Template for notifying the intended use of a systemic risk buffer (SRB)

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1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Eesti Pank
1.2 Type of measure intended (also for reviews of existing measures)	Change the level of an existing SRB
2. Description of the notified measure	
2.1 Institutions covered by the intended SRB	The SRB will apply for all credit institutions authorised in Estonia.
2.2 Buffer rate **(Article 133(11)(f) of the CRD)**	The SRB rate will be set at 1%.
2.3 Exposures covered by the SRB	The SRB applies only to domestic exposures.
3. Timing of the measure	
3.1 Timing of the Decision	The decision was taken on 25 April 2016.
3.2 Timing of the Publication	The expected date of the publication of the decree of the Governor of Eesti Pank is by the end of May 2016.
3.3 Disclosure	Eesti Pank informed the public about the planned reassessment of the SRB in December 2015 when the list of identified O-SIIs was published. It was announced that Eesti Pank would decide on the buffer rates for O-SIIs in the first half of 2016, and that the SRB would be reassessed at the same time.

	The analysis of the setting of the SRB and the O-SII buffer will be published on the Eesti Pank website on 27 April 2016.
3.4 Timing of Application	Third quarter 2016
3.5 Phasing in	Fully-loaded implementation
3.6 Review/deactivation of the measure	The SRB requirement will be reviewed at least once every two years.
4. Reasons for the intended SRB	
4.1 Description of the long-term non-cyclical systemic risk in your Member State **(Article 133(11)a of the CRD)**	The long-term non-cyclical systemic risks stem from the structural vulnerabilities of the Estonian economy. The Estonian economy is primarily vulnerable because it is small and open. This lets problems caused by unforeseen negative shocks emerge rapidly and to a large extent. The risks are amplified by various structural factors, notably the high proportion and concentration of exports and investment, the relatively large indebtedness of the non-financial sector in relation to incomes, the comparatively modest level of household financial buffers, and the very bank-centred financial sector.
4.2 Reasons why the dimension of the long-term non-cyclical systemic risk threatens the stability of the financial system in your Member State **(Article 133(11)(b) of the CRD)**	An unexpected worsening of the economic environment can lead to rapid deterioration in the ability of companies and households to service their debts, meaning that banks need to find additional capital to cover possible loan losses at short notice. Adequate capitalisation of banks can help them to cope with unexpected financial difficulties stemming from the vulnerabilities of the Estonian economy. Given the very bank-centred financial sector in Estonia, the sufficient capital buffers of banks help to ensure stable funding for the economy.
4.3 Indicators used for the activation of the measure	The indicators used for activating the measure are: • The size and openness of the economy • The volatility of GDP growth • The concentration of exports • The share of investment in GDP • Private sector indebtedness relative to income levels (GDP per capita) • Household financial assets to GDP • The importance of the banking sector to the financing of the real economy.
4.4 Effectiveness and proportionality of the measure **(Article 133(11)(c) of the CRD)**	The SRB requirement is expected to ensure an additional capital buffer to mitigate the structural vulnerabilities of the Estonian economy. Currently the capitalisation of the banking sector is strong, as large banks are voluntarily holding capital buffers well above the regulatory capital and buffer requirements. Therefore the new SRB rate is expected to be neutral when set. The buffer is set against unexpected economic shocks, which may vary in size and in their impact on banks' capital. The sensitivity of the banking sector to vulnerabilities in the economy is assessed using stress-testing

<table>
<tr><td></td><td>techniques.</td></tr>
<tr><td>4.5 Justification of inadequacy of existing measures in the CRD or in the CRR, excluding Articles 458 and 459 of the CRR, to address the identified risks
(Article 133(11)(e) of the CRD)</td><td><table>
<tr><th>Measure</th><th>Limitations</th></tr>
<tr><td>Global and other systemically important institutions buffer (Art 131 of the CRD)</td><td>O-SII buffer of 2% will be in effect from the third quarter of 2016
Addresses structural systemic risk that stems from the banking sector being large and concentrated.</td></tr>
<tr><td>Countercyclical capital buffer (Art 130 of the CRD)</td><td>0% effective from 1 January 2016.
Addresses cyclical systemic risk.</td></tr>
<tr><td>Capital conservation buffer (Art 129 of the CRD)</td><td>2.5% effective from 19 May 2014</td></tr>
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<tr><td colspan="2">5. Cross-border and cross-sector impact of the measure</td></tr>
<tr><td>5.1 Assessment of cross-border effects and the likely impact on the internal market
(Article 133(11)(d) of the CRD and Recommendation ESRB/2015/2)</td><td>As the cross-border activities of the banks authorised in Estonia are modest in scope and their exposure abroad is negligible, the buffer requirements will not have a significant impact on the other member states of the European Union or on the European Union as a whole.
Cross-border loans and deposits as a ratio of banks’ total assets in Member States was used as a main indicator for assessing the potential cross-border effects.</td></tr>
<tr><td>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</td><td>The Estonian banking sector is very bank-centred. Therefore the risk of leakages and regulatory arbitrage to other parts of the financial sector is small in the medium term.
However, the share of foreign bank branches and the direct cross-border financing of the real sector is relatively high, which justifies the need for reciprocation of the SRB by other member states.</td></tr>
<tr><td>5.3 Reciprocation by other Member States
(Article 134(4) of the CRD and Recommendation ESRB/2015/2)</td><td>In applying a 1% systemic risk buffer requirement to all the credit institutions authorised in Estonia, Eesti Pank is intending to request other European Union member states from which banks provide banking services in Estonia through branches or directly cross-border to apply an equal or equivalent requirement to exposures in Estonia.
The need for recognition is driven by the structure of the Estonian financial sector, where the share of foreign bank branches is some 26% of the assets of the Estonian banking sector. Alongside the loans issued by the subsidiaries and branches of foreign banks, a significant share of loans are made directly cross-border to the real sector.
The need for the SRB requirement to be recognised comes primarily from the aim of ensuring equal conditions for all the banks competing in the Estonian banking market. If stricter requirements apply only to some</td></tr>
</table>

	banks, the measure will be less effective and regulatory arbitrage will become a risk.
6. Combination of the SRB with other buffers	
6.1 Combination with G-SII and/or O-SII buffers (Article 133(4) and (5) of the CRD)	Eesti Pank will impose an O-SII buffer on the two largest banks operating in Estonia: Swedbank AS and AS SEB Pank. The O-SII buffer for these two institutions amounts to 2% and will be applied on an individual and subconsolidated basis. As the systemic risk buffer is applied only to domestic exposures, the SRB and O-SII buffer are cumulative.
6.2 Other relevant information	The introduction of the SRB in 2014 was motivated by two types of vulnerabilities: vulnerabilities stemming from the structure of the Estonian economy and those from the structure of the Estonian financial system. In the new proposal, the O-SII buffer will cover the systemic risk related to the banking sector structure. Therefore the SRB rate is being cut by one percentage point to 1%.
7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Jaak Tõrs, Head of Financial Stability Department +372 668 0905; jaak.tors@eestipank.ee
7.2 Any other relevant information	N/A