

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

CSSF Regulation N° 16-05 on the setting of a countercyclical buffer rate for the fourth quarter of 2016

(Mémorial A – No. 205 of 4 October 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 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/2016/006) of 22 August 2016 on the setting of a countercyclical buffer rate for the fourth quarter of 2016;

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 22 August 2016 on the setting of the countercyclical buffer rate for the fourth quarter of 2016, documented in Annex 2, the countercyclical buffer rate applicable to the relevant exposures located in Luxembourg is maintained at 0% for the fourth quarter of 2016.

Article 2
Entry into force

This regulation shall enter into force on 1 October 2016.

Article 3
Publication

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

Luxembourg, 26 September 2016

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

Jean-Pierre FABER
Director

Françoise Kauthen
Director

Claude SIMON
Director

Simone DELCOURT
Director

Claude MARX
Director General

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

Annex 2: Recommendation of the Systemic Risk Board of 22 August 2016 on the setting of a countercyclical buffer rate for the fourth quarter of 2016 (CRS/2016/006)

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

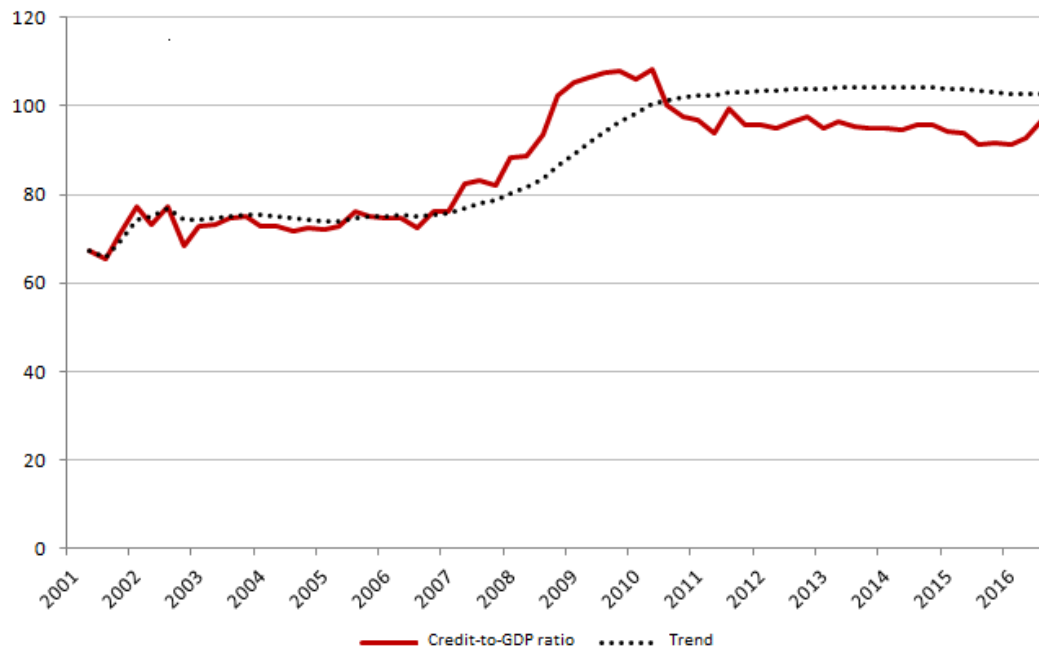
In accordance with Article 59-7(2) and (3) of the LFS and Recommendation ESRB/2014/1, the setting of the rate is based on the following indicators:

- a) The credit-to-GDP ratio, based on banking loans granted to Luxembourg households and non-financial undertakings, amounts to 92.6% in the first quarter of 2016 (Graph 1).
- b) The deviation of the credit-to-GDP ratio from its long-term trend amounts to -10.1% (Graph 2).
- c) The countercyclical buffer guide calculated according to Recommendation ESRB/2014/1 is set at 0% (Graph 2).

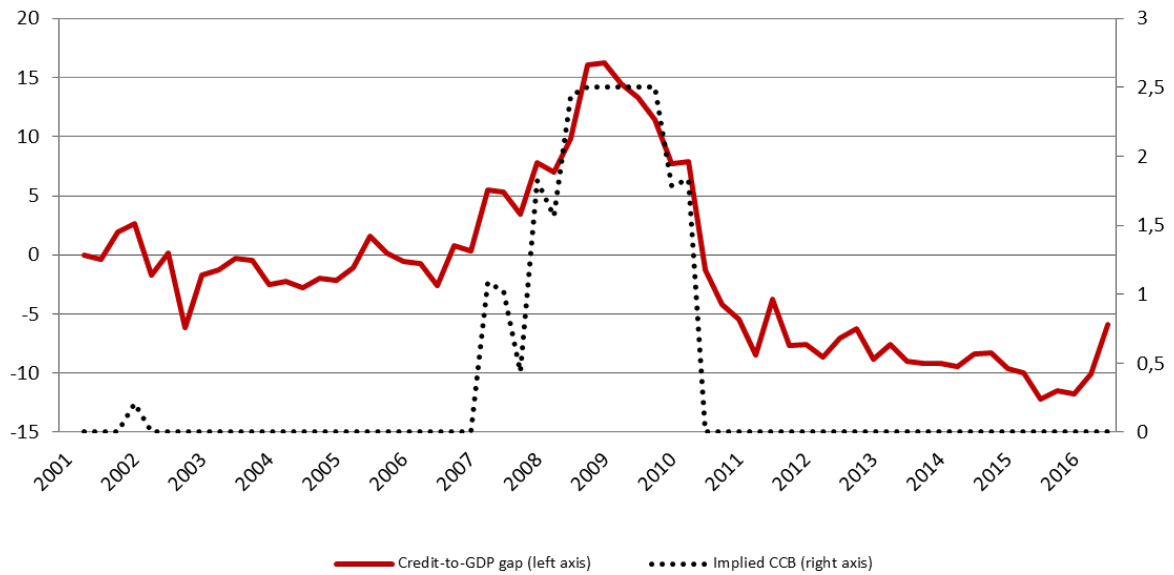
These indicators do not show excessive growth of credit granted to the economy by the actors of the national financial system. These indicators based on alternative measures of credit proposed by the European Central Bank, the Bank for International Settlements and the Banque centrale du Luxembourg,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

