



EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL
MARKETS UNION

Financial systems and crisis management
Macroprudential policy

TARGETED CONSULTATION

**ON IMPROVING THE EU'S MACROPRUDENTIAL FRAMEWORK FOR THE
BANKING SECTOR**

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudice the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

You are invited to reply **by 18 March 2022** at the latest to the **online questionnaire** available on the following webpage:

https://ec.europa.eu/info/publications/finance-consultations-2021-banking-macroprudential-framework_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.**

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published in accordance with the privacy options respondents will have opted for in the online questionnaire.

Responses authorised for publication will be published on the following webpage:
https://ec.europa.eu/info/publications/finance-consultations-2021-banking-macroprudential-framework_en

Any question on this consultation or issue encountered with the online questionnaire can be raised via email at fisma-macropru@ec.europa.eu.

INTRODUCTION

Background of this targeted consultation

With this targeted consultation, the European Commission wishes to consult on the EU's macroprudential framework for the banking sector in view of the legislative review mandated by Article 513 of [Regulation \(EU\) No 575/2013, as amended by Regulation \(EU\) 2019/876](#) (hereinafter 'CRR'). The information obtained will feed into the impact assessment for a possible legislative proposal.

The Commission is interested in evidence and substantiated views from a wide range of stakeholders. Contributions are particularly sought from non-governmental organisations representing notably users of financial services, think tanks and academics, national regulators and supervisors, banks and other financial institutions, and EU institutions.

Context and scope of the targeted consultation

The Commission is launching this targeted consultation to gather evidence in the form of relevant stakeholders' views and experience with the current macroprudential rules for banks in line with the [better regulation principles](#) and in view of the forthcoming legislative review mandated by Article 513 CRR.

Article 513 CRR requires the Commission to complete a review of the macroprudential provisions in CRR and in [Directive 2013/36/EU \(hereinafter 'CRD'\)](#) by June 2022 and, if appropriate, to submit a legislative proposal to the European Parliament and to the Council by December 2022.

Macroprudential policy is the use of primarily prudential tools to limit systemic risk and safeguard financial stability. Systemic risk refers to the risk of a widespread disruption to the provision of financial services caused by an impairment of the financial system or parts of it, and which can have serious negative consequences for the real economy. Macroprudential policy complements microprudential policy, which focuses on the soundness of individual financial institutions. By providing a systemic perspective, it aims to correct externalities that are not tackled by microprudential supervisors who address risks at the level of a single institution. It has clearly defined financial stability objectives, specific instruments and dedicated institutions. Macroprudential policy has been established in the wake of the 2008 Global Financial Crisis.

The macroprudential toolkit for credit institutions (referred to as 'banks' in the remainder of this document), introduced in the Capital Requirements Regulation and Directive (CRR/CRD), is applicable since 2014. The macroprudential framework implements and expands international standards agreed by the Basel Committee on Banking Supervision (BCBS). The main tools are capital buffers, i.e. Common equity Tier 1 (CET1) capital requirements on top of minimum (Pillar 1) and additional (Pillar 2) capital requirements. Capital buffers hence reduce the risk that unexpected losses will result in banks breaching their minimum and additional capital requirements.

The mandate in Article 513 CRR offers the opportunity to review and improve the EU macroprudential provisions applicable to banks. Article 513 CRR envisages a broad scope for the review, requiring the Commission to assess the effectiveness, efficiency and transparency of the macroprudential framework, and listing a number of specific issues to be considered in view of a possible legislative proposal. These issues must be

analysed taking into account ongoing discussions at the international level. It is also necessary to take into account the Covid-19 crisis experience, the first time many macroprudential instruments were utilised during a crisis. The Covid-19 shock affected banks' balance sheets far less than typical stress test scenarios, thanks (in part) to the swift and determined fiscal and monetary policy responses to the pandemic, the progress made over the past decade in strengthening the (micro and macro) prudential requirements for banks and the progress made in setting up the Banking Union. However, the crisis did highlight some important macroprudential issues that have been subject to international debate, such as the releasability of buffers and banks' willingness to use them during a crisis. While, the full lessons and consequences of the Covid-19 crisis are still uncertain, the macroprudential review provides a good opportunity to start addressing any gaps or weaknesses in the current framework and reflect on ways to make macroprudential policy more effective in the post-pandemic period and beyond.

The review of the macroprudential provisions in CRR and CRD pursues goals that are distinct from those of the banking package proposed by the Commission on 27 October 2021 to finalise the implementation of the Basel III agreement in the EU. This consultation is being launched after the publication of the banking package proposal, allowing respondents to take into account the likely implications of the package for the macroprudential framework in banking, and in particular the Output Floor, which sets a lower limit ("floor") on the capital requirements ("output") that banks calculate when using their internal models.

Responding to this consultation and follow-up

The Commission has decided to launch a targeted consultation designed to gather evidence on improving on the EU macroprudential framework for the banking sector.

The targeted consultation is divided into four sections:

- Section 1: Overall design and functioning of the buffer framework (Questions 1-4)
- Section 2: Missing or obsolete instruments, reducing complexity (Questions 5-8)
- Section 3: Internal market considerations (Questions 9-13)
- Section 4: Global and emerging risks (Questions 14-16)

Each question focuses on a particular aspect of the macroprudential framework. Respondents are invited to indicate the extent to which they consider that change is necessary regarding this particular aspect and to present their reasoning, as far as possible supported by evidence. If the space for responding is not sufficient, respondents may use links or upload background documents with the required evidence. Respondents are also invited to raise any general or specific observations they have on improving the EU macroprudential framework for banks which were not covered in other sections (Question 17).

The targeted consultation is available in English only and will be open until 18 March 2022.

CONSULTATION QUESTIONS

1. OVERALL DESIGN AND FUNCTIONING OF THE BUFFER FRAMEWORK

The comprehensive macroprudential toolkit for banks, introduced following the Global Financial Crisis, is applicable since 2014. The macroprudential framework implements, and expands on international standards agreed by the BCBS. The main tools are capital buffers, i.e. additional Common equity Tier 1 (CET1) capital requirements on top of the Pillar 1 and Pillar 2 requirements that banks need to fulfil to remain a going concern. Capital buffers hence reduce the risk that unexpected losses will result in banks having to be declared failing or likely to fail. They enable banks to absorb losses while maintaining the provision of key services to the economy.

