

# Summary compliance report

March 2021

Country-specific Recommendations of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Belgium (ESRB/2019/4), Denmark (ESRB/2019/5), Luxembourg (ESRB/2019/6), the Netherlands (ESRB/2019/7), Finland (ESRB/2019/8) and Sweden (ESRB/2019/9), respectively



**ESRB**

European Systemic Risk Board

European System of Financial Supervision

# Contents

<b>1</b>	<b>Introduction and summary of findings</b>	<b>3</b>
<b>2</b>	<b>Policy objectives</b>	<b>9</b>
<b>3</b>	<b>Assessment methodology</b>	<b>10</b>
3.1	Assessment criteria and implementation standards, grading methodology and principle of proportionality	11
<b>4</b>	<b>Level of implementation</b>	<b>16</b>
4.1	Belgium	16
4.2	Denmark	18
4.3	Luxembourg	22
4.4	The Netherlands	25
4.5	Finland	28
4.6	Sweden	32
<b>5</b>	<b>General remarks</b>	<b>37</b>
	<b>Annexes</b>	<b>38</b>
	Annex I: Composition of the Assessment Team	38
	Annex II: Implementation standards for country-specific Recommendations	39
	Annex III: Abbreviations	86
	<b>Imprint and acknowledgements</b>	<b>87</b>



# 1 Introduction and summary of findings

This report provides the first assessment<sup>1</sup> of the implementation of the European Systemic Risk Board's country-specific Recommendations on medium-term vulnerabilities in the residential real estate (RRE) sector in:

- a. Belgium (ESRB/2019/4)<sup>2</sup> – recommendation A;
- b. Denmark (ESRB/2019/5)<sup>3</sup> – recommendation A and B;
- c. Luxembourg (ESRB/2019/6)<sup>4</sup> – recommendation A and B;
- d. the Netherlands (ESRB/2019/7)<sup>5</sup> – sub-recommendation B(1) and recommendation C;
- e. Finland (ESRB/2019/8)<sup>6</sup> – recommendation A and B;
- f. Sweden (ESRB/2019/9)<sup>7</sup> – recommendation B;

(hereafter, the “Recommendations”) by their addressees.

The Recommendations concern medium-term vulnerabilities in the RRE sector. For ease of comparability and to ensure consistency in the assessment of compliance only one single compliance report has been produced, instead of a separate compliance report for each recommendation.

Recommendations issued by the ESRB are not legally binding, but are subject to an “act or explain” regime in accordance with Article 17 of the ESRB Regulation.<sup>8</sup> This means that the addressees of those Recommendations are under an obligation to communicate to the European Parliament, the Council, the Commission and the ESRB the actions they have taken to comply with those Recommendations or to provide adequate justification for inaction.

---

<sup>1</sup> The report covers the assessment of the first follow-up reports, which were due by 31 October 2020. Subsequent follow-up reports will be assessed in 2022 and, where applicable, 2023.

<sup>2</sup> Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Belgium (ESRB/2019/4) (OJ C 366, 30.10.2019, p.1)

<sup>3</sup> Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Denmark (ESRB/2019/5) (OJ C 366, 30.10.2019, p.7)

<sup>4</sup> Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Luxembourg (ESRB/2019/6) (OJ C 366, 30.10.2019, p.14)

<sup>5</sup> Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in the Netherlands (ESRB/2019/7) (OJ C 366, 30.10.2019, p.22)

<sup>6</sup> Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Finland (ESRB/2019/8) (OJ C 366, 30.10.2019, p.29)

<sup>7</sup> Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Sweden (ESRB/2019/9) (OJ C 366, 30.10.2019, p.35)

<sup>8</sup> Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).



**The report assesses the addressees' compliance with the Recommendations or justification for non-action based on the addressees' submissions to the ESRB Secretariat.** In accordance with Section 2(3) of the respective Recommendations, by 31 October 2020 addressees were requested to provide the ESRB with a report explaining the measures taken to comply with the respective Recommendations or provide adequate justification for inaction. For the purpose of that reporting, reporting templates for the Recommendations were circulated to the addressees, who completed the templates and returned them to the ESRB.

**In order to perform the assessment, an Assessment Team was set up under the auspices of the Advisory Technical Committee (ATC)<sup>9</sup> in 2020.** The Assessment Team was composed of ten assessors and supported by ESRB Secretariat staff; its composition is provided in Annex I.

The assessment was conducted by duly taking into account:

- the criteria contained in Section 2(2) of the respective Recommendations;
- the methodology provided in the Handbook on the assessment of compliance with ESRB recommendations – April 2016 (hereafter, the “Handbook”), which describes the procedure for the assessment of compliance with ESRB recommendations;
- the implementation standards prepared by the Assessment Team, which specify the grading of each sub-recommendation based on the compliance criteria (the implementation standards are provided in Annex II); and
- the principle of proportionality.

**This report reflects the implementation status as at October 2020.**<sup>10</sup>

**Overall, three out of the six EU Member States have been assessed as “Fully Compliant”, two as “Largely Compliant” and one as “Partially Compliant”. However, the high level of compliance must be viewed against the fact that for a total of 17 sub-recommendations, there were only 7 actions taken by the addressees.** In the remaining 10 cases, the addressees did not take any action, and in the majority of these cases (8 out of 10) this was considered “Sufficiently Explained”.

**The implementation of the Recommendations was affected by the outbreak of the coronavirus (COVID-19) pandemic, followed by an economic downturn and an easing of macroprudential policy in general.** In such a context, inaction was considered sufficiently explained for some of the sub-recommendations, as the introduction of new RRE macroprudential measures or tightening of existing ones might have had procyclical effects and hampered the effects of the easing of other macroprudential measures. For instance, the countercyclical capital buffer (CCyB) was fully or partly released in many EU countries in the aftermath of the economic

---

<sup>9</sup> The Assessment Team was created in line with Sub-sections 3.2 and 3.4 of the Handbook on the assessment of compliance with ESRB recommendations (Revised Handbook, April 2016).

<sup>10</sup> However, information received at a later stage during the discussion of the findings of the Assessment Team with the addressees of the Recommendation was also taken into consideration in the final assessment results and is reflected in the narrative of the assessment of each addressee.



downturn. Such an assessment was in line with the implementation standards as they allow the respective sub-recommendations to take into account the position of the countries in the economic and financial cycles.

**The overall findings of the compliance assessment are summarised in the colour-shaded table below.**

ADDRESSEE	OVERALL GRADE
BELGIUM	LC
DENMARK	FC
LUXEMBOURG	FC
FINLAND	LC
THE NETHERLANDS	PC
SWEDEN	FC

*Notes: FC stands for Fully Compliant, LC for Largely Compliant and PC for Partially Compliant.*

A summary of the grades assigned for the content of respective recommendations/sub-recommendations is presented in the table below, where the actions are illustrated in green and the inactions in orange.



Policy recommendations	BE	DK	FI	LU	NL	SE
<b>1. Legal framework for borrower-based measures (BBMs)</b>			Rec A1 (PC)  Rec A2 (SE)	Rec A (FC)		
<b>2. Activation/tightening of BBMs</b>	Rec A (LC)				Rec B1 (IE)	
<b>2.1. Pending the establishment/amendment of the legal framework: activation of non-legally binding BBMs</b>			Rec B1 (PC)	Rec B1 (SE)		
<b>2.2. After legal framework is established/amended: activation of legally binding BBMs</b>			Rec B2 (-)	Rec B2 (LC)		
<b>3. Activation/tightening of capital-based measures</b>		Rec A (SE)			Rec C (SE)	
<b>4.1. Monitoring of vulnerabilities</b>		Rec B1 (LC)				Rec B1 (LC)
<b>4.2. Activation/tightening of macroprudential measures based on 4.1</b>		Rec B2 (SE) Rec B3 (SE)				Rec B2 (SE) Rec B3 (SE)

*Notes:*

1) The table presents the grades assigned to the content of the measures and not the overall grade for each (sub)-recommendation.

2) The \* indicates that there was a change in the action owing to the COVID-19 pandemic.

3) the "-" indicates that the assessment was not carried out. SE stands for Sufficiently Explained, IE for Insufficiently Explained.

4) The actions are illustrated in green and the inactions in orange.

The overall grades for each recommendation/sub-recommendation are illustrated in the table below. They reflect the grades when considering not only the content of each recommendation/sub-recommendation but also the proportionality and the reporting by the addressees. While for the actions (in green), the overall grades are identical to those for the content of recommendations/sub-recommendations presented above, in the case of inactions (in orange) the overall grades are slightly more favourable. For instance, the inactions whose content was assessed as Sufficiently Explained are finally presenting an overall grade that is Fully Compliant, triggered mainly by the fact that the proportionality and reporting by the addressees (both assessed favourably in terms of compliance) were taken into account.



Policy recommendations	BE	DK	FI	LU	NL	SE
<b>1. Legal framework for BBMs</b>			Rec A1 (PC) Rec A2 (FC)	Rec A (FC)		
<b>2. Activation/tightening of BBMs</b>	Rec A (LC)				Rec B1 (MN)	
<b>2.1. Pending the establishment/amendment of the legal framework: activation of non-legally binding BBMs</b>			Rec B1 (PC)	Rec B1 (FC)		
<b>2.2. After legal framework is established/amended: activation of legally binding BBMs</b>			Rec B2 (-)	Rec B2 (LC)		
<b>3. Activation/tightening of capital-based measures</b>		Rec A (FC)			Rec C (FC)	
<b>4.1. Monitoring of vulnerabilities</b>		Rec B1 (LC)				Rec B1 (LC)
<b>4.2. Activation/tightening of macroprudential measures based on 4.1</b>		Rec B2 (FC) Rec B3 (FC)				Rec B2 (FC) Rec B3 (FC)

*Notes:*

- 1) The table presents the overall grades assigned for each recommendation and sub-recommendation.
- 2) The \* indicates that there was a change in the action owing to the COVID-19 pandemic.
- 3) The "-" indicates that the assessment was not carried out.
- 4) MN stands for Materially Non-Compliant.
- 5) The actions are illustrated in green and the inactions in orange.

While the compliance assessment is carried out with regard to the current circumstances, from a medium-term perspective it should be noted that the risks and vulnerabilities related to the RRE sector have kept increasing in most of the countries since the start of the COVID-19 outbreak. As such, the dynamics of the RRE risks must be further monitored and, as soon as the economies recover, actions with respect to relevant RRE macroprudential policies, including the respective sub-recommendations must be re-assessed.

In order to better reflect the qualitative differences in implementation foreseen by the respective Recommendations, and therefore, the different metrics used for the respective assessment, the report is structured as follows.

Part I recalls the policy objectives taken into account during the process of drafting the Recommendations. Part II summarises the methodology set out in the Handbook, which establishes the procedure for assessing compliance with ESRB recommendations, and presents the implementation standards drafted by the Assessment Team and used to assess compliance by the addressees with the respective Recommendations. Part III consists of country-specific



assessments of compliance with the respective Recommendations by addressees. Part IV includes general remarks regarding all Recommendations.

Annex I lists the members of the Assessment Team. Annex II contains the implementation standards for each country-specific recommendation. Annex III provides the list of abbreviations.





## 2 Policy objectives

**Vulnerabilities relating to the RRE sector can be a source of systemic risk and may affect financial stability both directly and indirectly.** In 2016, the ESRB conducted a Union-wide assessment of the vulnerabilities relating to RRE.<sup>11</sup> This assessment enabled the ESRB to identify a number of medium-term vulnerabilities in several countries as sources of systemic risk to financial stability, which led to the issuance of warnings to eight countries: Belgium<sup>12</sup>, Denmark<sup>13</sup>, Luxembourg<sup>14</sup>, the Netherlands<sup>15</sup>, Austria<sup>16</sup>, Finland<sup>17</sup>, Sweden<sup>18</sup> and the United Kingdom.<sup>19</sup>

**In 2019, the ESRB concluded a further systematic and forward-looking EEA-wide assessment of vulnerabilities relating to RRE, which revealed that there are 11 countries with medium-term vulnerabilities related to RRE that may be sources of systemic risk and are not sufficiently mitigated.** This led the ESRB to issue the Recommendations to six out of the eight countries that received warnings in 2016<sup>20</sup> and to issue five new warnings to countries where vulnerabilities relating to the RRE as a source of systemic risk were newly identified as not being sufficiently addressed.<sup>21</sup>

**Given that the vulnerabilities identified relating to the RRE as a source of systemic risks are different across countries, the Recommendations consist of different policy actions.** The Recommendations are addressed to Member States and acknowledge the fact that, within a Member State, different authorities may be responsible for the activation of the specific measures recommended. The assessment of compliance is however considered as a single package and the final grade is given at the level of the Member State and not at the level of the respective national authorities.

---

<sup>11</sup> See "Vulnerabilities in the EU Residential Real Estate Sector", ESRB, November 2016, available on the ESRB's website at [www.esrb.europa.eu](http://www.esrb.europa.eu).

<sup>12</sup> Warning ESRB/2016/06 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Belgium (OJ C 31, 31.1.2017, p. 45).

<sup>13</sup> Warning ESRB/2016/07 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Denmark (OJ C 31, 31.1.2017, p. 47).

<sup>14</sup> Warning ESRB/2016/09 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Luxembourg (OJ C 31, 31.1.2017, p. 51).

<sup>15</sup> Warning ESRB/2016/10 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of the Netherlands (OJ C 31, 31.1.2017, p. 53).

<sup>16</sup> Warning ESRB/2016/05 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Austria (OJ C 31, 31.1.2017, p. 43).

<sup>17</sup> Warning ESRB/2016/08 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Finland (OJ C 31, 31.1.2017, p. 49).

<sup>18</sup> Warning ESRB/2016/11 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Sweden (OJ C 31, 31.1.2017, p. 55).

<sup>19</sup> Warning ESRB/2016/12 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of the United Kingdom (OJ C 31, 31.1.2017, p. 57).

<sup>20</sup> The countries to which recommendations were addressed on 23 September 2019 are Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden.

<sup>21</sup> The countries to which warnings were addressed on 23 September 2019 are the Czech Republic, Germany, France, Iceland and Norway.



## 3 Assessment methodology

**The assessment of the implementation of the Recommendations (and thus, of each of the recommendations and sub-recommendations they contained therein) has been carried out on the basis of the “act or explain” mechanism, in accordance with Article 17 of the ESRB Regulation.** Under those arrangements, the addressees of the recommendation can either (i) take action in response to each of the Recommendations and inform the ESRB of such action, or (ii) take no action, provided that they can adequately justify that inaction. The Assessment Team then analyses the information provided and assesses whether the action taken duly achieves the objectives of each recommendation or whether the justification provided for inaction is sufficiently explained. This analysis results in a final compliance grade being assigned to each addressee.

