



BANKING STAKEHOLDER GROUP

CONSULTATION ON EBA/CP/2014/11 ON
DRAFT REGULATORY TECHNICAL STANDARDS ON DISCLOSURE OF
INFORMATION IN RELATION TO THE COMPLIANCE OF
INSTITUTIONS WITH THE REQUIREMENT OF A COUNTERCYCLICAL
BUFFER UNDER ARTICLE 440 OF REGULATION (EU) NO 575/2013
(CAPITAL REQUIREMENTS REGULATION)

General Comments and Replies to Questions

BY THE EBA BANKING STAKEHOLDER GROUP

London, September 26th, 2014

Foreword

The EBA Banking Stakeholder Group (“BSG”) welcomes the opportunity to comment on the Consultation Paper EBA/CP/2014/11.

This response has been prepared on the basis of comments circulated and shared among the BSG members and the BSG’s Technical Working Group on Recovery, Resolution and Systemic Issues.

As in the past, the BSG supports an initiative that aims at harmonizing supervisory rules and practices across Europe, in order to ensure fair conditions of competition between institutions and more efficiency for cross-border groups. The BSG also expects these initiatives to facilitate data sharing between European supervisors and avoid reporting duplications for banks. However, the BSG identifies a number of issues which, unless properly addressed, could lead to unintended results.

This response outlines some general comments by the BSG, as well as our detailed answers to some questions indicated in the CP.

General comments

The BSG welcomes the opportunity to comment on the consultation paper on draft regulatory technical standards on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer (CCB). The CCB is part of the macroprudential policy toolkit. The design of macro-prudential policies is of paramount importance to ensure financial stability in the EU, thus counteracting the inherent pro-cyclicality of the financial system. In that vein, the overarching goal of macroprudential policies is to prevent systemic risk and to mitigate the pernicious effects of financial booms and busts on the real economy. Calibration of those tools should be done accordingly with the level of the systemic risk. In particular, the CCB is aimed at avoiding an excessive credit growth by requiring higher capital buffers in the cyclical upswings which could in turn be pulled down in period of stress. Overall, a well calibrated CCB should result in an increase of the resilience of the banking system and in a smoothing of the credit cycle.

The CCB is a CET1 buffer on domestic exposures. It is calibrated in steps of 0.25 percentage points or multiples of 0.25 percentage points and cannot fall below zero. Each Member State (MS) is required to appoint a designated authority responsible for setting this rate on a quarterly basis. The designated authority in a country sets the rate that would apply to credit exposures held by banks located in their jurisdiction. Institutions located in a MS different from the one setting the CCB rate have to apply the same CCB rate on exposures towards clients located in the country setting the CCB rate. There is mandatory reciprocity up to 2.5%. Above a 2.5% CCB rate reciprocity is not compulsory. If the designated authority in the MS in which entities have been authorised has not recognised the buffer rate above 2.5%, the authority shall apply a buffer rate of

2.5%. Last but not least, a designated authority in a EU MS may set a different CCB rate for a third country if it rationally considers that the rate set by the third-country authority is not sufficient to prevent excessive credit growth risks in that third-country. On top of the regular supervisory review of the compliance with the CCB requirements, the disclosure of the buffer – which is the focus of the present CP -- will reinforce market discipline by making clear the level and composition of relevant exposures and the related coverage.

Replies to Questions

Q01. Are the provisions included in these draft RTS sufficiently clear? Are there aspects which need to be expanded in more detail?

Yes, the provisions included in these draft RTS are sufficiently clear, with the exceptions mentioned below.

Q02. Are the instructions provided in Annex 2 of the draft RTS sufficiently clear?

1.- Reference data. The level of application:

On the one hand, after reading page 15-paragraphs 1&3-, page 4-paragraph 2-, and page 11-paragraph 7- our understanding is that an international group will **only** be required to fulfil the templates on a consolidated basis. On the other hand, after reading page 7-paragraphs 2- we infer that an international group will be required to fulfil the templates **both** on a consolidated **and** on sub-consolidated/individual basis.

As a consequence, it is not clear to us whether an international group will have to fulfil the templates **on a consolidated, sub-consolidated or individual basis** (or all of them). This needs clarification to remove any ambiguity.

We refer to the relevant paragraphs of the aforementioned pages of the Consultation Paper:

Page 15:

* Paragraph 1 : “When completing the field ‘Level of application’ institutions shall select **one of the following**, in accordance with Article 6 and 13 of the Regulation (EU) NO. 575/2013: - Consolidated; - Individual; - Sub-consolidated.

* Paragraph 3:. “For disclosure on a **consolidated or sub-consolidated** basis in accordance with Part One, Title II of Regulation (EU) NO. 575/2013, institutions shall complete Tables 1 and 2 of these Instructions based on a consolidated basis in accordance with Part One, Title II, Chapter 2 of the Regulation (EU) NO. 575/2013”.

Page 4.

* Paragraph 2: “For **institutions that are part of a group**, the disclosure of information should be made at a consolidated level by the parent institution/financial holding of the group, in accordance with Article 13(1) of the

CRR, **or** at an individual **or** sub-consolidated level for significant subsidiaries of EU parent institutions/financial holdings and subsidiaries which are of material significance for their local markets”.

Page 11. (7). "EU parent institutions and institutions controlled by a parent financial holding company should disclose this information on a consolidated basis, **while** significant subsidiaries of EU parent institutions or EU parent financial holding company or EU parent mixed financial holding company and subsidiaries which are of material significance for their local markets should disclose this information on individual or sub-consolidated basis, as provided for in Article 13 of Regulation (EU) No 575/2013”.

Page 7.

* Paragraph 2: “If the institutions are part of a group, the disclosure of information should be made at a consolidated level by the parent institution/financial holding of the group **and** significant subsidiaries of EU parent institutions/financial holdings, **and** subsidiaries which are of material significance for their local markets should disclose this information on an individual or sub-consolidated basis, in accordance with Article 13 of the CRR”.

2. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer: breakdown by country:

After reading the instructions referred to the breakdown of relevant credit exposures by country (page 16) and EBA’s Final Draft RTS on the method for the identification of the geographical location of the relevant credit exposures (EBA/RTS/2013/15), we are uncertain about whether the split by country will **only** apply to **European** exposures **or** to the **whole** exposures of a group.

3. The Exposure value of credit exposures:

According to the explanation provided in PART II. INSTRUCTIONS FOR TABLE TEMPLATE 1, referring to the exposure value of credit exposures (page 16), it is not clear to us whether credit exposure values calculated through the Standard Approach and through Internal Rated Based have to be aggregated.

Q03. Our analysis shows that the costs of implementation are negligible. Do you agree with our assessment? If not please explain why.

The templates to comply with the requirement for a CCB includes information already required to be disclosed in accordance with Article 440(1) of Regulation (EU) No 575/2013” (page 13). Therefore, the associated costs for calculating the countercyclical capital buffer would be incurred anyway. However, this does not imply that costs of implementation are **negligible** as entities still have to invest for providing the breakdown by country for:

- Exposure value of credit exposures
- The sum of net long and short positions of trading book exposures
- Exposure value of securitization exposures.

The Banking Stakeholder Group urges the EBA to consider these issues so as to remove uncertainties and any remaining ambiguities.

Submitted on behalf of the EBA Banking Stakeholder Group

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