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EUROPEAN CENTRAL BANK
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Notification template for national macroprudential measures not covered by of the Capital Requirements Regulation (CRR)/ Capital Requirements Directives (CRD) (other than borrower-based measures)

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This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

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 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	Magyar Nemzeti Bank (MNB)
1.2	Country of the notifying authority	Hungary
1.3	Name of the macroprudential measure that is notified	Mortgage Funding Adequacy Ratio (MFAR)
2. Description of the measure		
2.1	Description of the measure	The Magyar Nemzeti Bank (MNB) introduced the Mortgage Funding Adequacy Ratio (MFAR) regulation in 2017, according to which household mortgage loans with a remaining maturity of over 1 year must be financed in a certain proportion by long-term forint funds covered by household mortgage loans (mortgage bonds or refinancing loans given by mortgage banks). The current main amendment to the regulation concerns the acceptance of FX mortgage bonds and FX refinancing loans in the calculation of the MFAR in addition to HUF mortgage-based funds. The other main change refers to the postponement of the tightening measures originally planned to take effect on 1 October 2022, including the increase of the required minimum level of the MFAR, the

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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

limitation of bank cross-ownership and the requirement to introduce of all mortgage bonds to regulated markets.

Other smaller amendments were also made to maintain the consistency of the regulation. The full list of changes can be seen below.

Main changes of the MFAR regulation

Major items	MFAR before amendment	MFAR after amendment	Entry into force
FX mortgage bonds and corresponding modifications			
FX mortgage-based funds	Only HUF funds are accepted, FX funds are not accepted (with non-substantial exceptions)	Banks can take into account FX mortgage bonds issued and FX refinancing loans received in the numerator. The eligible FX liabilities are limited to the sum of FX collaterals and 30 per cent of HUF collaterals.	1 July 2022
Extension of the denominator of the MFAR with FX residential mortgage loans	Only the HUF retail residential mortgage loans must be financed by HUF mortgage-based funds	HUF and FX retail residential mortgage loans must be financed by HUF and FX mortgage-based funds	1 July 2022
Green requirement for FX mortgage-based funds	FX funds are not accepted irrespectively of their type	In case of newly issued FX mortgage bonds and refinancing loans, only green funds are accepted after the effective date (other FX funds issued before that remain eligible)	1 October 2023

			Acceptance of funds covered by CRE mortgage loans	Only RRE-backed funds are accepted	Funds covered by CRE mortgages of up to 20 percent of the total collateral (ordinary collateral in the case of a mortgage bond) are eligible	1 July 2022
			Postponement of tightening measures planned for 1 October 2022			
			Required minimum level of long-term funds in proportion to residential mortgage loans	25 per cent	30 per cent	1 October 2023
			Expectation of listing mortgage bonds on the stock exchange	No provision	Newly issued mortgage bonds must be listed on a stock exchange to be accepted in the MFAR	1 October 2023
			Restriction of cross-ownership of mortgage bonds within the banking sector	No provision currently, but the cross-ownership of mortgage bonds was disincentivised in the regulation prior to the pandemic	Cross-ownership is disincentivised through a correction factor, which is calculated based on the ratio of mortgage bonds owned to the Balance Sheet Total	1 October 2023
			Exclusion of mortgage bonds owned for market making purposes from the cross-ownership restriction	No provision currently, but a similar exception was included in the regulation prior to the pandemic	Technical amendment of the previous exception: market-making contracts with the stock exchange and with the issuer are both accepted	1 October 2023
			Other amendments			

