



ESRB

European Systemic Risk Board

European System of Financial Supervision

The ESRB and Macroprudential Policy in the EU

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Agenda

- The ESRB and its mandate
- Developing the policy framework
- Implementing the policy framework
- Concluding observations

The ESRB and its mandate

- **Established in the wake of the great financial crisis**
- **Mandate:** ESRB is called on to contribute to the
 - Prevention or mitigation of systemic risks to the stability of the EU financial system that could damage the real economy
 - Smooth functioning of the internal market thereby ensuring that the financial sector fosters sustainable economic growth
- **Scope:** Macroprudential oversight of the entire EU financial system ↔ euro-area banking focus of the ECB
- **Soft law tools:** ‘warnings’ and ‘recommendations’ to authorities and Member States in the EU ↔ ‘topping-up’ powers of the ECB in banking
- **Coordination role and information hub**

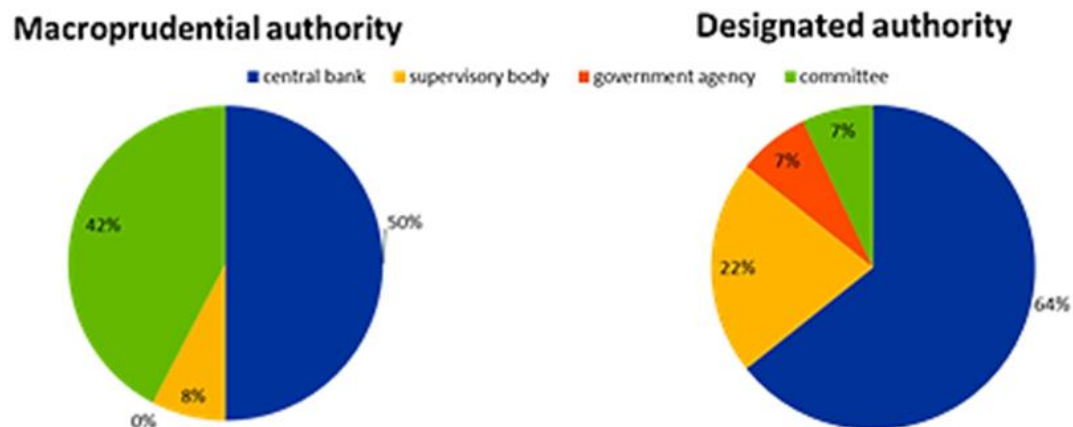
Developing the policy framework - mandate

- Recommendation on the **macroprudential mandate** of national authorities (ESRB/2011/3):
 - A. Objective
 - B. Institutional arrangements
 - C. Tasks, powers, instruments
 - D. Transparency and accountability
 - E. Independence

Developing the policy framework - mandate

- Almost all Member States have now a macroprudential authority in place
- Key role of central banks
- Attractiveness of the committee model
- Coverage of the beyond banking sector

Type of macroprudential authority and designated authority



Source: ESRB.

Notes: Designated authority refers to the authority responsible for setting the CCyB rate (Article 136 of Directive 2013/36/EU).

Developing the policy framework – intermediate objectives and instruments

- Recommendation on **intermediate objectives and instruments** of macroprudential policy (ESRB/2013/1):
 - A. Intermediate objectives
 - B. Macroprudential instruments
 - C. Policy strategy
 - D. Periodical evaluation of intermediate objectives and instruments
 - E. Single market and Union legislation

Developing the policy framework – intermediate objectives and instruments

Intermediate objective	Indicative instruments
Excessive credit growth and leverage	<ul style="list-style-type: none">• Countercyclical capital buffer• Sectoral capital requirements• Macroprudential leverage ratio• Loan-to-value (LTV), loan-to-income (LTI) ratios
Excessive maturity mismatch and market illiquidity	<ul style="list-style-type: none">• Macroprudential adjustment to liquidity ratio• Macroprudential restrictions on funding sources• Macroprudential unweighted limit to less stable funding (e.g. loan-to-deposit or LTD ratio)• Margins and haircuts requirements
Exposure concentration	<ul style="list-style-type: none">• Large exposures restrictions• Clearing requirement for central counterparties (CCPs)
Misaligned incentives	<ul style="list-style-type: none">• Capital surcharge for systemically important institutions (SIIs)
Resilience of financial infrastructure	<ul style="list-style-type: none">• Margins and haircuts requirements• Increased disclosure• Structural systemic risk buffer

