MACROPRUDENTIAL POLICY

POLICY ON THE ASSESSMENT OF CROSS-BORDER EFFECTS OF MACROPRUDENTIAL MEASURES AND ON THEIR VOLUNTARY RECIPROCITY

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List of abbreviations

CBC Central Bank of Cyprus
ESRB European Systemic Risk Board
EU European Union
Part 1. Introduction
The European Systemic Risk Board (ESRB) Recommendation dated 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (Recommendation ESRB/2015/2) comprises four recommendations. The implementation of these four recommendations by the Central Bank of Cyprus (CBC) is set out in this policy document.

The purpose of Recommendation ESRB/2015/2 is to ensure the effectiveness and consistency of national macroprudential measures by considering their cross-border effects. To achieve this, the ESRB recommends:

a) the systematic assessment of the cross-border effects of macroprudential policy
b) a coordinated policy response in the form of voluntary reciprocity for macroprudential policy measures adopted by other relevant authorities.

Reciprocity means an arrangement whereby the relevant authority in one member state applies the same, or equivalent, macroprudential policy measure, as set by the activating relevant authority in another member state, to all financial institutions under its jurisdiction, when they are exposed to the same risk in the latter member state.

Part 2. Implementation of the recommendations by the Central Bank of Cyprus

2.1 Recommendation A – Assessment of cross-border effects of the CBC’s own macroprudential policy measures

1. The CBC, as the activating macroprudential authority, shall assess, prior to the adoption, the cross-border effects of the implementation of its macroprudential policy measures. The CBC shall, at the very least, assess the spillover channels operating via risk adjustment and regulatory arbitrage using the methodology set out in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector¹.

2. The CBC shall assess the possible:
   a) cross-border effects (leakages and regulatory arbitrage) of the implementation of macroprudential measures in Cyprus; and
   b) cross-border effects on other Member States and on the Single Market of any of its proposed macroprudential measures.

3. The CBC shall assess ex post once a year, the materialisation and evolution of the cross-border effects of the macroprudential measures it has introduced.

¹ ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector
2.2 Recommendation B – Notification and reciprocation request with regard to the CBC’s own macroprudential policy measures

1. The CBC, as the macroprudential authority, shall inform the ESRB of the macroprudential policy measures as soon as they are adopted, and no later than two weeks after their adoption. Notifications shall include an assessment of cross-border effects and of the necessity for reciprocation by other relevant authorities. The notifications must be written in English using the templates which are published on the ESRB’s website. The CBC shall ensure that the communication between the CBC, the national competent authorities, the ESRB and domestic institutions will be in line with the recommended importance of cooperative communication.

2. If reciprocation by other member states is deemed necessary to ensure the effective functioning of the relevant measures, the CBC shall submit a request for reciprocation to the ESRB, together with the notification of the measure.

3. If macroprudential measures were activated by the CBC prior to 15 December 2015\(^2\), or if reciprocation was not considered necessary when the measures were first introduced but the CBC has subsequently decided that such reciprocation has become necessary, the CBC shall submit a request for reciprocation to the ESRB.

2.3 Recommendation C – Reciprocation of other relevant authorities’ macroprudential policy measures

1. The CBC shall reciprocate the macroprudential policy measures adopted by other relevant authorities and recommended for reciprocation by the ESRB, subject to the approval of Board of Directors of the CBC. The Financial Stability Department of the CBC, following evaluation, will advise the Board of Directors of the CBC whether or not to adopt a specific ESRB Recommendation and then the CBC’s Board of Directors will take a decision on the basis of the information it has before it. In the case where the CBC’s Board of Directors decides not to reciprocate a macroprudential policy measure, the CBC’s Board of Directors will duly justify its decision and the CBC will notify the ESRB of its decision (comply or explain).

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\(^2\) The date of the adoption of Recommendation ESRB/2015/2 of the ESRB in the Official Journal of the EU.
2. The CBC shall reciprocate by implementing the same macroprudential policy measure, which was recommended for reciprocation by the ESRB, as the one that has been implemented by the activating authority, subject to the approval of the CBC’s Board of Directors. If the same macroprudential policy measure is not available in the national legislation of Cyprus, the CBC shall adopt a macroprudential policy measure, following consultation with the ESRB, equivalent to the activated macroprudential policy measure. A reciprocating macroprudential policy measure is deemed to be equivalent if it has, insofar as possible, the same:
   a) economic impact;
   b) scope of application; and
   c) consequences (sanctions) for non-compliance.

3. Unless a specific deadline is recommended in relation to the reciprocation of a macroprudential policy measure and the CBC’s Board of Directors has approved the reciprocity of the specific measure, the CBC shall adopt reciprocating macroprudential policy measures no later than three months following the publication of the latest amendment of Recommendation ESRB/2015/2 in the Official Journal of the EU. The adopted and reciprocating measures, should have the same activation date insofar as possible.

4. The CBC, prior to the adoption of a specific macroprudential measure on the basis of voluntary reciprocity, which also applies to Cyprus Investment Firms (CIFs) that fall within the scope of the Macroprudential Oversight of Institutions Law 6 (I) of 2015, will consult the Cyprus Securities and Exchange Commission, to the extent that the measure concerns the CIFs, as provided for in the provisions of Article 3 of the said Law.

5. The macroprudential measures reciprocated by the CBC shall be published on the CBC website within the deadline set out in paragraph 3 of this Part, together with:
   a) the description of the measure,
   b) the institutions the measure applies to,
   c) information on the exposures in the activating member state, and
   d) the date the measure comes into force.

2.4 Recommendation D – Notification of the reciprocation of other relevant authorities’ macroprudential policy measures

1. The CBC shall notify the ESRB of its reciprocation of other relevant authorities’ macroprudential policy measures in English, using the template which is published on the ESRB’s website. Notifications shall be sent no later than one month after the reciprocating measure has been adopted.
Part 3. De minimis principle

1. The CBC will decide whether to apply the de minimis principle for each ESRB Recommendation regarding the adoption of a macroprudential policy measure on the basis of reciprocity, of which the CBC is a recipient. The Financial Stability Department of the CBC will, following evaluation, advice the CBC’s Board of Directors whether or not to adopt the de minimis principle, and the CBC’s Board of Directors will take a decision on the basis of the information it has before it. Thus, the CBC will exempt Cyprus institutions from applying on the basis of reciprocity a specific macroprudential policy measure based on the de minimis principle, on a case-by-case basis.

2. If the CBC has already reciprocated and disclosed a measure before the reciprocation of that measure was recommended by the ESRB following a request by the activating authority, the reciprocating measure does not need to be amended even if it differs from the one implemented by the activating authority.

Part 4. Schedule for implementation and reporting to the ESRB and the Council of the EU

The CBC shall report to the ESRB and the Council of the EU on the actions it has taken in response to the ESRB Recommendation ESRB/2015/2, as subsequently amended, or adequately justify any inaction. Reports shall be sent every two years, with the first report due by 30 June 2017. The reports shall contain:

a) information on the substance and timing of the actions taken;
b) an assessment of the effectiveness of the actions taken, from the perspective of the objectives of Recommendation ESRB/2015/2;
c) detailed justification on any exemptions granted pursuant to the de minimis principle, together with any inaction or departure from the ESRB Recommendation ESRB/2015/2, including any delays.

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3 According to the ESRB Recommendation ESRB/2015/2, the de minimis principle allows macroprudential authorities to exempt particular financial service providers, due to non-material exposures to the identified macroprudential risk, from reciprocating specific macroprudential policy measures.
Part 5. Revision

The CBC may revise this policy document when it is deemed necessary.