Template for notifying national macroprudential measures not covered by CRR/CRD

Please send this template to

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<table>
<tr><th colspan="3">1. Notifying national authority and scope of the notification</th></tr>
<tr><td>1.1</td><td>Name of the notifying authority.</td><td>Magyar Nemzeti Bank (MNB)</td></tr>
<tr><td>1.2</td><td>Name of the macroprudential measure that is notified.</td><td>Amendment of the Mortgage Funding Adequacy Ratio (MFAR) regulation</td></tr>
<tr><th colspan="3">2. Description of the measure</th></tr>
<tr><td>2.1</td><td>Description of the measure.</td><td>The new Decree introduces six modifications that incorporate green aspects into the regulation and help to achieve regulatory goals related to HUF maturity mismatches along with the development of the mortgage bond market. These changes are summarized in the table below.

Main proposed changes of the MFAR regulation

<table>
<tr><th>Major items</th><th>MFAR before the amendment</th><th>MFAR after the amendment</th><th>Entry into force</th></tr>
<tr><td>Preferential treatment of green mortgage-based funds</td><td>No differentiation, all mortgage-based funds are taken into account with a 100 per cent weight</td><td>Banks can take into account green mortgage bonds issued and green refinancing loans received with a 150 per cent weight</td><td>1 July 2021</td></tr>
<tr><td>Required minimum maturity of green mortgage-based funds</td><td>No differentiation, all mortgage-based funds are required to have an original</td><td>Green mortgage-based funds need to have an original maturity of at least 5 years</td><td>1 July 2021</td></tr>
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<tr><td></td><td>maturity of at least 3 years</td><td></td><td></td></tr>
<tr><td>Required minimum level of long-term funds in proportion to residential mortgage loans</td><td>25 per cent</td><td>30 per cent</td><td>1 October 2022</td></tr>
<tr><td>Expectation of listing mortgage bonds on the stock exchange</td><td>No provision</td><td>Newly issued mortgage bonds must be listed on a stock exchange in order to be accepted in the MFAR</td><td>1 October 2022</td></tr>
<tr><td>Restriction of cross-ownership of mortgage bonds within the banking sector</td><td>No provision at the moment, but the cross-ownership of mortgage bonds was disincentivised in the regulation prior to the pandemic</td><td>Cross-ownership is disincentivised through a correction factor which is calculated based on the ratio of mortgage bonds owned to the Balance Sheet Total</td><td>1 October 2022</td></tr>
<tr><td>Exclusion of mortgage bonds owned for market making purposes from the cross-ownership restriction</td><td>No provision at the moment, but a similar exception was included in the regulation prior to the pandemic</td><td>Technical amendment of the previous exception: market making contracts with the stock exchange and with the issuer are both accepted</td><td>1 October 2022</td></tr>
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<td>2.2</td>
<td>Legal basis and process of implementation of the measure.</td>
<td>As macroprudential authority in Hungary, the MNB has the power to issue legally binding regulations in order to reduce systemic risks, as stipulated in Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act).

Article 171 (1) k) kc) of the MNB Act authorises the Governor of the MNB to decree the measures required to prevent the build-up of systemic risks and to reduce systemic risks, and to increase the resilience of the financial intermediary system, within the strategic framework defined by the Monetary Council, based on the decision of the Financial Stability Board, including requirements for the reduction of systemic liquidity risks.</td>
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		Furthermore, Article 4 (7) of the MNB Act states that the MNB shall explore risks threatening the financial intermediary system as a whole, it shall help to prevent the build-up of systemic risks, and to mitigate or eliminate the systemic risks that may already exist.
2.3	Coverage	The measure applies to credit institutions operating as companies limited by shares and the Hungarian branches of third country credit institutions, as well as the institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover the Magyar Fejlesztési Bank Zrt., the Magyar Export-Import Bank Zrt., the Központi Elszámolóház és Értéktár (Budapest) Zrt. and building societies not subject to consolidated supervision.
2.4	Any other relevant information.	-
3. Timing		
3.1	Timing of the decision	The Financial Stability Board (FSB) of the MNB reached a decision regarding the amendments on 17 June 2021.
3.2	Timing of the publication	The decree was published in the Official Gazette on 23 June 2021.
3.3	Disclosure	Consultations have been held about the detailed regulatory concept with the market participants. The consultations have successfully ended; banks' comments and proposals have been considered and all relevant changes have been incorporated into the decree. The consultation procedure with the ECB according to Council Decision 98/415/EC has also been concluded; the ECB adopted and published its Opinion

