

Targeted consultation on improving the EU's macroprudential framework for the banking sector

Fields marked with * are mandatory.

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.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-macropru@ec.europa.eu.

More information on

- [this consultation](#)
- [the consultation document](#)
- [prudential requirements](#)
- [the protection of personal data regime for this consultation](#)

About you

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- Croatian
- Czech
- Danish
- Dutch
- English
- Estonian
- Finnish
- French
- German
- Greek
- Hungarian
- Irish
- Italian
- Latvian
- Lithuanian
- Maltese
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Tristan da Cunha
- Zambia
- Democratic
Republic of the
Congo
- Lesotho
- Saint Kitts and
Nevis
- Zimbabwe
- Denmark
- Liberia
- Saint Lucia

* Field of activity or sector (if applicable)

- Accounting
- Auditing
- Banking
- Credit rating agencies
- Insurance
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- Social entrepreneurship
- Other
- Not applicable

The Commission will publish all contributions to this targeted consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **For the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') is always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

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Only the organisation type is published: The type of respondent that you responded to this consultation as, your field of activity and your contribution will be published as received. The name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.

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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
- 2 - Ineffective
- 3 - Neutral
- 4 - Effective
- 5 - Highly effective

- Don't know / no opinion / not applicable

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Covid-19 pandemic has thus far not tested the solvency of individual Norwegian banks, the resilience of the Norwegian financial system or the capital buffer framework in Norway. On this basis one should be cautious in drawing conclusions. As the crisis response was similar in many Member States, this might be the case more broadly.

The capital framework has given national authorities powers to require banks to hold more capital, including buffers that can be released during crises. We therefore consider the capital buffer framework fairly effective in providing resilience against certain types of systemic risk, mainly by making banks and the financial system in general more robust against economic disturbances.

It is the total of the regulatory minimum capital requirements and the capital buffer requirements that is important in order to maintain banks' financial soundness. Several macroprudential tools were established in order to improve Norwegian banks' capital adequacy after the global financial crisis. It is important that the regulation maintains adequate room for national discretion. In general, it is difficult to precisely allocate systemic risks to certain risk factors.

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

- 1 - Highly ineffective
- 2 - Ineffective
- 3 - Neutral
- 4 - Effective
- 5 - Highly effective
- Don't know / no opinion / not applicable

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The credit growth of Norwegian households and non-financial firms has been relatively high since the global

financial crisis, largely due to low interest rates, favourable economic developments and increasing real estate prices. The profitability of Norwegian banks has been high.

The main objective of the capital buffer framework is to make banks more robust against economic disturbances. Other macroprudential tools, such as borrower-based measures, have been more effective in dampening the build-up of financial imbalances.

The credit growth in Norway has remained relatively high, also during the pandemic. This is to a large extent due to extensive measures introduced by the government in order to curb the negative impacts on the economy. Interest rates were cut to historical lows, and the flexibility quota in the Norwegian mortgage regulation, which allows a certain share of a lender's approved loans to deviate from the requirements in the regulation, was increased on a temporary basis, and the banks adapted accordingly. Households' savings increased to record levels and residential real estate prices soared during the first half of the pandemic. Most Norwegian banks held capital that exceeded the regulatory minimum and buffer requirements by a large margin at the outset of the pandemic and retained a healthy profitability.

In the case of negative shocks to the economic system, releasing the capital buffers might contribute to dampen the economic and financial downturn. This was tested during the outbreak of Covid-19 in 2020, where releasing the countercyclical buffer rate (CCyB) reduced the risk of tightening credit conditions.

The reduction of the CCyB was followed by a recommendation from both national and European authorities for banks to refrain from making dividend payments distributions, unless the institutions apply extreme caution and the distributions do not exceed certain conservative thresholds, due to the continued high level of uncertainty regarding economic developments. This was meant to avoid depletion of banks' capital at a point in time with elevated risk of future loan losses.

In the consultation paper (page 7), it is stated that: "Rising credit losses caused by an economic shock may drive up risk weights (or lower external ratings, (...))." It should be pointed out that PDs should be based on long-run estimates, so as to reflect economic upturns and downturns. LGDs should reflect economic downturns, conf. Articles 180 and 181 in the CRR. Risks associated with macroeconomic shocks should in principle therefore be adequately captured in IRB models. This should also reduce the risk of procyclicality in risk weights.