The CRD sets out five capital buffers, which together form the combined buffer requirement (CBR). Four buffers are based on the Basel agreements, while one is EU-specific. The four Basel-defined buffers are:

- capital conservation buffer (CCoB, Art 129 CRD), which is calibrated at 2.5% of the total amount of assets adjusted by the riskiness of these assets (Risk Weighted Assets, RWA), to ensure that banks have an additional layer of usable capital that can be drawn down when losses are incurred;
- countercyclical capital buffer (CCyB, Art 130 CRD), which aims to protect the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risks;
- global systemically important institutions (G-SII) buffer (Art 131 CRD), which aims to reduce the probability of failure of a global systemically important bank by increasing their going-concern loss absorbency capital requirement;
- other systemically important institutions (O-SII) buffer (Art 131 CRD), which aims to reduce the probability of failure of banks that are deemed systemically important at the national level by increasing their going-concern loss absorbency capital requirement.

The EU-specific buffer is the systemic risk buffer (Art 133 CRD), which can be used to address a broad range of systemic risks, which may also stem from exposures to specific sectors, as long as they are not already addressed by the other buffers above.

Each bank has to meet a specific CBR. Unlike a breach of minimum capital requirements, breaching the CBR does not prevent banks from operating as a going concern, but banks breaching their CBR have to restrict distributions in the form of dividends, share buy-backs, coupon payments on additional Tier 1 (AT1) instruments, and discretionary bonus payments, and they will have to submit a capital conservation plan to supervisors.

When faced with a shock, buffers should avoid excessive deleveraging by banks, which could amplify the initial shock to the economy. In the Covid-19 crisis (the first crisis with a macroprudential framework in place), banks have indirectly benefited from unprecedented public support measures to their household and corporate customers; therefore, the shock-absorbing feature of capital buffers has not been tested.

The crisis has triggered a discussion on whether the capital buffer framework is optimally designed not only to provide additional resilience, but also to act counter-cyclically when

necessary, including by encouraging banks to maintain their supply of credit during an economic downturn. The review of the macroprudential framework should therefore focus on the best use of buffers in a crisis, covering various aspects:

- Stigma related to Maximum Distributable Amount (MDA) restrictions: Using capital buffers during a crisis (i.e. breaching the combined buffer requirement (CBR)) does not prevent banks from continuing to operate as a going concern, unlike a breach of Pillar 1 minimum capital requirements. However, when operating below their CBR, banks face automatic and graduated (depending on the buffer shortfall) restrictions on distributions, including dividends, bonus payments and coupon payments on Additional Tier 1 instruments. While these payout restrictions are designed to prevent imprudent depletion of capital, they may also incentivise banks to deleverage to avoid such restrictions and market stigma.
- Capital buffer usability: Unlike minimum requirements, capital buffers that have been built-up can in principle be drawn down or released when losses have to be absorbed during times of stress. Capital buffers are only fully usable if they can be depleted without breaching parallel minimum requirements, i.e. the Leverage Ratio (LR) and the Minimum Requirement for own funds and Eligible Liabilities (MREL), including the MREL subordination requirement for certain banks. In practice, parallel prudential and resolution minimum requirements may become binding before capital buffers are fully used and hence may limit banks' ability to sustain lending in situations of economic distress. However, it is also important to bear in mind that the leverage ratio is precisely intended to prevent banks from becoming excessively leveraged. Moreover, reducing overlaps between buffers and other requirements may not be possible without implications for the calibration of overall capital requirements and of requirements in the resolution framework (Bank Recovery and Resolution Directive (BRRD), Single Resolution Mechanism Regulation (SRMR)).
- Balance between structural and releasable buffers: In response to the Covid-19 crisis, responsible authorities reduced and relaxed capital requirements for banks (notably certain buffers) and Pillar-2 Guidance to enhance their lending capacity in the face of a steep rise in liquidity needs of households and businesses. The scope for capital releases from macroprudential buffers was quite limited, though, as only one macroprudential buffer, the CCyB, is explicitly designed to be released in a crisis. The bulk of the capital buffers (i.e. CCoB, G-SII and O-SII buffers and, to a lesser extent, SyRBs) are of a structural nature and should be in place at all times or for as long as a particular type of risk is present. As there are concerns that banks might prefer to deleverage rather than allow their capital to fall below the CBR, there are calls for making a larger share of buffers releasable in a crisis. One option that is being widely discussed is a positive neutral CCyB rate, i.e. a CCyB calibration that would be above zero even in the absence of a credit boom. A key question in that regard is whether a positive CCyB rate over the cycle should (and could) be achieved without an increase in the overall level of capital requirements.

- Procyclicality in risk weights: Capital buffer requirements are expressed in percentages of risk-weighted assets, so the amount of capital needed to meet a given combined buffer requirement depends on the level of risk weights. This is an issue for banks using internal models to calculate risk weights for their various exposures, but it may also affect banks using the standardised approach to the extent that they rely on external ratings. Rising credit losses caused by an economic shock may drive up risk weights (or lower external ratings), increasing the amount of risk-weighted assets held by banks and, hence, the amount of capital they need to meet their buffer requirements, which are expressed as percentages of risk-weighted assets. This phenomenon has not been observed in the current crisis as public support measures have kept loan defaults at a low level. However, in a different crisis with rapidly rising loan defaults, rising risk weights could accelerate the depletion of capital buffers and cause banks to behave pro-cyclically. This could also be an important aspect of how the buffer framework operates in a crisis, although the impact of risk weight variations over the cycle can be expected to be mitigated by the Output Floor.
- Banks' willingness to use their buffers will also depend on their expectations as regards the restoration and replenishment of buffers after a shock. They will be more reluctant to lend if they know that their capital requirements will quickly increase. This depends on how MDA restrictions and capital conservation rules as laid down in Art. 141 to 142 CRD are applied and how soon released/reduced buffers are restored to their previous levels.

Apart from the operation of the buffer framework over the cycle, its suitability for dealing with structural risks should also be reviewed. Particular attention should be given to the appropriateness of capital buffers for systemically important institutions, global (G-SIIs) and other (O-SIIs). Together, these institutions are the main providers of credit to households and firms in Member States and, as such, vital to economic performance. At the same time, the integration of G-SIIs and O-SIIs in increasingly complex financial systems makes them vulnerable to financial shocks occurring outside the banking sector and may create potential contagion channels for financial instability (see section 4 for the global contagion risks). In addition to specific buffer requirements (G-SII buffer), G-SIIs have to comply with tighter limits on their leverage ratio, the leverage ratio buffer. Such a leverage ratio buffer requirement does not exist for O-SIIs. Art. 513(e) CRR requires the Commission to consider whether the leverage ratio buffer requirement should also apply to O-SIIs.

Another primarily structural buffer is the SyRB. Its use has been made much more flexible recently (through the 2019 amendments to CRD, which became applicable at the end of 2020), allowing its application to sectoral exposures (or subsets thereof); at the same time, the restriction to apply it only to structural risks was removed. SyRBs, in particular sectoral SyRBs, are not yet widely used. They have been considered as a possible substitute for risk weight measures in accordance with Art. 458 CRR, which exist in several Member States. The calibration of a sectoral SyRB would have to be very high to address macroprudential risks that are not fully reflected in risk weights, as those low risk weights would also imply lower capital requirements for a given buffer rate. High calibrations would also imply more complex authorization procedures.

