ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Financial Market Authority Liechtenstein
1.2	Country of the notifying authority	Liechtenstein
1.3	Type of borrower-based measure	Please select one of the measures listed below: ☐ Debt-service-to-income (DSTI) ☐ Loan-to-income (LTI) ☒ Loan-to-value (LTV) ☐ Debt-to-income (DTI) ☐ Loan maturity ☒ Other (Amortization requirement)
1.4	Type of notification	What do you intend to notify? ☒ Activation of a new measure ☒ Change to an existing measure ☐ Extension of an existing measure ☐ Termination of an existing measure

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	Provide a detailed description of the measure, including: - The nature and value(s) of the restrictions imposed by the measure, as applicable. If the measure varies depending on certain characteristics of the loan or borrower, please specify all such cases. - Whether exceptions from the measure are allowed. If so, please specify the nature and size(s) of the exceptions, as applicable. • **Adjustment of the amortisation period for mortgages with high LTV ratios**: The amount of mortgage loan which exceeds an LTV ratio of 66 2/3 % for buy-to-let properties or owner-occupied residential properties should be linearly amortised within 15 years, from 20 years currently. The minimum annual amortisation should be 1% of the total loan amount. • **Amortisation requirement based on affordability:** Affordability calculations should be performed at loan origination, regular loan reviews, and on an ad-hoc-basis. - For new loans, if a sustainable level of affordability (LSTI of a maximum of 33% based on a hypothetical interest rate of at least 4.5%) is not met, a minimum annual amortisation of 1% of the initial loan volume should be applied until the sustainable affordability level of 33% is reached. - For existing loans, if the loan qualifies as an “exception to policy” (i.e. if the LSTI level based a hypothetical interest rate of at least 4.5% is above 37%), a minimum amortisation is required until reaching sustainable affordability of a maximum of 33%. Exceptions are allowed, the number / volume of exceptions is not limited. However, all exceptions to these policies must be reported to the FMA as part of the new reporting framework.

2.2	Definition of the measure	Please provide a detailed definition of each variable used in the construction of the indicator which is subject to the restrictions, as applicable (e.g. define what constitutes the value of the loan (L) and what counts towards valuation of the collateral (V) for an LTV indicator). Please include: a) Value of the loan/debt (for loan/debt-to-income), or value of the loan/debt instalments (for loan/debt service-to-income indicators) - What types of loans are included? b) Value of the collateral - What type of collateral can be included? c) Income - Is it gross or net income? What types of incomes are considered? If average income is considered, how long is the period considered? a) The value of the loan is defined in line with ESRB recommendation ESRB/2016/14 as amended, although certain assets may be recognised in the affordability calculation (see b). The new measure includes all new, private RRE loans as well as existing loans concluded for the construction or acquisition of residential real estate in accordance with Article 3(1) of the Mortgage and Real Estate Credit Act (HIKG), where the borrower is a natural person in accordance with Article 4(1)(a) HIKG, and the residential real estate financing is secured with a domestic mortgage. Excluded from the scope of the measures are: - New RRE loans, if the total of the borrower's credit obligations from private residential real estate financings is no more than CHF 100,000 (i.e. borrower-specific de-minimis limit). - RRE loans according to Article 3 paragraphs 2 to 4 HIKG, for which the affordability calculation at the time of contract conclusion resulted in a "self-sustaining" outcome for income-producing real estate.

