

In case of discrepancies between the French and the English text, the French text shall prevail.

CSSF Regulation N° 16-15 on the setting of the countercyclical buffer rate for the first quarter of 2017

(Mémorial A – No 300 of 27 December 2016)

Having regard to Article 108a 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 ("LFS"), and in particular Article 59-7 thereof, pursuant to which the CSSF as the designated authority shall, after consultation with the BCL, be responsible for setting the countercyclical buffer rate applicable in Luxembourg;

Having regard to CSSF Regulation N° 15-01 on the calculation of institution-specific countercyclical capital buffer rates, transposing Article 140 of Directive 2013/36/EU;

Having regard to CSSF Regulation N° 15-04 on the setting of a countercyclical buffer rate;

Having regard to CSSF Regulation N° 15-05 on the exemption of investment firms qualifying as small and medium-sized enterprises from the requirements to maintain a countercyclical capital buffer and a capital conservation buffer;

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and in particular Articles 130, 135 and 136 thereof;

Having regard to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions ("SSM Regulation"), and in particular Article 5 thereof;

Having regard to the Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates ("Recommendation ESRB/2014/1");

Having regard to the Recommendation of the Systemic Risk Board (CRS/2017/001) of 2 December 2016 on the setting of the countercyclical buffer rate for the first quarter of 2017;

Having regard to the decision of the ECB, adopted pursuant to Article 5 of the SSM Regulation, not to object to the CSSF's intention to take the macro-prudential measures set out in this regulation;

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

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

Decides:

Article 1
Applicable countercyclical buffer rate

Based on the elements documented in Annex 1 and the Recommendation of the Systemic Risk Board of 2 December 2016 on the setting of the countercyclical buffer rate for the first quarter of 2017, documented in Annex 2, the countercyclical buffer rate applicable to the relevant exposures located in Luxembourg remains at 0% for the first quarter of 2017.

Article 2
Entry into force

This regulation shall enter into force on 1 January 2017.

Article 3
Publication

This regulation shall be published in the Mémorial and on the website of the Commission de Surveillance du Secteur Financier.

Luxembourg, 21 December 2016

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

Jean-Pierre FABER
Director

Françoise KAUTHEN
Director

Claude SIMON
Director

Simone DELCOURT
Director

Claude MARX
Director General

Annex 1: Elements taken into account in order to set the applicable countercyclical buffer rate
Annex 2: Recommendation of the Systemic Risk Board of 2 December 2016 on the setting of the countercyclical buffer rate for the first quarter of 2017 (CRS/2017/001)

Annex 1: Elements taken into account in order to set the applicable countercyclical buffer rate

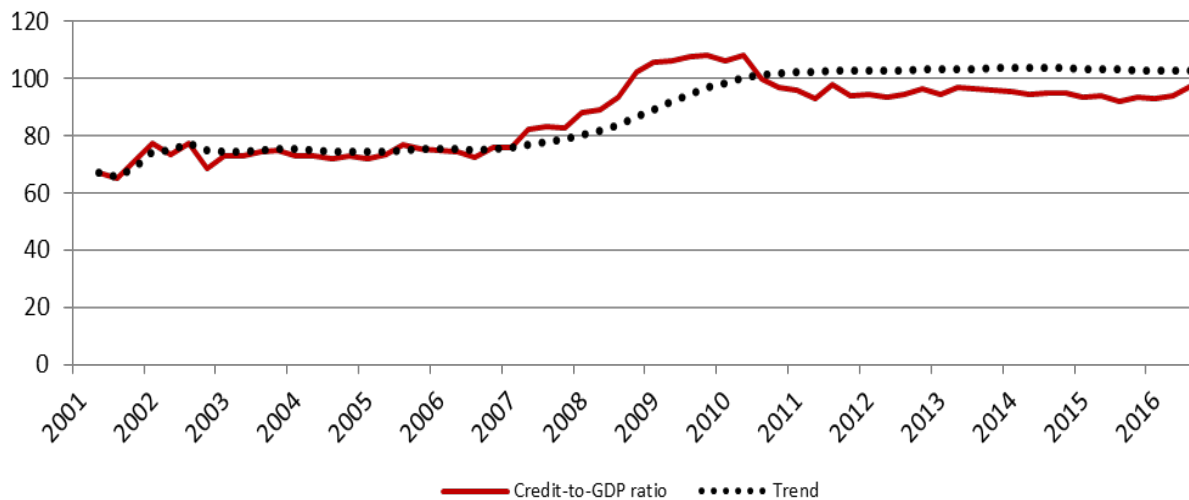
In accordance with Article 59-7(2) and (3) of the LFS and Recommendation ESRB/2014/1, the setting of the rate is based on the following indicators:

- (a) The credit-to-GDP ratio, based on banking loans granted to Luxembourg households and non-financial undertakings, amounts to 97.3% in the second quarter of 2016 (Graph 1).
- (b) The deviation of the credit-to-GDP ratio from its long-term trend amounts to -5.3% (Graph 2).
- (c) The countercyclical buffer guide calculated according to Recommendation ESRB/2014/1 is set at 0% (Graph 2).