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

- 1 - Very poorly
- 2 - Poorly
- 3 - Neutral
- 4 - Well
- 5 - Very well
- Don't know / no opinion / not applicable

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.

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We find capital buffer requirements for systemically important banks to be appropriate. It is reasonable that systemically important banks hold more capital. SIIs are not directly comparable across countries, and it is therefore important to keep flexibility for national authorities in the legislation.

In addition to specific buffer requirements (G-SII buffer), G-SIIs have to hold a leverage ratio buffer. Norwegian authorities endorse the proposal to introduce a leverage ratio buffer requirement also for O-SIIs.

1.2. Possible improvements of the buffer framework

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.

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The buffer framework should provide explicit provisions for adequate use of national discretion. Macroeconomic developments, risk outlook and market structure may differ across Member States. It is therefore important that the framework enables the use of adequate national discretion in the calibration of macro- and microprudential tools.

There might be scope for more guidance on the use of the systemic risk buffer (SyRB). This includes types of risks and indicators to be used for guiding the assessment of the SyRB and how the SyRB should be calibrated. More guidance will also support increased reciprocity for SyRB requirements, conf. the answer to question 14.2. Moreover, the combined use of the countercyclical capital buffer (CCyB) and sectoral systemic risk buffers (SyRB) might need clarification as to which risks they should address, especially related to residential real estate risks. Further guidance on the choice between the use of a sectoral SyRB or risk weights might be advisable.

The complexity of both the regulation and the administrative processes between national authorities and EBA and ESRB should be simplified. National authorities should to a larger extent be at liberty to tackle domestic risks and vulnerabilities without the need to obtain a formal consent at the EU/EEA level. The provisions regarding reciprocity should be altered, so as to make reciprocity mandatory for macroprudential requirements addressing risks at the national level. Here, also, the administrative processes should be simplified.

The frequency of assessing the systemic risk buffer could also be reduced, for example to every fifth year.

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.

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Build-up of sufficient capital in banks in normal times is important. The cost of a capital increase is moderate, while the social cost of financial instability and a economic crises may be enormous. The capital framework envisages that only the countercyclical capital buffer may be released during a crisis. While the systemic risk buffer was designed to absorb losses from structural systemic risk, it is not intended to be released during a crisis to support credit supply. However, if banks are constrained from using buffer capital to absorb losses (e.g. due to other more binding requirements), the systemic risk buffer should be released in situations where the buffer is intended to absorb losses. Stress tests of Norwegian banks suggest benefits from making a larger portion of the total buffer requirement time-varying. This could be achieved in several ways. With the current framework it could be addressed by increasing the countercyclical capital buffer. Alternatively, one could incorporate a policy rule in the legal framework for releasing and restoring the systemic risk buffer or merge the countercyclical capital buffer and systemic risk buffer requirement. Whether an increase in releasable buffers should be implemented in a capital neutral way depends on to which extent the total capital requirement is regarded as sufficient. In any case, an increase in releasable buffers will provide banks with more flexibility in bad times and, in turn, a reduced need for a management buffer.

Any buffer requirement reductions could be accompanied with introduction of restrictions on banks' payment of dividends, share buy-backs, discretionary bonus payments etc. This would ease the post crisis restoration of buffer capital and reduce the risk of a lasting weakening of banks' solvency.

Restrictions on individual banks could stigmatize and negatively influence banks' willingness to provide loans to creditworthy customers. Therefore, in periods of profound economic downturns, general recommendations or restrictions on banks to make dividend payments should be considered as a relevant tool for national regulators.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Post crisis, it is important to restore the financial soundness of individual banks and the financial system as a whole. If banks' capital adequacy in general exceeds the minimum requirements by a large margin, buffers should be restored quickly. This will typically be the case if banks' real losses turn out to be much smaller than anticipated at the point in time of the reduction of buffer requirements.

The current MDA framework has not been fully tested yet. One purpose of the framework is to enable banks to go through the financial cycle without tightening credit supply. Banks should have a real possibility of reducing buffers during economic shocks in order to maintain credit supply. In general, when the restoration of capital buffers after an adverse shock should start, should be assessed in each particular situation. Norwegian analyses and stress tests suggest that it may be appropriate to give banks ample time to rebuild their buffers in a situation with high losses to avoid an excessively tight credit supply. Authorities' communication should be clear and credible to ensure predictability and lay the groundwork for sufficient lending that supports the macroeconomic recovery.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It may in total be too burdensome to avoid all overlap between capital buffers and other requirements. National authorities should therefore have the discretion to decide on appropriate exceptions from the rules for calculating bank capital adequacy to avoid overlap.