Implementing the policy framework – ESRB work

- **Flagship Report and Handbook** on Macroprudential policy in the Banking Sector
- Establishment of a **central repository of measures** in the EU/EEA
- **Review of Macroprudential Policy** in the EU
- Strategy paper on **macroprudential policy beyond banking**

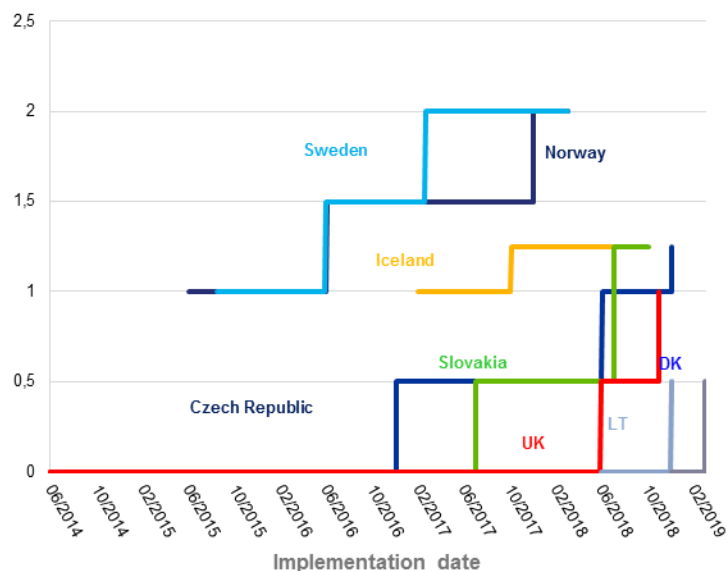
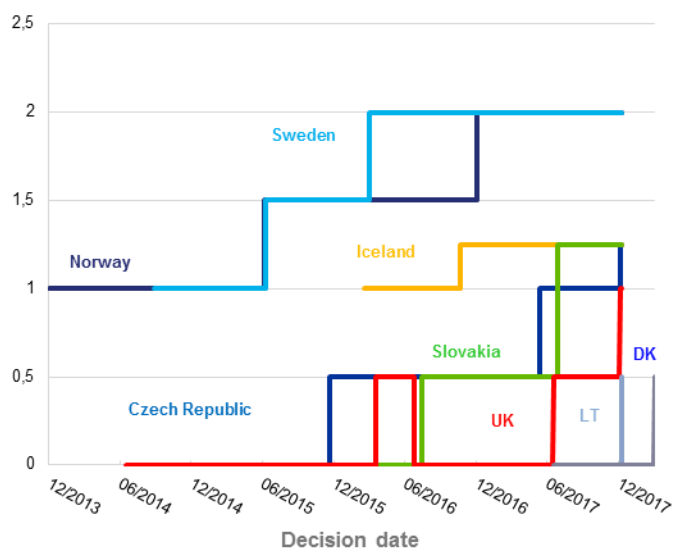
Implementing the policy framework – ESRB work

- Recommendation on guidance for setting **countercyclical buffer rates** (ESRB/2014/1)
- Recommendation on **countercyclical buffer rates for exposures to third countries** (ESRB/2015/1)
- Recommendation on **voluntary reciprocity** for macroprudential policy measures (ESRB/2015/2)
- Recommendation on **closing real estate data gaps** (ESRB/2016/14)
- Recommendation on **liquidity and leverage risk in investment funds** (ESRB/2017/6)

Implementing the policy framework - CCyB

Countercyclical capital buffer rates – decision and implementation

(end 2017, in %)

