Box 6. Prospects for the review of the EU macroprudential framework

In November 2021, the European Commission (EC) launched a public consultation on the review of the EU macroprudential framework for the banking sector, in view of Article 513 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as subsequently amended. One of the relevant topics on which the stakeholders were requested to express their opinion was how to improve capital buffer regulation. Ensuring that banks can and will use capital reserves to support lending and absorb losses in the event of a crisis has been a key issue across Europe. Moreover, the experience with the COVID-19 pandemic brought to the fore the topic of buffer usability and started a debate on the functioning of capital buffers, namely whether the current framework is optimal, so as to ensure not only additional resilience, but also a countercyclical effect when needed, *inter alia* by encouraging banks to maintain their credit supply during a downturn.

Given the importance of the topic and the increasing role of macroprudential policy, which stipulates the use of prudential instruments to mitigate systemic risk and safeguard financial stability, the NBR responded to the call for advice by expressing its position on the issues in the EC survey. This included the central bank's opinion on the following: (i) introduce the output floor at all levels (individual, consolidated and subconsolidated) and in all jurisdictions, which should ensure a level playing field and keep the balance between national banking sectors and the need to correlate the review of the macroprudential framework with the forthcoming legal changes due to the finalisation of Basel III reforms, (ii) preserve the flexibility provided by EU guidelines on the identification of O-SIIs, by promoting a holistic review of the O-SII calibration methodology to ensure a level playing field among Member States, (iii) key role of national authorities in implementing macroprudential policy and activating the corresponding instruments so as to preserve the financial stability of a Member State, (iv) the need to ensure the effectiveness of the macroprudential toolkit and the EU's crisis management governance framework, (v) enhance the effectiveness of provisions on reciprocation in maintaining a level playing field in the banking sector and in preventing the non-observance of national macroprudential measures by regulatory arbitrage and (vi) approach risks to financial stability which could stem from banks' new competitors (FinTech and BigTech) and the emergence of new products (based on cryptocurrency, in particular).

Following the call for advice, the relevant institutions (ESRB[1], ECB[2] and EBA[3]) formulated proposals and expressed their opinions on how to rethink the framework for capital requirements for banks, so as the capital buffer usability

1 Review of the EU Macroprudential Framework for the Banking Sector – Response to the call for advice (europa.eu)

2 ECB response to the call for advice of the European Commission on the macroprudential review (europa.eu)

3 EBA advice on the review of the macroprudential framework.pdf (europa.eu)

should become more effective. The key measures proposed by these institutions are summarised in Table A.

Table A
Key proposals of international institutions to enhance the usability of capital buffers

Institution	Proposals
ESRB	Effectively expand macroprudential space consisting of releasable and non-releasable buffers (more rapid and effective use of CCyB, positive neutral CCyB rate, positive neutral SyRB rate and keep the CCoB rate at 2.5 percent as a safety margin for absorbing future losses). Moreover, it is recommended to use a broader range of indicators for CCyB calibration.
	Leverage ratio buffer is an extension of the buffers implemented on top of the minimum leverage ratio, mirroring the risk-weighted buffers with a conversion factor.
	Avoid or reduce double-counting of the same capital requirement for buffers and parallel minimum requirements.
EBA	Coordination among authorities in charge of microprudential and macroprudential policy to avoid any overlaps and to ensure that overall capital requirements are set appropriately.
	Interaction with other capital requirements (LR, MREL): parallel requirements restrict banks' ability to use capital buffers; thus, a more comprehensive assessment is taken into consideration before making material changes in the current macroprudential framework.
	Availability of releasable buffers: the importance of rebuilding capital buffers to sufficient levels so that those buffers can be released when the next crisis occurs (this holds true particularly for the CCyB: if it is rebuilt during upturn periods, it will strengthen its function and relevance as a countercyclical buffer).
ECB	Create additional macroprudential space in the form of a higher amount of releasable and non-releasable capital buffers (a fully or partially releasable CCoB, a positive neutral CCyB rate, a core rate for the releasable SyRB, or a mix of these policy options). Moreover, the ECB does not support the leverage buffers at this point.
	Increase the flexibility of the CCyB by introducing other indicators than the credit-to-GDP gap and applying a shorter period between the buffer setting and its effective implementation.

Source: responses of European institutions with regard to the European Commission's call for advice on the review of the EU macroprudential framework for the banking sector

One of the common aspects of the opinions issued by the three European institutions refers to the exchange of information between microprudential, macroprudential and resolution authorities, which is essential for assessing the usability of capital buffers. Specifically, due to the interactions in the regulatory framework, the bank-specific information on the applicable requirements and available resources should be made available to the designated authorities in the three above-mentioned areas.

Another topic approached during the call for advice on the review of the EU macroprudential framework refers to the introduction of the minimum requirement for leverage ratio as of mid-2021 and the minimum requirement for own funds and eligible liabilities (MREL), with an intermediate target in 2022 and a final target in 2024, as well as to how the overlap between minimum requirements and the risk-weighted prudential requirements increased, and multiple regulatory interactions. Thus, the *ESBR Report* on the overlap between capital buffers and minimum requirements[4] provided estimates on buffer usability and prospects for their effective releasability. Banks could somewhat mitigate the effect of the new overlapping requirements if they seek to ensure buffer usability beyond the scope of law. However, limited buffer usability will not be a transitional phenomenon.

[4] Report of the Analytical Task Force on the overlap between capital buffers and minimum requirements

The analysis showed substantial heterogeneity across regions, countries and banks, in particular; banks using the internal ratings-based approach (IRBA) are more affected than those using the standardised approach (SA), as the risk-weighted density is a key element for determining buffer usability and IRBA banks usually have lower risk-weighted densities. A possible solution is that of fully implementing the Basel III package, including the output floor, which is an important step forward towards a more resilient banking sector.