ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

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	German Federal Financial Supervisory Authority (BaFin)
1.2 Country of the notifying authority	Germany
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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

<table>
<tr><th colspan="2">2. Description of the measure</th></tr>
<tr><td>2.1 Institutions covered by the intended SyRB</td><td>
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)
<table>
<tr><th>Name of institution</th><th>LEI code</th><th>Consolidation level</th></tr>
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☐ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)
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<tr><th>Name of subsidiary</th><th>Name of the parent</th><th>LEI code of the subsidiary</th></tr>
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If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions.
<u>Not applicable</u>
</td></tr>
<tr><td>2.2 Exposures covered by the SyRB

(Article 133(5) CRD)</td><td>
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);
(<u>Please note</u>: The sectoral systemic risk buffer is rather difficult to fit into the given structure; it is our intention to address all (retail and non-retail) exposures to natural persons and all exposures to legal persons which are both secured by residential property located in Germany and where that collateral is considered to reduce supervisory own funds requirements<u>: Accordingly, the scope of the measure refers to (i) fully and to subsectors of (iii) as well as of (iv).</u>)
</td></tr>
</table>

☒ (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.

2.3 Subsets of sectoral exposures

Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:

1. **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:**

Dimensions/subdimensions	Elements
1. Type of debtor or counterparty sector	Subset of iii: Legal Persons Subset of iv: Natural Persons
1.a Economic activity	
2. Type of exposure	Subset of iii: All exposures Subset of iv: Other than retail
2.a Risk profile	
3. Type of collateral	Subset of iii: Residential property Subset of iv: Residential property
3.a Geographical area	Germany

- **Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account**:
  (i) **Size:**
  BaFin assesses that the size of the targeted subset of sectoral exposures can give rise to a serious risk to the financial system and the real economy in Germany. In September 2021 the residential real estate (stock) loan volume totalled 1,648 bn Euros (of which 480 bn. Euro to companies and self-employed). Housing loans on aggregate accounted for approx. 53% of total loans to companies and households and for approx. 18% of the business volume of German MFI's. To put the German residential real estate market further into perspective, please note that national GDP was 3,567 bn Euros at current prices in 2021 (German Federal Statistical Office).
  (ii) **Riskiness:**
  BaFin's assessment is – amongst others – predominantly based both on the substantial overvaluation in the German market as well as on the Bundesbank-RRE stress test. According to the latter credit losses in the targeted portfolio would be significant under an adverse macroeconomic scenario.
  (iii) **Interconnectedness:**
  The residential real estate sector is on the one hand closely linked to commercial real estate and could impact that market which is already somewhat troubled in some of its segments due to the corona crisis and to overall structural changes. The close link to commercial real estate is particularly evident in the case of (large scale) multi-family house financing, where structural components (volume, complexity etc.) show strong similarities. Furthermore, due to the relative size of the residential real estate sector, the materialisation of risks will have significant direct effects on the overall economy. Banks suffering losses from mortgages will tend to reduce their financing of the real economy, while debtors typically reduce their spending. Through these and other transmission channels, a residential real estate crisis could

have very substantial negative spillover effects on the economy or other market segments.

Please note: BaFin intends to introduce one sectoral systemic risk buffer for all (retail and non-retail) exposures to natural persons and all exposures to legal persons which are both secured by residential property located in Germany and where that collateral is considered to reduce supervisory own funds requirements. The intended systemic risk buffer consists of a buffer according to Article 133(5)(b)(i) and Article 133(5)(f) in conjunction with 133(5)(b)(iii and iv) CRD.

- **Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted?**
- The overall aim is to raise buffer requirements specifically for banks financing residential real estate. We applied the buffer to the given sectors as far as possible (in case of (i)). With regard to (iii) and (iv) we had to make adjustments and built subsets to limit the scope of the measure to residential real estate. Accordingly, solely referring to the given sectors would have expanded the scope beyond residential real estate, which is not justified by our risk assessments.