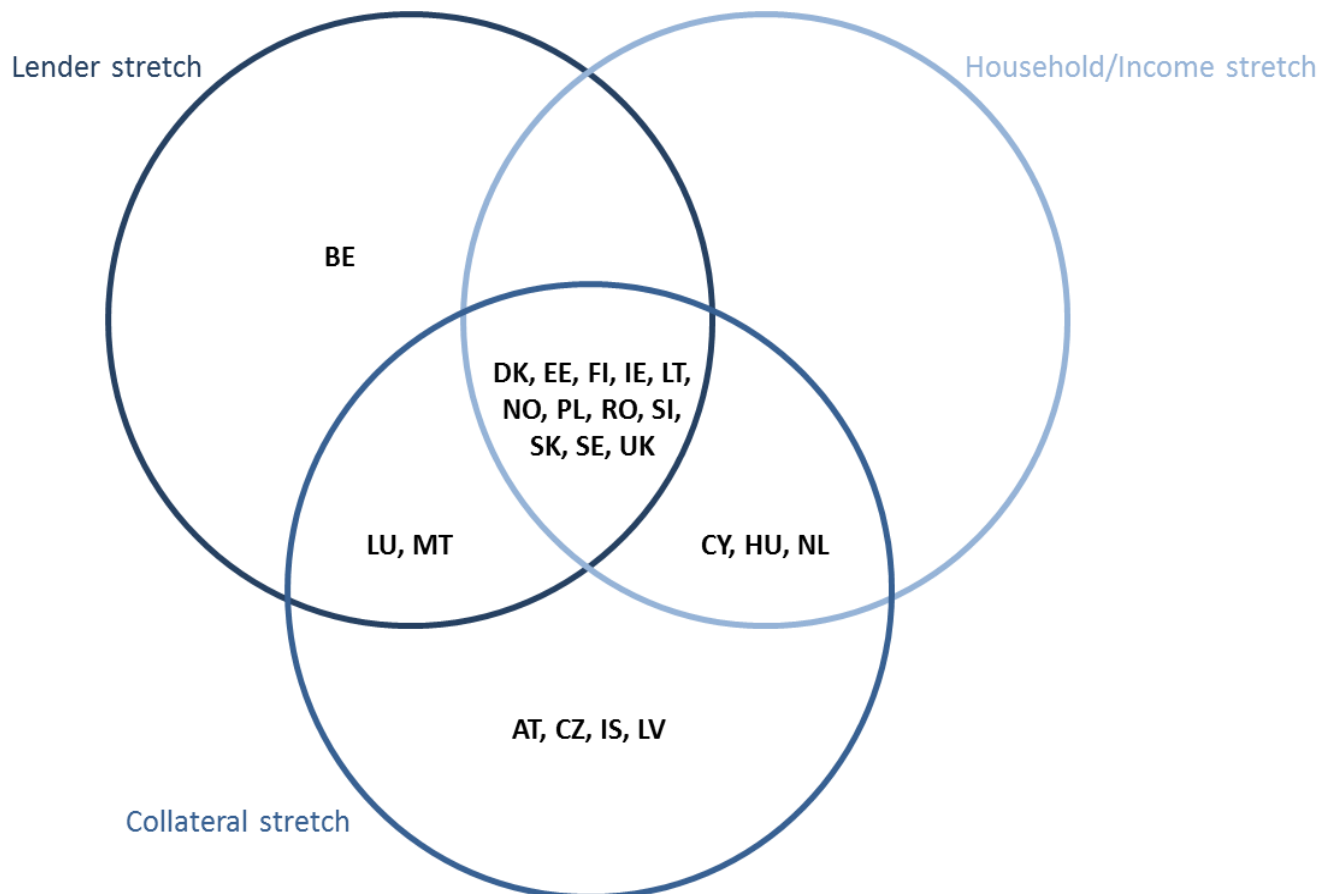


Source: ESRB

Notes: The UK's Financial Policy Committee introduced a CCyB rate of 0.5% in March 2016. However, following the results of the EU referendum in June 2016, the UK's Financial Policy Committee decided to reduce the CCyB rate to 0% effective immediately.

