

Deloitte regulatory news alert

Banks

Asset encumbrance

CSSF Circular 14/597 - Update of CSSF Circular 12/552 on the central administration, internal governance and risk management

CSSF Circular 14/597, published on 25 November, introduces a new Chapter in Part III of the CSSF Circular 12/552, related to sound risk management to be implemented and performed on assets encumbrance. This Chapter implements in Luxembourg a recommendation issued in December 2012 by the European Systemic Risk Board on funding of credit institutions (**ESRB 2012/2**). It is applicable only to banks.

Policies, procedures and controls

Credit Institutions shall set-up and implement risk management policies defining their approach in relation to asset encumbrance, as well as procedures and controls that ensure that risks associated with collateral management and asset encumbrance are adequately identified, monitored and managed.

Business model, host countries, specificities of the funding markets and macroeconomic situation shall be considered and factored in the monitoring program ensuring adequate oversight and risk management on assets encumbrance.

Policies are subject to proper validation by the Board of Directors; procedures and controls shall be duly validated by the Authorised Management.

They shall also implement a general monitoring framework that provides timely information to the management and the relevant management bodies on:

- the level, evolution and types of asset encumbrance and related sources of encumbrance, such as secured funding or other transactions; and
- the amount, evolution and credit quality of unencumbered but encumberable assets, specifying the volume of assets available for encumbrance.

Stress testing and contingency plans

Institutions have also to include in their contingency plans strategies to address the contingent encumbrance resulting from relevant stress events.

These stress events shall be simulated and reported as part of the overall stress testing program of the institutions (and main conclusions disclosed in the ICAAP report). In particular, the amount, evolution and types of additional encumbrance resulting from stress scenarios (contingent encumbrance) should be timely reported to the authorised management.

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

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