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<tr><td>De minimis limit</td><td>Banks with a retail residential mortgage stock of less than HUF 10 billion are exempted</td><td>Banks with a retail residential mortgage stock of less than HUF 40 billion are exempted</td><td>1 July 2022</td></tr>
<tr><td>Types of eligible funds</td><td>Covered bonds in compliance with Article 129 of CRR are eligible</td><td>Covered bonds issued in Hungary that are in compliance with Article 129 of CRR can only be mortgage bonds, therefore, this category is deleted</td><td>1 July 2022</td></tr>
<tr><td>Definition of retail and residential mortgages</td><td>The exact definition of retail and residential mortgages is not provided</td><td>The exact definition of retail and residential mortgages is provided, with references to other Hungarian laws</td><td>1 July 2022</td></tr>
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.</td></tr>
<tr><td>2.2</td><td>Legal basis and process of implementation of the measure</td><td>As macroprudential authority in Hungary, the MNB has the power to issue legally binding regulations 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.</td></tr>
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2.3	Coverage	The measure applies to credit institutions operating as companies limited by shares and the Hungarian branches of third country credit institutions, as well as the institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover the Magyar Fejlesztési Bank Zrt., the Magyar Export-Import Bank Zrt., the Központi Elszámolóház és Értéktár (Budapest) Zrt. and building societies not subject to consolidated supervision. A de minimis limit also applies: banks with a retail residential mortgage stock of less than HUF 10 billion before the amendment, and less than HUF 40 billion after the amendment are exempted.
2.4	Any other relevant information	
3. Timing for the measure		
3.1	Timing for the decision	19/04/2022
3.2	Timing for publication	11/06/2022
3.3	Disclosure	Communication on the official internet site of the MNB in Hungarian and English: Press release: https://www.mnb.hu/en/pressroom/press-releases/press-releases-2022/mnb-supports-development-of-mortgage-bond-market-and-stable-funding-of-banks-by-amending-mfar-regulation Information on macroprudential measures addressing liquidity and financing risks: https://www.mnb.hu/en/financial-stability/macroprudential-policy/the-macroprudential-toolkit/instruments-addressing-liquidity-and-financing-risks

		Decree is available (only in Hungarian): https://njt.hu/jogszabaly/2022-22-20-2C
3.4	Timing for application	01/07/2022
3.5	End date (if applicable)	
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed	Before the amendment, only HUF funds could be taken into account in the MFAR, as the initial purpose of the regulation was to ensure stable financing of retail mortgage loans due to the increasing maturity mismatch after the conversion of FX residential mortgage loans into HUF. However, the market for HUF mortgage bonds is narrow, as these bonds are purchased almost exclusively by domestic investors, mostly domestic banks and the MNB. Mortgage bonds are unattractive to domestic institutional investors, mainly due to the low yield spread and market liquidity compared to government securities, and foreign investors do not constitute material demand due to the HUF denomination. The narrow range of investors in HUF mortgage bonds may be an obstacle to the development of the Hungarian mortgage bond market and may increase spill-over risks between banks. Therefore, FX denominated bonds are required for the further development of the market. In line with the green considerations already integrated into the MFAR regulation in 2021, FX-denominated funds issued after 1 October 2023 will only be acceptable in the calculation of the ratio if they comply with the regulation's green definition. This requirement will further support the diversification of mortgage bond investors and the financing of energy-efficient real estate, which may potentially entail lower credit risks also. The postponement of the tightening measures planned to become effective in October 2022 is necessary because of

		the protracted effects of the coronavirus pandemic on the financial system, the current monetary policy and capital market trends and the time needed for the preparation of international issuances, recently accompanied with the Russo-Ukrainian war conflict.
4.2	Indicators used for activation of the measure	The Financial Stability Board of the MNB considered numerous factors while calibrating the measure. These include the maturity mismatch between assets and liabilities of credit institutions, the distribution of the maturity of assets and liabilities, the share of long-term funds relative to all liabilities and indicators related to the development of the mortgage financing market (yields, maturities, issuances, secondary market turnover, market making, ratings, ownership structure, type of interest rates, etc.). Information from the issuers and potential investors of mortgage bonds regarding the factors that affect demand was also considered.
4.3	Effects of the measure	This change supports the expansion of mortgage bonds' investor base by giving foreign investors a more active role, due to which the market could expand, so that banks are able to access this stable and long-term funding source in larger volumes and at a better price. With the modification, the current cross-ownership between banks may decrease significantly, the mortgage bond market may develop, and the step would also support the achievement of green objectives besides the higher weights already applied to green mortgage bonds. As the vast majority of mortgage loans financed by mortgage bonds are denominated in HUF, the arising FX risk needs to be mitigated. Act XXX of 1997 on the Mortgage Credit Institution and the Mortgage Bond states that if the mortgage bonds and their collateral are not denominated in the same currency, the mortgage credit institution is obliged to eliminate the exchange rate risk by concluding derivative transactions. In addition, the Foreign Exchange Coverage Ratio (FECR) regulation limits the level of on-balance sheet currency mismatch. As reliance

