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	Bulgarian National Bank
1.2 Type of measure intended (also for reviews of existing measures)	Maintain an existing Systemic risk buffer (SRB).
2. Description of the notified measure	
2.1 Institutions covered by the intended SRB	The systemic risk buffer is applicable to all banks authorised in Bulgaria.
2.2 Buffer rate **(Article 133(11)(f) of the CRD)**	The SRB rate is reaffirmed at 3 per cent.
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 official decision of the Governing council of the BNB is 15 October 2019.
3.2 Timing of the Publication	The publication is scheduled for mid-November 2019 to allow for the prescribed one month notification period.
3.3 Disclosure	The BNB will announce on its web-site the Governing council decision to maintain an existing 3% SRB applicable to all banks based on their risk exposures in Bulgaria. Along with the rate, date and the scope of application, the justification for

	the systemic risk buffer will be announced.
3.4 Timing of Application	The initial activation of SRB was in 2014. On 31 October 2017 the Governing council of BNB reaffirmed the measure. On 15 October 2019 the Governing council of BNB reaffirmed the measure.
3.5 Phasing in	Without phase-in
3.6 Review/deactivation of the measure	The SRB requirement will be reviewed 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)**	BNB reaffirmed the SRB at the rate of 3% on the banks' risk exposures in Bulgaria initially introduced in 2014 and subsequently reaffirmed in 2017. The decision reflects the BNB understanding about the optimal capital adequacy level relative to the particular structural risks which the Bulgarian banking system faces. The decision is backed up also by a thorough analysis of the banking system's leading place within the financial system on one hand and its crucial role to support the long-term convergence process of Bulgarian economy on the other. The stage of development and maturity of the national economy and the banking sector calls for more conservative and careful assessment of long term risk and potential vulnerabilities in line with the stringent supervisory approach toward credit institutions especially in the absence of an active monetary policy under the functioning Currency Board.
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)**	Considerations have been made on the propagation of risks in a small open economy with high trade openness where the hypothetical negative shocks erode the creditworthiness of borrowers. Among other contributing factors are the level of indebtedness and the high cross-border interconnections in the private sector of the economy. The banking system shall sustain in the long run a strong and steady capital position enabling each bank and the entire sector to preserve their resilience and to support the development of national economy. The systemic risk buffer is a suitable instrument to be applied for the macroprudential risk in Bulgaria as it is structural and long-term in nature. Moreover, being held in CET1 capital ensures each bank holds capital of highest quality in term of loss absorption capacity, strengthening the overall stability of the banking system.
4.3 Indicators used for the activation of the measure	To support the analysis and motivate the decision the BNB uses variety of metrics to illustrate structural features of the banking system and the real economy. The majority of indicators focus on long-term risks of non-cyclical nature. The time series (covering previous seven years as well as the most recent available data) of indicators are organized in three clusters: 1) Risk stemming from structural characteristics of the banking sector: Role in financial intermediation; Assets'/ Liabilities' and Earnings' composition reflecting the business model; Concentration and Interconnectedness 2) Inherent risks for the banking sector activities: Capital adequacy, Assets quality, Profitability and efficiency and Liquidity

	and 3) Macroeconomic development as exogenous risks factors for the banking system.
4.4 Effectiveness and proportionality of the measure **(Article 133(11)(c) of the CRD)**	Since its introduction in 2014 the measure proved useful and effective to address the macroprudential risk in Bulgaria. Over the years, it has been assessed that the systemic risk buffer does not represent additional regulatory burden for banks.
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)**	Other macroprudential measures alone or in combination are not sufficient to cover the systemic risk that is structural in nature, which stems from the key role of the banking system for both the financial stability and the sustainability of national economy in long term. By their design, scope and objectives those measures target different type of risks. Capital conservation buffer, introduced in 2014 for all banks at 2.5% rate targets increase of banks' capital loss absorbency capacity. Countercyclical capital buffer applicable at a rate of 0.5% from 01.10.2019 and 1% from 01.04.2020 addresses resilience of credit institutions to future cyclical realization of risks after periods of excessive credit growth. For banks identified as O-SIIs, depending on their overall score O-SII, the buffer shall reach rates of 0.5% to 1% in 2020 (at the end of the three year phase-in period rates). The aim is to limit the contagion effects stemming from potential stress event in a systemically important bank to others or to the entire banking system.
5. Cross-border and cross-sector impact of the measure	
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)**	As the SRB scope is limited to the domestic exposures the cross-border effects of the implementation of the measure is not material.
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	The assessment shows limited potential for such regulatory arbitrage as the design of the SRB requires its application on individual as well as on consolidated level.
5.3 Reciprocation by other Member States **(Article 134(4) of the CRD and Recommendation ESRB/2015/2)**	Considering the banking system current structure and concentration, as well as the nature of the measure – a requirement to hold CET1 capital to build-up resilience against the macroprudential risk in Bulgaria - the reciprocation by other Member States is not required.
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)	The SRB applies on both individual and consolidated level based on risk exposures located in Bulgaria and as such is additive to O-SII buffer. Banks identified as O-SII in Bulgaria shall comply with the sum of the two buffer requirements.
6.2 Other relevant information	.

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Stoyan Manolov, Director General, Banking Supervision Department, Bulgarian National Bank, e-mail: manolov@bnbank.org Elisaveta Pravova, Director of Macroprudential Supervision and Financial Stability Directorate, Banking Supervision Department, Bulgarian National Bank, e-mail: pravova.e@bnbank.org Ventsislav Hristev, Head of division at Macroprudential Supervision and Financial Stability Directorate, Banking Supervision Department, Bulgarian National Bank,e-mail: hristev.v@bnbank.org
7.2 Any other relevant information	