**The assessment was based on the submissions made by the addressees by the reporting deadline specified in Section 2.3 of the respective Recommendation (i.e. 31 October 2020) and on a further dialogue between the Assessment Team and addressees in the course of the assessment process.**

**The detailed procedure for the assessment of compliance is set out in the Handbook.** The assessment of the Recommendations was carried out by an Assessment Team of ten assessors, with one Chair, endorsed by the ATC (see Annex I of this Report). The Assessment Team conducted a four-eye review, which means that compliance of each addressee was assessed by two assessors. In the first stage of the assessment the assessors evaluated the compliance of the respective addressee with all recommendations/sub-recommendations. In the second stage of the assessment the assessors evaluated the consistency of the assessments. The assessors were not directly involved in grading their respective authority's performance. Afterwards, the results of both assessors were cross-checked to prepare the final assessment.

**To ensure the equal treatment of the addressees and the highest degree of transparency and consistency, the Assessment Team conducted its work in accordance with the following six assessment principles mentioned in Section 4 of the ESRB Handbook:**

fairness, consistency and transparency – equal treatment of all addressees throughout the assessment process;

- efficiency and appropriateness of procedures with regard to available resources, while ensuring high-quality deliverables;
- four-eyes review – compliance of each addressee is assessed by at least two assessors who have not been directly involved in assessing the performance of the national authorities they come from;
- effective dialogue – communication with the addressees is essential so as to fill in information gaps on compliance;
- principle of proportionality – actions to be taken by the addressees are country-specific and relative to the intensity of risks targeted by the recommendation in the specific Member State;



- the ultimate objective of prevention and mitigation of systemic risks to financial stability in the Union.

**Furthermore, all the addressees were given the opportunity to provide further explanations and information.** Thanks to the communication channels established between the Assessment Team and the addressees, the majority of these addressees provided further details during the assessment process, especially in the context of the remedial dialogue.<sup>22</sup> As a result, the Assessment Team reviewed the preliminary assessment in the light of the additional information provided by the addressees. The results were subsequently cross-checked to prepare the final assessment.

## 3.1 Assessment criteria and implementation standards, grading methodology and principle of proportionality

### 3.1.1 Assessment criteria and implementation standards

**The assessment criteria applied in this evaluation are based on best practices established in previous assessments of compliance with ESRB recommendations.** The assessment criteria describe the actions that are required of the addressees in order to achieve the objectives of the Recommendations. With this in mind, the Assessment Team took due account of the implementation criteria set out in Section 2(2)(1) of the respective Recommendations. Grading was then guided by the relevant implementation standards, which specify how different actions or inaction for each recommendation/sub-recommendation should be reflected in the final grade.

**While conducting the assessment, the Assessment Team analysed the content/ of the actions taken by each addressee to assess whether they had complied with all of the elements of the Recommendations.**

**To ensure a consistent and fair analysis, the Assessment Team created implementation standards for each recommendation and sub-recommendation against which the responses submitted by the addressees were assessed (see Annex II).** The establishment of these implementation standards was based on the key elements of the respective recommendation and the principle of proportionality.

The Assessment Team agreed on the criteria to be applied in the assessment of each element of the relevant recommendation/sub-recommendation and the weights allocated to those criteria.

---

<sup>22</sup> The preliminary findings of the Assessment Team were shared and discussed with the addressees between 13 and 20 January 2021.



The specific criteria and implementation standards concerning respective countries are provided in the relevant chapters of Part III.

### 3.1.2 Grading methodology

**To assign a grade to each addressee regarding its compliance with the relevant recommendation or sub-recommendation, the Assessment Team followed a four-step grading methodology. Such a methodology is necessary for two reasons.** First, it ensures full transparency of the single overall compliance grade and a high level of objectivity in the entire assessment process. Second it allows room for high-quality expert judgement, which can easily be identified and reviewed to understand the rationale behind the allocation of particular overall grades.

**Step I** – For each recommendation or sub-recommendation three constituent elements have been assessed: the content of the measure, its proportionality and the reporting of the measure to the ESRB (see Table 3). These elements were then graded on the basis of the assessment criteria, in accordance with the established implementation standards, in terms of the action (FC/LC/PC/MN or NC) or inaction (SE or IE) of each addressee (see Table 1).

The full grading scale is given in Table 1.

**Table 1**  
Grading scale

Grading scale for action	
<b>Fully Compliant (FC)</b>	The addressee complies entirely with the recommendation.
<b>Largely Compliant (LC)</b>	The objectives of the recommendation have been met almost entirely and only negligible requirements are still to be implemented.
<b>Partially Compliant (PC)</b>	The most important requirements have been met; certain deficiencies affect the adequacy of the implementation, although this does not result in a situation where the given recommendation has not been acted upon.
<b>Materially Non-Compliant (MN)</b>	Requirements have only been fulfilled to a degree, resulting in a significant deficiency in the implementation.
<b>Non-Compliant (NC)</b>	Almost none of the requirements have been met, even if steps have been taken towards implementation.
Grading scale for inaction	
<b>Sufficiently Explained (SE)</b>	A complete and well-reasoned explanation for the lack of implementation has been provided; if one or more of the sub-recommendations are intended to address a particular systemic risk that does not affect a particular addressee, such justification/explanation may be considered sufficient.
<b>Insufficiently Explained (IE)</b>	The explanation given for the lack of implementation is not sufficient to justify the inaction.



**Step II** – Compliance grades were subsequently converted into a numerical grade (see Table 2).

**Table 2**

Conversion table: compliance grades to numerical grades

Compliance grade	Numerical grade
<b>Action</b>	
FC	1
LC	0.75
PC	0.50
MN	0.25
NC	0
<b>Inaction</b>	
SE	1
IE	0

**Step III** – The numerical grades were then weighted for each element and, where applicable, for each recommendation or sub-recommendation, and aggregated into a single, overall numerical grade for compliance. In establishing the weights, the Assessment Team took into consideration the importance of each constituent element and, where applicable, each recommendation/sub-recommendation for the achievement of the policy objectives as outlined in Part I of this report. The Assessment Team considered in those cases where a country-specific recommendation was divided into one or more recommendations or sub-recommendations, that each recommendation or sub-recommendation was of similar importance. Therefore, equal weights have been assigned.<sup>23</sup> With regard to the constituent elements, the Assessment Team assigned a higher weight to the content of each measure, while the principle of proportionality and the reporting were given lower, equal, weights. The final weighting determined by the Assessment Team is set out in Table 3.

<sup>23</sup> See the dedicated chapters for the country-specific assessment for a detailed description of the computation of the overall compliance grade, which is specific to each country.



**Table 3**

Weights assigned for a sub-recommendation

Sub-recommendation X	Weights
Assessment of the content of measures	2/3
Proportionality	1/6
Reporting	1/6

**Step IV** – The overall compliance grade was finally determined by converting the single weighted numerical grade for each recommendation into a final grade for compliance using a conversion table (see Table 4).<sup>24</sup>

**Table 4**

Conversion table: numerical grades to compliance grades

Compliance grade	Numerical grade for recommendation
FC	<0.90 - 1.00>
LC	<0.65 - 0.90)
PC	<0.40 - 0.65)
MC	<0.158 - 0.40)
NC	<0.00 - 0.15)
SE	<0.65 – 1.00>
IE	<0.00 – 0.65)

<sup>24</sup> The overall compliance grade SE was only assigned if each of the elements, and where relevant, each Sub-Recommendation was assigned SE or IE.



The level of compliance was then expressed in colour-coded form (see Table 5).

**Table 5**  
Colour codes for levels of compliance

Positive grades	Mid-grade	Negative grades
FC – Actions taken fully implement the recommendation		MN – Actions taken only implement a small part of the recommendation
LC – Actions taken implement almost all of the recommendation	PC – Actions taken only implement part of the recommendation	NC – Actions taken are not in line with the nature of the recommendation
SE – No actions were taken but the addressee provided sufficient justification		IE – No actions were taken and the addressee did not provide sufficient justification

### 3.1.3 Principle of proportionality

In accordance with Section 2, point 2(1)(a) of the Recommendations, due regard should be paid to the principle of proportionality, taking into account the objective and the content of the Recommendations. The relevance of the principle of proportionality required the Assessment Team to take into account the magnitude and the character of the risk targeted when assessing the adequacy of the national frameworks adopted by the addressees so as to achieve the set policy objectives. Therefore, considering the objective and the content of the Recommendations, the Assessment Team examined whether the addressees had monitored the medium-term vulnerabilities in the RRE sector and implemented the recommended measures to mitigate the systemic risks and assessed the financial stability implications. Thus, the substance of the principle of proportionality is related to the policy objective of each recommendation or sub-recommendation. By the same token, the Assessment Team considered an addressee as FC in terms of proportionality also if there was no evidence that it had acted in a disproportionate manner.



## 4 Level of implementation

### 4.1 Belgium

#### 4.1.1 Introduction

The ESRB Recommendation ESRB/2019/4 on medium-term vulnerabilities in the RRE sector in Belgium has been addressed to Belgian national authorities entrusted with recommendation powers or with the application of borrower-based measures (BBMs).

Compliance with the sole recommendation A – activation of legally binding BBMs – was assessed as of 31 October 2020.

The recommendation addressed to the Belgian national authorities encompassed only one single recommendation A which refers to the activation of legally binding BBMs in order to prevent:

- (a) a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the RRE market; or
- (b) a significant or an increasing share of new mortgage loans, secured by RRE, that could result in credit losses on these loans in the event of their default and a subsequent decrease in house prices.

The addressee provided a follow-up report on the assessment of implementation of Recommendation A by 31 October 2020.

The follow-up report was submitted by the Nationale Bank van België/Banque Nationale de Belgique (NBB) also on behalf of the Belgian Minister of Finance.

#### 4.1.2 Assessment methodology and implementation standards

The weighting applied for Recommendation A is presented in the table below.

Individual weighting	
Recommendation A	Weighting
Activation of BBMs	2/3
Proportionality	1/6
Reporting	1/6





The implementation standards for Belgium are presented in Annex II.

### 4.1.3 Assessment results

As regards recommendation A, non-legally binding BBMs were implemented in Belgium on 1 January 2020 (NBB Circular 2019/27). These measures take the form of supervisory expectations on the internal management of Belgian mortgage credit standards and apply to all banks and insurance undertakings (governed by Belgian law or established as branches) operating on the Belgian mortgage market. The measures relate to i) the proportion of new mortgage loans with a loan-to-value (LTV) ratio above a fixed threshold (with different thresholds defined for different sub-segments, i.e. buy-to-let loans, owner-occupied first-time buyers, owner-occupied other buyers), and to ii) the proportion of new loans with a combination of risky characteristics in terms of high LTV and debt-service-to-income (DSTI) values.

The main objectives of the supervisory expectations implemented through NBB Circular 2019/27 are to limit further the accumulation of vulnerabilities in the Belgian lenders' mortgage portfolios and to improve the quality of credit granted by curbing the share of high-risk loans in new Belgian mortgage loans, while maintaining access to the mortgage market for solvent borrowers.

These measures complement the existing measure taken under Article 458 of the Capital Requirements Regulation (CRR; in effect since 1 May 2018) that aims to preserve the resilience of Belgian credit institutions applying internal ratings-based approach against systemic risk originating from the domestic market for residential mortgage loans. Taken together, these measures make it possible to address vulnerabilities in both the outstanding mortgage loan portfolio and new lending production.

The supervisory expectations do not constitute a legally binding measure. Instead, compliance with these expectations will be assessed on a “comply or explain” basis. To this end, a formal compliance report is requested from all institutions with a market share of at least 0.5% of the total domestic mortgage loan stock. For the institutions concerned, the compliance report will be signed and approved by both the institution's Executive Board or Committee and its Board of Directors, which could generate important reputational risk for an individual institution in the event of non-compliance. The first compliance reports cover new lending granted during the second half of 2020 (loans effectively disbursed between 1 July 2020 and 31 December 2020). The subsequent compliance reports will cover annual lending.

According to the NBB, the supervisory expectations offer greater flexibility, which could not easily be achieved if the measures were implemented through a formal law (e.g. flexibility in terms of reaction to new economic circumstances or definitions used).

The Assessment Team acknowledges that the supervisory expectations do not formally comply with the legally binding character of the BBMs referred to in recommendation A. However, these measures are assessed to comply with the spirit and the final objective of the ESRB recommendation to a large extent, especially given the recent evidence showing a decrease in the share of high-risk loans in the total volume of new Belgian mortgage loans since the introduction of these supervisory expectations.



The compliance with the supervisory expectations should nevertheless be closely monitored by the NBB and, in the event of non-compliance, the implementation of legally binding BBMs should be envisaged. In addition, if the non-legally binding measures are failing to achieve the initial goal (of mitigating the medium-term RRE vulnerabilities), the addressee should consider introducing additional BBMs. In particular, close monitoring of developments related to the share of new mortgage loans presenting high DSTI ratios and to the buy-to-let segment would be needed. In 2020 their share in the total production of mortgage loans remained concerning (for the high DSTI new mortgage loans) or even increased (in the case of buy-to-let mortgages).

**The overall level of compliance with ESRB Recommendation 2019/4 is Largely Compliant.**

Recommendation A has been implemented by the addressee albeit in a different legal form, that of non-legally binding borrower measures. Nonetheless the measures are assessed to be in the spirit of and consistent with the objective of the ESRB recommendation, especially given the recent evidence showing the decrease in the share of new mortgage loans presenting high LTV ratios.

## 4.2 Denmark

### 4.2.1 Introduction

ESRB Recommendation ESRB/2019/5 on medium-term vulnerabilities in the RRE sector in Denmark has been addressed to:

- the macroprudential authority;
- the designated authority or the competent authority in Denmark, as applicable;
- the Danish national authorities entrusted with the monitoring of systemic risks<sup>1</sup>;
- the Danish authority entrusted with the activation of BBMs.

Compliance with recommendation A – Activation or tightening of capital-based measures – and recommendation B – Monitoring of vulnerabilities and activation or tightening of BBMs – was assessed as of 31 October 2020.

**Recommendation A** refers to the activation of additional capital-based measures or the tightening of existing ones, so as to ensure the resilience of credit institutions authorised in Denmark in the face of the potential materialisation of systemic risk related to RRE. Should such risk materialise, this could lead to direct and indirect credit losses stemming from mortgage loans or arising as a consequence of the decrease in consumption by households with housing loans.

