



**CENTRAL BANK OF CYPRUS**  
EUROSYSTEM

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**POLICY OF THE CENTRAL BANK OF CYPRUS  
ON THE EXCHANGE AND COLLECTION OF  
INFORMATION FOR MACROPRUDENTIAL PURPOSES ON  
BRANCHES OF CREDIT INSTITUTIONS HAVING THEIR  
HEAD OFFICE IN ANOTHER MEMBER STATE OR IN A  
THIRD COUNTRY**

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## 1. Introduction

The Central Bank of Cyprus (CBC), as the national macroprudential authority, is responsible for the “macroprudential oversight of the financial system, with the ultimate objective to ensure the stability of the financial system”, as defined in the *Central Bank of Cyprus Laws, 2002 to 2019*. These Laws require the CBC to identify, monitor and evaluate threats to financial stability and implement policies to prevent or reduce these threats, when exercising its macroprudential oversight of the financial sector.

Therefore, the CBC should have access to a broad set of relevant macroeconomic and micro-financial data as well as other indicators for the monitoring and assessment of potential systemic risks. This implies that the CBC needs, *inter alia*, to be able to obtain certain basic information on all branches operating in the Republic of Cyprus of credit institutions having their head office in another Member State or in a third country, in order to assess whether these branches could have an impact on financial stability in the Republic and to assess potential systemic risks.

For this purpose, the Recommendation of the European Systemic Risk Board (“ESRB”) of 26 September 2019 on the exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country (ESRB/2019/18), includes the following Recommendation, which is addressed to the relevant authorities<sup>1</sup>:

Recommendation A - Cooperation and exchange of information on a need-to-know basis

It is recommended that the relevant authorities:

1. Exchange information deemed necessary for the discharge of their tasks related to the adoption and/or activation of macroprudential policy measures or for other financial stability tasks, in an effective and efficient manner, as regards branches in a host Member State of credit institutions having their head office in another Member State or in a third country. The exchange of information should take place upon receipt of a reasoned request for information in relation to such branches submitted by a relevant authority of the host Member State entrusted with the adoption and/or activation of macroprudential policy measures or with other financial stability tasks, taking into account any guidelines issued by the European Banking Authority (“EBA”). The information to be exchanged should be proportionate to the relevance of the branches to financial stability in the host Member State.

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<sup>1</sup> ‘relevant authority’ means:

1. an authority entrusted with the adoption and/or activation of macroprudential policy measures or with other financial stability tasks, such as related supporting analysis, including but not limited to:
  - i. a designated authority pursuant to Chapter 4 of Title VII of Directive 2013/36/EU (Capital Requirements Directive) or Article 458(1) of Regulation (EU) No 575/2013 (Capital Requirements Regulation),
  - ii. the European Central Bank (ECB) under Article 9(1) of Regulation (EU) No 1024/2013 (Single Supervisory Mechanism Regulation)
  - iii. a macroprudential authority with the objectives, arrangements, tasks, powers, instruments, accountability requirements and other characteristics set out in Recommendation ESRB/2011/3;
2. a competent authority, which means a public authority or body officially recognised by national law, which is empowered by national law to supervise credit institutions as part of the supervisory system in operation in the Member State concerned, and the ECB under Article 9(1) of Regulation (EU) No 1024/2013.

2. Establish memoranda of understanding or other forms of voluntary arrangements for cooperation and exchange of information among themselves — or with a relevant authority of a third country — regarding branches in the host Member State of credit institutions having their head office in another Member State or in a third country, where considered necessary and appropriate by all parties involved to facilitate the exchange of information.

In accordance with the Recommendation ESRB/2019/18, the CBC, as a relevant authority (that is, as a macroprudential authority and as an authority responsible for the supervision of credit institutions), needs to comply with the provisions of the Recommendation A by 31 December 2020 and submit an interim report to the ESRB and to the EU Council.

The present document, constitutes the policy that the CBC follows for cooperating and exchanging information with other relevant authorities, thus achieving its compliance with Recommendation A of the ESRB Recommendation ESRB/2019/18.

This policy applies in the following cases:

- i. The CBC receives a request for information from a relevant authority of another Member State or a third country in relation to a branch in that other Member State or third country of a credit institution having its head office in the Republic.
- ii. The CBC submits a request for information to a relevant authority of another Member State or a third country in relation to a branch in the Republic of a credit institution having its head office in the other Member State or third country.