Having several different types of buffers introduces a degree of complexity in the macroprudential framework. This complexity may be unavoidable in the EU in view of (i) the flexibility that is needed to address a wide range of different systemic risks across different Member States, and, (ii) the existing decentralised governance of the EU macroprudential framework in banking. However, it may be useful to consider whether this complexity could be reduced or whether clearer guidance would be needed to ensure a consistent use of the buffer framework across Member States.

1.1. ASSESSMENT OF THE BUFFER FRAMEWORK

Question 1: Has the capital buffer framework been effective so far in providing sufficient resilience against all types of systemic risks in Member States and for different types of banks and exposures?

(1 = highly ineffective, 5 = highly effective)

1 2 3 **4** 5 Don't know/no opinion

Please explain your answer to question 1, considering not only overall resilience, but also the interactions of the individual components of the capital buffer framework (i.e. CCoB, CCyB, G-SII, O-SII and SyRB buffers); is it sufficiently clear which buffer is to be used to address which risk?

In general, the CNB considers the capital buffer framework to be clear and effective in providing authorities with the tools to build up sufficient resilience against all types of systemic risks and for different types of banks and exposures.

Based on the CNB's experience, its effectiveness is conditional on the prudent and conservative application of non-releasable capital buffers (for systemic risk – SyRB; for other systemically important institutions – O-SII buffer) as well as the reasonable and timely build-up of releasable countercyclical capital buffers (CCyB) from the early stages of the expansionary phase of the financial cycle.

However, there are some aspects of the current capital buffer framework that limit its effectiveness from the CNB's perspective and should be addressed in the review:

1. **CCyB:** For a long time, the CNB has claimed that the approach based solely on the credit-to-GDP ratio as a core indicator for CCyB activation is not a suitable tool for assessing cyclical risks in a number of economies and is subject to a range of shortcomings reducing its reliability. **The CNB therefore proposes changes to the CCyB regulatory regime that support more complex and holistic approaches to the setting of the CCyB** (for more details see question 2).¹
2. **O-SII:** The CNB has been emphasizing the importance of giving national authorities flexibility in setting capital buffers for systemically important institutions (O-SII buffer).² The existing specific cap on the O-SII buffer rate for subsidiary institutions (subsidiary cap)³ constrains the ability of national authorities to set an appropriate buffer rate for domestic subsidiary institutions of EU based cross-border banking

¹ See the CNB approach to setting CCyB: https://www.cnb.cz/export/sites/cnb/en/financial-stability/galleries/macprudential_policy/countercyclical_capital_buffer/ccyb_methodology.pdf

² See https://www.cnb.cz/export/sites/cnb/en/supervision-financial-market/galleries/legislation/cnb_opinions/download/review_of_the_eu_macro-prudential_policy_framework_en.pdf, especially for the responses to questions 15 and 16.

³ In the case of domestic banks that are subsidiaries of EU based foreign institutions designated by their home supervisors as O-SIIs or G-SIIs, the O-SII buffer cap may be no more than 1 pp above the foreign institution's O-SII/G-SII buffer rate (up to a maximum of 3%).

groups to cover the risks they may pose to the domestic market. **The CNB therefore proposes the removal of the specific O-SII capital buffer cap for subsidiary institutions from the regulation** (for more details see question 3).

3. **SyRB:** The Directive (CRD V) contains the thresholds for opinions and authorisations at the EC level which set the sum of the structural buffers (the O-SII/G-SII buffer and the SyRB) at 5%. In calculating this threshold, the SyRB rate applied to all exposures is treated in the same way as sectoral SyRB rates, which only apply to specific subsets of exposures. This impedes the use of the sectoral SyRB, especially for smaller exposures that have an elevated risk and require relatively high buffer rates to increase the capital requirements notably. It may significantly limit the resilience effect of “nationally available” levels of capital buffers which can be achieved effortlessly and promptly, i.e. without EC permission. **The CNB therefore supports including the combined sectoral SyRB rate in the threshold in the form of a percentage of the total risk exposure amount**, i.e. by weighted sectoral share in all exposures (for more details see question 4.6).
4. **Usability of capital buffers:** The CNB shares the opinion that under certain conditions the usability of capital buffers for covering losses may be constrained and therefore the CNB fully supports further analytical work by the ESRB in this respect. With regard to the current understanding, **the CNB supports introducing the leverage ratio buffer for O-SIIs (not only for G-SIIs)**. This would significantly reduce impediments to buffer usability and increase the comparability of systemically important banks. **The CNB also considers the transposition of all other buffers into their leverage ratio equivalent to be a reasonable instrument for improving the usability of the buffers and supporting the resilience of the banking sector** as described in related ESRB documents.^{4,5} In addition, **we support the exclusion of exposures to the central bank from the calculation of the leverage ratio denominator** (i.e. institutions’ total exposure measures), with the view that the 2020 CRR quick fix provides only a temporary solution. This would provide a more accurate view of the microprudential leverage ratio in some EU banking sectors and reduce overlaps with risk-based capital buffers (for more details see question 4.4).

Question 2: Has the capital buffer framework been effective in dampening financial or economic cycles in Member States?

(1 = highly ineffective, 5 = highly effective)

1 2 3 **4** 5 Don't know/no opinion

Please explain your answer to question 2, considering in particular the experience to date with the calibration of buffers during phases of economic growth and rising vulnerabilities, and the use of buffers after an economic/financial shock; do you see any impediments to the intended use of buffers both during upswing and downswing phases?

The capital buffer framework has been an effective tool in dampening the potential negative effects of the financial cycle on the resilience of the banking sector in the Czech Republic. A conservative setting coupled with the early activation of structural and cyclical capital buffers increased the resilience of the domestic banking sector and its ability to

⁴ ESRB (2021), Report of the Analytical Task Force on the overlap between capital buffers and minimum requirements, see: https://www.esrb.europa.eu/pub/pdf/reports/esrb.ATFreport211217_capitalbuffers~a1d4725ab0.en.pdf?1485b688223df041bdf275ea2384aab3.

⁵ ESRB (2015), The ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector, Addendum: Macroprudential Leverage Ratio, see https://www.esrb.europa.eu/pub/pdf/other/150625_esrb_handbook_addendum.en.pdf

provide loans to the real economy during the coronavirus pandemic.⁶

However, there are some impediments to the sufficiency of the buffer levels during the **upswing phase**, as mentioned in the answer to question 1. The recovery phase after the global financial crisis confirmed that the credit-to-GDP leading indicator for CCyB activation may be problematic for either purely statistical or economic reasons, especially for the converging economies (Geršl and Seidler, 2015).

