

## Template for notifying intended measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

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<b>1. Notifying national authority and scope of the notification</b>	
<b>1.1 Name of the notifying authority</b>	Formal notification by the Central Bank of Cyprus (CBC)
<b>1.2 Categorisation of measures</b>	<p>The CBC, as per article 3(1) of the Macroprudential Oversight of Institutions Law 6(I) of 2015, is the designated authority in Cyprus responsible for the application of the provisions of article 458 of the CRR. The CBC intends to make use of Article 458(2)(d)(v) of the CRR and maintain for 2018 stricter liquidity requirements than the liquidity requirements in Part Six of the CRR.</p> <p>The CBC plans to decide in November 2017, the introduction of a macroprudential liquidity buffer in the form of an LCR add-on, which will come into force on 1 January 2018 and be gradually phased out over 12 months, i.e. by 31 December 2018. The LCR add-on, will supplement the fully phased-in LCR over a one year period with regard to liquidity coverage requirement, for all credit institutions that are incorporated in Cyprus. It is noted that the LCR will be fully phased-in at 100% on 1 January 2018, in full compliance with Article 412(5) of the CRR.</p> <p>The fully phased-in LCR, results in lower liquidity requirements in relation to the national prudential liquidity requirements that are currently in force, mainly due to the stricter treatment of customer deposits in euro and in foreign currency under the national prudential liquidity requirements. The sudden release of excess liquidity on 1 January 2018, expected from the abolition of all national liquidity rules by 31 December 2017 as per Article 412(5) of the CRR, could elevate the risk of excessive balance sheet growth, either through the extension of more credit or through investments in risky financial instruments, thus eroding credit institutions' liquidity. The introduction of a temporary macroprudential liquidity buffer (i.e. an LCR add-on which will be gradually phased-out over 12 months), aims to require credit institutions to continue having sufficient liquidity following the abolition of all national liquidity rules by 31 December 2017 and to safeguard the stability of the financial system as a whole, inter alia by strengthening the resilience of the financial system and decreasing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial sector to</p>

	<p>economic growth.</p> <p>Under the current national prudential liquidity requirements, credit institutions are required to hold significantly more liquid assets than what is required under the fully phased-in LCR. When these national measures are abolished by 31 December 2017 as per Article 412(5) of the CRR, it is estimated, using 30 June 2017 supervisory data, that approximately €4,0 billion excess liquidity will be made available to credit institutions, since the fully phased-in LCR requires materially less liquidity than what is currently required under the national liquidity rules. It is noted that €4,0 billion euro corresponds to 22,0% of the GDP of Cyprus, 10,0% of total exposures (which comprises credit granted and acquired debt securities by Cyprus credit institutions to the domestic non-financial private sector, i.e. to non-financial corporations (excluding the debt of special purpose entities (SPEs) – which are mainly shipping companies – that do not borrow from Cyprus credit institutions), households and non-profit institutions serving households) and 6,7% of household and non-financial corporations deposits. Due to the differences in the methodology between the national prudential liquidity framework and the LCR, the comparison is made on the basis of the deficits / surpluses calculated under each framework. After the expiry of the proposed temporary measure on 31 December 2018, the prudential liquidity requirements of credit institutions incorporated in Cyprus, will be determined solely on the basis of the fully phased-in LCR.</p> <p>The calibration of the LCR add-on, is presented in Annex I. It is noted that the CBC, as a first step towards aligning the national prudential liquidity rules with the LCR, proceeded with the partial relaxation of the national liquidity rules on 15 September 2017, which resulted in the release of liquidity of approximately €2,9 billion. A further relaxation of the national liquidity rules will be effected on 31 December 2017, which will result in a further release of approximately €2,3 billion of liquidity. These partial relaxation decisions, do not form part of this notification, since this notification only refers to an LCR add-on that will be introduced on 1 January 2018.</p> <p>No material changes in credit institutions' liquidity risk have been observed between 15 September 2017 i.e. the date of the first relaxation of the national liquidity rules and the date of this notification.</p> <p>It should be noted that for one credit institution, due to its business model, the fully phased-in LCR, imposes higher liquidity requirements than the national prudential liquidity requirements. Therefore, all national prudential liquidity requirements for this credit institution were withdrawn on 19 September 2017, thus no LCR add-on will be imposed on this credit institution in 2018.</p> <p>The proposed temporary measure, requires the application of the provisions of Article 458 of the CRR for one year, i.e. from 1 January 2018 to 31 December 2018.</p>
<p><b>1.3 Request to extend the period of application of existing measures for one</b></p>	<p>Not applicable.</p>