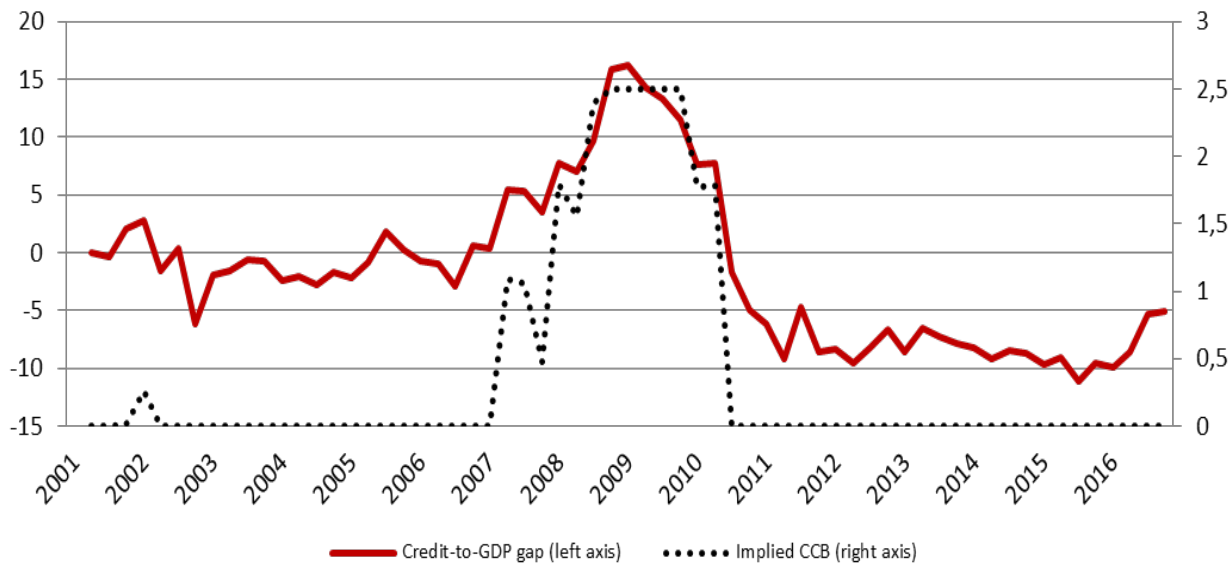
These indicators do not show excessive growth of credit granted to the economy by the actors of the national financial system. These indicators based on alternative credit measures proposed by the European Central Bank, the Bank for International Settlements and the Banque centrale du Luxembourg all led to similar results: deviations of the credit-to-GDP ratio being negative, below the 2% threshold set in Recommendation ESRB/2014/1.

Other variables have been taken into account in so far as they can indicate a build-up of systemic risks associated with periods of excessive credit growth, such as the credit dynamics, measures of potential overvaluation of property prices as well as measures linked to the macroeconomic environment. The analysis reveals that the dynamic of credits remains stable and in line with the economic growth, that the macroeconomic fundamentals continue to strengthen in terms of GDP, balance of trade or employment and that the resilience of banks measured on the basis of their capitalisation or leverage level remains stable.

Graph 1: Ratio of banking credit-to-GDP and its long-term trend



Graph 2: Deviation of the credit-to-GDP ratio from its long-term trend (“gap”) and benchmark of the countercyclical rate (“buffer guide”)



Annex 2:

RECOMMENDATION OF THE SYSTEMIC RISK BOARD
of 2 December 2016
on the setting of the countercyclical buffer rate for the first quarter of
2017
(CRS/2017/001)

THE SYSTEMIC RISK BOARD,

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and Article 130 on the requirement to maintain an institution-specific countercyclical capital buffer et seq.;

Having regard to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, and in particular Article 5 thereof ("SSM Regulation");

Having regard to the Law of 5 April 1993 on the financial sector, and in particular Articles 59-1, 59-2, 59-5, 59-6 and 59-7 thereof ("Law of 5 April 1993");

Having regard to CSSF Regulation N° 15-01 on the calculation of institution-specific countercyclical capital buffer rate;

Having regard to CSSF Regulation N° 15-04 on the setting of a countercyclical capital buffer rate;

Having regard to CSSF Regulation N° 15-05 on the exemption of investment firms qualifying as small and medium-sized enterprises from the requirements to maintain a countercyclical capital buffer and a capital conservation buffer;

Having regard to the Law of 1 April 2015 establishing a Systemic Risk Board and amending the Law of 23 December 1998 concerning the monetary status and the Central Bank of Luxembourg ("Banque centrale du Luxembourg"), as amended, and in particular Article 2(e) and Article 7 thereof;

Having regard to the internal rules of the Systemic Risk Board of 16 November 2015, and in particular Articles 9, 11 and 12 thereof;

Having regard to the Recommendation of the European Systemic Risk Board (ESRB) of 18 June 2014 on guidance for setting countercyclical buffer rates;

Having regard to the Recommendation of the European Systemic Risk Board (ESRB) of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy;

HAS ADOPTED THIS RECOMMENDATION:

Part 1 Recommendation on the setting of the countercyclical buffer rate for the first quarter of 2017

Recommendation A: calibration of the countercyclical buffer rate

Based on the different quantitative and qualitative elements, appended to this recommendation, and in particular based on the countercyclical capital buffer guide calculated pursuant to Article 59-7(2) of the Law of 5 April 1993, the Systemic Risk Board recommends that the designated authority sets the countercyclical capital buffer rate for the first quarter of 2017 at 0%.