In our view, the overlap issue should be primarily addressed by measures resulting in higher risk weights. The leverage ratio requirement is meant to be a backstop for the risk-weighted requirements, to avoid too low risk weights and, in turn, too low risk-weighted requirements. Hence, it is natural that the leverage ratio requirement is binding for some banks, i.e. there should be some overlap between capital buffers and the leverage ratio requirement. However, when this backstop materially impedes on buffer usability, risk-weights may be too low.

Experience from several EU/EEA countries have shown that risk weights for residential real estate-exposures (RRE) in banks using IRB models are too low, and there has been a need to supplement these with additional requirements in order to strengthen the capitalisation. Member states have chosen different solutions for the additional requirements. Minimum requirements (a permanent floor) on the risk weights of banks using IRB models for RRE could be introduced in order to avoid the need for applying other measures to take due account of RRE risks.

To further increase the usability of buffers for banks constrained by the leverage ratio, a portion of the leverage ratio requirement could be time-varying, i.e. there could be a buffer requirement above the minimum leverage ratio for all banks. The buffer requirement could be reduced in bad times. Alternatively, central bank deposits could be excluded from the leverage ratio calculation. Finally, the overlap issue could be mitigated further by requiring banks to meet MREL with a large share of non-preferred debt. This would increase the buffer usability for banks constrained by MREL.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The framework for identifying systemically important institutions has worked well, and Norwegian authorities do not see a need for more EU/EEA level guidance or binding rules on the identification of O-SIIs and the calibration of O-SII buffers. National authorities have in-depth knowledge of the national markets and are in a position to find and use the most appropriate indicators for identification. Further harmonization across countries may reduce the flexibility and precision of the framework.

Norwegian authorities support the proposal to apply the leverage ratio buffer requirement for G-SIIs also to O-SIIs. Having a "back stop" for O-SIIs is equally important as for G-SIIs. Such a buffer requirement could also apply to all banks.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The combined SyRB rate should be calculated as a percentage of total risk exposure with the output floor.

2. Missing or obsolete instruments, reducing complexity

The EU has a broad and complex range of macroprudential tools. One of the questions 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.

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
- 2 - Minor gaps
- 3 - Neutral
- 4 - Comprehensive
- 5 - Fully comprehensive
- Don't know / no opinion / not applicable

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

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Given the experience so far, we have not identified any major gaps in the macroprudential toolkit. One possibility for improvement, however, is to have a clearer framework with regards to generally applicable restrictions on banks' dividend payments etc. in times of economic shocks or financial instability. Such a framework should be simple and comprehensive, as to allow for quick implementation when needed, and it should be mandated under full national discretion since market conditions can vary greatly across Member States. The recommendations on restrictions of distributions during the pandemic from the ESRB and EBA were effective. However, a clearer legal framework could make it easier for authorities in Member States to act quickly in future crises.

Another possible improvement could be to extend the framework from banks to non-banks in order to avoid circumvention.

It might also be desirable to have more macroprudential instruments addressing risks in certain sectors, e.g. commercial real estate (CRE). However, there are challenges such as finding reliable data of good quality to analyze CRE risks, and regulating CRE lending in banks might transfer financing from banks to securities markets.

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 / not applicable

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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In the consultation paper (page 10), it is stated that: "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." Norway has made use of the national discretion in Article 124 in order to adopt a risk weight of 100 per cent on commercial real estate loans and Article 164 in order to adopt an elevated minimum LGD-factor. The room for national discretion should be maintained.

In the consultation paper (page 11), it is stated that the need for measures as those adopted in Article 458 CRR may diminish. Article 458, contrary to the buffer requirements, can i.a. be applied in order to steer or influence the calibration of risk weights, and thereby provide the authorities with an important tool to ensure that the banks measure risk and capital adequacy in a sound way. This is an important tool which is used by several Member States and Norway.