<p><b>additional year</b> <b>(Article 458(9) of the CRR)</b></p>	
<p><b>1.4 Notification of measures to which Article 458(10) of the CRR applies ('notification only procedure')</b></p>	<p>The intended measure, is not subject to the 'notification only procedure' as specified in Article 458 (10) of the CRR.</p> <p>The intended measure, aims to manage prudently the release of excess liquidity that is expected to be made available to credit institutions, following the abolition of national prudential liquidity requirements, by tightening the liquidity requirements laid down in Part VI of the CRR through the introduction of an LCR add-on. The proposed measure, provides an orderly release of the excess liquidity that is expected to arise due to differences between the current national prudential liquidity requirements and the fully phased-in LCR.</p> <p>The proposed measure, refers to stages 1 and 2 of the LCR add-on, which will be implemented from 1 January 2018 to 31 December 2018. The calibration of the LCR add-on at each of the two stages and the implementation dates, are presented in Annex I.</p>
<p><b>2. Description of the measure</b></p>	
<p><b>2.1 Draft national measures</b> <b>(Article 458(2)(d) of the CRR)</b></p>	<p>The current national prudential liquidity requirements, as set out in the CBC Directives on the computation of prudential liquidity requirements, have been in place since July 2008, i.e. well before the EU liquidity requirements under Regulation 2015/61 were introduced. The national liquidity requirements currently in place, are summarised in Annex II.</p> <p>The CBC plans to decide in November 2017, the introduction of a macroprudential liquidity buffer in the form of an LCR add-on, which will come into force on 1 January 2018 and be gradually phased out over 12 months, i.e. by 31 December 2018. The LCR add-on, will supplement the LCR over a one year period with regard to liquidity coverage requirement, for all credit institutions that are incorporated in Cyprus. It is noted that the LCR will be fully phased-in at 100% on 1 January 2018, in full compliance with Article 412(5) of the CRR.</p> <p>The imposition of an LCR add-on, that will be gradually phased-out, will enable the orderly release of the excess liquidity that is expected to arise due to differences between the national prudential liquidity requirements and the LCR. Furthermore, the proposed measure will enable the CBC to closely monitor the excess liquidity that is expected to result from the abolition of the stricter national prudential liquidity requirements in comparison with the fully phased-in LCR requirement, through the smooth release of the expected excess liquidity in two stages (i.e. on 1 July 2018 and on 31 December 2018).</p>
<p><b>2.2 Scope of the measure</b> <b>(Article 458(2)(d) of the CRR)</b></p>	<p>The national prudential liquidity requirements that are currently in force, as set out in the CBC Directives on the computation of prudential liquidity requirements, apply to all domestic credit institutions and foreign (EU and non-EU) controlled subsidiaries. Therefore, the proposed measure will also be applied to all domestic credit institutions and foreign (EU and non-EU) controlled subsidiaries.</p>