Other variables have been taken into account insofar as they can indicate a build-up of systemic risk associated with excessive credit growth, such as credit dynamics, the measures of potential overvaluation of property prices, as well as the measures linked to macroeconomic environment. It emerges from the analysis that credit dynamics remain stable and in line with economic growth, that the macroeconomic fundamentals continue to gain strength, be it GDP, trade balance or employment, that the banks' resilience calculated according to their level of capitalisation or leverage 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 and countercyclical buffer guide



Annex 2:

RECOMMENDATION OF THE SYSTEMIC RISK BOARD
of 22 August 2016
on the setting of a countercyclical buffer rate for the fourth quarter of 2016
(CRS/2016/006)

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 its 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 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 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 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 a countercyclical buffer rate for the fourth quarter of 2016

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 set a countercyclical buffer rate of 0% for the fourth quarter.

Recommendation B: Notifications

Based on this recommendation, the Systemic Risk Board invites the designated authority to make the necessary notifications in particular under 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 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

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

(b) shall prepare a report on the follow-up on this recommendation and inform the Systemic Risk Board thereof.

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

Done in Luxembourg, 22 August 2016.

For the Systemic Risk Board

Pierre Gramegna

Chairman

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

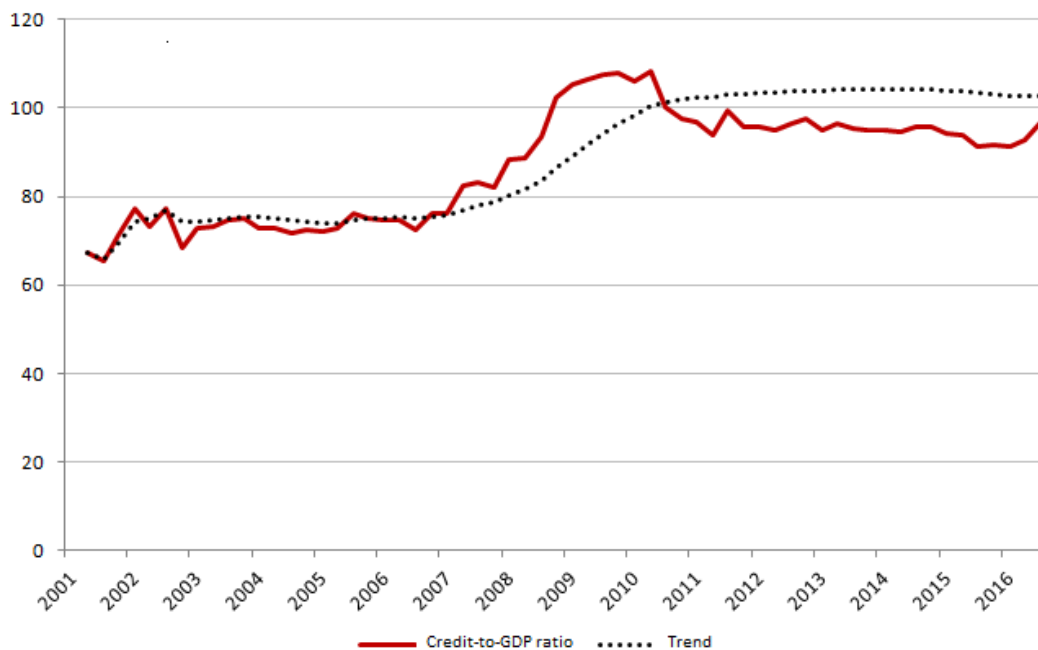
The methodological details allowing the calculation of the deviation (or gap) of the credit-to-GDP ratio from its long-term average are described in the annex to the recommendation issued by the SRB on 16 November 2015:

The development of the credit-to-GDP ratio and of its long-term trend, of its deviation from this trend and of the countercyclical buffer guide 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 analyses performed by the BCL based on 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 data sets relating to the "banking credit-to-GDP ratio" differ from the series used for the previous recommendations of the Systemic Risk Board as there has been a change in methodology.

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