		CON/2021/22 on the measure. The MNB decree was published in the Official Gazette on 23 June 2021.
3.4	Timing of the application	The amendment regarding preferential treatment of green funds will be applicable from 1 July 2021, whereas all other modifications will become binding on 1 October 2022.
3.5	End date (if applicable)	There is no expected end date of the measure as of now.
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	In response to the systemic risk arising due to the long maturities of household loans converted from FX into HUF and the resulting increase in banks' HUF maturity mismatch, the Magyar Nemzeti Bank (MNB) introduced the Mortgage Funding Adequacy Ratio (MFAR) regulation in 2017. The MNB regularly reviews the requirement in the light of market developments and financial stability objectives, including the deepening of the mortgage bond market along with strengthening and diversifying demand in order to strengthen stable HUF funding at a sectoral level. Although the amount of long-term mortgage-based funds of banks has increased significantly in recent years, measures to develop the mortgage bond market have been proposed in order to create a deeper and more liquid market with a wider investor base. The contribution of the financial system to the mitigation of risks related to climate change is of public interest. The physical and transitional risks related to climate change and the regulatory responses to it also pose a significant challenge to financial stability. Therefore, since 2019, the MNB has been working on a comprehensive project covering a wide range of green finance initiatives, which also includes developing a green mortgage bond market in Hungary. The macroprudential rationale for the different amendments in details is as follows:

		1. The green mortgage bonds issued and green refinancing loans received shall be treated preferentially in order to incentivise green lending and green mortgage bond issuances to support their positive impact on financial stability and the additional effects on the energy efficiency of the housing stock. A growing number of studies have already reached the conclusion that green mortgages may lead to reduced credit risk, while the appearance of green covered bonds in Hungary may help widen the investor base, thereby strengthening stable HUF funding at a sectoral level. 2. The required minimum maturity of green funds shall be increased to 5 years (from a general 3-year requirement) to further reduce the maturity mismatch. It is justified to encourage market participants towards green mortgage bond issuances with longer original maturities to support long-term funding given the preferential treatment of these funds. 3. The required minimum level of long-term funds in proportion to residential mortgage loans shall be increased from 25 to 30 per cent. The amendment aims at further reducing the HUF maturity mismatch and enhancing the development of the mortgage bond market through raising the minimum required level of accepted funds. The adjustment to the new level is facilitated by the increased weights given to green funds. Issuing green mortgage bonds in the near future to replace maturing bonds will therefore support compliance with little to no additional burden for banks. 4. All accepted mortgage bonds shall be listed on a stock exchange. This step enhances deeper and more liquid trading and supports the further development of the mortgage bond market but does not entail any serious accommodation for credit institutions in the short run. 5. As the MFAR requirements aim at channelling long term funding for mortgage lending, the high extent of banks' ownership of mortgage bonds hinders the objective of raising this kind of funding at a sectoral

