Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB)and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- DARWIN/ASTRA when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Banca d'Italia
1.2 Country of the notifying authority	Italy
1.3 Type of measure (also for reviews of existing measures)	Which SyRB measure do you intend to implement? ☒ Activate a new SyRB ☐ Change the level of an existing SyRB ☐ Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures) ☐ De-activate an existing SyRB ☐ Reset an existing SyRB (review)

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (*OJ L 287, 29.10.2013, p. 63).*
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure

2.1 Institutions covered by the intended SyRB

Please indicate whether the SyRB applies to:

☒ All institutions authorised in the Member State

☐ One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

Name of institution	LEI code	Consolidation level

☐ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

Name of subsidiary	Name of the parent	LEI code of the subsidiary

If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions.

2.2 Exposures covered by the SyRB

(Article 133(5) CRD)

Please indicate the exposures to which the SyRB applies:

☐ (a) all exposures located in the Member State that is setting the buffer;

☒ (b) the following sectoral exposures located in the Member State that is setting the buffer:

(i) ☒ all retail exposures to natural persons that are secured by residential property;
(ii) ☒ all exposures to legal persons that are secured by mortgages on commercial immovable property;
(iii) ☒ all exposures to legal persons excluding those specified in point (ii);
(iv) ☒ all exposures to natural persons excluding those specified in point (i);

☒ (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;

☐ (d) all exposures located in other Member States;

☐ (e) exposures located in third countries.

<table>
<tr>
<td>2.3 Subsets of sectoral exposures</td>
<td>
Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:

- The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA Guidelines on the appropriate subsets of exposures in the application of SyRB:

<table>
<tr><th>Dimensions/subdimensions</th><th>Elements</th></tr>
<tr><td>1. Type of debtor or counterparty sector</td><td></td></tr>
<tr><td>1.a Economic activity</td><td></td></tr>
<tr><td>2. Type of exposure</td><td>All credit and counterparty credit risk exposures</td></tr>
<tr><td>2.a Risk profile</td><td></td></tr>
<tr><td>3. Type of collateral</td><td></td></tr>
<tr><td>3.a Geographical area</td><td></td></tr>
</table>

Assessment conducted by Section 5 of the EBA Guidelines.

<u>Size</u>: Banca d’Italia assesses that the size of the targeted exposures can give rise to a material risk to the stability of the financial system and the real economy in Italy. Domestic original (i.e. not risk-weighted) exposures amount to around 135 per cent of the Italian GDP. Domestic exposures weighted for credit and counterparty credit risks represent 60 per cent of total risk-weighted exposures of the Italian banking system.

<u>Riskiness</u>: A rise in credit risk could lead to significant losses for banks. Following the European sovereign debt crisis, from 2012 to 2016, the banking system cumulated loan loss provisions amounted to almost 160 billion. The gross NPL ratio in 2016 was close to 18 per cent on average, to 30 per cent for loans to firms. A deterioration of the credit quality due to exogenous shocks can cause severe disruptions to the Italian financial system.

<u>Interconnectedness</u>: A shock affecting credit quality may prompt banks to cut credit supply to mitigate losses. If banks do not have enough resources to absorb losses and support the real economy, credit tightening could result in amplification effects, as the Italian economy is predominantly dependent on bank credit (see section 4.2 below).

The measure would tackle almost all exposures described in point 2.2(b).
</td>
</tr>
<tr>
<td>2.4 Exposures located in other Member States and in third countries</td>
<td>Not applicable</td>
</tr>
<tr>
<td>2.5 Buffer rate

(Article 133(9)(e) CRD)</td>
<td>
Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2.

Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.

<table>
<tr><th rowspan="2">Exposures</th><th colspan="2">New SyRB rate</th><th colspan="2">Previous SyRB rate</th></tr>
<tr><th>All institutions (SyRB rate)</th><th>Set of institutions (range of SyRB rates)</th><th>All institutions (SyRB rate)</th><th>Set of institutions (range of SyRB rates)</th></tr>
</table>
</td>
</tr>
</table>

(a) All exposures located in the Member State that is setting the buffer	%	% - %		
(b) *The following sectoral exposures located in the Member State that is setting the buffer:*				
(i) All retail exposures to natural persons that are secured by residential property	%	% - %		
(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property	%	% - %		
(iii) All exposures to legal persons excluding those specified in point (ii)	%	% - %		
(iv) All exposures to natural persons excluding those specified in point (i)	%	% - %		
(c) All exposures located in other Member States	%	% - %		
(e) Exposures located in third countries	%	% - %		
(f) *Subsets of any of the sectoral exposures identified in point (b):*				
(i) Please specify the subset **Domestic credit and counterparty credit risks exposures**	**1%**	% - %		

If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.

