



CSSF Regulation No 25-03 of 25 July 2025

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relating to the activity of issuing covered bonds.

(Mém. A 2025, No 344)

The Executive Board of the Commission de Surveillance du Secteur Financier,

Having regard to Article 129(2) of the Constitution;

Having regard to the Law of 23 December 1998 establishing a financial sector supervisory commission ("Commission de surveillance du secteur financier"), and in particular Article 9(2) thereof;

Having regard to the Law of 5 April 1993 on the financial sector, and in particular Articles 12-1 and 12-2 thereof;

Having regard to the Law of 8 December 2021 relating to the issue of covered bonds, and in particular Articles 6, 7, 8, 9 and 16 thereof;

Having regard to the Law of 20 December 2024 amending the Law of 8 December 2021 relating to the issue of covered bonds;

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012;

Having regard to Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC;

Having regard to Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU;

Having regard to Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds;

Having regard to Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor;

Having regard to the opinion of the Consultative Committee for Prudential Regulation;

Decides:

Chapter I

Definitions and scope of application

Article 1 – Definitions

1) For the purposes of this regulation, the following definitions shall apply:

- "LFS" shall mean the Law of 5 April 1993 on the financial sector, as amended;
- "Law" shall mean the Law of 8 December 2021 relating to the issue of covered bonds, as amended;
- "issuing credit institution" shall mean an institution as defined in Article 1, point 15°, of the Law;
- "EBA" shall mean the European Banking Authority established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010;
- "renewable energy" shall mean any energy produced as defined in Article 1, point 12°, of the Law;
- "renewable energy property" shall mean any renewable energy property as defined in Article 1, point 6°, of the Law;
- "FV" shall mean the fair value as defined in IFRS 13 "Fair Value Measurement" published by the International Accounting Standards Board and adopted by the European Union;
- "ERV" or "Estimated Realisation Value" shall mean the estimated realisation value of a renewable energy property as specified in Article 8(2) of the Law, which takes into consideration the sustainable aspects and revenue of the renewable energy property. Where the discounted cash flows (DCF)

valuation technique is used, the ERV shall be calculated from all discounted and unencumbered cash flows generated by the renewable energy property-related production or technical units by applying renewable energy property specific risk-adjusted discount rates.

- “ESG” shall mean the environmental, social and governance factors.

2) The definitions set out in Article 1 of the Law and in Article 1 of the LFS shall apply to this regulation.

Article 2 – Scope

The requirements of this regulation shall be applicable to all the issuing credit institutions subject to the Law.

Chapter II

Valuation of cover assets

Section 1

General provisions

Article 3 – Principles

1) Physical collateral assets referred to in Article 8 of the Law shall be valued in accordance with the valuation rules defined in Regulation (EU) No 575/2013 and take into account the clarifications provided by the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06), in particular the provisions of Section 7 on the valuation, monitoring and revaluation of immovable and movable property collateral.

2) Immovable and movable property used as collateral shall be subject to a prudent valuation that shall not take speculative elements into account and shall be based on the characteristics of the property in accordance with Article 8(2) and (4) of the Law.

The prudent valuation of each physical collateral asset shall be exclusive of fees and expenses, at the moment of inclusion of the cover asset in the cover pool.

The value of the physical collateral assets as defined in Article 8(2) of the Law shall be equal or less than market value or mortgage lending value, at the moment of inclusion of the cover asset in the cover pool in accordance with the provisions of Article 8(4), point 1°, of the Law.

3) Where a statistical method is used, it shall be defined in writing, be clear, transparent, objective and controllable based on an audit trail including, for each of the claims, the value of the physical collateral assets at the moment of their inclusion in the cover pool, the index used to determine the price variation, and any other criterion used in the method. Any characteristic that is a key determinant of the value of the movable or immovable property shall be taken into account.

The confidence interval of the statistical model shall be explicitly defined in the model documentation and, where price variation indices are derived from unofficial market data (excluding STATEC, central bank, public observatories), the confidence interval shall be more conservative.

The statistical method must be subject to backtesting every year in order to verify the robustness of the statistical model based on the observed prices.

4) Renewable energy property shall be subject to specific rules detailed in Section 4 of this Chapter due to the challenges of valuation related to the project duration, the importance of cash flows and their sensitivity to market conditions, and changes in political, legal and environmental frameworks.

Article 4 – Independent valuer

1) The valuation of physical collateral assets shall be carried out by an internal or external valuer who possesses the necessary qualifications, ability and experience to execute a valuation. The valuer must have these qualifications for each type of collateral asset subject to his/her valuation.