	<p>The national prudential liquidity requirements that are in place since July 2008, were introduced by the CBC in order to mitigate the maturity mismatch risk (funding risk) on credit institutions' balance sheets, thereby addressing the resilience of the financial system and enhancing bank-level oversight.</p> <p>The fully phased-in LCR, results in lower liquidity requirements compared to the national prudential liquidity requirements that are currently in force. The difference between the national prudential liquidity requirements and the fully phased-in LCR, is due to the stricter treatment of customer deposits in euro and in foreign currency. The sudden release of excess liquidity on 1 January 2018, could elevate the risk of excessive balance sheet growth, either through the credit extension or through investments in risky financial instruments, thereby increasing the liquidity risk and credit risk in the banking system.</p> <p>The gradual release of the excess liquidity through the imposition of an LCR add-on and its gradual phasing-out in two stages, aims to require credit institutions to continue having sufficient liquidity following the abolition of all national liquidity rules by 31 December 2017 and to safeguard the financial stability of the financial system as a whole, inter alia by strengthening the resilience of the financial system and addressing decisively the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial sector to economic growth.</p> <p>The proposed measure, will apply to all credit institutions that are directly supervised by the SSM and all credit institutions that are directly supervised by the CBC, thus ensuring a level-playing field in the Cyprus banking sector.</p>
<p><b>2.3 Calibration of the measure</b></p>	<p>Based on the liquidity data submitted by credit institutions on 30 June 2017, the excess liquidity that could be released as a result of the differences between the national directives and the fully phased-in LCR, was estimated to be in the region of €9,2 billion. Due to differences in the methodology between the national prudential liquidity framework and the LCR, the comparison is made on the basis of the deficits / surpluses calculated under each framework. It is noted that by the end of 2017, the CBC will have partially relaxed the national liquidity rules so that out of the €9.2 billion, liquidity in the region of €5,2 billion is released (€2,9 billion had already been released on 15 September 2017 and €2,3 billion will be released by 31 December 2017). Therefore, the proposed measure will impose an LCR add-on in the region of €4,0 billion, commencing on 1 January 2018 (stage 1) which will be reduced to €2,0 billion on 1 July 2018 (stage 2). The prudential liquidity requirements of credit institutions as from 1 January 2019, will be determined solely on the basis of the fully phased-in LCR.</p> <p>The calibration of the LCR add-on, is presented in Annex I. The liquidity to be released is as follows: €2,0 billion as at 1 July 2018 and €2,0 billion as at 31 December 2018.</p> <p>In addition, based on an analysis that was performed by the CBC on how the excess liquidity to be released under certain scenarios could be used, using supervisory data as at 30 June 2017, it was estimated that the total excess liquidity that could be invested in new assets of the same risk weighted mixture, without violating the minimum capital requirements that</p>

	<p>apply to each credit institution, would be in the region of €4,5 billion.</p>
<p><b>2.4 Suitability, effectiveness and proportionality of the measure</b> <b>(Article 458(2)(e) of the CRR)</b></p>	<p>The proposed measure is designed to address the significant excess liquidity that is expected to arise, due to the methodological differences between the national prudential liquidity requirements that will be abolished by 31 December 2017 and the fully phased-in LCR.</p> <p>The CBC considers that the proposed measure is suitable, effective and proportionate on the basis of the following considerations:</p> <ul style="list-style-type: none"> <li>• The proposed temporary measure, is intended to maintain the resilience of credit institutions, which is currently achieved through the national prudential liquidity requirements that entered into force in July 2008. Tighter liquidity standards, improve the resilience of the banking system by reducing the need for every credit institution to refinance itself frequently. When a liquidity requirement is tightened, credit institutions adjust their balance sheets towards holding more liquidity assets and relying on more stable and longer-term funding sources. In contrast, when a liquidity requirement is relaxed, credit institutions may adjust their balance sheets by reducing liquid assets, especially through increasing short-term funding. Over-reliance on short-term market funding, increases liquidity risk as during market disruptions, it becomes more likely that credit institutions will be unable to roll over those funds and will hence be forced to fire-sell illiquid assets and possibly contract lending.</li> <li>• The proposed measure, is intended to maintain the resilience of credit institutions, by a gradual release of the excess liquidity that is expected to arise with the abolition of all national prudential liquidity requirements by 31 December 2017 as required under Article 412(5) of the CRR. Based on the liquidity data submitted by credit institutions on 30 June 2017, the excess liquidity as at 1 January 2018 was estimated to be in the region of €4,0 billion, after considering the two relaxation phases of the national liquidity requirements (€2,9 billion of liquidity was released on 15 September 2017 and €2,3 billion of liquidity is planned to be released by 31 December 2017). During the 12 month period over which the LCR add-on will be phased-out, the CBC will be closely monitoring the sustainability of business models and strategic plans of credit institutions and assess any areas of concern, with particular attention to business models that are characterised by an imbalance between their short-term liabilities and short-term assets, as over-reliance on short-term funding increases liquidity risks. This 12 month period, will therefore enable any necessary microprudential or macroprudential action to be taken as required, including, if needed, requesting the extension of the proposed measure for a further temporary period under Article 458 of the CRR.</li> <li>• Since the proposed measure is designed to address the issue of excess liquidity that is expected to arise as a result of the abolition of the national prudential liquidity requirements, it is appropriate to address the risk through a system-wide formula, which will be identical</li> </ul>