2.4 Exposures located in other Member States and in third countries

If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries:

Not applicable.

2.5 Buffer rate

(Article 133(9)(e) CRD)

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.

Exposures	**New SyRB rate**		**Previous SyRB rate**	
	All institutions (SyRB rate)	**Set of institutions** (range of SyRB rates)	**All institutions** (SyRB rate)	**Set of institutions** (range of SyRB rates)
(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	2%			
(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 [Dimension/subdimensions]	2%			

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

<u>Not applicable</u>

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? <u>For SSM countries when notifying the ECB:</u> provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken.** 24/03/2022
3.2 Timing for publication	**What is the proposed date of publication of the notified measure?** 25/03/2022
3.3 Disclosure	**Information about the strategy for communicating the notified measure to the market.** **Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system?** Yes, BaFin intends to publish a justification for the SyRB. The justification will be part of the final general ruling as it has already been in the draft provided to the banking industry during the consultation process (12 – 26 January). BaFin (with Deutsche Bundesbank and the Ministry of Finance) has additionally provided very comprehensive answers to FAQ’s including core aspects of legal justification on the Financial Stability Committee’s website.
3.4 Timing for application	**What is the intended date of application of the measure?** 01/04/2022
3.5 Phasing in	**What is the intended timeline for phase-in of the measure (if applicable)?** The buffer rate of 2% must be applied from February 1, 2023 onwards.

3.6 Review/deactivation of the measure	**Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD.** The systemic risk buffer will be reviewed at least every two years according to the legal provisions set by the CRD implemented into the German Banking Act. Additionally, BaFin will regularly check the development of the underlying risk addressed by the sectoral systematic risk buffer and change the buffer rate subsequently, if deemed appropriate.
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 activation of the sectoral systemic risk buffer on residential real estate is a constituent part of a broader package of macroprudential measures. This package consists of three building blocks and addresses both overall cyclical risks and specific risks in the residential real estate market: 1. BaFin has set a 0.75% countercyclical buffer to mitigate overall cyclical risks, including cyclical risks arising from the residential real estate market. 2. BaFin furthermore intends to set a sectoral systemic risk buffer to address non-cyclical stock risks in the residential real estate market and to induce specific steering effects by imposing additional buffer requirements 3. Finally, BaFin issued a communication to providers of residential real estate financing that it expects these institutions to grant new loans in a prudent manner. This expectation particularly refers to key components of loan contracts such as LTV- and DSTI-/DTI-ratios. The activation of the described package is – with regard to residential real estate – the supervisory response to a continuous rise in financial stability risks stemming from this market, particularly: The German residential real estate market experienced significant price increases since 2010. In recent years, growth rates developed dynamically culminating in an increase of 12.4% in Q4/21 y-o-y. Loans have followed this trend and are up approx. 7% y-o-y. Credit standards seem to be rather stable with regard to the LTV-ratio so far, but substantial growth in prices and lending may induce a negative trend in the future. Income-related indicators, particularly the DTI-ratio, show a certain weakening tendency as reported in Bundesbank’s Financial Stability Report 2021. Residential real estate prices have furthermore decoupled significantly from fundamental economic parameters. While Deutsche Bundesbank calculations provided evidence of an overvaluation in cities for a number of years, its current estimate of 20-35% now refers to the countrywide-level, indicating a broad-based stability issue.
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)**	**Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate:** Overvaluations in the residential real estate sector cannot prevail over time, but at some point will result in significant price corrections. Such situation is highly likely to be associated with a worsening of the overall economic situation. It will typically be accompanied by a rising unemployment rate and a worsening of