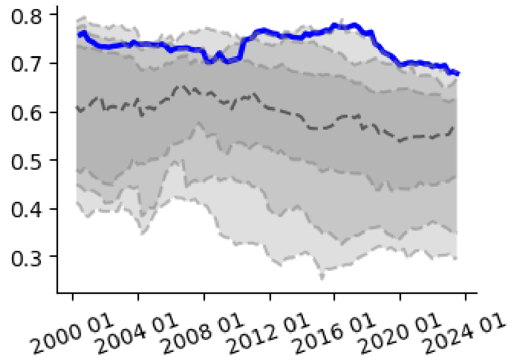
Set of institutions				
Exposures	**Name of institution**	**LEI code**	**New SyRB rate**	**Previous SyRB rate**
			%	
			%	
			%	

3. Timing for the measure

3.1 Timing for the decision	What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. 04/04/2024
3.2 Timing for publication	What is the proposed date of publication of the notified measure? 26/04/2024
3.3 Disclosure	The measure will be communicated along with its rationale on the website of Banca d'Italia. Moreover, before the final decision, Banca d'Italia submitted for public consultation the intended measure. The public consultation document explains the rationale of the buffer and its calibration and includes a cost-benefit analysis.

3.4 Timing for application	What is the intended date of application of the measure? 30/06/2025
3.5 Phasing in	A buffer rate of 0.5 per cent will apply as of 31 December 2024, while the rate of 1 per cent will apply as of 30 June 2025.
3.6 Review/deactivation of the measure	The systemic risk buffer will be reviewed at least every two years according to the legal provisions set by the CRD and implemented in Italy.
4. Reasons for the notified SyRB	
4.1 Description of the macroprudential or systemic risk in your Member State **(Article 133(9)(a) of the CRD)**	The geopolitical tensions stemming from the continuing war in Ukraine and further aggravated by the recent conflict in the Middle East challenge the currently macro-financial environment, compounding existing vulnerabilities and increasing the likelihood of risk materialisation in the future. Furthermore, tighter financing conditions weigh on the debt servicing capacity of non-financial corporations and households. Our projections indicate that loan default rates for households and firms would edge up over the next two years. Italian banks and the private sector are closely linked. On the one hand, over the last decade bank loans represent, on average, almost 70 per cent of the private sector's sources of finance. On the other hand, loans to the private sector represent a significant share of bank credit (see Sections 4.2 and 4.3). The materialization of a shock affecting one or the other sector could feed through to the other, causing amplification effects that could be detrimental from a macroeconomic perspective. Macroprudential capital buffers help to preserve and strengthen resilience in the banking sector and ensure that banks are able to withstand systemic risks, should they materialize. As illustrated by the pandemic, disruptive exogenous shocks (including wars, cyberattacks or climate-related disasters) may hit the financial system and negatively affect credit intermediation regardless of the stage of the financial cycle, by inducing a deterioration of banks' balance sheets and a tightening of credit supply. In September 2022, the European Systemic Risk Board (ESRB) issued a Warning on vulnerabilities in the EU financial system, endorsed by a statement of the European Central Bank (ECB), supporting the increase of macroprudential buffers in countries where the existing capital headroom, coupled with the ability for banks to retain profits, would mitigate the risk of procyclicality.
4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State **(Article 133(9)(b) CRD)**	The Italian economy is predominantly dependent of bank credit. The share of bank lending to the domestic private sector is among the highest in Europe (figure). In case of negative shocks, to avoid amplification effects, it is essential that banks have enough resources to absorb losses and support the real economy. The SyRB would reduce the likelihood of severe disruptions to the banking system in case of materialization of systemic risks.

Share of bank lending to the domestic private sector



The thicker blue line represents Italy. The black dashed line is the EU median. The shaded intervals represent the quantiles of the European cross-sectional distribution of the indicators: the darkest area represents the interquartile range; the intermediate grey are the 90 per cent range; the lighter grey the 95 per cent range.