	<p>to all credit institutions.</p> <ul style="list-style-type: none"> <li>The proposed measure, will also provide an incentive to credit institutions to maintain a balance between their short-term liabilities and short-term assets and will discourage investments in risky financial instruments. In cases where this balance between short-term liabilities and short-term assets is not maintained and an over-reliance on short-term funding is observed, microprudential or macroprudential action will be taken as required.</li> </ul> <p>The proposed measure will be regularly reviewed and closely monitored on the basis of weekly reporting, the maturity mismatch ratios, the level of short-term funding, and the sustainability of business models and strategic plans of credit institutions.</p>
<b>2.5 Other relevant information</b>	/
<b>3. Timing of the measure</b>	
<b>3.1 Timing of the Decision</b>	The CBC is expected to take its final decision on the measure on 27 November 2017, which will not differ from the measure set out in this notification.
<b>3.2 Timing of the Publication</b>	Later of: (a) when the procedure under Article 458 of the CRR is concluded, and (b) 31 December 2017.
<b>3.3 Disclosure</b>	<p>The formal notification has been communicated to the ECB.</p> <p>This formal notification is communicated to the ESRB, the EBA, the European Commission, the Council of the EU and the European Parliament.</p> <p>The Board of the CBC will take its final decision on the measure on 27 November 2017, which will not differ from the measure set out in this notification.</p> <p>Once the procedures under Article 458 of the CRR are concluded, the CBC will publish the measure on its website and will issue circular letters to credit institutions describing the LCR add-ons that need to be met in addition to the fully phased-in LCR, the two stages of the phasing-out of the LCR add-on, the implementation dates of each stage and the LCR add-on that need to be met at each stage.</p>
<b>3.4 Timing of Application (Article 458(4) of the CRR)</b>	1 January 2018

<b>3.5 Phasing in</b>	No phasing-in is planned. The proposed measure refers to an LCR add-on that will be introduced on 1 January 2018 and will be gradually phased-out by 31 December 2018.
<b>3.6 Term of the measure (Article 458(4) of the CRR)</b>	The proposed measure is intended to be implemented over a 12 month period (stages 1 and 2 are presented in Annex I). Further tightening of the liquidity requirements may be proposed before the end of 2018, if the maturity mismatch ratios, the level of short-term funding, and the business models and strategic plans to be followed by credit institutions are deemed to increase liquidity risks, thereby reducing the resilience of the financial system as a whole.
<b>3.7 Review (Article 458(9) of the CRR)</b>	The appropriateness of the measure will be reviewed on a quarterly basis.
<b>4. Reason for the activation of the stricter national measure</b>	
<b>4.1 Description of the macro-prudential or systemic risk in the financial system (Article 458(2)(a) of the CRR)</b>	<p>The Cyprus financial sector and real economy are currently, by structure, vulnerable to the macroprudential / systemic risk associated with the excessive exposure of the banking sector to non-performing loans, the elevated household and non-financial corporations' indebtedness and the weak profitability of credit institutions.</p> <p>The Cyprus banking system, is highly concentrated and is characterised by an open economy. The funding of credit institutions, mainly comprises deposits from both domestic and foreign depositors. Such deposits, exhibit signs of volatility due to their short-term nature.</p> <p>Liquidity related indicators, include liquid assets to short-term liabilities, share of central bank funding in credit institutions liabilities (excluding capital and reserves and remaining liabilities), short-term market funding to total market funding, deposits by maturity and loan-to-deposit (LTD) ratio (aggregate and by bank). These indicators are presented in Annex III. Empirical analysis shows that the LTD ratio and the liquid assets to short-term liabilities are related to the degree of dependence on unstable sources of funding. Although the aggregate LTD ratio has been following a decreasing trend since 2015 Q1, the ratio still stands at high-levels (i.e. 112,3% as at 2017 Q1). A further analysis into the LTD ratio by credit institution, for a number of significant institutions, revealed that the ratio lies between 76% and 132% as at 2017 Q1. Furthermore, the ratio of liquid assets to short-term liabilities has been following an increasing trend since 2013 Q3. However, credit institutions are still dependent on short-term market funding, constituting 86,9% of total market funding as at 2017 Q1. In addition, deposits with maturity of less than 1 year, constitute 91,8% of the total deposits. This poses risks to financial stability in case of a crisis event, if credit institutions are unable to roll over their maturing short-term liabilities.</p> <p>An immediate release of the excess liquidity that is expected to arise following the abolition of national prudential liquidity requirements by 31 December 2017, may increase the liquidity risk and credit risk for credit institutions by increased risk-taking in their lending and investing decisions.</p>