Recommendation B consists of three sub-recommendations:

**Sub-recommendation B(1)** refers to the close monitoring of vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards for new mortgage loans over the medium term, including, inter alia, by:



- a) assessing – using loan-level data for new mortgage loans – the ability of borrowers taking out new mortgage loans to withstand adverse economic or financial conditions or adverse developments in the RRE market; and
- b) assessing the sustainability of house prices and the potential for them to decrease in the event of adverse economic or financial conditions.

**Sub-recommendation B(2)** refers to the tightening of existing BBMs or activation of additional ones, if the results of the monitoring carried out pursuant to point (a) of sub-recommendation B(1) provide evidence that a significant or an increasing share of borrowers taking out new mortgage loans might not be able to service their debt or maintain consumption under adverse economic or financial conditions or following adverse developments in the RRE markets.

**Sub-recommendation B(3)** refers to the increasing the legally binding minimum down payment requirement, if the results of the monitoring carried out pursuant to point (b) of sub-recommendation B(1) provide evidence that the overvaluation of house prices has increased, in order to ensure that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions and to the estimated decrease in house prices in the event of a negative scenario materialising.

The addressee provided a follow-up report on the assessment of the implementation of recommendation A and sub-recommendations B(1), B(2) and B(3) of the Recommendation ESRB/2019/5 by 31 October 2020.

The follow-up report was submitted by the Danish Ministry of Industry, Business and Financial Affairs.

#### 4.2.2 Assessment methodology and implementation standards

The weighting applied for the different recommendations and sub-recommendations is presented in the table below. Overall, equal weights have been assigned to recommendations A and B. Furthermore, equal weights have been assigned to sub-recommendations B(1), B(2) and B(3). At the level of each recommendation and sub-recommendation, the content was weighted 2/3 while the reporting and the proportionality count for the remaining 1/3, and have been assigned equal weights, of 1/6 each.



Individual weighting	
Category	Weighting
Recommendation A	1/2
Recommendation B(1)	1/6
Recommendation B(2)	1/6
Recommendation B(3)	1/6
<b>Recommendation A</b>	<b>Weighting</b>
Activation or tightening of capital-based measures	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation B(1)</b>	<b>Weighting</b>
Monitoring of vulnerabilities related to the household indebtedness, overvaluation of house prices and lending standards	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation B(2)</b>	<b>Weighting</b>
Activation or tightening of BBMs	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation B(3)</b>	<b>Weighting</b>
Increase of the legally binding minimum down payment requirement	2/3
Proportionality	1/6
Reporting	1/6

The implementation standards for Denmark are presented in Annex II.

### 4.2.3 Assessment results

As regards recommendation A, a gradual tightening of the CCyB took place with the aim of ensuring the resilience of credit institutions authorised in Denmark in the face of the potential materialisation of systemic risks that continued to build up. On 3 October 2019 the Danish government decided to increase the CCyB from 1.5% to 2.0%. Such an increase was to be effective starting 30 December 2020 but it was cancelled on 12 March 2020 as a consequence of the COVID-19 outbreak. The Assessment Team has assessed the reversal in the activation of the measure recommended as an inaction and considered it to be sufficiently explained, as the addressee aimed to avoid procyclical effects of the macroprudential policy given the negative economic situation and outlook.

As regards sub-recommendation B(1), a close monitoring of vulnerabilities related to household indebtedness and lending standards, and house price overvaluation is carried out.



According to the addressee, the Danish housing market entered the COVID-19 crisis substantially more robust than it was during the financial crisis, with the BBMs implemented in recent years contributing to an increase in the resilience of households to adverse financial and economic shocks. The addressee also considers that house prices so far have proven resilient to adverse economic events reflecting expectations of low interest rates for even longer as well as fiscal stimulus and other government measures. After a decline during the first months after the lockdown in March 2020, house prices had regained their initial level by August 2020. In addition, according to the addressee, data on new mortgages suggest that the quick recovery has not been driven by an excessive loosening of credit standards. The majority of homeowners continue to opt for 30-year fixed-rate mortgages with regular principal repayments. The share of new mortgages with deferred amortisation has not increased. Furthermore, the share of risky mortgages has remained low.

At this stage, the main drawback of the existing monitoring framework in Denmark is the absence of recent data (i.e. later than September 2019). This prevented the Assessment Team from analysing the way the situation had evolved since the issuance of ESRB Recommendation ESRB/2019/5. Therefore, in the absence of information on recent developments in lending standards, it was difficult to explore the riskiness of the new mortgage loans compared to the period when the recommendation was issued. During the remedial dialogue, the addressee provided additional information related to household indebtedness, overvaluation of house prices and lending standards for new mortgage loans. Further explanations were also provided as regards the upcoming credit registry. The latter will improve the coverage and the comparability of data related to lending to households, which will enable a close monitoring of vulnerabilities.

As regards sub-recommendation B(2), no additional BBMs or tightening of the existing BBMs took place. The inaction is explained by the decline in the share of risky mortgages (i.e. presenting high debt-to-income (DTI) and high LTV ratios) over the past few years, as well as by the fragile situation that prevailed in the economy and the housing market in 2020 due to the COVID-19 pandemic. Through the inaction, the addressee aimed to avoid procyclical effects of the macroprudential policy against the background of the negative economic situation and outlook.

Nevertheless, the Assessment Team assumes that the addressee will continue monitoring the risks in the RRE sector and activate additional BBMs or tighten the existing ones after the COVID-19 crisis, provided that the assessment shows an increase in the vulnerability of borrowers taking out new mortgage loans.

As regards sub-recommendation B(3), the legally binding minimum down payment requirements have not been tightened. The inaction is explained by the procyclical effect of such a tightening of the minimum down payment requirements in the fragile situation that prevailed in 2020, in the economy and the housing market, due to the COVID-19 pandemic.

Nevertheless, the Assessment Team assumes that the addressee will continue monitoring the RRE risks and recalibrate the minimum down payment requirements after the COVID-19 pandemic, if the assessment shows an increase in the overvaluation of house prices.

**The overall level of compliance with ESRB Recommendation 2019/5 is Fully Compliant.** Only one sub-recommendation (B(1)) has been implemented by the addressee, while recommendation A and the remaining two sub-recommendations (B(2) and B(3)) have not been implemented. The



inaction regarding recommendation A and sub-recommendations B(2) and B(3) has been assessed to be Sufficiently Explained. Sub-recommendation B(1), on close monitoring of medium-term risks and vulnerabilities, has been assessed as Largely Compliant.

## 4.3 Luxembourg

### 4.3.1 Introduction

ESRB Recommendation ESRB/2019/6 on medium-term vulnerabilities in the RRE sector in Luxembourg has been addressed to national authorities in Luxembourg entrusted with recommendation powers or with the application of BBMs.

Compliance with recommendation A – establishment of a legal framework for BBMs – and recommendation B – activation of legally and non-legally binding BBMs – was assessed as of 31 October 2020.

**Recommendation A** refers to the establishment of a legal framework for BBMs which includes at least the following legally binding BBMs: DTI, DSTI, LTV and maturity limits.

**Sub-recommendation B(1)** refers to the activation of non-legally binding BBMs by the Luxembourg national authorities entrusted with the application of BBMs, pending the establishment of the legal framework referred to in recommendation A.

**Sub-recommendation B(2)** refers to the activation of legally binding BBMs by the Luxembourg national authorities entrusted with the application of BBMs once the legal framework referred to in recommendation A is established.

The addressee provided a follow-up report on the assessment of implementation of recommendations A and B by 31 October 2020.

The follow-up report was submitted by the Comité du Risque Systémique (CRS) Secretariat hosted by the Banque centrale du Luxembourg (BCL).

### 4.3.2 Assessment methodology and implementation standards

The following weighting scheme was applied. Overall, equal weights have been assigned to recommendations A and B. Furthermore, equal weights have been assigned to sub-recommendations B(1) and B(2). At the level of each sub-recommendation, a larger weight (2/3) was given to the content of the measures, and smaller and equal weights (1/6 each) were given to the proportionality principle and to the reporting obligations.



Individual weighting	
Category	Weighting
Recommendation A	1/2
Recommendation B(1)	1/4
Recommendation B(2)	1/4
Recommendation A	Weighting
Establishing a legal framework for BBMs	2/3
Proportionality	1/6
Reporting	1/6
Recommendation B(1)	Weighting
Activation or tightening of non-legally binding BBMs	2/3
Proportionality	1/6
Reporting	1/6
Recommendation B(2)	Weighting
Activation or tightening of legally binding BBMs	2/3
Proportionality	1/6
Reporting	1/6

The implementation standards for Luxembourg are presented in Annex II.

### 4.3.3 Assessment results

As regards recommendation A, a legal framework for BBMs was introduced on 4 December 2019. It includes all the BBMs specified in the recommendation (i.e. limits to the LTV ratio, loan-to-income (LTI) ratio, DTI ratio, DSTI ratio, and maturity of the mortgage loans). These measures may be applied individually or in combination, which provides leeway for an efficient policy measure. The legal framework sets certain conditions under which the measures can be used (sustained and persistent increase in RRE prices and in the volume of mortgage loans, coupled with a significant deterioration in lending conditions, which indicate a malfunctioning of the national financial system or pose risks to financial stability). These conditions are, however, just basic characteristics of periods of overheating on the RRE and mortgage markets and in this way they leave enough powers to the national authorities to pre-empt the build-up of risks.

The law foresees that the CRS makes a recommendation to the Commission de Surveillance du Secteur Financier (CSSF) to activate the measures (after evaluating that the conditions stipulated by the law are met). Following such a recommendation, the CSSF (as designated authority) implements the measures after consulting the BCL.

The measures embedded in the legal framework apply to new residential mortgage loans for which the immovable property is located in Luxembourg. At the same time, the measures apply to all credit institutions, insurance corporations and professionals engaged in lending activities, which



minimises the potential circumvention of the measures. Furthermore, the measures can apply to all new mortgage loans, or a subset of them. This gives additional flexibility to the national authorities while addressing the build-up of systemic risks.

As regards sub-recommendation B(1), there were no non-legally binding BBMs implemented. The inaction has been justified by the short time gap between the issue of the ESRB recommendation (September 2019) and the establishment of the legal framework (December 2019), together with the intention of the addressees to activate the legally binding BBMs as soon as they were available. The non-legally binding measures would have been in place for a very short period of time only, and for this reason their activation could have been considered disproportionate. In the end, there was a significantly longer time gap between the establishment of the legal framework and the activation of the legally binding BBMs. However, this was due to the outbreak of the COVID-19 pandemic just at the time when the activation of the legally binding BBMs was being prepared – circumstances that could not have been anticipated by the addressees.

As regards sub-recommendation B(2), legally binding BBMs have been introduced as of 1 January 2021. The CRS issued a recommendation to the CSSF to activate legally binding LTV limits as of 1 January 2021. The LTV limits are different for the first-time buyers, purchases of primary residence by non-first-time buyers and buy-to-let loans, and a certain share of new mortgage limits is allowed to breach these limits only for non-first-time buyers purchasing their primary residence. The delay between the completion of the legal framework for BBMs and achieving compliance with sub-recommendation B(2) is considered understandable, taking into account the outbreak of the COVID-19 pandemic in early 2020 and the related economic uncertainty. In such circumstances, postponing the implementation of these measures could have been considered part of the addressees' response to the coronavirus crisis. Nevertheless, the RRE vulnerabilities have kept increasing in Luxembourg and their dynamics even accelerated in 2020, resulting in a further accumulation of risks until the legally binding LTV limits were introduced.

The addressee also carried out an assessment of vulnerabilities arising from the RRE sector, showing the existence of potential risks to financial stability resulting from excessive household indebtedness and growth in house prices, and suggesting the need to complement the LTV limits with limits to DSTI/DTI ratios. The addressee therefore considered the activation of a legally binding DSTI/DTI limit, but ultimately did not implement it in order to avoid any potential unintended consequences related to the procyclicality of this policy tool, given the economic situation in Luxembourg.

The Assessment Team considers that the addressee has implemented a large part of sub-recommendation B(2). Nevertheless, the vulnerability assessment shows the need for further efforts to contain the continuous increase in household indebtedness. Therefore, once the economy recovers from the COVID-19 crisis, the activation of DSTI limits may need to be reassessed.

**The overall level of compliance with ESRB Recommendation 2019/6 is Fully Compliant.** Only one sub-recommendation (B(1)) has not been implemented by the addressee, while recommendation A and the sub-recommendation (B(2)) have been implemented. The inaction regarding sub-recommendation B(1) has been assessed to be Sufficiently Explained, given the short time between the issuance of the ESRB recommendation and the finalisation of the legal framework for the implementation of BBMs. Recommendation A has been assessed as Fully





Compliant, while sub-recommendation B(2), of activating legally binding BBMs, has been assessed as Largely Compliant.

## 4.4 The Netherlands

### 4.4.1 Introduction

ESRB Recommendation ESRB/2019/7 on medium-term vulnerabilities in the RRE sector in the Netherlands has been addressed to the macroprudential authority, the designated authority or the competent authority in the Netherlands, as applicable.

Compliance with recommendation B(1) – tightening of BBMs – and recommendation C – activation of capital-based measures – was assessed as of 31 October 2020.

**Sub-recommendation B(1)** refers to the tightening of BBMs by lowering the current legally binding limit that applies to the LTV ratio, thus ensuring that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions.

**Recommendation C** refers to the activation of capital-based measures, to ensure the resilience of credit institutions authorised in the Netherlands in the face of the potential materialisation of systemic risk related to RRE. Should such risk materialise, it could lead to direct and indirect credit losses stemming from mortgage loans or arising as a consequence of the decrease in consumption by households with housing loans.

The addressee provided a follow-up report on the assessment of the implementation of sub-recommendations B(1) and C of the Recommendation ESRB/2019/7 by 31 October 2020.

The follow-up report was submitted by the Ministry of Finance for sub-recommendation B(1) and, respectively, De Nederlandsche Bank (DNB) for recommendation C.

### 4.4.2 Assessment methodology and implementation standards

The weighting applied for the different sub-recommendations is presented in the table below. Overall, equal weights have been assigned to each of the two sub-recommendations. At the level of each sub-recommendation, the content was weighted 2/3, while the reporting and the proportionality count for the remaining 1/3, and have been assigned equal weights, of 1/6 each.



Individual weighting	
Category	Weighting
Recommendation B(1)	1/2
Recommendation C	1/2
Recommendation B(1)	Weighting
Tightening of the LTV ratio	2/3
Proportionality	1/6
Reporting	1/6
Recommendation C	Weighting
Activation of capital-based measures	2/3
Proportionality	1/6
Reporting	1/6

The implementation standards for the Netherlands are presented in Annex II.

