



**BANK OF ENGLAND**

**Mark Carney**  
Governor

Mr Mario Draghi  
Chair of ESRB General Board  
Kaiserstrasse 29  
60311 Frankfurt am Main  
Germany

7 April 2015

*Dear Mario,*

**UK countercyclical capital buffer rate**

In accordance with Article 136 of Directive 2013/36/EU (CRD IV), I am writing to notify the European Systemic Risk Board that the UK countercyclical capital buffer (CCB) rate has been set at 0 per cent, as announced in the Financial Policy Committee's statement from its policy meeting which was published on 26 March. More information on the UK's approach to setting the CCB rate is provided in the annex to this letter.

In addition, the CCB rate of 0.625% set by the Hong Kong Monetary Authority on its banks' domestic exposures will be reciprocated in the UK from 27 January 2016.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Mark Carney', written in a cursive style.

**Annex: Further information on setting of the UK CCB rate**

Information required to be published under CRDIV	Latest data*
Applicable countercyclical buffer rate	0%
Credit-to-GDP ratio	148.7%
Deviation of credit-to-GDP from long-term trend	-25.6%
Buffer guide	0%

\* As of 20 March 2015.

Justification for the buffer rate on UK exposures (source: March 2015 Financial Policy Committee *Record*)

Following the requirements set out in legislation, the Committee considered the 'buffer guide' – a simple metric which provides a guide for the CCB rate based on the gap between the ratio of credit to GDP and its long-term trend. This credit gap measure remained strongly negative and was likely to remain negative for a considerable period. A simple mapping from the buffer guide suggested that the CCB should continue to be set at zero percent. But this was only one indicator that the Committee considered.

In addition to the buffer guide, the Committee also reviewed its assessment of the outlook for financial stability and the progress by UK banks in transitioning to meet new capital standards. Reflecting these considerations, the Committee decided to maintain the countercyclical capital buffer rate for UK exposures at 0%.

The Committee noted that the PRA would reciprocate Hong Kong's recently announced CCB rate of 0.625% on its banks' domestic exposures from 27 January 2016. The Hong Kong Monetary Authority (HKMA) had also announced a 15% risk weight floor on the stock of residential mortgage lending in Hong Kong; HKMA had not requested that this policy action be reciprocated. The FPC had previously outlined that it expected to cooperate closely with overseas regulators in their setting of macroprudential policies. Consistent with this, the FPC agreed that it would return to the general issue of its framework for reciprocating the non-CCB macroprudential policy actions of overseas regulators.