4.3 Indicators used for activation of the measure

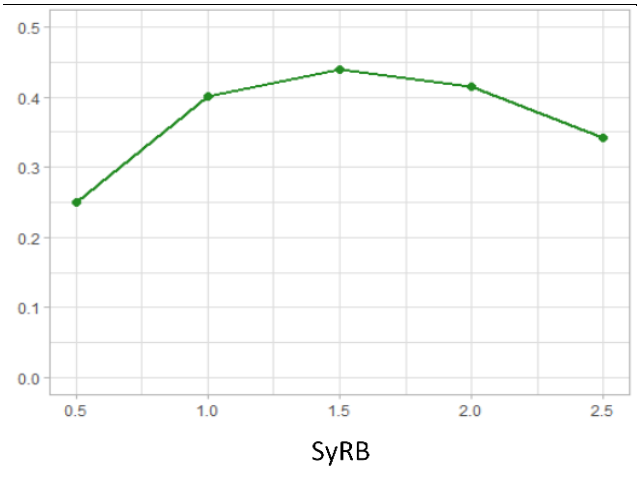
The main indicators prompting the activation of the measure are:

- Share of bank lending to the domestic private sector
- NPL ratio
- Default rate for loans to households
- Default rate for loans to firms
- ROE (data referred to significant institutions)
- 12-month forward return on equity (data referred to listed banks)
- CET1 ratio (data referred to significant institutions)

To explore whether the activation of an SyRB was appropriate in Italy we assessed not only the characteristics of the Italian banking sector that could exacerbate the materialization of risks to financial stability, but also whether in the current junction a new capital buffer could be built-up avoiding prociclical effects.

To analyse the vulnerabilities, we selected a set of systemic risk indicators (SIs) and construct a risk exposure rating (RER) that encompasses three levels of vulnerability: low, medium and high. The approach uses cross-section and time-series quantiles: the level of each risk indicator is compared to the European Union (EU) median and to the 75th percentile of the Italian time-series. Risk indicators that exceed these thresholds signal higher risk and receive a synthetic score accordingly. Individual scores are then aggregated into three macro-categories of homogeneous risks related to: (a) the structural characteristics of the banking sector; (b) the propagation and amplification of shocks; and (c) the exposure to shocks from foreign economies.

While the methodology signals no vulnerability for the Italian banking system arising from the macro-categories (b) and (c), a “high” RER is observed for the risks monitored in the macro-category (a) “structural characteristics of the banking sector”. This result reflects the greater reliance of the Italian economy on bank financing compared to other EU countries and the share of impaired

	and non-performing exposures which, although decreased substantially over the last few years, still remains in the upper range of the EU distribution. The overall RER, encompassing all macro-categories, is therefore assessed as “medium” and supports a possible introduction of a SyRB for the Italian banking system. Moreover, according to our projections, which are based on the most recent macroeconomic scenario, the overall loan default rate for households and firms is set to edge up over the next two years, driven by the higher cost of debt (see [Financial Stability Report, 2023 2](#)). We assess the risk of being procyclical to be very low. Italian banks’ capitalization is at high levels, greater than in the pre-pandemic period. The capital headroom for the whole banking system as of September 2023 is around 47 billion. Moreover, the profitability is historically high and it is expected to remain positive also in the medium term. For 2024, expected profits are estimated to be around 30 billion, almost in line with 2023. Therefore, there are enough resources to build up the new buffer avoiding procyclicality effects.
4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	To support the identification of the adequate SyRB rate we relied, inter alia, on a cost-benefit analysis. In particular, we identified the level of the buffer that would maximize the benefits associated with its release during a downturn while minimizing the costs borne by the economy after its introduction. The effects of a tightening and loosening of the macroprudential measure are assessed in terms of their impact on economic growth using a Bayesian Structural Vector Auto-Regressive (VAR) model calibrated to gauge the Gross Domestic Product (GDP) response function when subjected to exogenous shocks to banks’ capital. This model has also the ability to represent the mutual influences between banks’ balance sheets and the real economy through a feedback mechanism that accounts for the banking system’s capital headroom. We identify the optimal level of the SyRB as the one that maximizes the net benefits, i.e. the difference between the weighted benefits and the costs. The chart below shows that net benefits are maximized for a buffer between 1 and 2 per cent. **The net benefit** *(per cent)* 
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD	The SyRB will apply to all banks’ domestic (credit and counterparty risk-weighted) exposures.