		level. The regulation included a provision disincentivising cross-ownership of mortgage bonds prior to the coronavirus pandemic, which was suspended to support banks' fundraising during possibly turbulent market conditions. The provision will be reintroduced in a new form: a correction factor is calculated based on the ratio of mortgage bonds owned to total assets. The nominator of the MFAR has to be multiplied with this factor with a value between 0.9 and 1. The goal of this modification is to mitigate contagion risk and encourage the diversification of the investor base of bonds. Issuing green mortgage bonds could also facilitate this by attracting new investors specifically investing in green assets. 6. Market making enhances deeper and more liquid trading, and ensures better bond price formation, thereby supporting activity in the secondary market and increasing the share of non-bank investors. The MNB supports banks' market making activity by excluding mortgage bonds owned for market making purposes subject to a cap from the cross-ownership restriction. Market making contracts with the stock exchange and with the issuer are both accepted with certain conditions.
4.2	Description of the indicators on the basis of which the measure is activated.	The Financial Stability Board of the MNB has considered numerous factors while calibrating the measure. These include the maturity mismatch between HUF assets and liabilities of credit institutions, the distribution of the maturity of HUF assets and liabilities, the share of long-term HUF funds relative to all HUF liabilities and indicators related to the development of the mortgage financing market (maturities, issuances, secondary market turnover, market making, ratings, ownership structure, type of interest rates, etc.). In case of the preferential weights for green funds, the MNB has considered the energy efficiency distribution of Hungarian residential buildings, the share of lending to newly built and energy efficient buildings and evidence on the credit risk differential between green and not green mortgages.

4.3	Effects of the measure.	In addition to the expected benefits in terms of environmental sustainability, the domestic appearance of green mortgage bonds may also have a positive effect on financial stability. This may arise on the one hand from the hypothetically lower credit risk of green mortgages thanks to lower utility costs and house prices that are more resilient to shocks and on the other hand from a more diversified mortgage bond investor base that facilitates the stable funding of the banking system. The MFAR can thus provide an effective supply-side regulatory support for green mortgage bond issuances to incorporate climate change related risks and strengthen stable funding. In addition to the "green" transformation of the MFAR, the further regulatory changes are expected to enhance liquidity in the mortgage bond market, reduce the maturity mismatch between the asset and liability side of credit institutions and support stable funding at a sectoral level.
5. Cross-border and cross-sector impact of the measure		
5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	No material spillover effects are estimated to arise due to the amendment of the MFAR regulation. The regulation applies to credit institutions within Hungary, and the requirements are related to HUF mortgage loans and HUF mortgage bonds only. Given the geographical distribution of HUF loans, no cross-border effects related to lending are expected to arise. Given the new mortgage bonds to be issued in the next period, institutions in other Member States might increase their exposures vis-à-vis Hungarian banks through purchasing new mortgage bonds. However, based on the relatively small amount of expected new issuances compared to the size of other debt security markets, no material increase in credit or concentration risk is expected.

5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The MFAR requirement is a targeted measure, which requires that specific HUF funds should be available to all credit institutions above a certain *de minimis* threshold (stock of mortgage loans) to finance their long-term mortgage loans, which minimises the possibility of regulatory arbitrage. What could hinder the effectiveness of the measure to some extent is the purchase of a large amount of mortgage bonds within the banking sector, as this does not lead to extra sector-level long-term funding. The amendment of the measure aims at further lowering the risks of such behaviour on the part of banks through the cross-ownership correction factor. In case of green funds, there might be a risk of "greenwashing", taking into account funds at the preferential weights which do not actually finance green buildings. The risk is mitigated by only accepting green mortgage funds that meet the requirements of internationally acclaimed green bond standards (Green Bond Principles or Climate Bonds Standard) and for which an external review is provided.
5.3	Request for reciprocation	No reciprocation is requested for the current measure or the MFAR requirement overall.
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	**Mr. Gergely Fábián**, Executive Director Executive Directorate for Financial System Analysis and Statistics Phone: +36 (1) 428 2600/1874 E-mail: fabiang@mnb.hu **Mr. Tamás Nagy**, Director Directorate for Financial System Analysis Phone: +36 (1) 428 2600/2639 E-mail: nagyt@mnb.hu

6.2	Any other relevant information.	-