Recommendation B: Notifications

Based on this recommendation, the Systemic Risk Board invited the designated authority to make the necessary notifications in particular in the context of Article 59-7(7) of the Law of 5 April 1993, as well as Article 5(1) of the SSM Regulation.

Part 2 Implementation of the Recommendation

1. Interpretation

- (a) The terms used in this recommendation shall have the same meaning as in the Law of 5 April 1993.
- (b) The Annex is an integral part of this recommendation.

2. Follow-up

- (1) The Systemic Risk Board invites the CSSF as addressee of this recommendation, to communicate, as soon as possible, its follow-up to this recommendation to the Systemic Risk Board via the secretariat.
- (2) The Systemic Risk Board invites the secretariat of the Board to publish this Recommendation on the website of the Systemic Risk Board¹.

3. Monitoring and assessment

- (1) The secretariat of the Systemic Risk Board:
 - (a) shall assist the CSSF in order to facilitate the implementation of the recommendation; and
 - (b) shall prepare a report on the follow-up on this recommendation and inform the Systemic Risk Board thereof.

¹ As the SRB's website is currently under construction, the recommendation will be published on the websites of the BCL.

(2) The Systemic Risk Board shall assess and follow up on the responses of the CSSF to this recommendation.

Done in Luxembourg, 2 December 2016

For the Systemic Risk Board,

Pierre Gramegna

Chairman

Annex - Methodology for the countercyclical capital buffer rate and calculation of the buffer guide

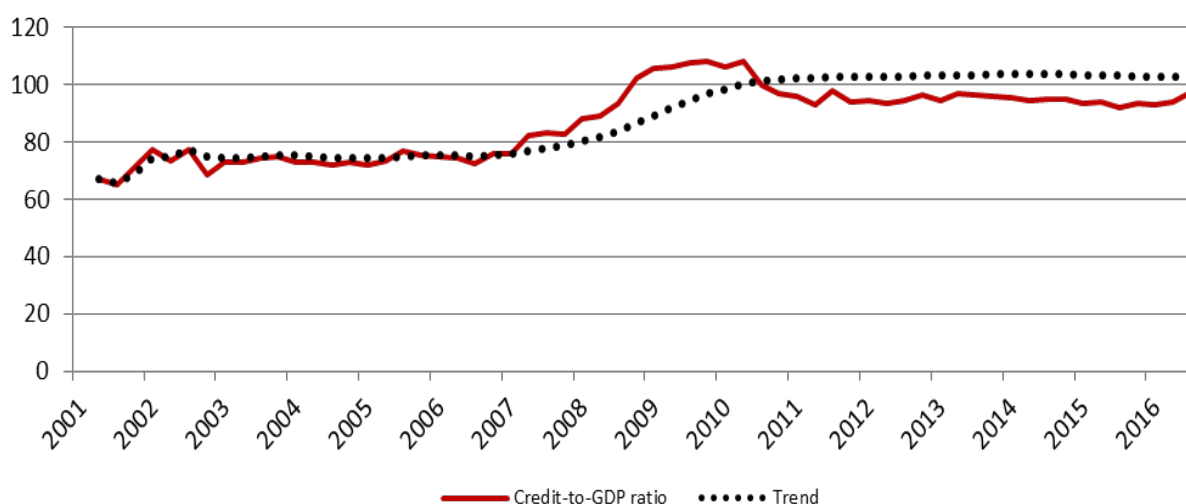
Methodological information allowing the calculation of the deviation (or gap) of the credit-to-GDP ratio from its long-term average is described in the Annex to the recommendation issued by the CRS on 16 November 2015.

The development of the credit-to-GDP ratio, its long-term trend, its gap compared to its trend and the reference countercyclical buffer rate are presented below.² The data used includes the loans granted by Luxembourg banks to Luxembourg households and non-financial undertakings.

These graphs reveal that the deviation of the credit-to-GDP ratio is negative and that the buffer guide remains at 0%.

This result is backed up by the analysis performed by the BCL adopting a set of measures proposed by the recommendation of the ESRB relating to the activation of the capital buffer.

Graph 1: Banking credit-to-GDP ratio (%) and its trend extracted according to the HP filter



² The series of data relating to the “credit-to-GDP ratio” differ from those used in the preceding recommendations of the Systemic Risk Board because of a change in the methodology.

Graph 2: Deviation of the credit-to-GDP ratio from its trend and countercyclical buffer guide

