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Capital Requirements Regulation

Credit institutions and Investment firms

CSSF Regulation 14-01 on the implementation of certain discretions of Regulation (EU) No 575/2013

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (“CRR”) entered into force on 1 January 2014. It is applicable to institutions and investment firms of the EU member states and is not subject to local transposition. In particular, Part X of the CRR includes a series of national discretions related to some phased-in arrangements of these new rules. On February 12, the CSSF has published Circular 14/583 and Regulation 14-01 to disclose rules applicable to Luxembourg. This will shortly be accompanied by the revision of the Law of 5 April 1993 on financial services that will transpose Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“CRD IV”).

One of the key elements of Regulation 14-01 is Article 20 that defines conditions applicable for benefiting from **large exposures exemption for intra group transactions**. Institutions having such exemptions in place shall be able to justify at any time their compliance with these conditions to the CSSF. Any breach might result in the enforcement of limits by the CSSF.

Regulation 14-01 also defines the phase-in arrangements related to the **level of minimum own funds requirements and new capital buffers**. Rules applicable to Luxembourg are listed in the table below.

As from 1 January…	2014	2015	2016	2017	2018	2019
Minimum Common Equity Tier 1 Capital Ratio	4.5%					
Tier 1 Capital Ratio	6%					
Total Capital Ratio	8%					
Additional Buffers (composed of Common Equity Tier 1):						
Capital Conservation Buffer	2.5%					

Institution Specific Countercyclical Capital Buffer	NA		0.625%	1.25%	1.875%	2.5%
Institution Specific Global and Other *Systematically Important Institutions* Capital Buffer (the higher of both)	NA		1%	1.75%	2.625%	3.5%
Institution Specific Systemic Risk Capital Buffer*	Institution specific application determined by the CSSF (ranging from 1% to 3.5%)					
Total Capital Ratio could be up to	14%	14%	14.625%	15.25%	15.875%	16.5%

The Institution Specific Countercyclical Capital Buffer (additional Tier 1 Capital) (CRD, art. 160) might be subject to a shorter transitional period based on the institution specific implementation timeline defined by the CSSF. The Regulation 14-01 also describes the approval process of additional Tier 1 and Tier 2 capital instruments and determines the deduction rates applicable to elements of Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital.

Other **additional transitional treatments** are as follows:

Topics	The CSSF Regulation 14-01 states…	References
Treatment of qualifying holdings outside the financial sector	Holdings outside the financial sector which exceed 15% of eligible capital of the institution are no longer prohibited in Luxembourg and are now subject to specific risk weights.	CRR, art. 89
Exposures in the form of covered bonds	Until end of 2017, the 10% limit of the nominal amount of the outstanding issue for senior units of *French Fonds Communs de Titrisation* used as collateral for covered bonds is not applicable (under conditions).	CRR, art. 129.2
Liquidity coverage requirement	Until the introduction of the minimum liquidity coverage standards in January 2015, the national rules on liquidity are maintained (Circular IML 93/101).	CRR, art. 412
Unrealised losses measured at fair value	Unrealised losses measured at fair value (excluding those referred to in Article 33 of CRR) shall be included in the Common Equity Tier 1 items by applying the following percentages: • 20% in 2014 • 40% in 2015 • 60% in 2016 • 80% in 2017 • 100% as from 2018	CRR, art. 467
Unrealised gains measured at fair value	Unrealised gains booked at fair value (excluding those referred to in Article 33 of CRR and those related to investment properties) should be entirely removed from the CET 1 items as from 2014 (percentage set at 100%).	CRR, art. 468
Exemption from Deduction of Equity Holdings in Insurance Companies from Common Equity Tier 1 Items	The possibility to exempt participations in insurance undertakings from CET 1 deduction is not applied in Luxembourg.	CRR, art. 471

Introduction of amendments to IAS 19	The possibility to add items related to defined benefit pension funds or plans within CET 1 capital is not applied in Luxembourg.	CRR, art 473
Deduction from Common Equity Tier 1, Additional Tier 1 and Tier 2 items	Treatment of deferred tax assets that rely on future profitability and arise from temporary differences and corresponding deduction from Common Equity Tier 1 until 2018. National transposition of the deductions applicable from Common Equity Tier 1 capital, Additional Tier 1 and Tier 2 from 2014.	CRR, art. 478
Recognition in consolidated CET 1 capital of instruments and items that do not qualify as minority interests	Items that would qualify as consolidated reserves in accordance with national transposition measures for Article 65 of Directive 2006/48/EC that do not qualify as consolidated Common Equity Tier 1 are not recognisable in Luxembourg as from 2014 (percentage set at 0%).	CRR, art. 479
Additional filters and deductions	Percentage is set at 0% as from 2014 for the additional filters and deductions applicable to Common Equity Tier 1 items, Tier 1 items, Tier 2 items or own funds items. Theses filters and deductions relate to elements foreseen in CRD III but not required as per CRR/CRD IV.	CRR, art. 481
Limits for grandfathering of items within Common Equity Tier 1, Additional Tier 1 and Tier 2 items	Applicable rate for grandfathering items eligible into the own funds for 2014 is 80% and then decreases by 10% each year until 2022.	CRR, art. 486
Treatment of equity exposures under the IRB Approach	Until 31 December 2017, equity exposures held in the books as of 31 December 2007 might be exempted from IRB treatment and be applied the standard method instead.	CRR, art. 495
Leverage ratio	Derogation to calculate the Leverage Ratio on a quarter-end figures only is not applied, meaning that all institutions will be required to compute this ratio based on arithmetic mean of the monthly ratios.	CRR, art. 499

We trust this information is of assistance and remain at your disposal for any further questions.

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