Implementing the policy framework - real estate

Use of residential real estate instruments according to the stretches typology

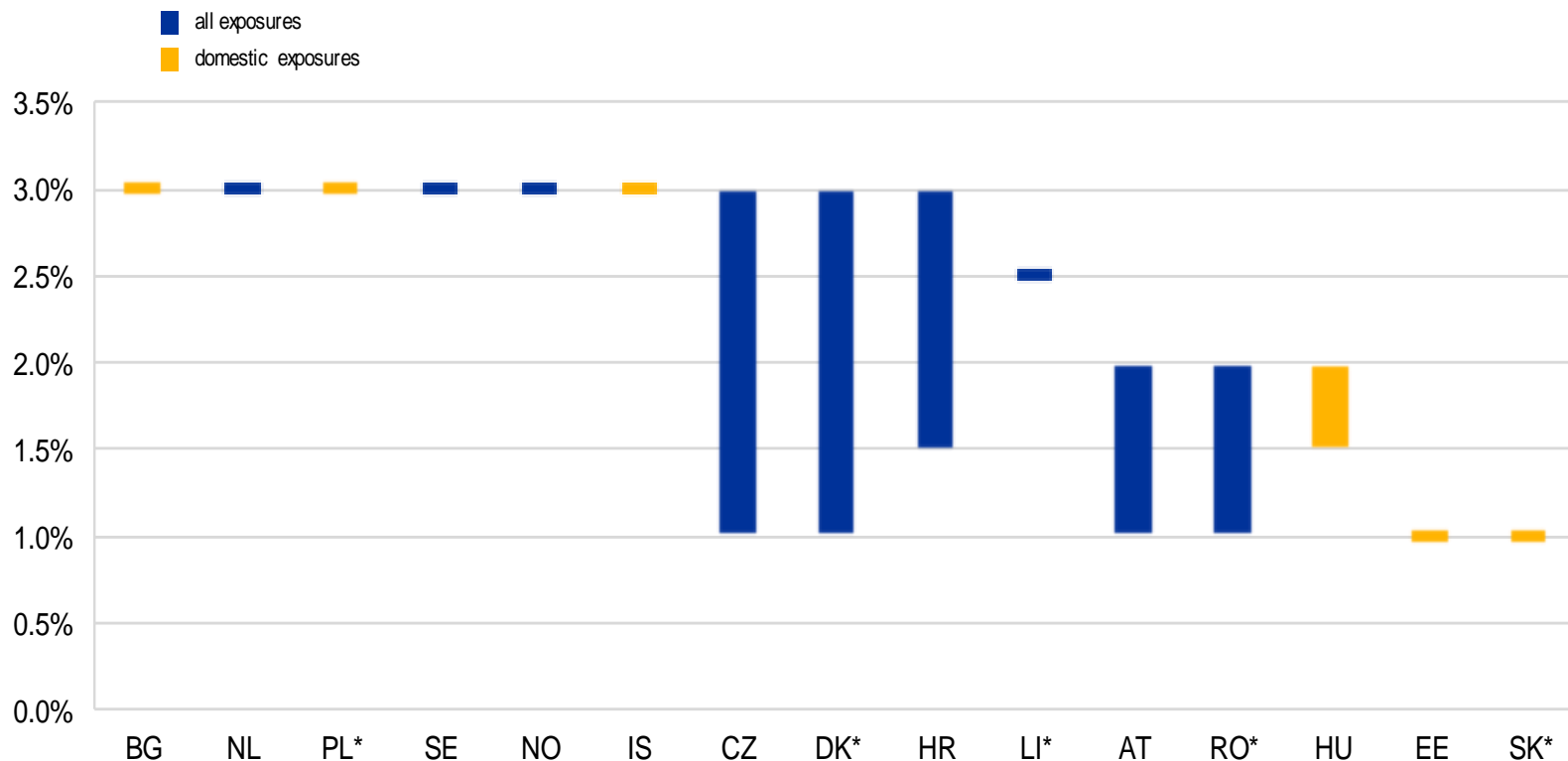


Source: ESRB

Notes: The chart refers to instruments active in 2018 but they may have been implemented earlier. Amortization requirements are included in both the household/income stretch and the collateral stretch.

Implementing the policy framework - SyRB

Use of the SyRB in the EU and the EEA



Source: ESRB.

Notes: Refers to the fully phased-in buffer rate according to the most recent notifications.

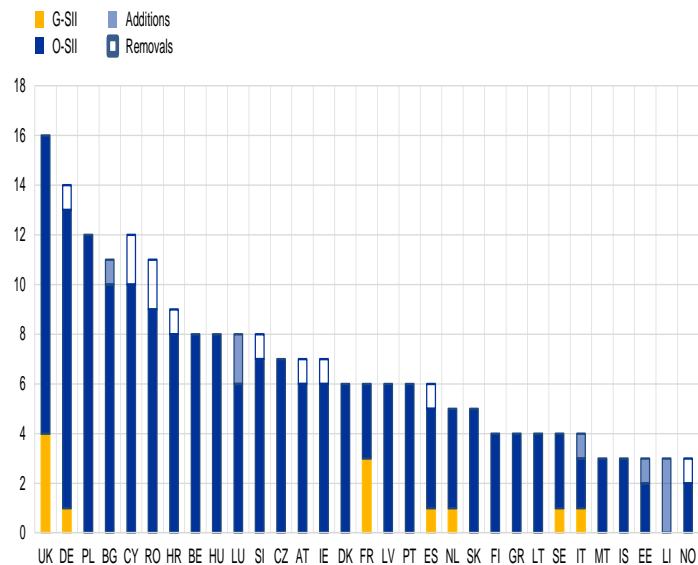
* Refers to new or changed systemic risk buffers, including changes to the methodology. A range of buffer levels is represented, where applicable, by a bar although in practice only certain values within the bar apply (i.e. there is only a limited number of discrete buffer levels). For countries in which the systemic risk buffer is applied to all banks, but subject to meeting a certain minimum threshold, a 0% default rate may be applicable.