The valuer must be appointed by the management body in its management function. Where the valuer is internal to the issuing credit institution or the group to which the latter belongs, that institution shall have in place the necessary arrangements to ensure that the valuation is objective.

2) The valuer shall be independent from the credit decision-making process or the acquisition of cover assets, where applicable, and shall not take speculative elements into account in the assessment of the value of the physical collateral assets. Measures shall be taken to sufficiently mitigate any conflicts of interest on the part of valuers. The valuer's remuneration shall in no case be linked in such a way as to create a conflict of interest with the result of the valuation or revaluation.

3) The valuer shall establish the value of each physical collateral asset in writing, in a clear, transparent, and objective manner.

4) Issuing credit institutions shall critically review the valuation they receive from the external valuer, in particular focusing on aspects such as comprehensibility, the prudence of assumptions, and the clear and reasonable identification of the criteria and data used. Where the assessment is carried out internally, the institution shall have in place the necessary arrangements to ensure its robustness.

Section 2

Specific provisions for immovable physical collateral assets

Article 5 – Eligibility criteria

To qualify as eligible collateral for cover assets, immovable physical collateral assets must comply with the requirements set out in Article 208 of Regulation (EU) No 575/2013. In addition, issuing credit institutions shall take into account the provisions of Section 7 of the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) regarding the valuation, monitoring and revaluation of immovable property collateral.

Article 6 – Initial valuation

1) At the point of origination, and without prejudice to the transitional arrangements laid down in Article 495f of Regulation (EU) No 575/2013, immovable physical collateral assets shall be valued in accordance with the principles set out in Article 229(1), points (a) to (d), of Regulation (EU) No 575/2013.

2) Where the liens referred to in Article 8(2) of the Law consist of charges on real property within the meaning of Article 1, point 27°, of the Law, the amount considered in this respect may not exceed the amount of such first-ranking collateral, supplemented, where applicable, by the amount of collateral of the same type in successive ranks without the interposition of other creditors.

Article 7 – Monitoring and periodic revaluation

1) Following the acquisition or contribution as collateral of any immovable physical collateral asset, its value must be monitored regularly, in accordance with the requirements and frequencies set out in Article 208(3), points (a) and (b), of Regulation (EU) No 575/2013. The principles set out in Article 229(1), points (a) to (d), of Regulation (EU) No 575/2013 shall continue to apply during the periodic revaluation.

2) Where an immovable physical collateral asset is revalued, the issuing credit institution shall be authorised not to apply the limits set out in Article 229(1), point (e), of Regulation (EU) No 575/2013,

provided that this information is clearly and explicitly stated in the pre-contractual documentation intended for investors.

Article 8 – Use of statistical models

1) The monitoring of the value of immovable property used as collateral and the identification of immovable property used as collateral in need of revaluation, in accordance with Article 7 of this regulation, may be carried out by means of statistical methods. The conditions set out in Article 208(3a) of Regulation (EU) No 575/2013 shall be taken into account.

2) The statistical model for an immovable physical collateral asset shall take into account any characteristic that is a key determinant of the value of the immovable physical asset, and in particular data on observed transaction prices, the type of property (collective or individual), its use (residential, industrial, commercial or professional), its energy efficiency and its state of preservation. The issuing credit institution shall ensure that the statistically estimated value does not lead to inconsistent results such as estimates exceeding the market value or mortgage value.

To this end, plausibility checks must be carried out at a sufficiently granular level to identify inconsistencies in the valuation of immovable physical collateral assets.

Section 3

Specific provisions for movable physical collateral assets

Article 9 – Eligibility criteria

To qualify as eligible collateral for cover assets, movable physical collateral assets must comply with the requirements set out in Article 210 of Regulation (EU) No 575/2013. In addition, issuing credit institutions shall take into account the provisions of Section 7 of the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) regarding the valuation, monitoring and revaluation of movable property collateral.

Article 10 – Initial valuation

At the point of origination, movable physical collateral assets shall be valued through an appropriate and prudent approach that is proportionate to the nature, type and complexity of the collateral, by an internal or external valuer, taking into account the market value as referred to in Article 229(3) of Regulation (EU) No 575/2013.

Article 11 – Monitoring and periodic revaluation

1) After acquisition or contribution as collateral, the value of each movable physical collateral asset must be monitored on a regular basis and adjusted to the type of asset and the volatility of the corresponding market prices, at least once every year.

