EUROPEAN CENTRAL BANK

EUROSYSTEM

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OPINION OF THE EUROPEAN CENTRAL BANK

of 21 May 2015

on regulating open positions in assets on the balance sheets of credit institutions

(CON/2015/15)

Introduction and legal basis

On 9 April 2015, the European Central Bank (ECB) received a request from the Magyar Nemzeti Bank (MNB) for an opinion on two draft decrees.

The first draft decree amends MNB Decree 14/2014[1] to address maturity mismatches in credit institutions' foreign currency positions (hereinafter the 'draft decree on maturity mismatches in foreign currency positions').

The second defines the rules applicable to the denomination of credit institutions' assets and liabilities.

On 10 April 2015 the ECB received a further request from the MNB for an opinion on a draft decree regulating maturity mismatches in credit institutions' Hungarian forint (HUF) positions. Given that the three draft decrees concern related issues, the ECB has adopted one single opinion.

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the sixth indent of Article 2(1) of Council Decision 98/415/EC[2], as the three draft decrees concern rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Background information and the purpose of the draft decrees

1.1 The ECB was consulted on MNB Decree 14/2014 in its draft form in 2014 and adopted Opinion CON/2014/15[3]. As indicated, the draft decree on maturity mismatches in foreign currency positions amends MNB Decree 14/2014. By doing so, it aims to enhance the stability of the financial system by means of (a) derecognising long term (meaning those with a maturity greater than one year) net FX swaps against HUF as an accepted source of stable long-term funding, and (b) bringing forward the full implementation of the Foreign Funding Adequacy Ratio (FFAR) requirement by 15 months to 1 October 2015.

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1 MNB Decree 14/2014 (V.19.) regulating credit institutions' maturity mismatches in foreign currency positions and amending MNB Decree 43/2013 (XII. 29.) on the obligations of money and credit market institutions to report data to the central bank's information system primarily to enable the Magyar Nemzeti Bank to carry out its supervisory duties.

2 Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

3 See Opinion CON/2014/15. All ECB opinions are available on the ECB's website at www.ecb.europa.eu.

1.2 The draft decree on denomination of credit institutions' assets and liabilities, introduces a new macro-prudential tool, the foreign exchange coverage ratio (FECR), aimed at limiting the overall level of currency mismatches of credit institutions in Hungary. It sets a maximum absolute FECR of 15%.

1.3 The draft decree on maturity mismatches in HUF positions introduces the Mortgage Funding Adequacy Ratio (MFAR), which targets excessive maturity mismatches between mortgage loans denominated in HUF and their funding sources. The explanatory memorandum attached to this draft decree states that the conversion of foreign currency loans into HUF, which took place on 1 February 2015, resulted in 'serious systemic HUF maturity mismatches'. The MFAR requires credit institutions' share of HUF-denominated mortgage-backed liabilities to reach at least 15% of the total value of their residential mortgage loans by 1 July 2016[4].

2. General Observations

2.1 Recent major legislative changes in Hungary[5] have significantly weighed on the profitability of the banking sector with possible implications for its capital position.

2.2 The explanatory memoranda attached to the draft decrees state that the proposed measures are justified by those recent legislative changes and may be instrumental in addressing potential sources of systemic risk. The ECB emphasises the need for constant monitoring of the new measures and the required ratios. The ECB also recommends that the MNB consider preparing an impact assessment of the measures contained in the three draft decrees on the Hungarian banking sector as well as on its capital position.

2.3 In Opinion CON/2014/15 the ECB noted that the provisions of MNB Decree 2014/14 regarding maturity mismatches in foreign currency positions would benefit from being aligned with the Net Stable Funding Ratio (NSFR) currently being developed by the Basel Committee on Banking Supervision (BCBS) under the Basel III framework. The ECB reiterates the need to align MNB Decree 2014/14 with the NSFR upon its finalisation by the BCBS and subsequent implementation in the European Union.

3. Specific Observation

3.1 As regards point 3(d) of Annex 1 of the draft decree on maturity mismatches in HUF positions, which prohibits a credit institution from taking into account liabilities recorded on the balance sheets of other members of the group when calculating the MFAR, the ECB notes the aim of this draft decree of ensuring that credit institutions' external funding sources are more balanced. The ECB also takes note of point 4 of Annex 1 of this draft decree, which eases the conditions for certain assets to be accepted as stable long-term funding sources. The consulting authority should pay due attention to whether these measures provide for a level playing field for all market

4 The draft decree on mismatches in HUF positions defines the types of assets and liabilities which may be used to calculate the MFAR and sets a number of eligibility conditions.

5 For more details on these legislative measures see the following ECB Opinions: CON/2014/59, CON/2014/72, CON/2014/76, CON/2014/85 and CON/2014/87.

participants, particularly as regards whether they are currently entitled to issue mortgage bonds or not. The timing of the introduction of these measures should also foster a level playing field.

3.2 The ECB understands that credit institutions which do not already operate mortgage units will need to rely on licensed market participants to fulfil the MFAR requirements set out in points 2(c) and (d) of Annex 1 of the draft decree on maturity mismatches in HUF positions, alternatively, they will have to set up a separate subsidiary for the issuance of mortgage bonds or mortgage backed securities acceptable for MFAR purposes. Against this background and with a view to ensuring a level playing field, the ECB underlines the importance of operating a smooth and efficient licensing mechanism in Hungary that will allow credit institutions to have equal access to the mortgage bond market or other forms of external funding, in order to ensure their ability to meet the MFAR requirements in the future.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 21 May 2015.

[signed]

The President of the ECB

Mario DRAGHI