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

- 1 - Highly ineffective
- 2 - Ineffective
- 3 - Neutral
- 4 - Effective
- 5 - Highly effective
- Don't know / no opinion / not applicable

Please explain your answer to question 7, notably in light of the experience gained during the Covid-19 crisis:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The question on how effective the macroprudential toolkit and EU governance framework has been in managing the Covid-19 crisis does not have an easy answer, given the extensive fiscal and monetary policy measures introduced in order to curb the negative impacts on the economy. However, having releasable buffers and other macroprudential tools increases the scope of action for national authorities during a crisis and contributes to necessary flexibility. This was evident at the outbreak pandemic in 2020, where buffers were released to reduce the risks of banks tightening lending conditions. We have not experienced a severe financial crisis with great bank lending losses with the post-2009 financial crisis framework in place. In such a crisis, more releasable buffers than the CCyB may be needed to dampen potential tightening of lending conditions.

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?

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

More harmonised borrower-based measures across countries have some advantages. For example, it potentially makes reciprocity of such measures easier. Given differences across national markets, national authorities should have proper flexibility in forming the measures.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

National authorities should have the power to restrict distributions to conserve capital in a severe crisis situation. We do not see the need for this at the EU/EEA level on a “one size fits all” basis, as this would be too broad of a measure. Moreover, system-wide distributions restrictions should only be considered in exceptional circumstances. Banks that do not satisfy buffer requirements are automatically subject to MDA restrictions. The MDA restrictions are intended to be limited, as buffers are meant to be used and are not to be viewed as establishing a new minimum capital requirement. Frequent use of more binding and system-wide restrictions can undermine predictability and credibility of the macroprudential framework. In addition, it can affect the attractiveness of bank shares and hence the funding costs and access to equity of banks, especially in difficult times. If banks were to expect dividend restrictions to become a recurrent response to crises, it may also lead them to hold lower management buffers and distribute dividends in a more procyclical manner.

Although there should not be introduced powers to impose binding distribution restrictions at the EU/EEA level, there could be merit in having a general EEA framework or guidance on the use of distribution restrictions in crises, while maintaining full national autonomy.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The decision to reduce capital buffers in response to a crisis should be on the discretion of national authorities as circumstances may vary considerably across Member States. Neither European nor national authorities should have the legal authority to reduce risk weights during a crisis. This would increase the complexity of the regulation and be less transparent than a reduction in capital buffer requirements. If capital or buffer requirements are lowered, this could be accompanied by restrictions on banks’ dividend payments.

The occurrence of procyclicality in risk weights and PDs during crisis periods is likely to be quite small. For banks using the standardised approach, the occurrence of procyclicality should also be small, due to the low number of European companies being rated.

Question 8.4 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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Tools that adjust risk weights or the parameters of internal models are still necessary. The forthcoming application of the input and output floors will not fully prevent banks from employing too low risk weights. The new floors are fixed at relatively low levels and the input floors are not depending on risk. Hence, national authorities should still have the power to adjust risk weights of banks that underestimate their risk.

Floors at portfolio level in addition to floors at exposure level does not necessarily imply counting the same risk twice. If floors at exposure level produce reasonable risk weights at portfolio level, possible measures as set out in Articles 164 and 458 might be less important. It is too early to conclude whether there is a need to adjust the provisions set out in Articles 164 and 458.

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
- 2 - Disparate
- 3 - Neutral
- 4 - Commensurate
- 5 - Highly commensurate
- Don't know / no opinion / not applicable

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

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It is important that the regulation provide explicit provisions for adequate use of national discretion to counteract financial instability in each Member State.

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
- 2 - Ineffective
- 3 - Neutral
- 4 - Effective
- 5 - Highly effective
- Don't know / no opinion / not applicable

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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The oversight of national macroprudential policies through notification, assessment and authorisation procedures has presumably been effective in preventing an excessive use of macroprudential tools and undue market fragmentation. However, there is a significant scope for simplifying procedures to reduce administrative burdens. There is a danger that countries might be reluctant to implement macroprudential measures because of the burden from notification, assessment and authorization procedures.

Question 11. Have the provisions on reciprocity 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
- 2 - Ineffective
- 3 - Neutral
- 4 - Effective
- 5 - Highly effective
- Don't know / no opinion / not applicable

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

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is need for more reciprocity of national measures. reciprocity should be mandatory for all macroprudential measures. Moreover, the procedures for reciprocity should be simplified.