Implementing the policy framework - SIIs

- Around 200 SIIs
- 27 cross-border banking groups with 78 SIIs

Number of systemically important institutions by Member State

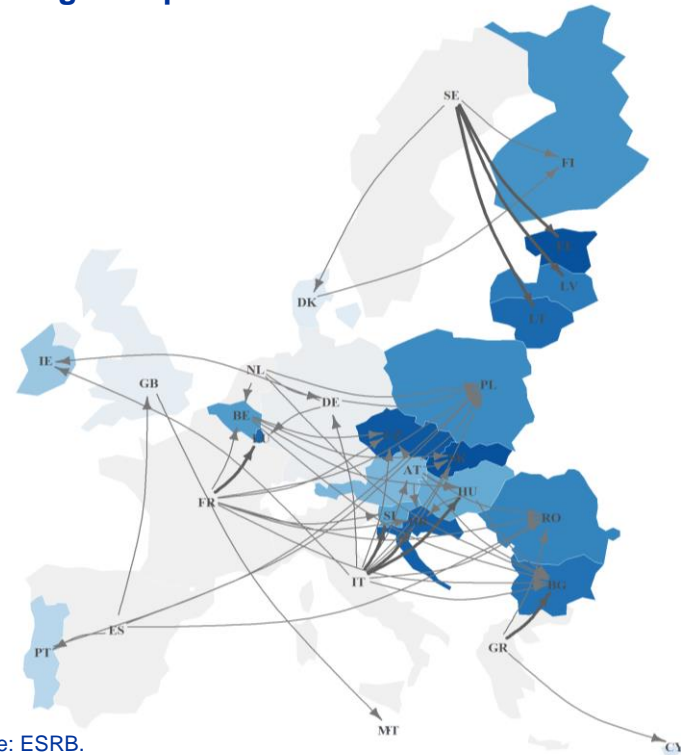
(as notified to the ESRB for 2017 and changes compared to previous year)



Source: ESRB.

Notes: In the case of qualification as both a G-SII and an O-SII, the institution has been allocated to the G-SII category. Additions and removals show the changes to the total number of O-SIIs in each Member State made in 2017.