Furthermore, there are some impediments to the intended use of the buffers during the **downswing phase**. These include, in particular, overlaps in minimum capital requirements (for more details see question 4.4) and the potential risk of using the released buffers for purposes other than absorbing losses or supporting lending to the economy (for more details see question 8.2).

Question 3: How well is the systemic importance of banks addressed by G-SII and O-SII capital buffer requirements?

(1 = very poorly, 5 = very well)

1 **2** 3 4 5 Don't know/no opinion

Please explain your answer to question 3, considering in particular whether G-SII and O-SII buffer requirements are appropriate and coherent, also across countries, in view of their market shares, activities, market conditions, advances in setting up the Banking Union, and the risk their failure would pose to financial stability.

From the CNB's perspective, the O-SII subsidiary cap is not economically justifiable. Its application can lead to a situation where systemic risk is not fully covered and the level playing field principle is compromised.⁷

The outcome of the current approach is that institutions of similar systemic importance can be subject to the different O-SII buffer rates just because their owners are of different systemic importance and have different O-SII buffer rates in different EU jurisdictions.⁸ Linking the cap to the nature of the institution's owner also implies the potential volatility of the O-SII buffer in the event of an increase in acquisition and consolidation processes in the domestic and EU banking sector.

Another sensitive issue is the volatility of the buffer rate for O-SII subsidiaries resulting from changes to the buffer rates of the parent banks in their respective home countries. This may make the playing field less level in some cases and could also make it potentially more difficult for institutions to plan their capital. Therefore the CNB proposes the removal of the specific O-SII capital buffer cap for subsidiary institutions from the regulation.

1.2. POSSIBLE IMPROVEMENTS OF THE BUFFER FRAMEWORK

⁶ At the end of 2019, the CCyB rate in the Czech banking sector was 1.75%, while it was 0.2% on average in the euro area.

⁷ See Pfeifer, L. (2021): The CNB's Approach to Setting the Capital Buffer for Other Systemically Important Institutions: Past and Present. Thematic Article on Financial Stability 2/2021, Czech National Bank.

⁸ In the Czech Republic, the O-SII buffer rate was reduced for one institution due to the constraints arising from the parent institution's O-SII buffer rate during the calibration in 2021.

Question 4: What changes would improve the current buffer framework and what would be, in your view, the pros and cons of these changes?

Question 4.1. Enhanced clarity of the buffer framework: Consider whether there is scope for simplifying/streamlining the buffer framework or providing better guidance on how to use it.

The coronavirus crisis revealed problems related to the lack of guidance on a common approach to the use of buffers, especially in periods of crisis. Examples include the timing and extent of the reduction of the countercyclical capital buffer rate and, in particular, the reduction of the O-SII buffer. Several Member States lowered their O-SII buffer rates to zero even though their systemic importance scores had not decreased (ESRB, 2021). However, the CNB considers that the O-SII buffer should not be released in similar situations under any circumstances.

Question 4.2. Releasable buffers: Consider in particular whether an increase of releasable buffers could be achieved in a capital-neutral way over the cycle, the circumstances and conditions under which buffers should be released and what coordination/governance arrangements should be in place.

The existing capital buffer framework allows for a sufficient build-up of releasable buffers (CCyB, if relevant sectoral SyRB) during the expansionary phase of the financial cycle (with the exception of the credit-to-GDP gap as the main calibration measurement). It also allows structural risks to be addressed (risk relevant s/SyRB), as illustrated by the experience in the Czech banking sector – the CCyB rate in the domestic banking sector was 1.75% at the end of 2019, as against 0.2% on average in the euro area.⁹ Releasable capital buffers should be predominantly released when the associated systemic risk materialises.¹⁰ The preemptive release of the buffers before risk materialisation should be balanced by temporary constraints on the dividend payment to the same extent as that to which the buffer is released. The expiration of the temporary constraint should be conditional on loss/capital impact materialisation.

We do not expect the reassignment of non-releasable buffers to releasable buffers to be beneficial in the long term with regard to the resilience of the banking sector. We have concerns about the potential risk of inaction bias in the buffer build-up phase which could exacerbate systemic risk in the next downswing phase.

Question 4.3. Buffer management after a capital depletion: How can capital buffers be restored/replenished after an adverse shock in such a way that banks will provide sufficient lending in the recovery? In that regard, is there scope for optimising the MDA restrictions and capital conservation rules as laid down in Articles 141 to 142 CRD?

The MDA restrictions and capital conservation rules as laid down in Articles 141 to 142 CRD were not tested during the coronavirus crisis. The CNB believes that there is currently no need to change these rules. However, the recommendation that banks refrain from any dividend payouts from 2019 and 2020 profits was one of the effective anti-crisis measures which preserved the capital of the domestic banking sector at a time of uncertainty. Later in 2021, the CNB assessed the dividend payout proposals of banks

⁹ See <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210301~207a2ecf7e.en.html>.

¹⁰ For CCyB, see Holub, L., Konecny, T., Pfeifer, L., Broz, V. (2020). The CNB's approach to releasing the countercyclical capital buffer. Occasional Publications/Chapters in Edited Volumes.

individually, evaluating their capitalisation, risk profile, business model and other important factors. It set dividend payout limits in a conservative manner in accordance with the ESRB Recommendation. This coordinated policy was intended to help avoid the effect of potential stigma on individual institutions.

Question 4.4. Overlap between capital buffers and minimum requirements: How important is it to reduce the overlap between capital buffers and other requirements, and how could this be achieved without unduly raising overall capital requirements and having to re-open the composition of the leverage-ratio based “capital stack” and the calibration of the MREL based on the total exposure measure and the MREL subordination requirement?

The CNB understands that the usability of capital buffers for covering losses and supporting the provision of loans to the economy can be constrained in certain conditions.¹¹ The CNB sees this issue as important in terms of the effectiveness of the capital buffer framework. Therefore, the CNB agrees that some impediments to buffer usability stemming from overlapping minimum requirements could be addressed in the foreseeable future. The CNB appreciates the publication of the ESRB report on the usability of banks’ capital buffers and encourages further analysis in this area.

Most of the effective ways of reducing overlaps without compromising resilience are based on changes to instruments that lead to an absolute increase in the capital requirements. In this respect, the CNB is supportive of the transposition of all capital-based buffers into their leverage ratio equivalent.¹² However, there are also ways to reduce overlaps without a simultaneous increase in the capital requirements. In this case, the CNB has long supported the exclusion of exposures to the central bank from the denominator of the leverage ratio. Exposures to the central bank are primarily an effect of monetary policy decisions and are risk-free by design. Including them in the leverage ratio brings the objective of the backstop function into potential conflict with monetary policy transmission. The exclusion of exposures to the central bank from the denominator of the leverage ratio would reduce the leverage ratio requirements in absolute terms for some Member States, including the Czech Republic, and thus reduce overlaps.