#### 4.4.3 Assessment results

As regards sub-recommendation B(1), the current legally binding limit that applies to the LTV ratio has not been lowered. Although the Dutch Government recognises the systemic risks posed by high LTV ratios, it deems the risk mitigating measures introduced in recent years to be sufficient in reducing the systemic risks. The Dutch Government points out that the share of new mortgage loans with an LTV ratio exceeding 100% has seen a steady decrease and there seems to be a trend of decreasing LTV ratios for first-time buyers. In addition, stress tests had shown that there were at most only minor default risks from real estate loans. Furthermore, the Dutch Government has introduced restrictions on non-amortising mortgages in 2013, requiring new mortgage loans to amortise on at least an annual basis within 30 years to qualify for mortgage interest deductibility. The strict Dutch bankruptcy legislation and the National Mortgage Guarantee are equally emphasised. Moreover, the Dutch Government is taking steps to increase the supply of housing, in particular in regions with overheated markets, and these measures are considered as additional safeguards against the systemic risks posed by mortgage defaults.

The Assessment Team considers the justification for inaction brought forward by the Dutch Government to be insufficient.

First, the assessment of the compliance with each sub-recommendation should focus on the financial stability aspects with the goal of mitigating the systemic risks to financial stability. Therefore, it has to be demonstrated that the current level of risk stemming from the real estate market could be lower in the absence of any further tightening of the LTV ratio. In this respect, the additional information provided by the Dutch authorities does not include an analysis of the current level of identified risks compared to the level of risk that could have been achieved if the recommended action had been implemented. Thus, the Assessment Team cannot assume that due



to the inaction the risk has been reduced to a comparable extent as if the sub-recommendation B(1) had been implemented.

Second, the arguments put forward against a further tightening of the LTV ratio are similar to the ones mentioned by the addressee in the process of adapting the Recommendation ESRB/2019/7. Moreover, the risk-mitigating measures mentioned in the follow-up report were already in place when the ESRB adopted the Recommendation ESRB/2019/7.

Third, the Dutch Government did not provide an additional assessment indicating that a further tightening of the LTV ratio would not be required to further reduce the existing systemic risk. On the contrary, the Dutch Government is of the view that a further tightening of the LTV ratio would limit first-time buyers' access to the real estate market. While this argument is understandable from a political point of view, this reasoning does not, however, have an impact on the risks identified to financial stability.

Overall, the Assessment Team is not convinced that the systemic risks stemming from the RRE market have been significantly reduced in the Netherlands. Notwithstanding the fact that the LTV ratio has declined by a certain amount, the LTV ratio remains high, with a significant share of new mortgage loans having an LTV ratio exceeding 90%. Hence, the explanations of the Dutch Government cannot be considered as adequate justification for inaction.

As regards recommendation C, no capital-based measures were activated. DNB intended to impose a floor for the risk weights of the IRB credit institutions' mortgage portfolios on the basis of Article 458 of the CRR, and had notified the relevant European authorities of the measure. However, against the background of the coronavirus crisis, DNB decided to postpone its introduction and announced that it will not come into force before the end of 2021. DNB will reconsider, by mid-2021, whether there is a need to further postpone the intended capital-based measure.

The Assessment Team has assessed the reversal in the activation of the measure recommended as an inaction and considered it to be sufficiently explained, as postponing the implementation of this measure is considered part of DNB's response to the coronavirus crisis. However, DNB's decision to postpone the introduction of the capital-based measure should only be of a temporary nature and for the duration of the period of stress triggered by the coronavirus pandemic. The Assessment Team assumes that after the coronavirus crisis, DNB will resume its course of action and comply with this recommendation.

**The overall level of compliance with ESRB Recommendation 2019/7 is Partially Compliant.**

Neither sub-recommendation has been implemented by the addressee. The inaction regarding sub-recommendation B(1) has been assessed to be Insufficiently Explained, while the inaction regarding sub-recommendation C has been assessed to be Sufficiently Explained. The ESRB assumes that after the coronavirus crisis DNB will resume its course of action and comply with recommendation C.



## 4.5 Finland

### 4.5.1 Introduction

The ESRB Recommendation ESRB/2019/8 on medium-term vulnerabilities in the RRE sector in Finland has been addressed to the Finnish national authorities entrusted with the activation or calibration of income-related BBMs.

Compliance with recommendation A – establishment of a legal framework for BBMs – and recommendation B – activation of income-related BBMs – was assessed as of 31 October 2020.

Recommendation A consists of two sub-recommendations:

**Sub-recommendation A(1)** refers to the legal framework for BBMs. It is recommended that Finland ensures that the existing legal framework for BBMs includes at least the following legally binding BBMs:

- a. either limits that apply to the DTI ratio or limits that apply to the DSTI ratio;
- b. limits that apply to the LTV ratio;
- c. maturity limits.

**Sub-recommendation A(2)** refers to the amendment of the definition of the LTV ratio in the existing legal framework for BBMs. Recommendation B consists of 2 sub-recommendations:

**Sub-recommendation B(1)** refers to the activation of non-legally binding BBMs. It is recommended that, pending the amendment of the existing legal framework as referred to in recommendation A, the Finnish national authorities entrusted with the activation of income-related BBMs apply non-legally binding BBMs in order to prevent a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the RRE market.

**Sub-recommendation B(2)** refers to the activation of legally binding income-related BBMs. It is recommended that, once the existing legal framework has been amended as referred to in recommendation A, the Finnish national authorities entrusted with the activation or calibration of income-related BBMs activate or calibrate, respectively, legally binding income-related BBMs to further address the objectives set out in sub-recommendation B(1).

The addressee provided a follow-up report on the assessment of the implementation of sub-recommendations A(1), A(2), B(1) and B(2) of Recommendation ESRB/2019/8 by 31 October 2020.

The follow-up report was submitted by the Ministry of Finance and the Finnish Financial Supervisory Authority (FIN-FSA).



## 4.5.2 Assessment methodology and implementation standards

The weighting applied for the different sub-recommendations is presented in the table below. The weights assigned to sub-recommendations A(1), A(2) and B(1) were respectively 3/8, 1/8 and 4/8. As for sub-recommendation B(2), it is considered as non-applicable at this stage and its weight in this assessment is zero.<sup>25</sup> At the level of each sub-recommendation, the content was weighted 2/3, while the reporting and the proportionality count for the remaining 1/3, and have been assigned equal weights, of 1/6 each.

Individual weighting	
Category	Weighting
Recommendation A(1)	3/8
Recommendation A(2)	1/8
Recommendation B(1)	4/8
Recommendation B(2)	-
<b>Recommendation A(1)</b>	<b>Weighting</b>
Legal framework for BBMs	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation A(2)</b>	<b>Weighting</b>
Amendment of the definition of the LTV ratio	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation B(1)</b>	<b>Weighting</b>
Activation of BBMs	2/3
Proportionality	1/6
Reporting	1/6

The implementation standards for Finland are presented in Annex II.

## 4.5.3 Assessment results

As regards sub-recommendation A(1), the national framework for BBMs will include some of the recommended measures (namely DTI and maturity limits) and is planned to be operational in the course of 2022, with the FIN-FSA responsible for the decision on activation and the implementation. The delay in the establishment of the legal framework for BBMs (which will enter

<sup>25</sup> Details are provided in section 4.5.3.



into force in 2022 instead of 2021) is justified by the COVID-19 pandemic and a shortage of resources.

According to the Ministry of Finance working group report (2019/56) on means to prevent excessive household indebtedness, the legal framework will ensure that: (a) legally binding measures are applicable to loans granted to all types of borrowers and by all types of lenders, in order to avoid circumvention of the limits by the use of loans to housing companies or other methods; (b) the Finnish national authorities entrusted with the activation of BBMs are able to activate legally binding BBMs in an effective and pre-emptive way and are provided with the necessary flexibility in order to design those measures based on the vulnerabilities identified.

The Assessment Team considers the compliance with sub-recommendation A(1) to be partial, mainly due to the lack of some of the BBMs recommended in the legal framework that is not yet in force. The delay in completing the legal framework for BBMs is considered acceptable in the context of the COVID-19 pandemic. In particular, a legislative proposal needs to go through legislative process, which may be subject to delays due to the different priorities of the legislators in the current situation.

As regards sub-recommendation A(2), the definition of the LTV has not been amended in the existing legal framework for BBMs. Such an amendment should take place no later than 1 July 2021. The inaction is justified by the fact that the existing loan-to-collateral (LTC) cap has worked as expected thus far and in accordance with its objective, and other planned measures are intended to complement it. Accordingly no amendment of the LTC to an LTV coherent with the recommendation is foreseen at the moment. The addressee will ensure that the scope of the LTC ratio cap will be extended to housing loans granted by credit suppliers other than credit institutions. Finally, in its response to the consultation on the above-mentioned Ministry of Finance working group report, the FIN-FSA has recommended that the Finnish legislation concerning LTC be amended in order to correspond to ESRB Recommendation (ESRB/2019/8).

The Assessment Team considers that a change in the definition of the LTC limits, which are currently an active instrument, might have disruptive and/or procyclical effects due the current economic uncertainty and therefore assesses the inaction to be sufficiently explained. However, the Assessment Team assumes that after the coronavirus crisis, the addressees will resume their course of action and comply with sub-recommendation A(2). A first step has already been made through the FIN-FSA recommendation stressing the need to amend the Finnish legislation on LTC limits.

As regards sub-recommendation B(1), non-legally binding BBMs should be activated pending the amendment of the existing legal framework. However, the action taken by the authorities consists only of a communication by FIN-FSA on loan sizes relative to borrowers' income and on the maturities of new mortgage loans.

In September 2020 the FIN-FSA issued a recommendation to lenders regarding loan size relative to borrowers' income and maximum loan maturity, urging lenders to exercise restraint in granting loans that are very large in relation to the applicant's income and have a longer maximum repayment period than usual. According to the addressee of the ESRB Recommendation ESRB/2019/8, the FIN-FSA recommendation and other public communication by the authorities



have increased the awareness of risks and vulnerabilities related to high household indebtedness and large mortgage loans. The FIN-FSA recommendation was renewed in December 2020, as part of a supervisory communication strategy.

Compliance with FIN-FSA recommendations is analysed and evaluated. In particular, the FIN-FSA monitors household loan size relative to income and maturity through aggregate thematic collections of data and also as part of ongoing microprudential supervision. In the data collection, the impact of housing company loans is also considered. Moreover, Finland is in the process of introducing a credit register that would make the supervision of the exact level of individual household debt even more effective.

The Assessment Team considers the action taken not to be fully adequate to address the risks identified and assesses it to be partially compliant with the objective of sub-recommendation B(1). Clear information on the existing framework (in terms of communication, compliance and reporting obligations by credit institutions) is lacking at this stage.

As regards sub-recommendation B(2), there were no legally binding income-related BBMs activated. The activation of such measures is conditional on the amendment of the existing legal framework as referred to in recommendation A. However, given that the legal framework is not yet into force, sub-recommendation B(2) cannot be complied with. As a consequence, the inaction as regards sub-recommendation B(2) has not been assessed by the Assessment Team at this stage.

**The overall level of compliance with ESRB Recommendation ESRB 2019/8 is Largely Compliant.** Two sub-recommendations, A(2) and B(2), have not been implemented by the addresses, while sub-recommendations A(1) and B(1) have been implemented. The inaction regarding sub-recommendation A(2) has been assessed to be Sufficiently Explained. The inaction regarding sub-recommendation B(2) has not been assessed at this stage, as its compliance was conditional on the full implementation of a legal framework for the BBMs, a process that it is still ongoing. Sub-recommendations A(1) and B(1) have been assessed as Partially Compliant.



## 4.6 Sweden

### 4.6.1 Introduction

ESRB Recommendation ESRB/2019/9 on medium-term vulnerabilities in the RRE sector in Sweden has been addressed to the Swedish national authorities entrusted with the monitoring of systemic risks, the Swedish macroprudential authority entrusted with the activation of BBMs and the macroprudential authority, the designated authority or the competent authority in Sweden, as applicable.

Compliance with recommendation B – monitoring of vulnerabilities and activation or tightening of macroprudential measures – was assessed as of 31 October 2020.

Recommendation B consists of three sub-recommendations:

**Sub-recommendation B(1)** refers to the close monitoring of vulnerabilities related to household indebtedness and overvaluation of house prices over the medium term, including, inter alia, by:

a) assessing – using loan-level data for new mortgage loans – the ability of borrowers taking out new housing loans to withstand adverse economic or financial conditions or adverse developments in the RRE market; and

b) assessing potential credit losses on existing mortgage portfolios, as well as potential second-round effects on financial stability in the event of adverse economic or financial developments.

**Sub-recommendation B(2)** refers to the tightening of existing BBMs or the activation of others if the results of the monitoring carried out pursuant to point (a) of sub-recommendation B(1) provide evidence that a significant or an increasing share of borrowers taking out new housing loans might not be able to service their debt following an adverse economic or financial development.

**Sub-recommendation B(3)** refers to the tightening of existing capital-based measures or the introduction of others. It aims to ensure sufficient capital for mortgage loans granted by credit institutions authorised in Sweden if the results of the monitoring carried out pursuant to point (b) of sub-recommendation B(1) provide evidence that, in the event of adverse economic or financial conditions or adverse developments in the RRE market, either potential credit losses on existing mortgage loans or credit losses on other loans – as a consequence of the decrease in consumption by households with housing loans – have increased due to cyclical, economic and financial factors.

The addressee provided a follow-up report on the assessment of the implementation of sub-recommendations B(1), B(2) and B(3) of Recommendation ESRB/2019/9 by 31 October 2020.

The follow-up report was submitted by Finansinspektionen (Swedish Financial Supervisory Authority) for sub-recommendations B(1), B(2) and B(3), and by Sveriges Riksbank for sub-recommendation B(1).





## 4.6.2 Assessment methodology and implementation standards

The weighting applied for the different sub-recommendations is presented in the table below. Overall, equal weights have been assigned to each sub-recommendation. At the level of each sub-recommendation, the content was weighted 2/3, while the reporting and the proportionality count for the remaining 1/3, and have been assigned equal weights, of 1/6 each.