	<p>In view of the identified vulnerabilities, if mitigating measures are not applied, such behaviour could undermine their liquidity and the resilience of the financial system.</p> <p>The CBC will continue to closely monitor and analyse macroprudential risks and vulnerabilities related to liquidity risk.</p>
<p><b>4.2 Analysis of the serious negative consequences or threat to financial stability (Article 458(2)(b) of the CRR)</b></p>	<p>The banking sector, mainly relies on short-term market funding, which is a volatile form of funding. Over-reliance on short-term market funding, increases liquidity risk, as during market disruptions it becomes more likely that credit institutions will be unable to roll over those funds and will hence be forced to fire-sell illiquid assets and possibly contract lending.</p>
<p><b>4.3 Indicators prompting use of the measure</b></p>	<p>The basis of the calibration of the LCR add-on, is presented in Annex I.</p>
<p><b>4.4 Justification why the stricter national measure is necessary (Article 458(2)(c) of the CRR)</b></p>	<p>The main objective of the proposed measure, is to address the significant excess liquidity that is expected to arise following the abolition of the national prudential liquidity requirements by 31 December 2017, by introducing an LCR add-on which will be gradually phased-out resulting in a gradual and orderly release of excess liquidity. During the phasing-out period of the LCR add-on (i.e. during 2018), the CBC will be closely monitoring the sustainability of business models and strategic plans of credit institutions, assessing any areas of concern, with particular attention to business models that are characterised by an imbalance between their short-term liabilities and short-term assets, as over-reliance on short-term funding increases liquidity risks. During the phasing-out period of the LCR add-on, any necessary microprudential or macroprudential action can be taken if needed.</p> <p>An immediate release of the excess liquidity that is expected to arise as a result of the abolition of the national prudential liquidity requirements by 31 December 2017, may increase the liquidity risk and credit risk of credit institutions by increased risk-taking in their lending and investing decisions. In view of the identified vulnerabilities, if mitigating measures are not applied, such behaviour could undermine their liquidity and the resilience of the financial system.</p> <p>Therefore, the CBC considers that, given the macroprudential nature of the proposed measure and the fact that credit institutions mainly rely on volatile funding sources, the application of Article 458(2)(d)(v) of the CRR is necessary and justified. Furthermore, the use of Article 458 of the CRR, will enable the signalling to credit institutions of the need for sound liquidity risk management and prudent lending and investment decisions, by providing an incentive to credit institutions to maintain a balance between their short-term liabilities and short-term assets and discouraging investments in risky financial instruments. In cases where this balance between short-term liabilities and short-term assets is not maintained and an over-reliance on short-term funding is presented, microprudential or macroprudential action will be taken as required.</p> <p>In addition, given the objective of the proposed temporary measure is to</p>



address the significant excess liquidity that is expected to arise following the abolition of the national prudential liquidity requirements by 31 December 2017, it is crucial the proposed measure is implemented in order to achieve a smooth release of the excess liquidity to the economy with the overall objective of mitigating the build-up of systemic risks.

**Why other measures or legal basis are still not adequate?**

Article 124 of the CRR – Exposures secured by mortgages on immovable property

Article 124 of the CRR, enables the competent authority to set higher risk weights on exposures secured by mortgages on immovable property or stricter criteria than those set out in Articles 125(2) and 126(2) of the CRR, on the basis of financial stability considerations. The use of the provisions of this article, would not address liquidity (funding) risk, thus its use would not be appropriate.