		b) The consideration of certain assets in the calculation of collateral as part of the affordability calculation is possible. In this context, the following additional affordability-relevant assets can be recognised: - Marketable assets, - Income-generating properties, - Vacation properties as well as undeveloped properties. c) The sustainably available income of the borrower is defined in the same manner as in Appendix 4.5 of the Banking Ordinance. For employed individuals, this refers to gross income minus legally mandated social security deductions. Anticipated changes in income must be adequately considered in a forward-looking manner (e.g. upon retirement).
2.3	Legal basis and process of implementation of the measure	Specify the legal basis and process of implementation of the measure. Please include: - how the notified measure is implemented; - whether or not the notified measure is legally binding (e.g. a recommendation); o if the measure is non-legally binding, please provide the reasons why this choice was made and provide details of the means by which compliance with this measure can be fostered. The measures are implemented in a legally non-binding FMA communication with regards to the recommendation by the Financial Stability Committee (FSC) on addressing risks in the residential real estate sector and mortgage market (AFMS/2023/2). The communication is published on the FMA website. A non-legally binding FMA communication was used, as a legal basis for implementing borrower-based measures is not available in Liechtenstein. This communication specifies the supervisory requirements for sustainable RRE financing in order to address the systemic risks associated with high levels of household indebtedness in Liechtenstein and is based on the Banking Ordinance, Banking Act and Mortgage and Real Estate Credit Act.

		The communication outlines that if the measures are not implemented appropriately by the banks, or if the targeted goal is not achieved after the implementation of the new measures, the FMA will, as part of its ongoing risk monitoring, duly notify the FSC accordingly and if the FSC deems it appropriate, take the necessary actions.
2.4	Coverage	a. Which types of credit providers will be covered by the measure? e.g. credit institutions (including local branches of foreign credit providers), certain other financial institutions (e.g. pension funds, insurance companies, investment funds), etc. Please specify whether coverage of the measure is limited based on the type of activity of the credit provider, e.g. to mortgage credit providers. The measures apply to all domestic banks.
		b. Which types of borrowers will be covered by the measure? e.g. only natural persons, only legal entities, both natural persons and legal entities, etc. The measure covers only natural persons.
		c. Which types of lending will be covered by the measure? e.g. mortgage loans, consumer loans that are provided to consumers with a mortgage, consumer loans, debt securities issued and overall debt of non-financial companies, etc. The measures target mortgage loans, i.e. loans secured by residential property in Liechtenstein.
2.5	Calibration	Provide information on how the measure was calibrated, including the main assumptions used therefor. The measures specified in this communication aim to address the risks associated with high levels of household indebtedness without restricting or impeding access to the mortgage credit market for borrowers. The

		measures aim to target the riskiest borrowers with the most efficient instruments available. A cost-benefit analysis has shown that the benefits to the economy outweigh the costs associated with the measure. The measures are assessed to provide net benefits on the domestic economy and households.
3. Timing for the measure		
3.1	Timing for the decision	What is the date of the official decision of the notified measure? 26/09/2023
3.2	Timing for publication	What is the date of publication of the notified measure? 27/09/2023
3.3	Disclosure	Provide information about the strategy for communicating the notified measure to the market. Please provide a link to the public announcement, if any. The measure is published on the FMA website.
3.4	Timing for the application	What is the intended date for application of the measure? What is the intended timeline for phase-in of the measure, if relevant? The communication will enter into force on 01/11/2023. However, a phase-in period applies for several measures until 1 July 2024 until a full technical implementation is established. The adjustment of the amortization period for mortgages with high LTV ratios will become effective as of 1 November 2023. The amortization requirement based on affordability will become effective on 1 July 2024.
3.5	End date (if applicable)	Until when is it presumed that the measure will be in place? If applicable, please give an end date. Click here to enter a date.
4. Reason for activation of the measure		