Question 4.5. Consistent treatment of G-SIIs and O-SIIs within and across countries: Should there be more EU-level guidance or binding rules on the identification of O-SIIs and the calibration of O-SII buffers? Should the leverage ratio buffer requirement for G-SIIs also apply to O-SIIs?

The CNB considers the current guidance and binding rules on the identification of O-SIIs to be appropriate and sufficient. With regard to calibration, the CNB appreciates the latest introduction of the floor rates, but still considers the relationship between score levels and buffer rates in general to be relatively loose.

The CNB recommends the introduction of a leverage ratio buffer for O-SIIs similar to that for G-SIIs in order to reduce capital requirement overlaps for systemically important

¹¹ For details on overlaps of the leverage ratio requirement and capital buffers in the Czech banking sector, see Pfeifer, L. (2020): Usability of Capital Buffers under a Binding Leverage Ratio Requirement. Thematic Article on Financial Stability 6/20, CNB.

¹² See Pfeifer, L., Hodula, M., Holub, L., Pikhart, Z. (2018): The Leverage Ratio and Its Impact on Capital Regulation. CNB WP 15/2018.

institutions under the prevailing IRB approach. This would result in a relatively lower risk-weight density.

Question 4.6. Application of the SyRB to sectoral exposures: Are the thresholds for opinions and authorisations appropriate for sectoral SyRB rates (and for the sum of G/O-SII and SyRB rates)? Should the combined SyRB rate be calculated as a percentage of total risk exposure amounts and not sectoral risk exposure amounts? How should sectoral risk exposure amounts be calculated after the introduction of the output floor?

The thresholds for opinions and authorisations, which are set at 5% (the sum of the structural buffers – the O-SII/G-SII buffer and the SyRB) may limit the appropriate timing and proper extent of national macroprudential policy and thus impair the resilience effect of these capital buffers.

In calculating this threshold, the SyRB rates applied to all exposures are treated in the same way as sectoral SyRB rates, which only apply to a specific subset of exposures. This impedes the use of the sectoral SyRB, especially for smaller exposures that have an elevated risk and require relatively high buffer rates to increase the capital requirements notably.

The CNB therefore supports including the combined sectoral SyRB rate in the threshold in the form of a percentage of the total risk exposure amount (i.e. by weighted sectoral share in all exposures) and considers the overall relevance of a 5% limit available to national authorities as not fully justified. We consider the risk that national authorities would use a compound rate of above 5% inappropriately on the basis of an identified risk to be negligible. Therefore, the overall framework could be simplified if the current threshold for the sum of the structural buffers was largely abolished.

The CNB also believes that the introduction of an output floor should not have any impact on the calibration and setting of the sectoral SyRB. Sectoral risk exposure amounts should be based on risk-weighted exposures, potentially including the output floor increment. The same principle should also be applied to the setting of other buffers with regard to consistency, simplicity and the efficiency of the capital buffer framework.

2. MISSING OR OBSOLETE INSTRUMENTS, REDUCING COMPLEXITY

The EU has a broad and complex range of macroprudential tools. One of the question to be assessed in the review is whether certain existing tools have become obsolete, whether some need to be strengthened and whether certain tools are missing. The scope for reducing unwarranted complexity should also be explored further.

The Commission is required to assess in particular whether Borrower-Based Measures (BBM) should be added to the EU macroprudential toolkit to complement capital-based instruments and to allow for the harmonised use of these instruments in the internal market, assessing also whether harmonised definitions of those instruments and the reporting of respective data at Union level are a prerequisite for the introduction of such instruments (Article 513(1)(d) CRR). BBM could complement the existing toolset to address and mitigate systemic risks, especially those related to real estate, and to prevent the potential negative spill-overs to the broader financial system and the economy. While several Member States are already using BBM based on national law, a complete set of BBM is not available in all Member States. This could affect the ability to address

systemic risk and create cross-country inconsistencies and difficulties with reciprocity, where this is necessary to ensure the effectiveness of BBM in the internal market.

The review should also seek to identify instruments that may be obsolete. The finalisation of the Basel III reforms and the introduction of an output floor has implications for macroprudential instruments that directly or indirectly affect risk weights such as those provided under Articles 124, 164 and 458 CRR, which concern exposures secured by mortgages. Furthermore, having multiple prudential tools that can target similar risks creates unwarranted complexity and may contribute to a more fragmented internal market. The powers to set floors for, or raise, certain risk weights and parameters (as set out in Articles 124 and 164 CRR) have not been widely used since their introduction in the EU framework. In particular, Article 164 CRR has never been used by an EU Member States. Some of the shortcomings of the two articles have been addressed in CRRII, with the aim of improving their usability. While the very short time span since the improved articles have been applicable does not allow to conclude on their actual usability, it does make sense to reassess their suitability in view of the introduction of the output floor with the finalisation of the Basel III reforms.

With Article 458 CRR, the CRR and CRD package contains a last-resort measure to flexibly address a number of systemic risks that cannot be adequately and effectively addressed by other macroprudential tools in the package. The use of the tool is subject to various safeguards, aimed at avoiding that such measures create disproportionate obstacles to the functioning of the internal market. During the past years, Article 458 CRR has been used by some Member States to adjust risk weights for exposures to residential real estate markets. The need for such measures may diminish, given that the SyRB can be used for sectoral exposures and due to the phasing-in of the output floor.

Article 459 CRR empowers the Commission under very restrictive conditions to impose stricter prudential requirements for a period of one year in response to changes in the intensity of micro- or macroprudential risks. However, scenarios where the conditions for using this article would be met are very unlikely. Moreover, the Article could become more symmetric and allow for the temporary relaxation of certain requirements, notably to support the recovery after an adverse shock.

One measure that could have made sense in the context of the Covid crisis would be the temporary imposition of system-wide restrictions on the distribution of capital to investors and staff in the face of exceptional uncertainty. However, such a measure would not have been covered by Article 459. During the Covid-19 pandemic, authorities in the EU asked banks to refrain from capital distributions, through dividends, share repurchases and bonuses, to ensure the stability and resilience of the banking system and to support the flow of credit to the real economy. Those recommendations aimed at retaining capital in the banking system, including capital released from buffers and from Pillar 2. The recommendations were observed by banks. EU legislation currently only allows supervisors to impose legally binding distribution restrictions on banks on a case-by-case basis but does not provide for legally binding supervisory powers to temporarily prohibit distributions on a system-wide basis under exceptional circumstances. Microprudential supervisors consider that they had sufficient powers to enforce the recommendation on distribution restrictions in the Covid-19 crisis. However, in the context of the macroprudential review, the role of macroprudential authorities in imposing restrictions on distributions in exceptional circumstances should also be considered, as well as their coordination at the European level.