Where the market conditions are subject to significant changes, the issuing credit institution shall assess the need for revaluation and, if necessary, carry out the revaluation and adjust the frequency of revaluation where appropriate.

2) When conducting monitoring and revaluation, any deterioration or obsolescence of the movable physical collateral asset shall be taken into account, paying particular attention to the effects of time on the collateral, in particular in relation to its potential maximum lifespan, depreciation, and maintenance requirements. The obsolescence of the movable physical asset shall also include the assessment of ESG-

related risks related to prohibitions or limitations imposed by the relevant European Union and Member States regulations and, where applicable, third-country regulations.

3) The movable physical asset pledged as collateral shall be adequately insured against the risk of damage, and the issuing credit institutions shall have in place procedures to monitor the adequacy of the insurance cover.

Article 12 – Use of statistical models

Without prejudice to the general principles set out in Article 3(3) of this regulation, a statistical model may be used for the ongoing monitoring of the valuation of movable physical assets and the identification of movable physical assets in need of revaluation, provided that it is established, updated, and monitored by a valuer who meets all the conditions set out in Article 8(4), points 2° and 3°, of the Law.

Section 4

Specific provisions for renewable energy property

Sub-section 4.1

General principles and valuation techniques

Article 13 – General principles for renewable energy property

- 1) The ERV shall not exceed the FV of the renewable energy property. The ERV shall be calculated based on the residual maturity of the renewable energy property.
- 2) The valuation of renewable energy property shall include an on-site inspection of the renewable energy property to be valued. The on-site inspection may be delegated to an independent third party who shall have the appropriate qualifications, skills, and experience to carry out the inspection. The latter shall provide the results of the inspection in the form of transparent and accurate reports.
- 3) The selection of the valuation technique shall be based on the nature and circumstances of the renewable energy property. The technical design, structure, and development stage of the renewable energy property shall be key factors in the selection of the valuation technique.

Article 14 – Valuation variables and input data

The data collected shall be reliable, plausible, relevant and conservative. The assumptions used in valuation models shall be based on data whose applicability to the valuation model has been confirmed by the valuer.

Article 15 – Cash flow valuation

- 1) The DCF valuation technique shall only be retained when the renewable energy property future cash flows can be reliably forecasted.
- 2) The valuation of the cash flows associated with the renewable energy property, including the future income-producing capacity once the renewable energy property is completed, shall take into account any applicable regulatory or legal restriction.
- 3) The forecasting horizon of the cash flows in the valuation model shall be aligned with the contractual conditions and the economic reality of the renewable energy property. The cash flows shall comprehensively reflect the expenditures required to maintain the economic viability of the renewable energy property.

4) The valuer shall use reasonable assumptions and estimates to calculate the expected cash flows. The plausibility of the forecasted cash flows must remain verifiable with a clear reference to the various underlying assumptions and economic factors of the cash flows. The main cash flow assumptions used shall be supported by concise documentation providing solid evidence of the sustainability and the relevance of the assumptions.

Article 16 – Discount rate and value adjustments for specific risk factors

- 1) The applied methodology to calculate the discount rate shall be based on common market practices.
- 2) The valuer shall use appropriate risk-adjusted discount rates adapted to the characteristics of the cash flows. The various parameters used in the selected discount model shall be adapted to the underlying features of the renewable energy property.
- 3) The discount rate deriving from the retained methodology shall be adjusted to take into account specific premiums covering risks applicable in the context of the underlying renewable energy property in order to determine the FV and all other valuation indicators.
- 4) The valuer shall assess the necessity to apply haircuts to the final FV and all other valuation indicators, to take into account individual specificities that could not be sufficiently reflected in the valuation variables.
- 5) The non-application of any haircuts shall be explicitly motivated and described in the valuation report.

Article 17 – Checks of the integrity of the estimated FV

1) Irrespective of the final valuation technique used, the valuer shall perform consistency checks of the estimated FV by using at least one different valuation technique.

Any material deviations between different valuation techniques shall be disclosed and the underlying reasons of the differences shall be comprehensively assessed and described.

- 2) In case a DCF valuation technique has been retained, the valuer shall apply a sensitivity analysis in order to test the variability of the FV estimate to modest changes in the assumptions.
- 3) A comparative review of the cash flow assumptions used in the valuation model shall be performed if data on comparable renewable energy property are available. Material deviations between assumptions retained and observed growth trends of the industry shall be explained and the underlying reasons described in the valuation report.
- 4) As an additional check, the valuer shall also compare the initial implied discount rate with the discount rate derived using a specific methodology. The difference between the discount rates shall provide an indication of the renewable energy property's specific risk premium/discount. The specific risk/discount premium shall be assessed, understood and described by the valuer at each measurement date.
- 5) For subsequent revaluation cycles, a backtesting of the FV and of all other valuation indicators based on realised cash flows shall be performed in case material deviations between the forecasted and the realised cash flows have been observed. Such material deviations between the initial values and the backtested values shall be concisely explained and the cash flow forecasts of the subsequent revaluation shall be adjusted accordingly.