4.1	Description of the macroprudential risk	Describe the macroprudential risk to be addressed by the proposed macroprudential measure. The real estate and mortgage report of the FMA provides a comprehensive analysis of the risks in the residential real estate sector in Liechtenstein[2] and assesses the risks to domestic financial stability. The high household indebtedness has been identified as the key risk in the RRE sector, which makes the real estate sector vulnerable to unexpected macroeconomic shocks. In addition, high household indebtedness is not always accompanied by high household income. Thus, some borrowers already struggle to meet the specific internal affordability requirements set by banks. If interest rates rise further or if unemployment increases, and/or household income decreases, servicing debt may become problematic for a rising share of households.
4.2	Indicators used for activation of the measure	Provide the indicators triggering activation of the measure. Provide the data on which the decision is based if possible (preferably in an Excel file). • Several mortgage and housing market indicators covering mortgage lending developments, household indebtedness indicators, housing market and construction activity are included in the monitoring framework and in the activation of borrower-based measures. These indicators are also considered on an annual basis in the Financial Stability Report. • Since the implementation of the ESRB recommendation ESRB/2016/14, the FMA receives detailed data on mortgage lending, which are also considered in the activation of the measure. • The local FINREP data will be amended to receive detailed data on the effectiveness of the measure. These data will also be used for the recalibration of the measures.

[2] A report was published by the FMA in October 2021 (available in German only): «Immobilien- und Hypothekarrisiken in Liechtenstein: Risiken aus Sicht der Finanzstabilität». A summary of the main findings of the report can be found in Box 4 of the Financial Stability Report 2021.

4.3	Effects of the measure	Provide your assessment of the effects of the measure on your domestic banking system, other parts of the financial system, the real economy and financial stability in your country. The existing and new borrower-based measures will be an essential macroprudential policy instrument to safeguard financial stability. The measures will further promote sustainable lending practices. While several borrower-based measures exist since 2015, which have already worked as intended, the new measures should further improve financial stability by reducing the further build-up of structural systemic risks related to the high level of household indebtedness. In addition to mitigating systemic risks, the measures also address crucial aspects for the protection of customers or borrowers.
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. The FMA expects that the limits for LTV and sustainable affordability requirements are effective in achieving the goal of maintaining sustainable lending standards over the medium-term. By introducing a new amortisation requirement based on the loan's affordability, the measures aim to address the loans with the highest risks.

5.2	Consistency of application of the policy response	For a macroprudential policy to be ‘consistent’, the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1[3], and they must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. The measures outlined in this notification are consistent with ESRB/2013/1.
5.3	Non-overlap of the policy response	For a policy instrument to be ‘non-overlapping’, it should aim to address a systemic risk that either differs from the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. The various capital and borrower-based measures addressing risks in the Liechtenstein mortgage and real estate sector complement each other. On one hand, they enhance the overall resilience to real estate risks across the system, but on the other hand, they also contribute to avoiding further accumulation of systemic risks. This allows for the mitigation and appropriate addressing of imbalances in the real estate sector. Capital-based instruments are generally more efficient and effective,

[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

		particularly in dealing with accumulated stock risks, while borrower-based measures tend to be more appropriate for emerging flow risks. Given that both stock and flow risks are observed in the real estate and mortgage sector in Liechtenstein, a comprehensive macroprudential mix of measures is necessary to ensure their effectiveness.
6. Cross-border and cross-sector impact of the measure		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2[4])	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[5] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure. No material cross-border spill-overs on the Single Market of the measure are expected, as the measures only target mortgage loans located in Liechtenstein.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions?

[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).
[5] Available on the ESRB's website at www.esrb.europa.eu.

		Given that the measures target all new mortgage loans located in Liechtenstein and all banks granting loans, regulatory arbitrage and leakages are not expected within Liechtenstein or other jurisdictions.
6.3	Request for reciprocation	Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure? No - If yes, please provide in Section 6.4 the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation? Given that domestic banks are the main lenders for mortgages in Liechtenstein, there is no need for requesting reciprocation.
6.4	Justification for the request for reciprocation	To request reciprocation, please provide the following: a. a concise description of the measure to be reciprocated; b. the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness; c. the proposed materiality threshold and justification for that level. If the ESRB deems the request for reciprocation to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of ESRB Recommendation 2015/2. N/A
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Martin Gächter, martin.gaechter@fma-li.li; Sophia Döme, sophia.doeme@fma-li.li

7.2	Any other relevant information	
7.3	Date of the notification	Please provide the date on which this notification was uploaded/sent. 27/09/2023