	the ability of borrowers to service their debt. Bank defaults will therefore increase, especially with regard to loans to heavily indebted households. As regards multi-family houses, renters may face challenges to pay their rents and companies in the housing industry could also get into financial difficulties and increase the risk of bank defaults. Additionally, banks are thus – at the same time – confronted with the situation of realizing loan collateral. This further reinforces the trend of falling house prices. Therefore, this may trigger the need for write-downs and losses for banks as they may have overestimated both debt-service abilities of their borrowers and the value of the collateral during a very long-lasting upward price cycle. If such risks materialize simultaneously, the financial system as a whole may no longer be able to entirely fulfill its tasks. In particular, this can lead to restrictions in the supply of credit to the real economy further exacerbating an existing crisis. Experience has shown that economic crises originating in the real estate sector could be more severe and could last longer than other types of crises. Given the overvaluation, the market dynamics and the overall expectations that prices will rise strongly in the future, BaFin considers the risk of such a disruption to the financial system and the real economy in Germany to be significant. The risks observed need to be addressed by measures that increase the resilience of all banks supplying credit to the residential real estate market as a whole, which is why it is necessary to include the risk positions towards natural as well as legal persons. If these risks were to materialize, this would be highly detrimental as residential real estate financing is – structurally – a key business for many German banks. In September 2021 the residential real estate (stock) loan volume accounted for approx. 18% of the business volume of German MFI's. For some banking groups – particularly cooperative as well as savings banks – the relative importance exceeds 30% on average. As regards the justification of the buffer rate, there are no legal provisions governing the calibration of the SyRB. For the intended sectoral systemic risk buffer for residential real estate loans, the rate was calibrated to the losses likely to occur in an assumed stress scenario (including a 30% downturn in residential real estate prices) in the banking system. These losses were estimated based on Bundesbank stress tests (see also 5.1). The calibration furthermore took into account the level of the CCyB set (0.75%) in order to avoid a double coverage of risk. The buffer rate for the sectoral systemic risk buffer accordingly is set to provide banks with the necessary capital to absorb all losses in an adverse scenario that will not be covered by the CCyB requirements.
4.3 Indicators used for activation of the measure	**Provide the indicators triggering activation of the measured:** The main indicators are amongst others: • overvaluation of residential real estate • continuing high rates of price increases • mortgage loan growth • household debt ratio Data are publically available and regularly updated by Deutsche Bundesbank, see https://www.bundesbank.de/en/statistics/sets-of-indicators/system-of-indicators-for-the-german-residential-property-market.

4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	**Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms?** *Please note: The activation of the sectoral systemic risk buffer is an integral part of a broader package of measures (see 4.1) which primarily, but by no means exclusively addresses residential real estate risks. With regard to residential real estate risks, it therefore needs to be seen in this context, particularly with regard to the countercyclical buffer.* Setting a sectoral systemic risk buffer for residential real estate increases the resilience specifically of the banks providing residential real estate financing. These institutions are therefore better protected to weather a potential materialization of the stability risks described in section 4.1. BaFin additionally calibrated the countercyclical buffer and the sectoral systemic risk buffer to jointly put banks in a situation where they can absorb all losses in an adverse scenario (see 4.2 and particularly 5.1). The envisaged measure is therefore considered to be effective. The measure is furthermore proportionate, as it does not prohibit this kind of lending, but induces changes to the relative prices of distinct lending segments. It accordingly does not intervene in the constitutional rights (freedom of contract) of lenders and borrowers, but leaves it to banks whether or not they want to further engage in this business given the additional buffer requirements. BaFin does not have any milder, equally effective means; in particular other macroprudential measures that we have examined during the activation process were not considered to be appropriate tools in the current macroprudential situation. The measure will be regularly assessed by BaFin both micro- and macroprudentially. The macroprudential assessment will include all available indicators and tools, particularly those previously mentioned (Bundesbank indicator set, stress tests). Internally, macroprudential supervisors will discuss the measures and its consequences with microprudential supervisors in risk committees. Externally, BaFin will discuss and assess the measures with Bundesbank regularly both on the working-level and in the Financial Stability Committee.
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD **(Article 133(9)(f) CRD)**	**Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD.** The intended sectoral systemic risk buffer does not apply to all exposures. It will solely be applied to exposures which are secured by residential property located in Germany and where that collateral is considered to reduce supervisory own funds requirements.
5. Sufficiency, consistency and non-overlap of the policy response	
	BaFin's assessment of sufficiency is predominantly based on stress tests conducted by Deutsche Bundesbank. As mentioned earlier, the sectoral systemic risk buffer is however only one pillar in the package, BaFin will