Article 164 of the CRR – Loss Given Default (LGD)

Article 164 of the CRR, enables the competent authority to set higher minimum values of exposure weighted average LGD for exposures secured by property in their territory, on the basis of financial stability considerations. Thus, this article does not address liquidity (funding) risk. Furthermore, in Cyprus, no credit institution uses the internal ratings-based approach. Thus, Article 164 of the CRD is not applicable.

Article 101 of the CRD – Ongoing review of the permission to use internal approaches

According to Article 101 of the CRD, the competent authority shall review on a regular basis, and at least every 3 years, institutions' compliance with the requirements regarding approaches for the calculation of own funds. Where material deficiencies are identified in risk capture by an institution's internal approach, competent authorities shall ensure they are rectified or take appropriate steps to mitigate their consequences, including by imposing higher multiplication factors, or imposing capital add-ons, or taking other appropriate and effective measures.

In Cyprus, no credit institution uses the internal ratings-based approach. Thus, Article 101 of the CRD is not applicable.

Articles 103 and 104 of the CRD – Application of supervisory measures to institutions with similar risk profiles and Supervisory powers

Under Article 103 of the CRD, where the competent authority determines under Article 97 of the CRD, that institutions with similar risk profiles such as business models or geographical location of exposures, are or might be exposed to similar risks or pose similar risks to the financial system, it may apply the Supervisory Review and Evaluation Process (SREP) referred to in Article 97 of the CRD to those institutions in a similar or identical manner. Additional own funds may be required, as a result of the assessment of

systemic risk.

Article 104 of the CRD, sets out various supervisory powers which competent authorities have.

In contrast to Article 458(2)(d)(v) of the CRR, Articles 103 and 104 of the CRD are less transparent, as no public disclosures are made. The application of the proposed measure under Article 458(2)(d)(v) of the CRR, achieves transparency and enables the signalling to credit institutions of the need for sound liquidity risk management and more prudent lending and investment decisions, by providing an incentive to credit institutions to maintain a balance between their short-term liabilities and short-term assets and discouraging investments in risky financial instruments. The CBC, as defined in its policy strategy linking the ultimate objective of macroprudential policy of safeguarding financial stability with the intermediate objectives and instruments of macroprudential policy and as per the CBC Laws, 2002 – 2016:

- makes public any macroprudential policy decisions and its motivation in a timely manner, unless there are risks to financial stability in doing so, and sets out and publishes the macroprudential policy strategies;
- may make public and non-public statements on systemic risks;
- informs the House of Representatives for any macroprudential policy decisions and the justification, timely, as well as the macroprudential policy strategies as determined by the CBC and submits an annual report on the macroprudential policy of the previous year to the House of Representatives.

Application of Articles 103 and 104 of the CRD, would not address the risks that could arise due to vulnerable funding and risky management strategies which could threaten the solvency and liquidity position of a credit institution and the stability of the financial system as a whole.

Furthermore, under Council Regulation (EU) No. 1024/2013 of 15 October 2013, conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions, the competent authority that may make use of Articles 103 and 104 of the CRD for systemically important credit institutions, is the ECB.

#### Article 105 of the CRD – Specific liquidity requirements

Article 105 of the CRD, provides for the application of a prudential charge related to the disparity between the actual liquidity position of a credit institution and any liquidity and stable funding requirements at national or EU level.

The current SREP decisions, do not include additional general liquidity charges.

Furthermore, the use Article 105 of the CRD is not applicable for addressing the issue of excess liquidity. In particular, the issue of excess liquidity was not created as a result of any actions undertaken by credit institutions, on which specific liquidity requirements or administrative sanctions could be imposed. The issue of excess liquidity arises as a result of the differences between the stricter current national prudential liquidity requirements that

will be abolished by 31 December 2017 as per Article 412(5) of the CRR, and which apply to all credit institutions that are incorporated in Cyprus, and the fully phased-in LCR.

As the issue to be addressed is not institution-specific, a macroprudential measure that can be applied across the board (i.e. a system-wide formula that is identical to all credit institutions) is considered to be the most appropriate measure. The proposed measure through application of Article 458 of the CRR will ensure a level-playing field in the Cyprus and will enable a smooth release of excess liquidity to the economy with the overall objective of mitigating the build-up of systemic risks.