Article 18 – Documentation

1) The result of the valuation including all parameters and underlying assumptions as well as the valuation methods used shall be documented by way of a valuation report.

- 2) The valuation report shall be exhaustive and sufficiently detailed in order to allow any authorised third party to review and to reconstruct the valuation easily.
- 3) All the controls and decisions set forth in this regulation shall also be documented in writing and must be easily accessible within the issuing credit institution.

Sub-section 4.2

Periodic revaluation

Article 19 – General principles governing revaluation

- 1) The frequency of revaluation of the renewable energy property included in the cover pool shall be at least annual.

Additional revaluations shall be triggered if current market, economic, political, legal, financial, environmental, and/or any other conditions related to the renewable energy property have changed substantially from the valuation assumptions used for the last valuation. The FV shall be adjusted accordingly.

- 2) Any adjustment of the FV requires a revaluation of the ERV. The ERV shall be adjusted if the FV falls below the ERV or if the applied property specific risk-adjusted discount rates no longer reflect the updated information.

If well-founded, the adjustment of the ERV can differ from the adjustment of the FV, such as in singular and non-recurring events having triggered the revaluation.

- 3) The valuation technique shall be consistent from one measurement date to another.
- 4) A change in the valuation method between two measurement dates shall be required when objective reasons exist that justify such change. The underlying reasons of the change of valuation method shall be documented.

Chapter III

Inclusion of derivative contracts in the cover pool

Article 20 – Inclusion criteria

To be included in the cover pool, in addition to the conditions set out in Article 7(3) of the Law, derivative transactions shall:

- be governed by one or more standardised framework agreements dedicated solely to the cover pool or issue programme;
- consist exclusively of derivative instruments defined in Annex II to Regulation (EU) No 575/2013, point 1, letters (a) to (d) and point 2, letters (a) to (c);
- allow the corresponding margin calls received to be identified and allocated to each cover pool;
- hedge exclusively the interest-rate risk, the foreign-exchange risk, or a combination of both, and be accounted for as hedging transactions for accounting purposes;
- be proportionate in amount to the underlying risk being hedged;
- be entered into exclusively with counterparties with a low risk of default.

The following are considered to have a low risk of default:

- i. central administrations:
 - a. established in a Member State of the European Union, the European Economic Area, or the OECD; and

- b. for which there is a credit assessment by an ECAI equivalent to a credit quality step 1 or 2 within the meaning of tables 1 and 2 of Article 114(1) and (2) of Regulation (EU) No 575/2013.
- ii. credit institutions:
 - a. referred to in Article 4(1), point 1, of Regulation (EU) No 575/2013 and established in a Member State of the European Union, the European Economic Area, or the OECD; and
 - b. for which there is a credit assessment by an ECAI equivalent to a credit quality step 1 or 2 within the meaning of tables 1 and 2 of Article 120(1) and (2) of Regulation (EU) No 575/2013, or those for which there is no credit assessment by a nominated ECAI, shall be assigned to Grade A within the meaning of the conditions set out in Article 121(1)(a) of Regulation (EU) No 575/2013.

Chapter IV

Transmission of information on covered bonds and publication

Article 21 – Inclusion criteria

- 1) All issuing credit institutions are required to provide the CSSF with the information necessary to assess compliance with all obligations arising from the regulations on covered bonds, in particular the information referred to in Article 16 of the Law:
 - i. quarterly, using the tables defined by the CSSF for the information referred to in points 1°, 4°, 5° and 6°;
 - ii. annually for the information referred to in points 2°, 3° and 7°.
- 2) The format, content and methods of transmission of the tables to be used shall be defined by the CSSF by means of a circular.
- 3) The information provided in the tables referred to in Article 22 of the Law will be published on the CSSF's website.

Chapter V

Publication

Article 22 – Publication and entry into force

This regulation shall be published in the Journal officiel du Grand-Duché de Luxembourg and on the CSSF's website.

It shall enter into force on the day of its publication.

Luxembourg, 25 July 2025

Commission de Surveillance du Secteur Financier

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