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
- 2 - Ineffective
- 3 - Neutral
- 4 - Effective
- 5 - Highly effective
- Don't know / no opinion / not applicable

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):

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The division of labour between national authorities and EU-level authorities has, in general, not constituted a problem for Norwegian authorities. However, maintaining national autonomy is important i.e. to ensure sufficient flexibility to handle crises that affect individual countries and economies differently.

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 13.1 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)?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The establishment of a set of common indicators in order to monitor the macroprudential stance in each Member State could be useful. In any case, each country should monitor its own macroprudential stance. The ESRB has an active role in setting the standards for and in monitoring the stance of its member countries. Moreover, the ESRB safeguards the EU/EEA-perspective as it also evaluates systemic risk in the EU/EEA as a whole and not only in each member country.

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.)?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In general, there should be mandatory reciprocation of as many macroprudential measures as possible, such as CCyB also above 2.5%, SyRB and risk weights. All participants in a national market should comply with the measures in the market regardless of nationality. Administrative burdens should also be taken into account.

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
- 2 - Not really appropriate and sufficient
- 3 - Neutral
- 4 - Appropriate and sufficient
- 5 - Fully appropriate and sufficient
- Don't know / no opinion / not applicable

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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- 2 - Not really adequate
- 3 - Neutral
- 4 - Adequate
- 5 - Fully adequate
- Don't know / no opinion / not applicable

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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Novel types of vulnerabilities should be explored and included in the scope of the macroprudential framework. Still, the approach should be balanced to not make the framework too detailed and complex.

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?

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Risks to financial stability could increase due to climate risk, cyber risk and the arrival of new products. The implications this has for individual Member States will likely vary. New competitors and products might give rise to structural changes in the financial system, and should therefore be carefully monitored and if necessary appropriately regulated. The regulation of deposit-taking banks should reflect new risks, e.g. risks entailing from crypto assets.

Elevated risk may merit increased capital buffers, which can be used to mitigate bank-specific risks as well as systemic risk in each Member State individually. Furthermore, the Basel Committee's public consultation on the prudential treatment of cryptoasset exposures may be an effective approach to mitigate crypto-based risks to financial stability.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Systemic cyber risks are likely to rise over the coming years. Vulnerabilities in banks' computer systems should primarily be dealt with by enhancing the managerial and control environment in the individual bank, such as requirements regarding periodic risk analyses, procedures for development and acquisition, crisis preparedness etc. We do not at this time consider the introduction of a particular capital buffer for cybersecurity to be necessary.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Climate change and the transition to a low-emission society involves risk that is not explicitly addressed in the current regulation. Banks should take climate risks into account in their risk assessments of both new and existing loans. Authorities should contribute to greater transparency regarding financial institutions' climate risks through guidance, and should ensure that climate-related risks managed through supervision and regulation. The introduction of specific macroprudential instruments for limiting climate risks, such as climate specific buffers or risk weights, is not considered to be necessary at this time. Unwarranted capital requirement reductions, i.e. in the form of a green supporting factor, should be avoided.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Banks should take all types of risks into account in their risk assessments of both new and existing loans. Authorities should contribute to greater transparency regarding financial institutions' risks through guidance and ensure that risks are managed through supervision and regulation. The introduction of specific macroprudential instruments for limiting other ESG risks, such as climate specific buffers or risk weights, is not considered to be necessary at this time.

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?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

The maximum file size is 1 MB.

You can upload several files.

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Useful links

[More on this consultation \(https://ec.europa.eu/info/publications/finance-consultations-2021-banking-macroprudential-framework_en\)](https://ec.europa.eu/info/publications/finance-consultations-2021-banking-macroprudential-framework_en)

[Consultation document \(https://ec.europa.eu/info/files/2021-banking-macroprudential-framework-consultation-document_en\)](https://ec.europa.eu/info/files/2021-banking-macroprudential-framework-consultation-document_en)

[More on prudential requirements \(https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/prudential-requirements_en\)](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/prudential-requirements_en)

[Specific privacy statement \(https://ec.europa.eu/info/files/2021-banking-macroprudential-framework-specific-privacy-statement_en\)](https://ec.europa.eu/info/files/2021-banking-macroprudential-framework-specific-privacy-statement_en)

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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