



CP on RTS on Disclosure of Countercyclical Capital Buffer

Public Hearing

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Contents

1. Background on Countercyclical capital buffer
2. EBA Mandate
3. Proposed disclosure templates
4. Approaches considered
5. Frequency of disclosure
6. Level of application
7. Next steps and submission

Background on Countercyclical capital buffer (1/3)

Method of calculation of CCB

- Article 130 CRD requires institutions to maintain an institution-specific countercyclical capital buffer (CCB).
- CCB is calculated in accordance with Articles 130 and 140 CRD:

$$\text{Institution-specific countercyclical capital buffer} = \text{Total risk exposure amount (Article 92(3) CRR)} \times \text{Institution-specific countercyclical buffer rate}$$

$$\text{Institution-specific countercyclical buffer rate} = \sum \text{Countercyclical capital buffer rate of country } i \text{ (Art 136 to 139 CRD)} \times \frac{\text{Own fund requirements of relevant credit exposures in country } i}{\text{Own fund requirements of all relevant credit exposures}}$$

Background on Countercyclical capital buffer (2/3)

Relevant credit exposures for CCB

- According to Art 140(4) CRD, exposures relevant for the CCB calculation are as follows:

“Relevant credit exposures shall include all those exposure classes, other than those referred to in points (a) to (f) of Article 112 of Regulation (EU) No 575/2013, that are subject to:

(a) the own funds requirements for credit risk under Part Three, Title II of that Regulation;

(b) where the exposure is held in the trading book, own funds requirements for specific risk under Part Three, Title IV, Chapter 2 of that Regulation or incremental default and migration risk under Part Three, Title IV, Chapter 5 of that Regulation;

(c) where the exposure is a securitisation, the own funds requirements under Part Three, Title II, Chapter 5 of that Regulation.”

Background on Countercyclical capital buffer (3/3)

Geographical breakdown of exposures for CCB

- RTS on the method for the identification of the geographical location of the relevant credit exposures under Article 140(7) of the CRD (EBA/RTS/2013/15) - submitted to the European Commission
- The RTS specifies the method for geographical breakdown of relevant credit exposures:
 - Main criteria for the allocation of exposures - location of obligor (debtor for trading book), except in case of specialised lending, when the criterion is location of income;
 - Materiality thresholds for foreign credit exposures and trading book exposures.

EBA Mandate

EBA has the mandate to develop RTS on CCB disclosure

- Article 440(1) CRR requires that an institution shall disclose the following information in relation to its compliance with the requirement for CCB:
 - a) the geographical distribution of their credit exposures relevant for the calculation of their countercyclical buffer; and
 - b) the amount of institution-specific countercyclical capital buffer.
- Article 440(2) CRR requires that EBA develops draft RTS specifying the disclosure requirements set out in in Art 440(1)

Proposed disclosure templates (1/2)

The templates were developed taking into account the following objectives:

1. Disclose key information on the compliance of institutions with the requirement for a countercyclical capital buffer required by Article 440(1) CRR
2. Ensure that the disclosure is consistent with the method of calculation of CCB in accordance with Art 130 and 140 CRD
3. Ensure that the disclosure is consistent with the draft final RTS on the method for the identification of the geographical location of the relevant credit exposures under Article 140(7) of the CRD (EBA/RTS/2013/15), published in December 2013

Proposed disclosure templates (2/2)

- **Table 1 - Geographical distribution of credit exposures relevant for the calculation of the CCB**
 - Exposure value (sum of net long and short positions in the case of trading book exposures) by country
 - Own fund requirements of credit exposures relevant for the calculation of its countercyclical buffer by country
 - Weights applied to the countercyclical buffer rates by country
 - Countercyclical buffer rates by country

- **Table 2 – Amount of institution-specific CCB**
 - Total risk exposure amount
 - Institution-specific countercyclical buffer rate
 - Amount of institution-specific countercyclical capital buffer

Approaches considered

Issue	Proposal	Alternatives considered	Justification
Exposure measure	1. Exposure value <i>and</i> 2. Own funds requirements	<ul style="list-style-type: none"> • Only exposure value • Only own funds requirements 	Both measures provides useful information: exposure value shows the distribution of activities and OFR is a direct input to the CCB calculation
Granularity of exposures	By exposure group (credit, trading book and securitisation)	<ul style="list-style-type: none"> • By exposure class • All relevant credit exposures 	This breakdown follows the breakdown in Art 140(4) CRD and is consistent with the RTS on identification of geographical location, where the criteria differ by exposure group.
Geographical breakdown	By country	-	This breakdown is consistent with the CRR and the RTS on identification of geographical location.

Frequency of disclosure

- “at least on an annual basis, in conjunction with the date of publication of the financial statements” in accordance with Article 433 of the CRR on the frequency of disclosures under Part Eight

Note:

- The amount of the CCB is disclosed quarterly as part of the ITS on disclosure for own funds by institutions. This means that overall the CCB amount will be disclosed quarterly, while the geographical breakdown of relevant credit exposure annually.

Level of application

- The calculation and maintenance of the institution-specific countercyclical capital buffer is made on an individual and consolidated basis in accordance with Article 130 of the CRD:
 - Individual basis, if the institution is not part of a group, i.e. it is not a parent, a subsidiary institution, and institution included in the consolidation pursuant to Article 18 of the CRR (Art 6(1) and (3) CRR).
 - Consolidated basis, if the institutions are part of a group.
 - Individual or sub-consolidated basis, if the institution is significant subsidiaries of EU parent institutions/financial holdings, and subsidiaries which are of material significance for their local markets (Art 13 CRR).

Summary

- 2 disclosure templates:
 - Table 1 - Geographical distribution of credit exposures relevant for the calculation of the CCB
 - Table 2 – Amount of institution-specific CCB
- Taking into account:
 - method of calculation of CCB in accordance with Art 130 and 140 CRD
 - the draft final RTS on the method for the identification of the geographical location of the relevant credit exposures under Article 140(7) of the CRD (EBA/RTS/2013/15), published in December 2013
- Frequency – Annual
- Level of application – individual or consolidated

Next steps and submission

Next steps	Dates
End consultation period	27 September, 2014
<ul style="list-style-type: none"> • Incorporation of comments from the consultation • Endorsement of the final draft RTS by the EBA Board of Supervisors 	October/November 2014
Submission to the Commission	November/December 2014 <u>Deadline:</u> 31 December 2014
<ul style="list-style-type: none"> • Commission to review, endorse and translate • Publication in the Official Journal of the EU • Entry into force after publication in the OJ 	+ 3 / 4 months



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