(Article 133(9)(f) CRD)	
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	The SyRB aims at increasing the capacity of the Italian banking system to absorb losses and support the real economy to withstand shock unrelated to the credit cycle. The costs are deemed to be limited. The measure would preserve about 7.4 billion of CET1 in the banking system, which account for less than one fourth of the net profits expected for 2024. The cost-benefit analysis shows that the expected benefits of releasing the buffer at the onset of a crisis would offset the cost of its introduction (see 4.4). Furthermore, we analysed the historical losses of the Italian banking system. The study suggests that to absorb losses during periods of stress a macroprudential buffer of at least 1 per cent would have been necessary.
5.2 Consistency of application of the policy response	According to the Italian regulation, fully in line with the prescriptions of the CRDV, the SyRB is the better option to increase the availability of capital, which can then be released in case of unforeseen events that are not necessarily linked to the domestic financial cycle but that can cause severe disruptions to the financial system. The SyRB can be used to address any macroprudential risk, being it cyclical or structural, not already addressed by other buffer requirements or other measures under the CRR.
5.3 Non-overlap of the policy response	There is no other instrument used to address the same risk. Therefore, there are no interactions with other measures potentially pursuing the same goal.
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2[3])**	Based on an assessment of both outward and inward spillovers, the only cross-border effects could be related to subsidiaries of foreign banking group operating in Italy. ○ We do not expect negative spillovers to the real economy. Almost all Italian banks already have ample capital to satisfy the higher demand due to the measure. Only a couple of very small institutions, already under close scrutiny by Banca d'Italia, would need to increase their capital base, regardless of the introduction of the measure. More generally, all banks could gradually adjust their capital position if needed taking advantage of profitability expected in 2024. ○ The measure could incentivise cross-border lending or through foreign branches, as those would not be subject to the new requirement. Banks could be tempted to provide their financing via branches or cross-border.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	The systemic risk buffer will be applied to all banks in Italy. Accordingly, we do not expect any leakages or circumvention in this respect. However, a relevant share of the targeted exposure (around 16 per cent) refers to subsidiaries of

[3] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

<table>
<tr>
<td></td>
<td>foreign banking group which can have an incentive to move the exposure located in Italy to other banks of the group not located in Italy to circumvent the measure.</td>
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<tr>
<td>6.3 Request for reciprocation by other Member States

(Article 134(5) CRD and Recommendation ESRB/2015/2)</td>
<td>Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD?

Yes

- If yes, please provide in Section 6.4. the justification for that reciprocity.
- If no, what are the reasons for not requesting reciprocation?</td>
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<tr>
<td>6.4 Justification for the request for reciprocation by other Member States

(Article 134(5) CRD and Recommendation ESRB/2015/2)</td>
<td>Applying the buffer only to Italian banks without covering material exposures from abroad (via branches or cross-border) would be detrimental, as the guiding principle of a level-playing field would not be satisfied. Indeed, foreign banks would have a competitive advantage, since they would not be subject to the additional buffer requirements. Those advantages could be limited substantially if the measure were applied in a reciprocal manner in relevant countries. Accordingly, we ask the ESRB to recommend the reciprocal application of the measure by relevant countries to promote a level-playing field.

<u>Materiality threshold and reciprocation</u>
We suggest an institution-specific materiality threshold of 25 bn Euro, approximatively 1 per cent of domestic exposure (identified using COREP tables C09.01 and C09.02) according to data at December 2023. In order to identify the exposures relevant for the materiality threshold, national authorities should use the sum of row 170, column 10 of table C09.01 and row 150 column 10 of table C09.02. In case of reciprocation, the buffer applies to the sum of column 90 row 170 of table C09.01 and column 125, row 150 of table C09.02.

We would suggest calculating the materiality threshold including, in addition to exposures through branches and cross-border, also those of subsidiaries. Moreover, in line with the proposal to amend Recommendation ESRB/2015/2, we would ask the ESRB to recommend reciprocating the measure at the individual and consolidated level.</td>
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<tr>
<td colspan="2">7. Combination of the SyRB with other buffers</td>
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<tr>
<td>7.1 Combination with G-SII and/or O-SII buffers

(Article 131(15) CRD)</td>
<td>Not Applicable
<table>
<tr><th>Name of institution</th><th>G-SII/O-SII buffer rate</th><th>O-SII consolidation level</th><th>Sum of G-SII/O-SII and SyRB rates</th></tr>
<tr><td></td><td>%</td><td></td><td>%</td></tr>
<tr><td></td><td>%</td><td></td><td>%</td></tr>
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<tr>
<td>7.2 Combination with other systemic risk buffers

(Article 133(11) and (12) CRD)</td>
<td>Not Applicable</td>
</tr>
</table>

8. Miscellaneous	
8.1 Contact person(s)/mailbox at notifying authority	Ms Maddalena Galardo Financial Stability Analysis and Coordination Division Email: maddalena.galardo@bancaditalia.it Phone: +39 06 47924182.
8.2 Any other relevant information	
8.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. Click or tap to enter a date.