Furthermore, under Council Regulation (EU) No. 1024/2013, the competent authority that may make use of Article 105 of the CRD for the significant institutions, is the ECB.

Articles 133 and 136 of the CRD – Requirement to maintain a systemic risk buffer and Setting countercyclical buffer rates

Under Article 133 of the CRD, each Member State may introduce a systemic risk buffer comprising of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector, in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks not covered by the CRR, in the meaning of a risk of disruption in the financial system with the potential to have serious negative consequences to the financial system and the real economy in a specific Member State.

Under Article 136 of the CRD, each designated authority shall calculate for every quarter, a buffer guide as a reference to guide its exercise of judgment in setting the countercyclical buffer rate. The buffer guide shall reflect, in a meaningful way, the credit cycle and the risks due to excess credit growth in the Member State and shall duly take into account specificities of the national economy. It shall be based on the deviation of the ratio of credit-to-GDP from its long-term trend.

The activation of capital-based macroprudential measures, in addition to the ones that are currently in force, may not enhance financial stability. Application of Articles 103 and 104 of the CRD, would not address the risks that could arise due to vulnerable funding and risky management strategies which could threaten the liquidity and solvency position of a credit institution and the stability of the financial system as a whole.

In addition, on 14 August 2017, the CBC, in accordance with the methodology described in its macroprudential policy, set the countercyclical capital buffer rate for the period 1 October 2017 - 31 December 2017 at 0% of the total risk exposure amount of each licenced credit institution. It should be noted that the countercyclical capital buffer is a cyclical measure, while the liquidity (funding) risk is of a structural nature. An activation of a countercyclical capital buffer rate greater than 0%, would be applied on aggregate credit stock which is outside the scope of the liquidity (funding) risk considered in this case.

<b>5. Cross-border and cross-sector impact of the measure</b>	
<b>5.1 Assessment of cross-border effects and the likely impact on the internal market (Article 458(2)(f) of the CRR and Recommendation ESRB/2015/2)</b>	<p>The imposition of the proposed measure, intends to maintain consistency and to achieve a smooth release of the excess liquidity that is expected to arise as a result of the abolition of national prudential liquidity requirements, which are stricter than the fully phased-in LCR, with the overall objective of mitigating the build-up of systemic risks.</p> <p>The proposed measure is not expected to adversely affect economic activity. In addition, no inward or outward spill-overs are expected. The measure is enforceable only on domestic credit institutions and foreign (EU and non-EU) controlled subsidiaries.</p> <p>In view of the volatility of the funding sources of credit institutions, not allowing for the proposed macroprudential measure, might negatively affect the liquidity position of credit institutions and thereby the stability of the financial sector as a whole. The proposed measure, is expected to improve the financial stability of the Cyprus banking sector. In addition, based on the characteristics of the measure and the short time span of the phasing out period, no material effect is expected on economic growth.</p>
<b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	Leakages and regulatory arbitrage within Cyprus are not likely, as the proposed measure addresses the liquidity risk of credit institutions. The CBC will be closely monitoring any leakages to other sectors of the financial system.
<b>5.3 Reciprocation by other Member States (Article 458(8) of the CRR and Recommendation ESRB/2015/2)</b>	The CBC does not consider that the proposed measure should be reciprocated, as it is designed to address the significant excess liquidity that is expected to arise following the abolition of the national prudential liquidity requirements by 31 December 2017. Reciprocity would not increase the effectiveness of the proposed measure nor improve the resilience of the banking sector, as this measure will be of relevance only to Cyprus.
<b>6. Miscellaneous</b>	
<b>6.1 Contact person(s) at notifying authority</b>	<p>Mr Angelos Kapatais Director Financial Stability, Central Bank of Cyprus phone: +357 22714427, email: <a href="mailto:angeloskapatais@centralbank.cy">angeloskapatais@centralbank.cy</a></p> <p>Mr Constantinos Trikoupis Head Macroprudential Oversight Section, Financial Stability Department, Central Bank of Cyprus phone: +357 22714342, email: <a href="mailto:constantinostrikoupis@centralbank.cy">constantinostrikoupis@centralbank.cy</a></p>
<b>6.2 Any other relevant information</b>	/