Cross-border links between Member States through the presence of SIIs

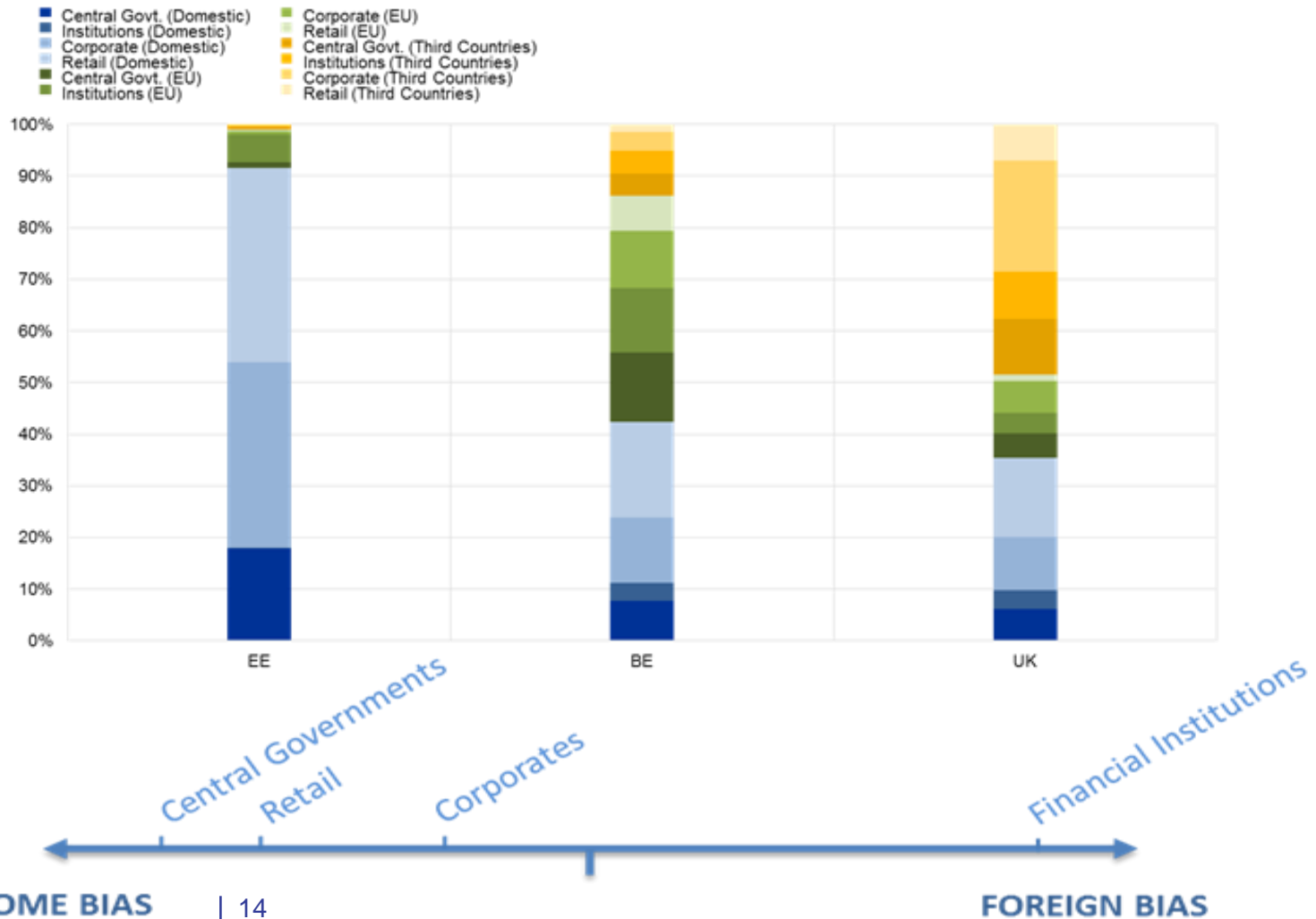


Source: ESRB.

Notes: The arrow between countries indicates the link between the home country of SIIs and another country in which they control SIIs (host country). The thickness of the arrow is proportional to the number of such links. The colour of a country reflects the share of its banking market controlled by foreign-owned SIIs (the darker the colour, the larger the share based on total assets).

Implementing the policy framework - cross-border banking and reciprocity

Cross-border lending: country and sectoral differences



HOME BIAS

14

FOREIGN BIAS

Implementing the policy framework - cross-border banking and reciprocity

- Recommendation on **voluntary reciprocity** for macroprudential policy measures (ESRB/2015/2)
- **Applications up to now:**
 - **Belgium:** 5% risk weight add-on for mortgage loans; later supplemented with a 33% increase in the average risk weight of the portfolio of mortgage loans
 - **Estonia:** 1% systemic risk buffer
 - **Finland:** 15% average risk weight floor for mortgage loans
- **Further applications expected:**
 - **Sweden:** 25% average risk weight floor for mortgage loans
 - **France:** tighter risk concentration limits for French large non-financial companies that are highly indebted

Concluding observations

- Macroprudential policy is still an area under development but important progress has been made over the past years
- Member States have been actively using macroprudential policy for the banking sector though with significant differences across countries
- Sources of systemic risk are diverse, requiring targeted policy responses
- The macroprudential toolkit should therefore be comprehensive
- Policy instruments should be chosen based on their effectiveness in addressing the identified risks
- Important role of the ESRB in developing the macroprudential framework in Europe

Concluding observations

- Future developments and challenges:
 - Keeping abreast of new risks that need to be addressed with existing or new instruments
 - Macroprudential instruments for the non-banking financial sectors
 - Macroprudential instruments targeting non-financial companies?
 - Developing the macroprudential stance concept
 - Impact of the increasing role of bank branches vs. subsidiaries
 - Applying reciprocity in an effective and efficient way, in particular also outside the banking sector and for non-EU market players
 - Data availability (e.g. real estate) and data analysis (e.g. EMIR data)
 - Ongoing review of the macroprudential toolkit under the CRDIV/CRR
 - Ongoing review of the ESRB