2.1. ASSESSMENT OF THE CURRENT MACROPRUDENTIAL TOOLKIT AND ITS USE

Question 5: Based on the experience so far, have you observed any major gaps in the EU macroprudential toolkit (also beyond the buffer framework)

(1 = major gaps, 5 = fully comprehensive)

1 2 **3** 4 5 Don't know/no opinion

Please explain your answer to question 5, indicating which gaps you perceived and what consequences these gaps have or might have had.

Capital buffers are the CNB's preferred instrument. However, they do not appropriately and sufficiently address the risks associated with residential real estate exposures, so these risks must also be addressed using other tools.

1. Borrower based measures: *The CNB supports the option of national authorities using borrower-based measures such as LTV/DTI/DSTI for mortgage loans to be incorporated in European legislation*, with sufficient flexibility to take into account the national specificities of the domestic real estate market (for more details see question 8.1).

2. System-wide restrictions on dividend payments: *The CNB considers that system-wide restrictions should be automatically triggered temporarily and conditionally in the amount of the preemptively released releasable buffers* (for more details see question 8.2).

3. Risk-weight measures, output floor: The effectiveness of macroprudential policy is also significantly affected by aspects outside the macroprudential policy framework. These include in particular some of the pro-cyclical features of the IRB/IFRS 9 approach to credit risk management, currently also influenced by significant economic policy support during financial cycle contractions (the unfinished recession phenomenon). *The CNB therefore supports the application of the output floor in EU legislation as agreed in the BCBS and the possibility of a more flexible and procedurally simpler application of Article 458 of the CRR for risk-weight measures* (for more details see question 8.3).

Question 6: Has the experience with the macroprudential toolkit so far revealed any redundant instruments or instruments that need to be redesigned to make them fit for purpose?

Yes **No** Don't know / no opinion

Please explain your answer to question 6, specifying which instruments could be redundant or would need to be redesigned, as well as the expected benefits thereof:

Question 7: How effective has the macroprudential toolkit and EU governance framework been in managing a crisis?

(1 = highly ineffective, 5 = highly effective)

1 2 3 **4** 5 Don't know/no opinion

Please explain your answer to question 7, notably in light of the experience gained

during the Covid-19 crisis:

Due to the extensive official support measures (especially fiscal ones), credit risk did not materialise significantly in the domestic banking sector (or in the EU in general) despite a substantial decrease in economic activity. Furthermore, regulatory flexibility temporarily switched off some shock transmission channels. Therefore, the macroprudential toolkit was not sufficiently tested during the Covid-19 crisis, and hence an evaluation of its efficiency is fundamentally limited. The pandemic crisis has highlighted the need to create sufficient macroprudential space during the expansionary phase of the financial cycle so that the risks to financial stability need not be extensively mitigated by other pillars of economic policy. The effectiveness of sufficient macroprudential space in the Czech banking sector was also confirmed by the results of macroprudential and microprudential stress tests carried out during the pandemic which showed that banks would be able to withstand substantial shocks if the macroeconomic situation worsened without the need to cut credit to the real economy.

2.2. POSSIBLE IMPROVEMENTS OF THE BUFFER FRAMEWORK

Question 8: What changes to the current set of instruments would improve the macroprudential toolkit and what would be, in your view, the pros and cons of these changes?

Question 8.1. Borrower-based measures: Should all Member States have a common minimum set of borrower-based measures to target more directly potentially unsustainable borrowing by households and corporates, particularly in a low-interest-rate environment? Which tools should Member States have and what role should EU bodies play in fostering their effective use?

The CNB is of the opinion that instruments for mitigating residential property market risks – such as LTV/DTI/DSTI – form a vital part of the macroprudential toolkit. The option for national authorities to be able to apply these limits should therefore be incorporated in EU law. However, such instruments should not be fully harmonized, nor should they be defined in detail in EU law. Property markets and the ways of financing property purchases differ from country to country, and the discretion of national authorities is essential for such tools to work effectively in the particular conditions of the different countries.

Question 8.2. System-wide distributions restrictions: Should EU and/or national authorities have the power to restrict distributions for the entire banking system to conserve capital in a severe crisis situation? Under which conditions and how should such system-wide restrictions be used, taking also into account the role of European bodies?

The CNB believes that national authorities should have the power to restrict distributions for the entire banking system to conserve capital in a severe crisis situation. This is the only way to ensure that the preemptively released releasable capital buffers are used for their intended purpose. System-wide restrictions should be automatically triggered when the releasable buffer (CCyB or s/SyRB) is **preemptively** released and should apply to at least that part of the capital surplus corresponding to the released buffer. The termination of such restrictions could be linked to the absorption of the losses by the released buffer.

Question 8.3. Temporary relaxation of prudential requirements to support the recovery after a shock: Should EU and/or national authorities have more powers to relax prudential requirements after banks have suffered a shock, to avoid pro-

cyclical behaviour and enhance banks' capacity to support the recovery? What elements of the prudential framework could be addressed using such powers (e.g. unwarranted risk weight hikes after a shock)? Could Art. 459 CRR be adapted for this purpose?

The CNB advocates the application of prudential requirements throughout the financial cycle. Otherwise, there is the risk that the whole prudential regulation might lose credibility, along with the associated reputational risk to the prudential authorities. Where a prudential regulation seems to be pro-cyclical (widely discussed in the context of the IRB and IFRS 9 standards),¹³ there should be a comprehensive reassessment of the rules and not just a switching-off of these rules when their application would lead to unexpected/unintended negative outcomes.

Instruments targeting risk weights and internal model parameters: How will the forthcoming application of the input and output floors under the Basel III agreements affect the need for tools that adjust risk weights or the parameters of internal models (Art. 124, 164 and 458 CRR)? Are such tools still necessary and, if yes, how should they be adapted to the new regulatory environment?

Supervisory authorities ensure that the risk weights set under the IRB approach are adequate from a microprudential perspective at the institution level. However, their level may not inherently take into account sector-wide systemic risks such as increasing vulnerability during expansionary phases of the financial cycle, the concentration of exposures, etc. As a consequence, the microprudential risk weights may not be sufficient from a macroprudential perspective. The risk weights set under the IRB approach, or the capital generated by them, may thus prove insufficient if these systemic macrofinancial risks materialize. These risks could be mitigated to a certain extent by the output floor and tools that adjust risk weights or the parameters of internal models.

