutions that also operate according to the Freedom of Establishment the respective information will be delivered via Conditions Attached to Operations by Way of the Freedom of Establishment in Latvia available in the FCMC homepage</i></p> <p><i>(<a href="https://www.fktk.lv/en/law/general/general-good-provisions/freedom-of-establishment/">https://www.fktk.lv/en/law/general/general-good-provisions/freedom-of-establishment/</a> (section "Credit Institutions"))).</i></p>
2.4	Coverage	<p>a. Which types of credit providers will be covered by the measure?</p> <p>e.g. credit institutions (including local branches of foreign credit providers), certain other financial institutions (e.g. pension funds, insurance companies, investment funds), etc.</p> <p>Please specify whether coverage of the measure is limited based on the type of activity of the credit provider, e.g. to mortgage credit providers.</p> <p><i>The amendment extends the scope of application for the abovementioned borrower-based measures (that apply only for loans to natural persons) also to credit institutions located in other Member States that are authorised to offer financial services in Latvia as per General Goods Provisions (Freedom of Establishment and Freedom to Provide Services).</i></p> <hr/> <p>b. Which types of borrowers will be covered by the measure?</p> <p>e.g. only natural persons, only legal entities, both natural persons and legal entities, etc.</p> <p><i>The borrower-based measures affected by this amendment are applicable only to natural persons.</i></p>

		<p>c. Which types of lending will be covered by the measure?</p> <p>e.g. mortgage loans, consumer loans that are provided to consumers with a mortgage, consumer loans, debt securities issued and overall debt of non-financial companies, etc.</p> <p><i>The amendment will cover new residential mortgages loans and consumer loans issued after 1 January 2022.</i></p>
2.5	Calibration	<p>Provide information on how the measure was calibrated, including the main assumptions used therefor.</p> <p><i>The amendment extends the scope of applicability for abovementioned borrower-based measures also to credit institutions located in other Member States that are authorized to offer financial services in Latvia as per General Goods Provisions (Freedom of Establishment and Freedom to Provide Services) as these two channels (lending through branches and direct cross-border lending) represent the main avenues for the potential regulatory arbitrage both currently and in the future.</i></p>
<b>3. Timing for the measure</b>		
3.1	Timing for the decision	<p>What is the date of the official decision of the notified measure?</p> <p><i>29/04/2021</i></p> <p><i>Amendments to Section 6 of the Credit Institution Law.</i></p> <p><i>06/07/2021</i></p> <p><i>The FCMC Councils' decision to adopt the FCMC Regulations for Credit Risk Management.</i></p>
3.2	Timing for publication	<p>What is the date of publication of the notified measure?</p> <p><i>05/05/2021</i></p> <p><i>Publication of adopted text of the Credit Institution Law.</i></p> <p><i>12/07/2021</i></p> <p><i>Publication of adopted amendments in the FCMC Regulations for Credit Risk Management.</i></p>

3.3	Disclosure	<p>Provide information about the strategy for communicating the notified measure to the market.</p> <p>Please provide a link to the public announcement, if any.</p> <p><i>The overview of abovementioned borrower-based measures is available on the FCMC homepage (<a href="https://www.fktk.lv/en/media-room/sectoral-issues/macprudential-supervision/borrowers-based-measures/">https://www.fktk.lv/en/media-room/sectoral-issues/macprudential-supervision/borrowers-based-measures/</a>).</i></p> <p><i>The information concerning the amendment to extend the scope for application of borrower-based measures will be provided via Conditions Attached to Operations by Way of the Freedom to Provide Services in Latvia available in the FCMC homepage (<a href="https://www.fktk.lv/en/law/general/general-good-provisions/freedom-to-provide-services/">https://www.fktk.lv/en/law/general/general-good-provisions/freedom-to-provide-services/</a> (section "Credit Institutions")) and via Conditions Attached to Operations by Way of the Freedom of Establishment in Latvia (<a href="https://www.fktk.lv/en/law/general/general-good-provisions/freedom-of-establishment/">https://www.fktk.lv/en/law/general/general-good-provisions/freedom-of-establishment/</a> (section "Credit Institutions"))).</i></p> <p><i>The letter describing proposed changes in the FCMC Regulations for Credit Risk Management was sent to branches registered in Latvia on 8 April 2021.</i></p>
3.4	Timing for the application	<p>What is the intended date for application of the measure?</p> <p>What is the intended timeline for phase-in of the measure, if relevant?</p> <p>01/01/2022</p>
3.5	End date (if applicable)	<p>Until when is it presumed that the measure will be in place? If applicable, please give an end date.</p> <p>Click here to enter a date.</p> <p>N/A</p>
<p><b>4. Reason for activation of the measure</b></p>		

4.1	Description of the macroprudential risk	<p>Describe the macroprudential risk to be addressed by the proposed macroprudential measure.</p> <p><i>Material leakages through regulatory arbitrage can weaken the effectiveness of the applicable borrower-based measures that were introduced to strengthen the resilience of credit institutions and protect borrowers from potential future shocks, thus contributing to the financial stability.</i></p>
4.2	Indicators used for activation of the measure	<p>Provide the indicators triggering activation of the measure. Provide the data on which the decision is based if possible (preferably in an Excel file).</p> <p><i>Credit institutions located in other Member States that operate in Latvia via a branch represented in 2021 Q3 17% of total banking sector assets and 25% of total (29% of lending to households) domestic credit portfolio.</i></p>
4.3	Effects of the measure	<p>Provide your assessment of the effects of the measure on your domestic banking system, other parts of the financial system, the real economy and financial stability in your country.</p> <p><i>Going forward the increased scope for the applicability of abovementioned borrower-based measures is expected to limit any potential regulatory arbitrage that would inhibit their effectiveness and ensure a level playing field among lenders.</i></p>
<p><b>5. Sufficiency, consistency and non-overlap of the policy response</b></p>		