5.1 Sufficiency of the policy response	introduce in the near future. Accordingly, assessing its sufficiency generally needs a broader view than solely focussing on this instrument. Accordingly, Bundesbank has calculated the losses of banks in an adverse scenario, including a 30% downturn in residential real estate prices, using its stresstests and its loss absorption tool. It is our assumption that banks necessarily need to be able to absorb these losses. Since we set a 0.75% countercyclical buffer and the systemic risk buffer is subordinate to this instrument, we consider the losses will firstly be covered by the more comprehensive tool and only the residual needs to be covered by the sectoral systemic risk buffer. Estimates for the residual losses pointed to a systemic risk buffer of close to 2%. Since banks will be able to absorb all losses in an adverse scenario, we believe that our package is fully sufficient to address the relevant stability risks with regard to the stock of residential real estate loans. The calibration of the sectoral systemic risk buffer is lower than it would be in a case of an isolated activation. This is – in our view – however fully justified, as a) cyclical residential real estate risks have to be covered by the countercyclical buffer according to the given legal provisions and b) banks will be put in the situation to absorb all potential losses through our comprehensive macroprudential package. Finally, please note that BaFin also addressed risks in new loans through a communication on prudent lending standards.
5.2 Consistency of application of the policy response	The macroprudential package, including the sectoral systemic risk buffer, has been taken based on the macroprudential strategy of the German Financial Stability Committee. It has been vastly discussed within the committee between the Ministry of Finance, Deutsche Bundesbank and BaFin, but finally decided by BaFin independently. The measure primarily intends to mitigate and prevent excessive credit growth and leverage by activating the sectoral systemic risk buffer (and the countercyclical buffer) after having checked whether other instruments would be suitable. The package will be set according to the legal provisions and published after a public hearing of the banking industry. BaFin will ask the ESRB for a reciprocal application of the sectoral systemic risk buffer in other countries to avoid circumvention of the measures. BaFin and Bundesbank will regularly assess whether the relevant stability risk prevails and whether the macroprudential package is still appropriate. BaFin will act to change or deactivate the measures, whenever necessary. Accordingly, we believe that the introduction of the sectoral systemic risk buffer and the whole package is in line with the key stipulations of the ESRB recommendation 2013/1.
5.3 Non-overlap of the policy response	**For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk.** - **Are other policy instruments used to address the <u>same</u> systemic risk?** - **If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other**. Avoiding the overlap of measures is a key task when implementing a broader package of measures. This holds particularly true in case of potentially overlapping instruments such as the countercyclical buffer and the sectoral