The effect of the input and output floors will depend on its final implementation into EU legislation. The CNB supported the full implementation of the output floor in line with the Basel Accord and its application at all levels of consolidation. The 2021 banking package proposed by the European Commission, however, deviates in some aspects from the Basel Accord, also regarding the output floor. The CNB therefore considers it premature to address the question of how the application of the input and output floors under the Basel III agreements affects the need for tools that adjust risk weights or the parameters of internal models (Art. 124, 164 and 458 CRR).¹⁴

The CNB considers Article 458 of the CRR to have confirmed its role as an instrument of last resort, restoring the effectiveness of capital buffers even in an environment of very low risk weights independently of the output floor. The CNB therefore fully supports the inclusion of Article 458 in the toolkit and supports changes that would make the application of Article 458 CRR flexible and procedurally simpler. The CNB is also of the view that its use should be extended to a broader set of exposures.

¹³ For details on the risk of the procyclicality of risk weights under the IRB approach, see also Malovaná, S. (2021): The Pro-cyclicality of Risk Weights for Credit Exposures: Driven by the Retail Segment, *Economic Systems*, Elsevier, vol. 45(1) and Brož, V. and Pfeifer, L. (2021): Are the Risk Weights of Banks in the Czech Republic Procyclical? Evidence from Wavelet Analysis, *Journal of Central Banking Theory and Practice*, vol. 10(1).

¹⁴ The importance of Article 124 CRR may even increase if the risk weights under the modified standardised approach evolve pro-cyclically.

3. INTERNAL MARKET CONSIDERATIONS

The EU macroprudential framework also seeks to preserve the integrity of the internal market while leaving it mostly to Member State authorities to adequately address systemic risks, which tend to be specific to individual Member States (although this may change with deeper economic and financial integration). The largely decentralised use of macroprudential instruments is therefore framed by provisions in CRR and CRD, which require an EU-level surveillance and, in some cases, authorisations for measures that could create obstacles to the functioning of the internal market. The complexity of procedures and of the interactions between different instruments may, however, prevent authorities from making an effective use of the instrument and possibly cause an inaction bias, especially in the case of sectoral SyRBs that may need to be calibrated at very high rates to be effective.

Moreover, the effectiveness of national macroprudential measures in the internal market depends on being able to prevent, through reciprocation by other Member States, circumvention and regulatory arbitrage. This issue may arise not only in relation to other Member States, but possibly also for other parts of the financial sector to the extent that they can provide similar services as banks. It is important to assess, also in light of the recent crisis experience, whether the current framework offers not only the appropriate macroprudential tools to national authorities, but also ensures their effectiveness in the internal market, and whether it provides for adequate safeguards for the integrity of the internal market and avoids market fragmentation especially within the Banking Union. The review should therefore also consider whether provisions related to the internal market achieve their goals, and whether they do so without undue complexity or whether there is scope for simplifying and streamlining procedures while maintaining necessary safeguards.

Art. 513(1)(f) CRR requires an assessment as to whether the current voluntary reciprocation of certain macroprudential measures should be made mandatory and whether the current ESRB framework for voluntary reciprocity is an appropriate basis for that. Reciprocity is currently voluntary for a CCyB above 2.5%, SyRBs and measures taken under Article 458 CRR.

3.1 ASSESSMENT OF THE CURRENT MACROPRUDENTIAL FRAMEWORK'S FUNCTIONING IN THE INTERNAL MARKET

Question 9: Are macroprudential measures as used by national authorities generally commensurate with systemic risks in a given country, or do you consider that there are unjustified disparities across countries?

(1 = highly disparate, 5 = fully commensurate)

1 2 **3** 4 5 Don't know/no opinion

Please explain your answer to question 9, providing supportive evidence on possible disparities and their likely impact on the internal market:

The CNB considers the macroprudential policy of national authorities to be generally commensurate with the systemic risks in the given country, but the economic environment, along with institutional and operational challenges, can exert some pressure towards inaction bias.

Question 10: Has the oversight of national macroprudential policies through notification, assessment and authorisation procedures been proportionate and effective in preventing an excessive use of macroprudential tools and undue market fragmentation?

(1 = highly ineffective, 5 = highly effective)

1 2 3 4 **5** Don't know/no opinion

Please explain your answer to question 10, taking also into account the complexity of procedures and related administrative burdens for authorities and the industry and whether you see scope for streamlining and simplifying the procedures, while retaining necessary safeguards:

The CNB considers the oversight of national macroprudential policies through notification, assessment and authorisation procedures to be adequate and effective in preventing the excessive use of macroprudential tools and undue market fragmentation. The CNB sees some scope for streamlining and simplifying procedures in the case of Article 458 and for the threshold for structural buffers (see question 4.6).

Question 11: Have the provisions on reciprocation been effective in maintaining a level playing field in the banking sector and preventing the circumvention of national macroprudential measures through regulatory arbitrage?

(1 = highly ineffective, 5 = highly effective)

1 2 3 **4** 5 Don't know/no opinion

Please explain your answer to question 11, indicating notably whether you would see merit in extending the mandatory reciprocation framework to the instruments not currently covered by it:

The CNB believes that the mandatory reciprocal framework is effective in maintaining a level playing field in the EU banking sector and prevents the circumvention of national macroprudential measures through regulatory arbitrage. It has thus not recommended its further extension.

Question 12: Has the current allocation of responsibilities for macroprudential policy between the national and European level been effective in ensuring that sufficient and appropriate action is taken to limit systemic risks and manage crises?

(1 = highly ineffective, 5 = highly effective)

1 2 3 **4** 5 Don't know/no opinion

Please explain your answer to question 12, taking notably into account the roles of the ESRB, the ECB and the Commission (which may impose stricter prudential requirements in accordance with Article 459):

The current allocation of responsibilities is effective in ensuring that sufficient and appropriate action is taken.

Nevertheless, some aspects related to the approval procedures at the EU level would be worth reconsidering (see question 4.6 and question 5, answers 1 and 3). The EU framework for some macroprudential tools (BBM) along with national flexibility in setting appropriate buffer levels could alleviate the risk of inaction bias or the insufficiency of the policy reaction.

3.2 POSSIBLE IMPROVEMENTS RELATING TO THE FUNCTIONING OF THE MACROPRUDENTIAL FRAMEWORK IN THE INTERNAL MARKET

Question 13: What changes to the current governance arrangements and oversight procedures would improve the compatibility of macroprudential policy making with the internal market, and how could the complexity of procedures be reduced?

Question left unanswered.

Question 13.2 Monitoring of the macroprudential stance: Should there be regular overall assessments of the macroprudential requirements (or stance) in each Member State in addition to, or as a substitute of, the EU-level monitoring and vetting of individual macroprudential measures? What measures should be available to which bodies in case the national macroprudential stance is deemed disproportionate to the level of risk (too low or too high)?

The CNB considers the current regime of notifications, authorisations, warnings and recommendations to be sufficient. With regards to the current stage of the operationalisation of the macroprudential stance, we would not recommend the institutionalisation of the measurement of the macroprudential stance.