Individual weighting	
Category	Weighting
Recommendation B(1)	1/3
Recommendation B(2)	1/3
Recommendation B(3)	1/3
<b>Recommendation B(1)</b>	<b>Weighting</b>
Monitoring of the RRE risk framework	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation B(2)</b>	<b>Weighting</b>
Tightening of existing BBM or activation of others	2/3
Proportionality	1/6
Reporting	1/6
<b>Recommendation B(3)</b>	<b>Weighting</b>
Activation or tightening of capital-based measures	2/3
Proportionality	1/6
Reporting	1/6

The implementation standards for Sweden are presented in Annex II.

## 4.6.3 Assessment results

As regards sub-recommendation B(1), a close monitoring of vulnerabilities related to household indebtedness and the overvaluation of house prices over the medium term has been carried out.

The monitoring of the repayment ability of new mortgage borrowers is based on individual level data on all new mortgages during a fixed time period on an annual basis (i.e. the mortgage market survey). The mortgage market survey data are used for assessing developments in the mortgage market and the credit risk in new mortgage lending, as well as for the screening of banks' methodologies. A certain lag in the data is being observed, with the April 2020 report presenting 2019 developments, while August/September 2020 developments will be illustrated only in the April 2021 report.



The assessment of vulnerabilities related to household indebtedness is based on borrowers' monthly discretionary income, similar to banks' methodology when screening borrowers. Several stress scenarios are being analysed, including an interest rate increase and an unemployment shock.

The overvaluation of house prices is assessed using both qualitative and quantitative assessment, the latter including a broad range of indicators and models. The commonly used indicators of house price growth and mortgage lending are complemented by two systemic risk indicators and the ratio of housing prices to disposable income is used as a main indicator of house price valuation. In terms of models, an error correction model usually used for forecasting purposes represents a complementary way of estimating house price overvaluation. Several studies of asset prices, housing prices and indebtedness that include model estimates of house price overvaluation have been carried out. Given the key role of structural factors as drivers of developments in the Swedish housing market, the addressee underlines that a holistic view is necessary to understand underlying vulnerabilities, market dynamics and potential risks from a financial stability perspective. Developments in construction and supply as well as the factors that drive them (including the tax system and regulations) are therefore taken into account.

The assessment of credit risks related to the stock of mortgage loans uses stress tests based on adverse macroeconomic scenarios. One stress test uses a COVID-19 specific scenario (detailed in "Stability in the Financial System 2020:1", Finansinspektionen, June 2020<sup>26</sup>) with mortgage credit loss rates relying both on the history of credit loss rates on Swedish mortgages and on credit loss rates in Swedish banks' mortgage portfolios in four different regions: Sweden, other Nordic countries, Baltic States and other countries. Another stress test has been carried out by Sveriges Riksbank. It includes four of the major banks in Sweden and was based on two different scenarios, one involving a significant fall in production and house prices and another with a significant increase in unemployment.

At this stage, the main drawback of the existing monitoring framework in Sweden is the absence of recent data (i.e. later than September 2019). While the assessment of households' resilience includes average LTV, DTI and DSTI data and the distribution of new mortgage loans in terms of these ratios, the lack of recent data prevented the Assessment Team from analysing the way the situation had evolved since the issuance of ESRB Recommendation ESRB/2019/9. Therefore, in the absence of information on recent developments in lending standards, it was impossible to explore the riskiness of the new mortgage loans compared to the period when the recommendation was issued.

In this respect, several actions have been taken by the addressee to improve data availability, in particular the refinement of analyses on credit losses and households' resilience. For the former, the next vintage of the survey will include more aggregate data on banks' mortgage portfolios. As regards the latter, the addressee is looking at ways to implement new statistics on households'

---

<sup>26</sup> [https://www.fi.se/contentassets/4f6f3f5ef8ca464d8dda818cda870a56/stability\\_in\\_the-financial\\_system\\_2020-01.pdf](https://www.fi.se/contentassets/4f6f3f5ef8ca464d8dda818cda870a56/stability_in_the-financial_system_2020-01.pdf).



assets and liabilities (a legislative proposal has been submitted in this respect to the Swedish Parliament).

The Assessment Team acknowledges that, according to the addressee, a more recent analysis based on August/September 2020 data will be published in late March or early April 2021.

As regards sub-recommendation B(2), the existing BBMs have not been tightened and no new measures have been introduced. The inaction is explained by the findings of the stress tests carried out. These tests have shown high resilience among borrowers taking out new mortgages (i.e. the ability to pay their mortgages in adverse circumstances using their disposable income, without drawing on their liquid assets). This has even improved in recent years following the introduction of amortisation requirements. In addition, a tightening of the existing BBMs is considered by the addressee to be counterproductive, given the current phase of the economic cycle. Nevertheless, the Assessment Team assumes that the addressee will continue monitoring the risks in the RRE sector and activate additional BBMs, or tighten the existing ones, after the COVID-19 crisis, provided that the assessment shows an increase in RRE risks and vulnerabilities.

As regards sub-recommendation B(3), no new capital-based measures have been introduced. Instead, the CCyB was fully released on 16 March 2020, in response to the outbreak of the COVID-19 pandemic (i.e. the CCyB rate was lowered from 2.5% to 0%). However, as the risks in the Swedish housing market remain high, an extension of the existing risk weight floor for Swedish mortgages on the basis of Article 458 of the CRR has been decided on and entered into force as of 31 December 2020.

The inaction as regards sub-recommendation B(2) is explained by the findings of the stress tests carried out, which have shown that Swedish banks have sufficient capital to absorb losses and to continue lending. In the more adverse scenario (of a significant decrease in both production and house prices), credit losses could increase the risk that credit supply in the economy is negatively impacted. However, such a scenario has not materialised so far and housing prices have in fact increased. Credit losses for Swedish banks recorded to date for 2020 were substantially lower than in the stress tests. It is acknowledged that the measures taken by Swedish authorities to limit the economic effects of the pandemic and measures to limit the spread of the virus played a role. Although the risks of credit losses in banks' Swedish mortgage portfolios or second-round effects – given the current adverse economic or financial circumstances – have not increased, the addressee will continue to closely monitor the development of credit losses due to the economic and financial consequences of the current pandemic.

Moreover, the addressee considers any tightening of capital-based measures counterproductive in the current phase of the economic cycle, as the real economy currently has an increased need for credit. While the decision not to introduce new capital-based measures is partly justified in the current context, it is expected that after the COVID-19 crisis such actions could be needed, especially if the RRE risks and vulnerabilities increase further.

**The overall level of compliance with ESRB Recommendation 2019/9 is Fully Compliant.** Only one sub-recommendation (B(1)) has been implemented by the addressee, while the remaining two sub-recommendations (B(2) and B(3)) have not been implemented. The inaction regarding sub-



recommendations B(2) and B(3) has been assessed to be Sufficiently Explained. Sub-recommendation B(1) has been assessed as Largely Compliant.



## 5 General remarks

The Assessment Team has assessed the compliance of the six EU Member States (Belgium, Denmark, Luxembourg, the Netherlands, Finland and Sweden) that have received ESRB recommendations on medium-term vulnerabilities in the RRE sector. The compliance assessment findings are the following: three addressees are assessed as Fully Compliant (Denmark, Luxembourg, Sweden), two addressees are assessed as Largely Compliant (Belgium, Finland); and one addressee is assessed as Partially Compliant (The Netherlands).

Overall, the number of inactions was higher than the number of actions (10 as opposed to 7). The large majority of inactions took the form of a lack of implementation of the measures recommended or a reversal in their activation, and the explanations provided (relating among others to the outbreak of the COVID-19 pandemic) were considered appropriate and sufficient.

Furthermore, there has been significant progress on the monitoring of risks and vulnerabilities in the RRE sector in these countries, especially in terms of improving data availability (although there are still some data lag issues). Further close monitoring of developments in the RRE sector is recommended in the six Member States assessed.

In parallel to this report, the ESRB Secretariat has conducted a forward-looking analysis of the RRE vulnerabilities in these six countries. The findings of this analysis are summarised in the report “Follow-up report on countries which received the ESRB Recommendations in 2019 for medium-term vulnerabilities in the residential real estate sector”.

Depending on the risk developments related to the RRE sector, and taking into account the economic and financial conditions following the COVID-19 pandemic, the countries should proceed with fulfilling the remaining ESRB recommendations. Addressees that did not implement the recommended actions or reversed their activation, and those addressees that are not fully complying with the ESRB recommendations at this stage, should take further steps to ensure that they comply in the near future. In particular, a deterioration of the situation in the RRE sector, translated into an increase in RRE risks and vulnerabilities, could trigger the need for countries to consider the following actions: adjusting the existing non-legally binding BBMs or introducing legally binding measures in Belgium and Finland; adjusting the existing BBMs or introducing new ones in Denmark, Luxembourg, the Netherlands and Sweden; and adjusting the existing capital-based measures or introducing new measures of this kind in Denmark, the Netherlands and Sweden.



# Annexes

## Annex I: Composition of the Assessment Team

Assessment Team Members:

**Ramona Jimborean, Chairperson**  
**Francesco Caloia**  
**Simon Dagrain**  
**Zouhair Kechoute**  
**Milda Stankuvienė**  
**Marianna Caccavaio**  
**Maria Vergeti**  
**Tuulia Asplund**  
**Miroslav Plašil**  
**Jari Friebel**  
**Aleksandra Granat**  
**Hana Hejlová**  
**Emmanuel Karfis**  
**Tuomas Peltonen**  
**Ridha Sahli**  
**Frauke Skudelny**

European Commission  
De Nederlandsche Bank  
Commission de Surveillance du Secteur Financier (CSSF)  
Banque Centrale du Luxembourg  
Bank of Lithuania  
Banca d'Italia  
Bank of Greece  
Bank of Finland  
Czech National Bank  
Deutsche Bundesbank  
ESRB Secretariat  
ESRB Secretariat  
ESRB Secretariat  
ESRB Secretariat  
ESRB Secretariat  
ESRB Secretariat



## Annex II: Implementation standards for country-specific Recommendations

### Implementation standards for Recommendation ESRB/2019/4 (Belgium)

Recommendation A			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated legally-binding borrower-based measures; in order to prevent:               <ul style="list-style-type: none"> <li>(a) a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market; or (b) a significant or an increasing share of new mortgage loans, secured by residential real estate, that could result in credit losses on these loans in the event of their default and a subsequent decrease in house prices</li> </ul> </li> <li>• Addressee took into account the position of Belgium in the economic and financial cycles while calibrating and phasing-in such measures</li> <li>• In case the adopted borrower-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Belgium, the relevant decision took into account the characteristics of the borrower-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation A</li> <li>• Addressee submits an assessment of the vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>

Positive grades



Recommendation A				
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated borrower-based measures. Such measures largely correspond with outcome of assessments carried out by addressee prior to deciding on an activation of borrower-based measures</li> <li>• In case the adopted borrower-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Belgium, the relevant decision took to a large extent into account the characteristics of the borrower-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee hat not activated borrower-based measures nor further tightened existing or activated additional macroprudential measures. Assessments carried out by addressees clearly indicate that activating borrower-based measures, further tightening of existing or activating additional macroprudential measures would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>





Recommendation A				
	Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated borrower-based measures. However, addressee has not carried out proper assessment prior to activating borrower-based measures or the outcome of such assessment was not taken into account;</li> <li>or</li> <li>• In case the adopted borrower-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Belgium, the relevant decision took not into account the characteristics of the borrower-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>
	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has carried out assessments, but not yet activated nor tightened any borrower-based measures; decisions to activate/tighten measures are still pending</li> <li>• Addressee identified further vulnerabilities in Belgium but a final decision has not yet been made as to whether measures should be taken</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by 10 November 2020 to the ESRB Secretariat but most of the essential information is missing</li> </ul>
	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated nor tightened any borrower-based measures and has not carried out any assessment</li> <li>• Addressee identified further vulnerabilities in Belgium but does not intend to take any further measures or its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction</li> </ul>
Negative grades	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>



## Implementation standards for Recommendation ESRB/2019/5 (Denmark)

Recommendation A			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Positive grades	<p>Fully compliant (FC) - Actions taken fully implement the recommendation</p> <ul style="list-style-type: none"> <li>• Addressee has activated additional or tightened existing capital-based measures</li> <li>• The measures taken by national authorities ensure the resilience of credit institutions authorised in Denmark in the face of the potential materialisation of systemic risk related to residential real estate which could lead to direct and indirect credit losses stemming from mortgage loans or arising as a consequence of the decrease in consumption by households with housing loans</li> <li>• Addressee took into account the position of Denmark in the economic and financial cycles while calibrating and phasing-in such measures</li> <li>• In case of activation or tightening the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Denmark, the relevant decision took into account the characteristics of the capital-based measures already activated or tightened, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> <li>• Addressee carried out an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board (10), together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation [I would suggest mentioning these aspects under "Activation..."]</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation A</li> </ul>



					Recommendation A				
					Name	Activation of borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated new capital based measures or tightened existing capital-based measures. Such measures largely correspond with outcome of assessments carried out by addressee prior to deciding on an activation or tightening of capital-based measures</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Denmark, the relevant decision took to a large extent into account the characteristics of the capital-based measures already activated or tightened, the initial calibration of those measures and the results of the assessment of</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>					
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<p>Addressee hat not activated capital-based measures nor further tightened existing or activated additional macroprudential measures. Assessments carried out by addressees clearly indicate that activating capital-based measures, further tightening of existing or activating additional macroprudential measures would be disproportionate at this point in time</p>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 at latest but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>					
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated or tightened capital-based measures. However, addressee has not carried out proper assessment prior to activating or tightening capital-based measures or the outcome of such assessment was not taken into account</li> <li>or</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Denmark, the relevant decision</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November 2020 at latest but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November 2020 at latest but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>					



Recommendation A				
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee	
Negative grades	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has carried out assessments, but not yet activated nor tightened any capital-based measures; Decisions to activate/tighten measures are still pending</li> <li>• Addressee identified further vulnerabilities in Denmark but a final decision has not yet been made as to whether measures should be taken</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by 31 October 2020 to the ESRB Secretariat but most of the essential information is missing</li> </ul>
	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated nor tightened any capital-based measures and has not carried out any assessment</li> <li>• Addressee identified further vulnerabilities in Denmark but does not intend to take any further measures or its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 at latest and does not provide any justification for inaction</li> </ul>
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated nor tightened any capital-based measures and has not carried out any assessment; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 at latest and provided justification for inaction which, however, is inadequate</li> </ul>