	systemic risk buffer where furthermore a specific pecking order is legally stipulated. Accordingly, BaFin addressed this issue with great care. Given the legal stipulations, cyclical risks in residential real estate had to be addressed by the countercyclical buffer, relegating the sectoral systemic risk buffer to be a secondary line of defence or a residual component for non-cyclical risk elements. Due to this situation, BaFin opted for a conditional sectoral systemic risk buffer (see 4.2 and more specifically 5.1) to avoid any overlapping. Hence, the countercyclical capital buffer of 0.75% of risk-weighted assets on domestic exposures was set first. It is intended to address overall cyclical risk and therefore also contributes to mitigating cyclical residential real estate risks. The sectoral systemic risk buffer was then set to account for the residual losses banks would incur in an adverse scenario when cyclical risks had already been accounted for by the countercyclical buffer. The clear distinction between cyclical and non-cyclical risks in residential real estate and "topping-up" the countercyclical buffer by the systemic risk buffer to the necessary degree ensures the non-overlap of the applied instruments.
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])**	Residential real estate financing has historically been a rather segmented field of lending; nowadays cross-border transactions tend to gain substantial importance. Banks near the relevant borders address the same market segment in their own and in their neighbouring countries. Big players have subsidiaries abroad, but are able to shift business and capital within their group. Given that background, existing stability risks in German residential real estate may impact foreign countries and their financial stability, when their banks provide such financing. A crisis on the overheated German market would translate into potential losses for the involved foreign banks and – if it were to occur on a large scale – potential risks for the financial stability of the respective countries. In case other relevant (predominantly neighbouring) countries apply the envisaged sectoral systemic risk buffer in a reciprocal manner, this would be beneficial for those countries, as their concerned banks would have an additional buffer to absorb potential risks arising from the German residential real estate market. Furthermore, applying the buffer only to German banks and not covering material exposures from abroad (via branches or cross-border) would be detrimental, as the guiding principle of a level-playing field would be abandoned. Foreign banks would have a competitive advantage since they would not be subject to the additional buffer requirements. This could incentivize more foreign banks to provide financing to the German residential real estate market, which would counteract the measure and consequently raise stability risks in Germany even further. At the very end, this would negatively affect the concerned foreign banks and the financial stability of their home countries. Accordingly, applying the buffer reciprocally in relevant countries would be beneficial for all involved countries.

[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).

	BaFin has thoroughly weighted the previously mentioned advantages and drawbacks of the measure in its decision. The activation of the German sectoral systemic risk buffer will however have some side effects by causing inward and outward spillovers. Those disadvantages could be reduced substantially, if the measure would be 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 and help to protect financial stability in Germany and in other involved countries. As regards the Single Market, we do not deem the activation of the sectoral systemic risk buffer to have significant negative effects that would outweigh the financial stability benefits. The measure does not intend to cause market segmentation along national borders. Instead, it contributes to safeguarding financial stability nationally and at the same time to avoiding the spreading of existing national stability risks to other European countries.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	**Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)?** **Is there scope for "leakages and regulatory arbitrage" in other jurisdictions?** The sectoral systemic risk buffer will be applied to all banks in our jurisdiction. Accordingly, we do not expect any leakages or circumvention in this respect. However, due to the existing legal provisions the systemic risk buffer does only apply to banks. Some leakages resulting from shifting exposures between sectors is generally possible. BaFin nevertheless considers this risk to be rather limited. Funds so far do not provide any loans for residential real estate due to existing regulations. We do not expect this to change in the future. Insurance companies so far hold a very minor market share (approx. 4%) and might potentially take over some business. We believe this effect to be rather moderate because insurance companies have so far predominantly been active in a very specific market segment (lower risk loans, long maturities) and have not expanded to other segments on a larger scale. BaFin will monitor closely whether residential real estate loans are shifting from banks to other financial institutions and will take (micro-)prudential action, if deemed necessary.
6.3 Request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	**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 4. If yes, please provide in Section 6.4. the justification for that reciprocity. 5. If no, what are the reasons for not requesting reciprocation?
	To request reciprocation, please provide the following: - **a concise description of the measure to be reciprocated;**