		on derivative transactions used to hedge the currency mismatch may involve margin call and renewal risks, a limit is also set in the MFAR regulation on the amount of eligible foreign currency funds depending on the foreign currency composition of the cover assets.
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	With the possibility of including FX mortgage-based funds in the ratio and the restriction of bank cross-ownership of mortgage bonds through a correction factor coming into force on 1 October 2023, the current cross-ownership between banks may decrease significantly, mitigating sufficiently the risk of contagion. Though the difference in the currency composition of mortgage bonds and their cover assets might lead to increasing FX risk, the legal guarantees (obligation to manage FX risks, FECR regulation, limit on FX funds in the MFAR) ensure that the measure does not lead to unintended impacts on the economy and does not increase risks in the financial system.
5.2	Consistency of application of the policy response	This measure is an amendment of the MFAR measure which was introduced to achieve an intermediate objective (Mitigate and prevent excessive maturity mismatch and market illiquidity) specified in the ESRB recommendation ESRB/2013/1. This is a national measure outside the scope of EU legislation; for systemic liquidity risks, the MNB is entitled, as a national authority, to issue decrees aimed at the mitigation of risks. The requirement encourages the maintenance of prudent liquidity and funding positions and is designed to mitigate excessive maturity mismatches.
5.3	Non-overlap of the policy response	The MFAR is a measure that imposes a requirement on banks' stable funding with the aim of reducing maturity mismatch. The goal of the measure is therefore similar to that of the net stable funding ratio (NSFR) requirement, but it is more targeted, as it accepts only funds that are covered by mortgages. Hungarian banks have ample

		deposits which can be taken into account as stable funds in the NSFR and therefore, they can typically comply with the NSFR requirement without difficulty. However, the MNB deems a diversification of stable funding sources desirable to create a less risky funding structure. Moreover, in the MNB's view, mortgage bonds are beneficial from a financial stability perspective, as such securities provide a long-term stable funding source at a relatively low cost, and the market for these instruments should therefore be developed.
6. Cross-border and cross-sector impact of the measure		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Article 133(11)(d) CRD and Recommendation ESRB/2015/2[2])	The regulation is not expected to have a significant impact on the cross-border activities of banks, or on the internal market. It encourages domestic banks to issue mortgage bonds in foreign currencies, which might increase the exposure of financial systems in other Member States to Hungarian mortgage bonds. However, given the small size of the Hungarian mortgage bond market relative to the EU market, these exposures are not expected to be significant. The MNB will monitor the impact of the new measure continuously.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The MNB expects no material leakages and regulatory arbitrage within Hungary due to the targeted nature of the measure. However, the MNB will monitor the impact of the new measure continuously.
6.3	Request for reciprocation	The MNB does not request the ESRB to issue a recommendation to other Member States to reciprocate the measure as it is not expected to have material cross-border effects.

[2] 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).

6.4	Justification for the request for reciprocation	
7. Miscellaneous		
7.1	Contact person(s)/mailbox 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 Phone: +36 (1) 428 2600/2639 E-mail: nagyt@mnb.hu
7.2	Any other relevant information.	
7.3	Date of the notification	08/07/2022