Recommendation B1			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee monitored closely all metrics ( household indebtness, overvaluation of house prices and lending standards) for new mortgages loans over the medium term.</li> <li>• Monitoring of the addressee allowed to assess (i) using loan-level data for new mortgages loans, the ability of borrowers taking out new mortgages loans, to withstand adverse economic or financial conditions or adverse developments in the residential real estate sector (ii) the sustainability of house prices in Denmark and the potential for their decrease in the event of adverse economic or financial conditions.</li> <li>• Addressee submits an assessment of the vulnerabilities related to household indebtteness, overvaluation of house prices and lending standards for new mortgage loans over the medium term.</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B</li> </ul>
Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee monitored closely almost all key metrics (household indebtness, overvaluation of house prices and lending standards )</li> <li>• Monitoring of the addressee allowed to assess (i) using loan-level data for new mortgages loans, the ability of borrowers taking out new mortgages loans, to withstand adverse economic or financial conditions or adverse developments in the residential real estate sector (ii) the sustainability of house prices in Denmark and the potential for their decrease in the event of adverse economic or financial conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>

Positive grades



Recommendation B1			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not monitored the key metrics (household indebtedness; overvaluation of house prices and lending standards)</li> <li>• Assessments carried out by addressee clearly indicate that any monitoring would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 at latest but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has only monitored some of the key metrics ( (household indebtedness; overvaluation of house prices and lending standards)</li> <li>• Monitoring of the addressee did not allowed to assess (i) using loan-level data for new mortgages loans, the ability of borrowers taking out new mortgages loans, to withstand adverse economic or financial conditions or adverse developments in the residential real estate sector (ii) the sustainability of house prices in Denmark and the potential for their decrease in the event of adverse economic or financial conditions.</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November 2020 at latest but some essential information is missing or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November 2020 at latest but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>
Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has carried out the monitoring , but did not specifically monitored key metrics related to the vulnerabilities identified in the residential real estate sector in Denmark (household indebtedness; overvaluation of house prices and lending standards).</li> <li>• Monitoring of the addressee did not allowed to assess (i) using loan-level data for new mortgages loans, the ability of borrowers taking out new mortgages loans, to withstand adverse economic or financial conditions or adverse developments in the residential real estate sector (ii) the sustainability of house prices in Denmark and the potential for their decrease in the event of adverse economic or financial conditions.</li> </ul>	[NB: unlikely that this grade would be applied]	• Addressee submits templates by 31 October to the ESRB Secretariat but most of the essential information is missing



Recommendation B1			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>Addressee has not monitored vulnerabilities identified in the residential real estate sector in Denmark.</li> </ul>	<ul style="list-style-type: none"> <li>There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>Addressee does not submit templates by 10 November 2020 at latest and does not provide any justification for inaction</li> </ul>
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>Addressee has not monitored the vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards. The addressee has not carried out any assessment and did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>Addressee did not submit templates by 10 November 2020 at latest and provided justification for inaction which, however, is inadequate</li> </ul>



Recommendation B2				
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated additional, or tightened existing, borrower-based measures, based on the results of the monitoring carried out pursuant to point (a) of sub-Recommendation B(1) which provide evidence that a significant or an increasing share of borrowers taking out new mortgage loans might not be able to service their debt or maintain consumption under adverse economic or financial conditions or following adverse developments in the residential real estate market.</li> <li>• Addressee submits an assessment of the vulnerabilities which required to activate additional, or tighten existing, borrower-based measures, as the results of the monitoring carried out pursuant to point (a) of sub-Recommendation B(1) provided evidence that a significant or an increasing share of borrowers taking out new mortgage loans might not be able to service their debt or maintain consumption under adverse economic or financial conditions or following adverse developments in the residential real estate market. [I would rather mention this aspect under "Monitoring..."]</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at latest at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B</li> </ul>
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated additional, or tightened existing, borrower-based measures, based on the results of the monitoring carried out pursuant to point (a) of sub-Recommendation B(1)</li> <li>• Assessment carried out by addressee indicates further need of activating or tightening other borrower based measures; however, actions taken do largely correspond with outcome of assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>





Recommendation B2				
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee	
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated additional, or tightened existing borrower-based measures, based on the results of the monitoring carried out pursuant to point (a) of sub-Recommendation B(1)</li> <li>• Assessments carried out by addressee clearly indicate that any activation or tightening of BBM measures would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 at latest but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>	
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated new BBMs measures or tightened existing BBMs measures. However, addressee has not carried out proper assessment prior to such activation or tightening as requested by sub-recommendation B(1)</li> <li>or</li> <li>• Addressee has activated new BBMs measures or tightened existing BBMs measures. However, such measure is not in line with essential findings of the assessment carried out by sub-Recommendation B(1) (e.g. assessment shows evidence for activating or tightening additional BBMs measures)</li> </ul>	[NB: unlikely that this grade would be applied] <ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November 2020 at latest but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 31 October 2020 but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>	
	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated or tightened BBMs measures. Addressee has carried out an assessment prior to decide not to activate or tighten BBMs measures and such decision is not in line with outcome of assessment</li> <li>or</li> <li>• Addressee has activated or tightened BBM measures. However, such measure is not at all in line with outcome of the assessment (e.g. assessment clearly indicates further lowering of LTV ratio)</li> </ul>	[NB: unlikely that this grade would be applied]	Addressee submits templates by 10 November 2020 at latest to the ESRB Secretariat but most of the essential information is missing
Negative grades	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated or tightened any BBM measures and has not carried out any assessment or its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 at latest and does not provide any justification for inaction</li> </ul>



Recommendation B2			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated or tightened any BBM measures and has not carried out any assessment; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 at latest and provided justification for inaction which, however, is inadequate</li> </ul>



Recommendation B3				
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has increased the legally binding minimum down payment requirement, as the results of the monitoring carried out pursuant to paragraph 1(b) of sub-recommendation B provide evidence that the overvaluation of house prices has increased.</li> <li>• The measures taken by national authorities ensure that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions and to the estimated decrease in house prices in the event of a negative scenario.</li> <li>• Addressee submits an assessment that provided evidence that the overvaluation of house prices has increased. The measures taken by national authorities ensure that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions and to the estimated decrease in house prices in the event of a negative scenario. [I would rather mention these aspects under "Monitoring..."]</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at latest at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B</li> </ul>
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has increased the legally binding minimum down payment requirement, based on the results of the assessment carried out pursuant to paragraph 1 (b) of sub-recommendation B</li> <li>• Assessment carried out by addressee indicates further need of increasing the minimum down payment requirement ; however, actions taken do largely correspond with outcome of assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>



Recommendation B3			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not increased the legally binding minimum down payment requirement based on the results of the assessment carried out pursuant to paragraph 1 (b) of sub-recommendation B</li> <li>• Assessment carried out by addressee clearly indicate that any increase of the legally binding minimum down payment requirement would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 at latest but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Mid-grade Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has increased the legally binding minimum down payment requirement. However, the addressee has not carried out proper assessment prior to such increase as requested paragraph 1 (b) of sub-recommendation B</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>• Addressee has increased the legally binding minimum down payment requirement. However, such measure is not in line with essential findings of the assessment carried out pursuant to paragraph 1 (b) of sub-recommendation B</li> </ul>	[NB: unlikely that this grade would be applied]	• Addressee submits templates as under "FC", only minor elements are missing
Negative grades Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not increased the legally binding minimum down payment requirement. Addressee has carried out an assessment pursuant to paragraph 1 (b) of sub-recommendation B and such decision is not in line with outcome of assessment</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>• Addressee has increased the minimum down payment requirement. However, such increase is not at all in line with outcome of the assessment (e.g. assessment clearly indicates further increase of the minimum down payment requirement)</li> </ul>	[NB: unlikely that this grade would be applied]	Addressee submits templates by 10 November 2020 at latest to the ESRB Secretariat but most of the essential information is missing



Recommendation B3			
Name	Activation of borrower-based measures	Proportionality	Reporting of addressee
Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not increased the legally binding minimum down payment requirement and has not carried out any assessment pursuant to paragraph 1 (b) of sub-recommendation B or its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 at latest and does not provide any justification for inaction</li> </ul>
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not increased the legally binding minimum down payment requirement and has not carried out any assessment pursuant to paragraph 1 (b) of sub-recommendation B ; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 at latest and provided justification for inaction which, however, is inadequate</li> </ul>



## Implementation standards for Recommendation ESRB/2019/6 (Luxembourg)

Recommendation A				
Name	Establishing legal framework for borrower-based measures.	Proportionality	Reporting by 31 October 2020	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee ensures a national framework for borrower-based measures that does include all recommended borrower-based measures (DTI, DSTI, LTV, and maturity limits)</li> <li>or</li> <li>• Addressee clarifies whether it is planned to ensure such legal framework and which body or bodies will be responsible for the decision to activate and implement all the recommended borrower-based measures (DTI, DSTI, LTV, and maturity limits)</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> <li>• Addressee carried out an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation A</li> </ul>
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee ensures a national framework for borrower-based measures that does include some of the recommended borrower-based measures (DTI, DSTI, LTV, and maturity limits) and clarifies whether it is planned to ensure such legal framework and which body or bodies will be responsible for the decision to activate and implement all the remaining recommended borrower-based measures</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>



					<b>Recommendation A</b>				
					<b>Name</b>	<b>Establishing legal framework for borrower-based measures.</b>	<b>Proportionality</b>	<b>Reporting by 31 October 2020</b>	
<b>Mid-grade</b>	Partially compliant (PC) - Actions taken only implement part of the recommendation				[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November but some essential information is missing or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>		
	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation				[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by 10 November 2020 to the ESRB Secretariat but most of the essential information is missing</li> </ul>		
<b>Negative grades</b>	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation				<ul style="list-style-type: none"> <li>• Addressee has not ensured a national framework for borrower-based measures</li> <li>• Addressee identified further vulnerabilities in Luxembourg but does not intend to take any further measures or its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction</li> </ul>		
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification				<ul style="list-style-type: none"> <li>• Addressee has not ensured a national framework for borrower-based measures and has not carried out any assessment; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>		



Recommendation B1				
Name	Activation or tightening of non-legally-binding borrower-based measures	Proportionality	Reporting by 31 October 2020	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has applied non-legally-binding borrower-based measures in order to prevent:               <ul style="list-style-type: none"> <li>(a) a significant/increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market; or</li> <li>(b) a significant/increasing share of new mortgage loans, secured by residential real estate, that could result in credit losses on these loans in the event of their default and a subsequent decrease in house prices</li> </ul> </li> <li>• Addressee has tightened or activated additional macroprudential measures; Addressee has clearly shown that he has taken into account the characteristics of the borrower-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> <li>• Addressee carried out an assessment of the vulnerabilities related to household indebtedness, house price overvaluation and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board , together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> <li>• Addressee ensured effectiveness of the measures in place and minimised any potential for their circumvention or for unintended consequences that could reduce their effectiveness and possibly create risks in other areas</li> <li>• Addressee assessed the position of Luxembourg in the economic and financial cycles, in order to determine the appropriate calibration and phasing-in of such measures</li> <li>• Further tightening or the activation of additional macroprudential measures depends on the choice of the income-related borrower-based measures activated, on the initial calibration of those activated measures and on the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates by 10 November at latest to the ESRB Secretariat</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B(1)</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>





Recommendation B1				
Name	Activation or tightening of non-legally-binding borrower-based measures	Proportionality	Reporting by 31 October 2020	
Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has applied non-legally binding limit that applies to the LTV, DTI and DSTI ratios and maturities</li> <li>• Assessment carried out by addressee indicates further need of tightening the LTV, DTI and DSTI ratios and maturities; however, actions taken do largely correspond with outcome of assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>	
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities. Assessments carried out by addressee clearly indicate that any activation/tightening of LTV, DTI, DSTI ratios and maturities would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated/tightened LTV, DTI, DSTI ratios and maturities. However, addressee has not carried out proper assessment prior to the actions</li> <li>or</li> <li>• Addressee has activated/tightened LTV, DTI, DSTI ratios and maturities. However, such measures are not in line with essential findings of the assessments (e.g. assessment shows evidence for further actions)</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>
	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities. Addressee has carried out an assessment prior to decide not to activate/tighten LTV, DTI, DSTI ratios and maturities, such decisions are not in line with outcome of assessment</li> <li>or</li> <li>• Addressee has activated/tightened LTV, DTI, DSTI ratios and maturities. However, such measures are not at all in line with outcome of the assessments (e.g. assessment clearly indicates further actions)</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by 10 November 2020 to the ESRB Secretariat but most of the essential information is missing</li> </ul>
Negative grades				



Recommendation B1			
Name	Activation or tightening of non-legally-binding borrower-based measures	Proportionality	Reporting by 31 October 2020
Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities and has not carried out any assessment or the assessment is not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction</li> </ul>
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities and has not carried out any assessment; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>



Recommendation B2				
Name	Activation or tightening of non-legally-binding borrower-based measures	Proportionality	Reporting by 31 October 2020	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• After existing legal framework as been amended as referred to in Recommendation A, the Luxempourg national authorities entrusted with the application of borrower-based measures activate legally-binding borrower- based measures to further address the objectives set out in sub-recommendation B(1)</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates by 10 November 2020 at latest to the ESRB Secretariat</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B(2)</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/ 2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation"</li> </ul>
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has imposed the current legally binding limit that applies to the LTV, DTI and DSTI ratios and maturities</li> <li>• Assessment carried out by addressee indicates further need of tightening the LTV, DTI and DSTI ratios and maturities; however, actions taken do largely correspond with outcome of assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee hat not activeted/tightened LTV, DTI, DSTI ratios and maturities. Assessments carried out by addressee clearly indicate that any activation/tightening of LTV, DTI, DSTI ratios and maturities would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>



Recommendation B2				
	Name	Activation or tightening of non-legally-binding borrower-based measures	Proportionality	Reporting by 31 October 2020
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated/tightened LTV, DTI, DSTI ratios and maturities. However, addressee has not carried out proper assessment prior to the actions</li> <li>or</li> <li>• Addressee has activated/tighten LTV, DTI, DSTI ratios and maturities. However, such measures are not in line with essential findings of the assessments (e.g. assessment shows evidence for further actions)</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>
Negative grades	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities. Addressee has carried out an assessment prior to decide not to activate/tighten LTV, DTI, DSTI ratios and maturities, such decisions are not in line with outcome of assessment</li> <li>or</li> <li>• Addressee has activated/tighten LTV, DTI, DSTI ratios and maturities. However, such measures are not at all in line with outcome of the assessments (e.g. assessment clearly indicates further actions)</li> </ul>	[NB: unlikely that this grade would be applied]	• Addressee submits templates by 10 November 2020 to the ESRB Secretariat but most of the essential information is missing
	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities and has not carried out any assessment or the assessment is not in line with the nature of the Recommendation.	• There is evidence that the addressee acted disproportionately; addressee does not provide any justification	• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	• Addressee has not activated/tightened LTV, DTI, DSTI ratios and maturities and has not carried out any assessment; addressee did not provide for any further justification for inaction	• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate	• Addressee did not submit templates by 10 November 2020 and provided justification for inaction which, however, is inadequate