## **2. Determination of branches that could have an impact on financial stability**

A branch that could have an impact on financial stability is, a branch in the Republic of a credit institution having its head office in another Member State or in a third country that meets any of the following criteria:

- i. The CBC, as the supervisory authority of credit institutions in the Republic, has determined that the branch is designated as being significant in accordance with Section 56 of the *Business of Credit Institutions Laws of 1997 to 2019*,
- ii. The CBC, as the national macroprudential authority in the Republic, has determined that the branch meets the criteria referred to in Section 6(3) of the *Macroprudential Oversight of Institutions Law of 2015* for the identification of other systemically important institutions (O-SIIs), in accordance with the Guidelines EBA/GL/2014/10 of the European Banking Authority and the policy of the CBC<sup>2</sup>,
- iii. The CBC, as the national resolution authority in the Republic, has determined that the branch provides critical functions within the meaning of the Section 2(1) of *The Resolution of Credit Institutions and Investment Firms Law*,

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<sup>2</sup> The macroprudential policy of the CBC for the designation of other systemically important institutions (O-SII institutions) and the methodology for the determination of the O-SII buffer requirement is available at:

<https://www.centralbank.cy/images/media/redirectfile/O-SII%20buffer%20policy%20-%20EN.pdf>

- iv. The branch has a market share exceeding 2% of one or more of the categories of exposures set out in points (a) and (b) of Article 133(5) of Directive 2013/36/EU, as this has been amended by the Directive 2019/878/EU<sup>3</sup> (Capital Requirements Directive),
- v. The branch has similar risk characteristics with other branches operating in the Republic, which could collectively have an impact on financial stability. For the purposes of determining the branches that meet this criterion, the CBC may consider, *inter alia*, their country of origin, common exposures to specific economic sectors, common exposures to specific geographical areas or the profile of the depositors.

Furthermore, the CBC may designate as a branch that could have an impact on financial stability, a branch that does not meet any of the criteria (i) to (v), provided the CBC adequately substantiates its decision.

The CBC reviews the identification of branches that could have an impact on financial stability, at least on an annual basis. The names of these branches are communicated to the relevant authorities of the other Member States or third countries in which the head offices of these branches are located.

### **3. Exchange of information with relevant authorities of other Member States or third countries**

The CBC exchanges information with relevant authorities of other Member States or third countries in its capacity as:

- i. Supervisory authority, following receipt of a request from a relevant authority of another Member State or third country in relation to branches (in the other Member State or third country) of credit institutions having their head office in the Republic, and;
- ii. National macroprudential authority, upon submitting a request to the relevant authority of another Member State or third country regarding branches in the Republic of credit institutions having their head office in the other Member State or third country.

#### **3.1 Provision of information to the relevant authorities of other Member States or third countries**

The CBC, following receipt of a reasoned request from a relevant authority of another Member State or third country that is entrusted with the adoption and/or activation of macroprudential policy measures or with other financial stability tasks, provides the requested information, taking into account the applicable Union and national laws. If the information requested is not readily available, the CBC, within the limits of the applicable legal framework, uses its power to collect the requested information.

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<sup>3</sup> The categories of exposures refer to the exposures to which the systemic risk buffer is applied, i.e.:

- (a) all exposures located in the Member State that sets the buffer,
- (b) the following sectoral exposures located in the Member State that sets that buffer:
  - (i) all retail exposures to natural persons which are secured by residential real estate,
  - (ii) all exposures to legal persons which are secured by mortgages on commercial immovable real estate,
  - (iii) all exposures to legal persons excluding those specified in point (ii), and
  - (iv) all exposures to natural persons excluding those specified in point (i).

Annex A to this policy provides a non-exhaustive list of the information at branch and group / parent institution level, which the CBC may provide to a relevant authority of another Member State or third country.

The CBC provides the relevant information without undue delay, in an efficient and effective manner, making use, whenever possible, of existing reporting templates and transferring data in user-friendly formats that allow further automatic processing of the data. The CBC ensures the confidential transmission of information by establishing adequate arrangements.

### **3.2 Obtaining information from the relevant authorities of other Member States or third countries**

The CBC evaluates, at least annually, the need to obtain, for the purposes of macroprudential oversight, information regarding branches in the Republic of credit institutions having their head office in another Member State or third country, as well as information regarding their parent institutions and groups. In the cases where the CBC considers it necessary to obtain such information, it submits a request to the relevant authority of the other Member State or third country<sup>4</sup>.