Question 13.2 Reciprocation of national macroprudential measures: Should there be mandatory reciprocation for a wider range of macroprudential measures and how could this be implemented (role of the ESRB, materiality thresholds, etc.)?

The CNB believes that there is no need to extend the framework of mandatory reciprocity.

4. GLOBAL AND EMERGING RISKS

Financial stability in the EU does not only depend on limiting systemic risks and vulnerabilities within the EU banking sector. There are contagion risks originating outside the EU, possibly involving non-bank financial intermediation, that also need to be addressed. While financial intermediation through non-banks is growing in importance, banks continue to play a pivotal role in the global financial system. Large banks provide crucial services for non-bank financial intermediaries. At the same time, some increasingly significant developments, and in particular cyber security breaches, the entry of big tech firms into financial services and crypto assets, all take place at a global scale and can represent growing threats to financial stability. Also, the Covid-19 crisis has shown how events originating outside the financial sector can affect financial stability. In the future, climate risks are likely to materialise more suddenly, more frequently, more severely and with greater cross-border implications. In the [recent](#)

[consultation on the Renewed Sustainable Finance Strategy](#), most respondents highlighted the importance of having a robust macroprudential framework that incorporates climate risks. The suitability of the existing macroprudential toolkit will have to be assessed in view of the above-mentioned global risks.

Exposures to third countries can also represent a threat to financial stability. Articles 138 and 139 CRD foresee powers to address risks arising from excessive credit growth in third countries and to ensure a coherent approach for the buffer setting for third country exposures. These powers have never been used since their introduction in the EU framework, raising the question whether these provisions represent the most appropriate way of dealing with systemic risks stemming from third countries.

From a financial stability perspective, a growing non-bank financial sector brings benefits in terms of increased risk-sharing across the financial system, but it can also result in new risks and vulnerabilities. In particular, the expansion of the non-bank financial sector in recent years has been accompanied by an increase in the riskiness of some asset portfolios, rising liquidity transformation and increased leverage. Such risk-taking has created vulnerabilities which need to be monitored and assessed, taking into account interconnectedness within the financial system and the banking sector in particular, as well as the role of non-bank financial institutions in funding the real economy more broadly. Art 513(1)(g) CRR mandates the Commission to consider tools to address new emerging systemic risks arising from banks' exposures to the non-banking sector, in particular from derivatives and securities financing transactions markets, the asset management sector and the insurance sector.

The banking sector is exposed to growing cyber-threats, and its reliance on critical infrastructure offered by third-party providers may create new vulnerabilities. Financial stability can be disrupted when cyber incidents spread across banks through their financial and information technology connections, as well as their common dependence third-party service providers.

Finally, crypto-assets are a new, rapidly expanding but high-risk and largely unregulated asset class that also spawns a large industry of service providers. Banks can become exposed to crypto-assets through an increasing variety of channels, direct and indirect, financial or operational. It should therefore also be assessed whether adjustments to the macroprudential framework are needed in response to the rise of the crypto economy.

4.1 ASSESSMENT OF THE CURRENT MACROPRUDENTIAL FRAMEWORK'S SUITABILITY FOR ADDRESSING CROSS-BORDER AND CROSS-SECTORAL RISKS

Question 14: Have macroprudential tools been appropriate and sufficient to limit the systemic risk arising from EU banks' exposures to third countries?

(1 = not at all appropriate and sufficient, 5 = fully appropriate and sufficient)

1 2 3 4 5 **No opinion**

Please explain your answer to question 14, also in light of the experience gathered so far, considering in particular whether the EU's existing macroprudential tools and

capital requirements (notably Articles 138 and 139 CRD) are sufficient to limit systemic risks emanating from EU banks' third country exposures:

Question left unanswered; exposures of the domestic banking system towards third countries are not systemically important.

Question 15: Is the EU macroprudential toolkit adequate for monitoring and mitigating banks' systemic risks related to global market-based finance, securities and derivatives trading as well as exposures to other financial institutions?

(1 = not at all adequate, 5 = fully adequate)

1 2 3 4 5 **No opinion**

Please explain your answer to question 15 in light of the experience gathered so far, identifying in particular gaps related to derivatives, margin debt and securities financing transactions:

Question left unanswered.

4.2. POSSIBLE ENHANCEMENTS OF THE CAPACITY OF THE MACROPRUDENTIAL FRAMEWORK TO RESPOND TO NEW GLOBAL CHALLENGES

Question 16: How do you expect systemic risks to evolve over the coming years and what enhancements of the EU macroprudential monitoring framework and toolkit (notably capital buffers, rules on risk weights and exposure limits), would be necessary to address global threats to financial stability?

The CNB supports efforts to monitor new types of global threats to financial stability. However, it does not believe that it is necessary to respond to these risks in the short term with additional/enhanced macroprudential policy tools.

Question 16.1. Financial innovation: What risks to financial stability could result from banks' new competitors (FinTech and BigTech) and the arrival of new products (notably crypto-based)? Is there a need to enhance banks' resilience in view of such changes? If so, how could this be achieved while maintaining a level playing field?

While the CNB is aware of the increasing importance of financial innovation for banks and monitors this development, it does not believe that it is currently necessary to increase the resilience of banks against the risk of new competitors/products using the instruments of macroprudential policy.

Question 16.2. Cybersecurity: Is there a need to enhance the macroprudential framework to deal with systemic cybersecurity threats? If not, how should the existing tools be used to mitigate threats and/or build resilience?

A cyber attack in the banking sector represents a sudden event with a significant impact on the institution's operations. The CNB sees cyber risk mitigation as an essential supervisory activity and currently does not see the need for dedicated macroprudential

policy actions in this area.

Question 16.3 Climate risks: Should the macroprudential toolkit evolve to ensure its effectiveness in limiting systemic risks arising from climate transition and from physical climate change, also considering the current degree of methodological and data uncertainty? And if so, how?

The CNB is not of the view that the risks associated with climate change should be addressed by macroprudential policy instruments. There are significantly more effective preventive instruments, particularly in the form of fiscal/tax policy measures. However, the CNB considers it useful to continuously test the impact of different climate change scenarios on the banking sector.

Question 16.4. Other ESG risks: Should the macroprudential toolkit further evolve to address financial stability risks stemming from unsustainable developments in the broader environmental, social and governance spheres? How could macroprudential tools be designed and used for this purpose?

Question left unanswered.

OTHER OBSERVATIONS

Please indicate any other issues that you consider relevant in the context of review of the macroprudential framework. You may also use this section to express your views on priorities and the desirable overall outcome of the review.

Question 17: Do you have any general observations or specific observations on issues not covered in the previous sections?

Question left unanswered.