5.1	Sufficiency of the policy response	<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 this 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><i>The amendment provides a legal basis to prevent any material regulatory arbitrage as regards abovementioned borrower-based measures, both through branches and cross-border lending channels.</i></p>
5.2	Consistency of application of the policy response	<p>For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1<sup>2</sup>, 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><i>The amendment extends the scope for applicability of abovementioned borrower-based measures, which were introduced to achieve intermediate objectives (mitigation and prevention of excessive credit growth and leverage) specified in the ESRB recommendation ESRB/2013/1.</i></p>

<sup>2</sup> 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).

5.3	Non-overlap of the policy response	<p>For a policy instrument to be ‘non-overlapping’, it should aim to address a systemic risk that either differs from the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk.</p> <ul style="list-style-type: none"> <li>- Are other policy instruments used to address the <u>same</u> systemic risk?</li> <li>- 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.</li> </ul> <p><i>No other active legally binding tool extends the scope for applicability of abovementioned borrower-based measures to lending through branches and cross-border lending, therefore there are no overlaps with exiting measures.</i></p> <p><i>General consumer protection standards, in case if the borrower is recognized as a consumer within the meaning of the Consumer Rights Protection Law (hereinafter – the CRPL), and a loan-to-value requirement of up to 90% (95% in case of loans issued in accordance with the State support programme) should be applied in a manner covered in the CRPL.</i></p> <p><i>However, the provisions covered in the CRPL do not overlap with those covered in the FCMC Regulations for Credit Risk Management (Regulations No 242 of 22 December 2020).</i></p> <p><i>The Consumer Rights Protection Centre (CRPC) has also introduced separate DSTI limits via its Guidelines on Consumer Credit Repayment that apply to all consumer lending (other than those entities covered by the requirements in the FCMC Regulations for Credit Risk Management (Regulations No 242 of 22 December 2020)) that are similar to the above-mentioned DSTI measure, thereby promoting a level playing field within internal financial market without overlapping with borrower-based measures that apply to credit institutions. Although, the status of the guidelines is not legally binding, the general approach of the CRPC is to strongly</i></p>
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		<i>encourage market participants to comply with these guidelines.</i>
<b>6. Cross-border and cross-sector impact of the measure</b>		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2 <sup>3</sup> )	<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 Sector<sup>4</sup> and the <a href="#">Framework to assess cross-border spillover effects of macroprudential policies</a> 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"> <li>○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers);</li> <li>○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers);</li> <li>○ overall impact on the Single Market of implementation of the measure.</li> </ul> <p><i>No inward spillovers are expected and the impact on the single market is presumed to be moderately positive (enhanced level playing field). As regards outward spillovers, direct cross-border lending to natural persons in Latvia is currently limited; lending through branches is more pronounced, and application of the same borrower-based measures as are currently in force for local institutions may lead to certain decrease in the issuance of riskier portion of loans to natural persons (either through smaller loans, higher down payment or opting out of loans altogether). As the abovementioned borrower-based measures were calibrated in a forward-looking manner taking into account the entire range of the financial cycle, currently they are expected to affect only a minor portion of loan applicants, which may potentially increase in future should any signs of</i></p>

<sup>3</sup> 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/2015/3) (OJ C 97, 12.3.2016, p. 9).

<sup>4</sup> Available on the ESRB's website at [www.esrb.europa.eu](http://www.esrb.europa.eu).

		<i>overheating in mortgage or consumer lending become evident.</i>
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	<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><i>None, as the amendment is introduced specifically to limit any potential leakages or regulatory arbitrage.</i></p>
6.3	Request for reciprocation	<p>Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure?</p> <p><i>No</i></p> <p>- If yes, please provide in Section 6.4 the justification for that reciprocity.</p> <p>- If no, what are the reasons for not requesting reciprocation?</p> <p><i>The amendment already inherently covers direct cross-border lending and lending through local branches of</i></p>

		<i>credit institutions authorised in other Member States, therefore reciprocity in this case is not necessary.</i>
6.4	Justification for the request for reciprocity	<p>To request reciprocity, please provide the following:</p> <ol style="list-style-type: none"> <li>a concise description of the measure to be reciprocated;</li> <li>the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness;</li> <li>the proposed materiality threshold and justification for that level.</li> </ol> <p>If the ESRB deems the request for reciprocity to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of ESRB Recommendation 2015/2.</p> <p>N/A</p>
<b>7. Miscellaneous</b>		
7.1	Contact person(s)/mailbox at notifying authority	<i>Kristina Bojare, phone +371 67774928, <a href="mailto:Kristina.Bojare@fktk.lv">Kristina.Bojare@fktk.lv</a></i>
7.2	Any other relevant information	N/A
7.3	Date of the notification	<p>Please provide the date on which this notification was uploaded/sent.</p> <p>08/12/2021</p>