## Implementation standards for Recommendation ESRB/2019/7 (the Netherlands)

Recommendation B(1)				
Name	Tightening of borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee lowered the current legally binding limit that applies to the LTV ratio, thus ensuring that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions</li> <li>• Addressee has assessed the position of the Netherlands in the economic and financial cycles in order to determine an appropriate calibration and phasing-in of such measures prior to lowering the existing limits that apply to the loan-to-value (LTV) ratio .</li> <li>• Lowering of LTV fully matches outcome of assessment carried out by addressee</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B(1)</li> <li>• Reporting includes an assessment of the vulnerabilities related to household indebtedness, house price overvaluation and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board , together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has lowered the current legally binding limit that applies to the LTV ratio</li> <li>• Assessment carried out by addressee indicates further need of lowering the LTV ratio; however, actions taken do largely correspond with outcome of assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not lowered LTV ratio. Assessments carried out by addressee clearly indicate that any lowering of LTV ratio would be disproportionate at this point in time</li> </ul>	<p>[NB: unlikely that this grade would be applied]</p>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>



		Recommendation B(1)			
		Name	Tightening of borrower-based measures	Proportionality	Reporting of addressee
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has lowered LTV ratio. However, addressee has not carried out proper assessment prior to lowering of LTV ratio</li> <li>or</li> <li>• Addressee has lowered LTV ratio. However, such measure is not in line with essential findings of the assessments (e.g. assessment shows evidence for further lowering of LTV ratio)</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>	
	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not lowered LTV ratio. Addressee has carried out an assessment prior to decide not to lower LTV ratio, such decision is not in line with outcome of assessment</li> <li>or</li> <li>• Addressee has lowered LTV ratio. However, such measure is not at all in line with outcome of the assessments (e.g. assessment clearly indicates further lowering of LTV ratio)</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by 10 November 2020 to the ESRB Secretariat but most of the essential information is missing</li> </ul>	
Negative grades	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not lowered LTV ratio and has not carried out any assessment or its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction</li> </ul>	
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not lowered LTV ratio and has not carried out any assessment; addressee did not provide a justification for inaction or given justification was inadequate</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>	



				Recommendation C			
				Name	Activation of capital-based measures	Proportionality	Reporting by 31 October 2020
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated capital-based measures</li> <li>• The measures taken by national authorities ensure the resilience of credit institutions authorised in the Netherlands in the face of the potential materialisation of systemic risk related to residential real estate which could lead to direct and indirect credit losses stemming from mortgage loans or arising as a consequence of the decrease in consumption by households with housing loans</li> <li>• Addressee took into account the position of the Netherlands in the economic and financial cycles while calibrating and phasing-in such measures</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in the Netherlands, the relevant decision took into account the characteristics of the capital-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation C</li> <li>• Addressee submits an assessment of the vulnerabilities related to pockets of overvaluation of house prices and the collateralisation of new and existing mortgage loans, including the distribution of new mortgage loans according to their LTV ratios, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board , together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation.</li> </ul>			
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated capital-based measures. Such measures largely correspond with outcome of assessments carried out by addressee prior to deciding on an activation of capital-based measures</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in the Netherlands, the relevant decision took to a large extent into account the characteristics of the capital-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates as under "FC", only minor elements are missing</li> </ul>			



Recommendation C			
Name	Activation of capital-based measures	Proportionality	Reporting by 31 October 2020
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated capital-based measures nor further tightened existing or activated additional macroprudential measures. Assessments carried out by addressees clearly indicate that activating capital-based measures, further tightening of existing or activating additional macroprudential measures would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Mid-grade Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated capital-based measures. However, addressee has not carried out proper assessment prior to activating capital-based measures or the outcome of such assessment was not taken into account</li> <li>or</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in the Netherlands, the relevant decision took not into account the characteristics of the capital-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to ESRB Secretariat by 10 November but some essential information is missing</li> <li>or</li> <li>• Addressee submits templates to ESRB Secretariat later than 10 November but delay does not prevent ESRB from finalizing its follow-up report.</li> </ul>
Negative grades Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has carried out assessments, but not yet activated nor tightened any capital-based measures; decisions to activate/tighten measures are still pending</li> <li>• Addressee identified further vulnerabilities in the Netherlands but a final decision has not yet been made as to whether measures should be taken</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by 10 November 2020 to the ESRB Secretariat but most of the essential information is missing</li> </ul>





Recommendation C			
Name	Activation of capital-based measures	Proportionality	Reporting by 31 October 2020
Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has not activated nor tightened any capital-based measures and has not carried out any assessment</li> <li>• Addressee identified further vulnerabilities in the Netherlands but does not intend to take any further measures or actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee does not submit templates by 10 November 2020 and does not provide any justification for inaction</li> </ul>
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not activated nor tightened any capital-based measures and has not carried out any assessment; addressee did not provide a justification for inaction or given justification was inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>



## Implementation standards for Recommendation ESRB/2019/8 (Finland)

Recommendation A(1)				
Name	Establishing legal framework for borrower-based measures	Proportionality	Reporting by 31 October 2020	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee ensures a national framework for borrower-based measures that does include all recommended borrower-based measures (DTI or DSTI, LTV, and maturity limits) or addressee clarifies whether it is planned to ensure such legal framework and which body or bodies will be responsible for the decision to activate and implement the borrower-based measures set out in Recommendation A(1)</li> <li>• Addressee uses definitions for borrower-based measures as set out in Recommendation</li> <li>• Legal framework ensures that               <ul style="list-style-type: none"> <li>(a) the limits that apply to the debt-to-income (DTI) ratio and to the debt-service-to income (DSTI) ratio, as well as the maturity limits, are applicable to loans granted to all types of borrowers and by all types of lenders, in order to avoid circumvention of the limits by the use of loans to housing companies or other methods;</li> <li>(b) when calculating the loan-to value (LTV) ratio, only immovable property can be considered as collateral;</li> <li>(c) the Finnish national authorities entrusted with the activation of borrower-based measures are able to activate legally-binding borrower-based measures in an effective and pre-emptive way and are provided with the necessary flexibility in order to design those measures based on the vulnerabilities identified.</li> </ul> </li> <li>• The amendments to the Finnish legal framework for borrower-based measures will be in force by no later than 1 July 2021</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> <li>• Addressee carried out an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board (10), together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation A.</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board (10), together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>



Recommendation A(1)			
Name	Establishing legal framework for borrower-based measures	Proportionality	Reporting by 31 October 2020
Positive grades	<p>Largely compliant (LC) - Actions taken implement almost all of the recommendation</p> <ul style="list-style-type: none"> <li>• Addressee ensures a national framework for borrower-based measures that does include almost all of the recommended borrower-based measures (DTI or DSTI, LTV, and maturity limits) or addressee clarifies whether it is planned to ensure such legal framework and which body or bodies will be responsible for the decision to activate and implement the borrower-based measures set out in Recommendation A(1)</li> <li>• Addressee uses to a large extent definitions for borrower-based measures as set out in Recommendation</li> <li>• Legal framework ensures that               <ul style="list-style-type: none"> <li>(a) the limits that apply to the debt-to-income (DTI) ratio and to the debt-service-to income (DSTI) ratio, as well as the maturity limits, are applicable to loans granted to all types of borrowers and by all types of lenders, in order to avoid circumvention of the limits by the use of loans to housing companies or other methods;</li> <li>(b) when calculating the loan-to value (LTV) ratio, only immovable property can be considered as collateral;</li> <li>(c) the Finnish national authorities entrusted with the activation of borrower-based measures are able to activate legally-binding borrower-based measures in an effective and pre-emptive way and are provided with the necessary flexibility in order to design those measures based on the vulnerabilities identified.</li> </ul> </li> <li>• There will be a slight delay in amending the Finnish legal framework for borrower-based measures: Amendments will, however, be in force until end of September 2021</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to the ESRB Secretariat by 10 November 2020 but some non-essential information is missing</li> </ul>



Recommendation A(1)			
Name	Establishing legal framework for borrower-based measures	Proportionality	Reporting by 31 October 2020
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet established a legal framework. Sufficient explanations were provided that legal framework will be amended no later than 1 July 2021. Addressee also clarified which body or bodies will be responsible for the decision to activate and implement borrower-based measures</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee ensures a national framework for borrower-based measures that does include some of the recommended borrower-based measures (DTI or DSTI, LTV, and maturity limits) or addressee clarifies whether it is planned to ensure such legal framework and which body or bodies will be responsible for the decision to activate and implement the borrower-based measures set out in Recommendation A(1)</li> <li>• Addressee uses some of the definitions for borrower-based measures as set out in Recommendation</li> <li>• Legal framework ensures that               <ul style="list-style-type: none"> <li>(a) legally binding measures are applicable to loans granted to all types of borrowers and by all types of lenders, in order to avoid circumvention of the limits by the use of loans to housing companies or other methods;</li> <li>(b) the Finnish national authorities entrusted with the activation of borrower-based measures are able to activate legally-binding borrower-based measures in an effective and pre-emptive way and are provided with the necessary flexibility in order to design those measures based on the vulnerabilities identified.</li> </ul> </li> <li>• The amendments to the Finnish legal framework for borrower-based measures will be in force in the course of 2021</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but some essential information is missing</li> </ul>

Mid-grade



Recommendation A(1)				
Name	Establishing legal framework for borrower-based measures	Proportionality	Reporting by 31 October 2020	
Negative grades	<p>Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation</p>	<ul style="list-style-type: none"> <li>• Addressee ensures a national framework for borrower-based measures that only include one of the recommended borrower-based measures (DTI or DSTI, LTV, and maturity limits) or addressee clarifies whether it is planned to ensure such legal framework and which body or bodies will be responsible for the decision to activate and implement the borrower-based measures set out in Recommendation A(1)</li> <li>• Addressee uses some of the definitions for borrower-based measures as set out in Recommendation</li> <li>• Legal framework ensures that               <ul style="list-style-type: none"> <li>(a) legally binding measures are applicable to loans granted to all types of borrowers and by all types of lenders, in order to avoid circumvention of the limits by the use of loans to housing companies or other methods;</li> <li>(b) the Finnish national authorities entrusted with the activation of borrower-based measures are able to activate legally-binding borrower-based measures in an effective and pre-emptive way and are provided with the necessary flexibility in order to design those measures based on the vulnerabilities identified.</li> </ul> </li> <li>• The amendments to the Finnish legal framework for borrower-based measures will be in force in the course of 2021</li> </ul>	<p>[NB: unlikely that this grade would be applied]</p>	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but most of the essential information is missing</li> </ul>
	<p>Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation</p>	<ul style="list-style-type: none"> <li>• Addressee did not establish a legal framework for borrower-based measures; addressee did not provide timeline for planned establishment of legal framework; its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and does not provide any justification for inaction</li> </ul>



Recommendation A(1)			
Name	Establishing legal framework for borrower-based measures	Proportionality	Reporting by 31 October 2020
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee did not establish a legal framework for borrower-based measures; addressee did not provide timeline for planned establishment of legal framework; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>



				Recommendation A(2)		
		Name	Amending definition of the LTV ratio in the existing legal framework for borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee amended definition for LTV ratio as set out in Recommendation A(2) or addressee clarifies whether it is planned to amend definition for LTV ratio as set out in Recommendation A(2) by no later than 1 July 2021</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation A</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board (10), together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>		
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee amended definition for LTV ratio as set out in Recommendation A(2) with only minor/non-essential deviations or addressee clarifies whether it is planned to amend definition for LTV ratio as set out in Recommendation A(2) but such amendment will enter into force with a slight delay</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of any measures by national supervisory authorities to implement the sub-recommendation or the measures do not address the content of the sub-recommendation. Addressee provides justification which, however is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to the ESRB Secretariat by 10 November 2020 but some non-essential information is missing</li> </ul>		
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet amended definition for LTV ratio. Sufficient explanations were provided that definition for LTV ratio will be amended no later than 1 July 2021.</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>		
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but some essential information is missing</li> </ul>		



Recommendation A(2)				
Name	Amending definition of the LTV ratio in the existing legal framework for borrower-based measures	Proportionality	Reporting of addressee	
Negative grades	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but most of the essential information is missing
	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	• Addressee did not amend definition for LTV ratio; addressee did not provide timeline for planned amendment of LTV ratio; its actions are not in line with the nature of the Recommendation.	• There is evidence that the addressee acted disproportionately; addressee does not provide any justification	• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and does not provide any justification for inaction
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	• Addressee did not amend definition for LTV ratio; addressee did not provide timeline for planned amendment of LTV ratio; addressee did not provide for any further justification for inaction	• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate	• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and provided justification for inaction which, however, is inadequate





Recommendation B(1)			
Name	Application of non-legally-binding borrower-based measures	Proportionality	Reporting of addressee
Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has applied non-legally-binding borrower-based measures in order to prevent a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market</li> <li>• Addressee has carried out an assessment of the vulnerabilities related to household indebtedness, house price overvaluation and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board , together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> <li>• Addressee ensured effectiveness of the measures in place and minimised an potential for their circumvention or for unintended consequences that could reduce their effectiveness and possibly create risks in other areas</li> </ul> <p>the borrower-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities when tightening existing macroprudential measures or when activating additional macroprudential measures</p>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation A</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board (10), together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>

Positive grades



Recommendation B(1)				
	Name	Application of non-legally-binding borrower-based measures	Proportionality	Reporting of addressee
Positive grades	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee amended definition for LTV ratio as set out in Recommendation A(2) with only minor/non-essential deviations or addressee clarifies whether it is planned to amend definition for LTV ratio as set out in Recommendation A(2) but such amendment will enter into force with a slight delay</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of any measures by national supervisory authorities to implement the sub-recommendation or the measures do not address the content of the sub-recommendation. Addressee provides justification which, however is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to the ESRB Secretariat by 10 November 2020 but some non-essential information is missing</li> </ul>
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet amended definition for LTV ratio. Sufficient explanations were provided that definition for LTV ratio will be amended no later than 1 July 2021.</li> </ul>	<ul style="list-style-type: none"> <li>[NB: unlikely that this grade would be applied]</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>[NB: unlikely that this grade would be applied]</li> </ul>	<ul style="list-style-type: none"> <li>[NB: unlikely that this grade would be applied]</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but some essential information is missing</li> </ul>
Negative grades	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>[NB: unlikely that this grade would be applied]</li> </ul>	<ul style="list-style-type: none"> <li>[NB: unlikely that this grade would be applied]</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but most of the essential information is missing</li> </ul>
	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee did not amend definition for LTV ratio; addressee did not provide timeline for planned amendment of LTV ratio; its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and does not provide any justification for inaction</li> </ul>
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee did not amend definition for LTV ratio; addressee did not provide timeline for planned amendment of LTV ratio; addressee did not provide for any further justification for inaction</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>