The request for information shall be accompanied by the justification for such request, including a list of the information requested and specifying the deadline by which the relevant authority of the other Member State or third country is required to exchange the information. The CBC ensures that the requested information includes information that is necessary for the exercise of the macroprudential tasks of the CBC and is proportionate to the relevance of the branches for financial stability in the Republic.

Annex A to this policy provides a non-exhaustive list of the information that the the CBC may request from relevant authorities of other Member States or third countries. The exchange of information relating to own funds and leverage, funding and liquidity risk, business strategy, and certain aspects of recovery plans of the parent institutions and groups, is also necessary to ensure the effectiveness of the macroprudential policy of the CBC.

The CBC monitors compliance with the deadlines for obtaining the requested information. In the case where:

- i. The relevant authority of another Member State or third country has not submitted the relevant information within one month after the expiration of the deadline stated in the request for information, the CBC sends a reminder letter to the relevant authority.
- ii. The relevant authority of another Member State has not submitted the relevant information within two months after the expiration of the deadline stated in the request for information, and provided that a reminder letter has been sent within the timeframe set out in (i) above, the CBC refers the matter to the EBA, requesting assistance, as set out in Article 19 of Regulation 1093/2010/EU (Regulation establishing a European Supervisory Authority (European Banking Authority)).
- iii. The relevant authority of a third country has not submitted the relevant information within two months after the expiration of the deadline stated in the request for

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<sup>4</sup> In the cases where the ECB is responsible for the supervision of the individual credit institutions, the request is sent by the CBC to the ECB.

information, and provided that a reminder letter has been sent within the timeframe specified in (i) above, the CBC considers possible measures to be taken, which could include, *inter alia*, revoking the banking licence of the branch.

The CBC, as the recipient of this information, ensures the appropriate level of confidentiality, ensuring at least the same level of confidentiality as that applied by the relevant authority providing the information. At the same time, it uses this information only for the purposes of macroprudential analysis and macroprudential policy.

The CBC may not send a request for information to a relevant authority of another Member State or third country in the cases where it:

- i. Considers that the branch of a credit institution in another Member State or in a third country could not have an impact on the financial stability of the Republic, and/or
- ii. Has all the information necessary for carrying out its macroprudential tasks.

Any issues that might arise during the exchange of information are reported to the ESRB and the EBA, through the submission of a relevant report by the CBC.

#### **4. Memoranda of understanding**

For those branches determined by the CBC as branches that could have an impact on the financial stability of the Republic, it is necessary to strengthen the cooperation between the CBC and the relevant authorities of the countries in which the head offices of their parent institution / parent group are located. Therefore, for the purposes of standardisation, predictability and common understanding, the CBC proceeds to the conclusion of memoranda of understanding with these authorities, as well as with other relevant authorities for which it considers that the conclusion of memoranda of understanding is necessary and appropriate.

The memoranda of understanding should govern the exchange of information between the two relevant authorities and are based on the principles of mutual trust, willingness to exchange information and a network of relationships, in particular with regards to confidential information.

In drafting the memoranda of understanding, the CBC ensures that each memorandum of understanding:

- Recognises that the exchange of information between the relevant authority of another Member State or third country and the CBC is necessary in order to fulfil the responsibilities of the CBC that are relevant with the adoption and/or activation of macroprudential policy measures or with other financial stability tasks;
- Outlines the procedures and includes provisions for the confidentiality, use and exchange of information;
- Covers the type of information that the CBC would like to have at its disposal, the frequency of the exchange of information, as well as the branches to which this information relates;
- Declares that information is proportionate to the relevance of the branch for financial stability in the Republic;
- Ensures the timely and reliable availability of information, using where possible, existing formats and reporting templates, and;

- Takes into account relevant guidelines for the exchange of information issued by the EBA.

## **5. Entry into force**

The present policy enters into force on 17 September 2020.

## **6. Policy review**

The present policy may be revised whenever this is considered necessary.



## **Annex A: List of information**

The list of information that may be sent by the CBC to a relevant authority of another Member State or a third country, or requested by the CBC from a relevant authority of another Member State or third country, shall include, as a minimum, information items from each of the following categories at branch and group / parent level, respectively.

### Branch level

- Assets and exposures, with breakdowns;
- Breakdown of assets regarding borrower-based measures;
- Liabilities, with breakdowns;
- Intra-financial sector exposures;
- Information necessary to identify other systemically important institutions (O-SIIs).

### Parent group / parent institution level

- Own funds and leverage;
- Funding and liquidity;
- Relevant information on branches, such as on business strategy and certain elements of recovery plans of credit institutions and supervisory assessments that are relevant.

The above list is not exhaustive.