Recommendation B(2)				
Name	Activation or calibration of legally-binding income-related borrower-based measures	Proportionality	Reporting of addressee	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• After existing legal framework as been amended as referred to in Recommendation A, the Finnish national authorities entrusted with the activation or calibration of income-related borrower-based measures activate or calibrate, respectively, legally binding income-related borrower-based measures to further address the objectives set out in sub-recommendation B(1)</li> <li>Such activation or calibration of legally-binding borrower-based measures is necessary to further prevent a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B(2)</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and lending standards for new mortgage loans, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios, and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board (10), together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated capital-based measures. Such measures largely correspond with outcome of assessments carried out by addressee prior to deciding on an activation of legally-binding borrower-based measures</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Finland, the relevant decision took into account the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to the ESRB Secretariat by 10 November 2020 but some non-essential information is missing</li> </ul>



Recommendation B(2)			
Name	Activation or calibration of legally-binding income-related borrower-based measures	Proportionality	Reporting of addressee
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet activated non-legally-binding borrower-based measures but has shown clear evidence that such measures were not necessary to prevent a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market.</li> <li>• Assessments carried out by addressee clearly indicate that any activation or tightening of BBM measures would be disproportionate at this point in time"</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay"</li> </ul>
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated borrower-based measures. However, addressee has not carried out assessment as set out in recommendation prior to activating borrower-based measures or the outcome of such assessment was not taken into account</li> <li>or</li> <li>• In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in Finland the relevant decision took not into account the results of the assessment of vulnerabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits templates by the 31 October 2020 to the ESRB Secretariat but some essential information is missing</li> </ul>
	Negative grades	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has identified further vulnerabilities but has not yet activated any further measures or tightened existing measures. Final decisions are, however, still pending.</li> </ul>



Recommendation B(2)			
Name	Activation or calibration of legally-binding income-related borrower-based measures	Proportionality	Reporting of addressee
Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has identified further vulnerabilities but has decided to not activate any further measures or to tighten existing measures, or: its actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 31 October 2020 and does not provide any justification for inaction</li> </ul>
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has identified further vulnerabilities but has decided to not activate any further measures or to tighten existing measures and provided justification for inaction which, however, is inadequate.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 31 October 2020 and provided justification for inaction which, however, is inadequate</li> </ul>



## Implementation standards for Recommendation ESRB/2019/9 (Sweden)

		Recommendation B(1)			
		Name	Monitoring of the RRE risk framework	Proportionality	Reporting of addressee
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee ensures that closely monitors vulnerabilities related to household indebtedness and overvaluation of house prices over the medium term, including, inter alia, by: a) assessing – using loan-level data for new mortgage loans – the ability of borrowers taking out new housing loans to withstand adverse economic or financial conditions or adverse developments in the residential real estate market; and b) assessing potential credit losses on existing mortgage portfolios, as well as potential second-round effects on financial stability in the event of adverse economic or financial developments.</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and overvaluation of house prices, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>	
	Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee ensures that closely monitors RRE vulnerabilities with only minor/non-essential deviations or addressee clarifies whether it is planned to establish a monitoring framework</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of any measures by national supervisory authorities to implement the sub-recommendation or the measures do not address the content of the sub-recommendation. Addressee provides justification which, however is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to the ESRB Secretariat by 10 November 2020 but some non-essential information is missing</li> </ul>	
	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet establish a RRE monitoring framework.</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>	
Mid-grade	Partially compliant (PC) - Actions taken only implement part of the recommendation	[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but some essential information is missing</li> </ul>	



Recommendation B(1)			
Name	Monitoring of the RRE risk framework	Proportionality	Reporting of addressee
Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	[NB: unlikely that this grade would be applied]	[NB: unlikely that this grade would be applied]	• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but most of the essential information is missing
Negative grades	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	• Addressee did not establish a RRE monitoring framework; addressee did not provide timeline for planned establishment of the monitoring framework; addressee did not provide for any further justification for inaction	• There is evidence that the addressee acted disproportionately; addressee does not provide any justification
	Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	• Addressee did not establish a RRE monitoring framework; addressee did not provide timeline for planned establishment of the monitoring framework; addressee did not provide for any further justification for inaction	• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate



Recommendation B(2)			
Name	Tightening of existing borrower-based measures or activation of others	Proportionality	Reporting of addressee
Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has tighten existing borrower-based measures, or activate others, if the results of the monitoring carried out pursuant to point (a) of sub-Recommendation B(1) provide evidence that a significant or an increasing share of borrowers taking out new housing loans might not be able to service their debt following an adverse economic or financial development</li> <li>• Addressee has carried out an assessment of the vulnerabilities related to household indebtedness and overvaluation of house prices, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> <li>• Addressee has carried out an assessment of the position of Sweden in the economic and financia cycle, prior to activate macroprudential measures or tightening existing</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B(2)</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and overvaluation of house prices, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>
Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Assessment carried out by addressee indicates further need of activating or tightening other borrower based measures; however, actions taken do largely correspond with outcome of assessments or</li> <li>• Addressee considers the application of borrower-based measures. Such measures have not been activated yet but in final stages of approval. All necessary assessments have been carried out</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to ESRB Secretariat by 31 October 2020 but some non-essential information is missing</li> </ul>

Positive grades





Recommendation B(2)			
Name	Tightening of existing borrower-based measures or activation of others	Proportionality	Reporting of addressee
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet activated borrower-based measures but has shown clear evidence that such measures were not necessary to prevent a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market</li> <li>• Assessments carried out by addressee clearly indicate that any activation or tightening of BBM measures would be disproportionate at this point in time</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>
Mid-grade Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Necessary assessments have been carried out indicating need for borrower-based measures. However, such measures have not been implemented yet or</li> <li>• Addressee has activated new measures or tightened existing measures. However, addressee has not carried out proper assessment prior to such activation or tightening</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 at the latest but some essential information is missing</li> </ul>
Negative grades Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Some of the assessments have been carried out. Borrower-based measures have not been activated yet, procedure for activation has not been initiated</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates to the ESRB Secretariat by 10 November 2020 but most of the essential information is missing</li> </ul>
Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Absence of any measures by national supervisory authorities to implement the sub-recommendation or the measures do not address the content of the sub-recommendation</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and does not provide any justification for inaction</li> </ul>
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Absence of any measures by national supervisory authorities to implement the sub-recommendation or the measures do not address the content of the sub-recommendation. Addressee provides justification which, however is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates to the ESRB Secretariat by 10 November 2020 and provided justification for inaction which, however, is inadequate</li> </ul>





Recommendation B(3)				
Name	Activation or tightening of capital based measures	Proportionality	Reporting of addressee	
Positive grades	Fully compliant (FC) - Actions taken fully implement the recommendation	<ul style="list-style-type: none"> <li>• Addressee has tighten existing, or introduce other, capital-based measures in order to ensure sufficient capital for mortgage loans granted by credit institutions authorised in Sweden, if the results of the monitoring carried out pursuant to point (b) of sub-Recommendation B(1) provide evidence that potential credit losses on existing mortgage loans in the event of adverse economic or financial conditions or adverse developments in the residential real estate market, as well as credit losses on other loans as a consequence of the decrease in consumption by households with housing loans, have increased due to cyclical, economic and financial factors.</li> <li>• Addressee has carried out an assessment of the vulnerabilities related to household indebtedness and overvaluation of house prices, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation</li> <li>• Addressee has carried out an assessment of the position of Sweden in the economic and financia cycle, prior to activate macroprudential measures or tightening existing</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates to the ESRB Secretariat by 10 November 2020 at the latest</li> <li>• Addressee reports to the ESRB by making use of the published reporting templates under Recommendation B(3)</li> <li>• Report includes an assessment of the vulnerabilities related to household indebtedness and overvaluation of house prices, including the distribution of new mortgage loans according to their LTV, DTI and DSTI ratios and maturities, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation"</li> <li>of the actions undertaken, having regard to the objectives of this Recommendation</li> </ul>



Recommendation B(3)			
Name	Activation or tightening of capital based measures	Proportionality	Reporting of addressee
Largely compliant (LC) - Actions taken implement almost all of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated borrower-based measures. Such measures largely correspond with the outcome of assessments carried out by addressee prior to deciding on an activation of capital-based measures</li> <li>• In case the adopted borrower-based measures were further tightened or additional capital-based measures were needed to address the vulnerabilities identified in Sweden, the relevant decision took into account the results of the assessment of vulnerabilities"</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee provides evidence that they have acted in a proportionate manner</li> <li>• There is no clear evidence that the addressee acted in a disproportionate manner</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee submits completed templates to the ESRB Secretariat by 10 November 2020 but some non-essential information is missing</li> </ul>
Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has not yet activated borrower-based measures but has shown clear evidence that such measures were not necessary to prevent a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market.</li> <li>• Assessments carried out by addressee clearly indicate that any activation or tightening of capital-based measures would be disproportionate at this point in time"</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits fully completed templates later than 10 November 2020 but has sufficiently explained the delay</li> <li>• Explanation does not only refer to COVID-19 as a reason for the delay</li> </ul>



					Recommendation B(3)				
					Name	Activation or tightening of capital based measures	Proportionality	Reporting of addressee	
<b>Mid-grade</b>	Partially compliant (PC) - Actions taken only implement part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has activated borrower-based measures. However, addressee has not carried out assessment as set out in recommendation prior to activating capital-based measures or the outcome of such assessment was not taken into account</li> <li>or</li> <li>• In case the adopted borrower-based measures were further tightened or additional capital-based measures were needed to address the vulnerabilities identified in Sweden the relevant decision took not into account the results of the assessment of vulnerabilities</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by the 31 October 2020 to the ESRB Secretariat but some essential information is missing</li> </ul>					
	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has identified further vulnerabilities but has not yet activated any further measures or tightened existing measures. Final decisions are, however, still pending.</li> </ul>	[NB: unlikely that this grade would be applied]	<ul style="list-style-type: none"> <li>• Addressee submits templates by the 31 October to the ESRB Secretariat but most of the essential information is missing</li> </ul>					
	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	<ul style="list-style-type: none"> <li>• Addressee has identified further vulnerabilities but has decided to not activate any further measures or to tighten existing measures. Addressee actions are not in line with the nature of the Recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; addressee does not provide any justification</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 31 October 2020 and does not provide any justification for inaction</li> </ul>					
Inaction insufficiently explained (IE) - No actions were taken and The addressee did not provide sufficient justification	<ul style="list-style-type: none"> <li>• Addressee has identified further vulnerabilities but has decided to not activate any further measures or to tighten existing measures and provided justification for inaction which, however, is inadequate.</li> </ul>	<ul style="list-style-type: none"> <li>• There is evidence that the addressee acted disproportionately; the addressee provides justification which, however, is inadequate</li> </ul>	<ul style="list-style-type: none"> <li>• Addressee did not submit templates by 31 October 2020 and provided justification for inaction which, however, is inadequate</li> </ul>						
<b>Negative grades</b>									



## Annex III: Abbreviations

<b>ATC</b>	Advisory Technical Committee (of the ESRB)
<b>BBMs</b>	Borrower-based measures
<b>BCL</b>	Banque centrale du Luxembourg
<b>BE</b>	Belgium
<b>BTL</b>	Buy-to-let
<b>CCyB</b>	Countercyclical capital buffer
<b>COVID-19</b>	Coronavirus disease
<b>CRS</b>	Comité du Risque Systémique
<b>CRR</b>	Capital Requirements Regulation - Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1)
<b>DK</b>	Denmark
<b>DNB</b>	De Nederlandsche Bank
<b>DSTI</b>	Debt service-to-income
<b>DTI</b>	Debt-to-income ratio
<b>ECB</b>	European Central Bank
<b>EEA</b>	European Economic Area
<b>ESRB</b>	European Systemic Risk Board
<b>EU</b>	European Union
<b>FC</b>	Fully compliant
<b>FI</b>	Finland
<b>FIN-FSA</b>	Finnish Financial Supervisory Authority
<b>IE</b>	Insufficiently explained
<b>LC</b>	Largely compliant
<b>LU</b>	Luxembourg
<b>LTV</b>	Loan-to-value
<b>LTC</b>	Loan-to-collateral
<b>MN</b>	Materially non-compliant
<b>NBB</b>	Banque Nationale de Belgique
<b>NC</b>	Non-compliant
<b>NL</b>	The Netherlands
<b>OJ</b>	Official Journal of the European Union
<b>PC</b>	Partially compliant
<b>RRE</b>	Residential real estate
<b>SE</b>	Sufficiently explained
<b>SE</b>	Sweden



# Imprint and acknowledgements

This Compliance report is based on the results of the assessment conducted by the Assessment Team and was prepared by:

**Ramona Jimborean**  
European Commission

**Francesco Caloia**  
De Nederlandsche Bank

**Simon Dagrain**  
Commission de Surveillance du Secteur Financier (CSSF)

**Zouhair Kechoute**  
Banque Centrale du Luxembourg

**Milda Stankuvienė**  
Bank of Lithuania

**Marianna Caccavaio**  
Banca d'Italia

**Maria Vergeti**  
Bank of Greece

**Tuulia Asplund**  
Bank of Finland

**Miroslav Plašil**  
Czech National Bank

**Jari Friebel**  
Deutsche Bundesbank

**Aleksandra Granat**  
ESRB Secretariat

**Hana Hejlová**  
ESRB Secretariat

**Emmanuel Karfis**  
ESRB Secretariat

**Tuomas Peltonen**  
ESRB Secretariat

**Ridha Sahli**  
ESRB Secretariat

**Frauke Skudelny**  
ESRB Secretariat

© European Systemic Risk Board, 2020

Postal address 60640 Frankfurt am Main, Germany  
Telephone +49 69 1344 0  
Website [www.esrb.europa.eu](http://www.esrb.europa.eu)

All rights reserved. Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

For specific terminology please refer to the [ESRB glossary](#) (available in English only).

PDF ISBN 978-92-9472-241-6, doi:10.2849/315058, DT-03-21-371-EN-N