6.4 Justification for the request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	- **the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness;** - **the proposed materiality threshold and justification for that level.** The activation of the sectoral systemic risk buffer on residential real estate is a constituent part of a broader package of macroprudential measures. This package consists of three building blocks (countercyclical buffer, sectoral systemic risk buffer, communication to prudently set LTV-/DSTI-/DTI-ratios) The one sectoral systemic risk buffer is set at 2%. It applies to exposures to natural and legal persons which are secured by residential property located in Germany and where that collateral is considered to reduce supervisory own funds requirements. <u>Financial stability considerations and reciprocity request</u> The measure is predominantly based on our assessment of strongly rising residential real estate prices and loans in a situation of prevailing substantial overvaluation on the national level (see above). Imposing the sectoral systemic risk buffer (and the countercyclical buffer alongside) raises the resilience of those banks providing residential real estate financing. Accordingly, these buffer requirements will put banks in the situation to absorb losses in an adverse scenario. The sectoral systemic risk buffer is also intended to set moderate incentives to reduce this type of lending by changing relative prices. Mitigating risk in the German residential real estate market will however only occur, if the effects are not offset by circumvention or leakages. National leakages seem to be very limited. With regard to cross-border circumvention we nevertheless consider two sources of leakages to be of major relevance: a) Banks situated close to the border of neighbouring countries tend to be in direct competition with those foreign institutions in geographic proximity. This refers predominantly to smaller banks. Putting an additional burden solely on national peers will weaken their competitiveness. It will however have no dampening effect on the residential real estate market as foreign banks will step in, use their new competitive edge and provide the same financing cross-border. b) Banks that are authorized both in Germany and in at least another European country could be tempted to provide the same financing as before in the future in a cross-border manner. Such relocation of business to a foreign subsidiary or their head office could be beneficial individually, if the respective country of the premise will not have equivalent buffer requirements in place. While this holds true for a number of German banks, it is even more relevant since two European banks that provide residential real estate financing on a large scale in Germany. <u>Materiality threshold</u> Housing loans granted to domestic companies and individuals amount to 1,650 bn Euro in Germany. According to the current practice based on the ESRB recommendation 2015/2 (1% of relevant total loan volume) this would - in principle - lead to an institution-specific materiality threshold of 16.5 bn Euro. Such threshold would however by no means be a suitable solution: • Numerous smaller foreign banks close to the border (see point a) above) would not be addressed as they typically provide housing loans on a much lower scale

	• Even the big international banks mentioned above (point b)) would not be covered in such situation. To address the issue appropriately, national data unfortunately do not provide reasonable information on cross-border lending from abroad. Consequently, we suggest using some reasonable workaround. In that respect, referring to an average amount seems to be a suitable solution in a market with a very specific structure (please recall that almost 1,500 mostly smaller institutions are authorized to carry out banking business in Germany). Therefore, we suggest to using the overall average, i.e. the total housing loans (1,650 bn Euro) divided by the number of banks in Germany (1,469). According to this calculation, we ask the ESRB to refer to an <u>institution specific materiality threshold of 1.1 bn Euro</u>. *(Please note: We are fully aware that such threshold deviates quite significantly from the current ESRB practice. We however believe that proceeding this way is a reasonable second best solution due to the specific market structure in Germany and the lack of sufficient data. We are nevertheless very open to discuss this issue with the ESRB).*
7. Combination of the SyRB with other buffers	
7.1 Combination with G-SII and/or O-SII buffers **(Article 131(15) CRD)**	**Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%?** <u>No</u> **Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission):** *Please note: Simply adding the buffer rates for the sSyRB and the G-SII/O-SII is in our view somewhat misleading as they refer to different key references.*

Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates
Deutsche Bank AG	2,0 %		4,0 %
Commerzbank AG	1,25 %		3,25 %
DZ Bank AG Deutsche Zentral-Genossenschaftsbank	1,0 %		3,0 %
Unicredit Bank AG	1,0 %		3,0 %
J.P. Morgan Bank AG	0,75 %		2,75 %
Landesbank Baden-Württemberg	0,75 %		2,75 %
Landesbank Hessen-Thüringen Girozentrale	0,5 %		2,5 %
Bayerische Landesbank	0,5 %		2,5 %
ING-DiBa AG	0,25 %		2,25 %
NRW.Bank	0,25 %		2,25 %
Norddeutsche Landesbank – Girozentrale	0,25 %		2,25 %
Goldman Sachs Bank Europe SE	0,25 %		2,25 %
Landwirtschaftliche Rentenbank	0,25 %		2,25 %
DekaBank Deutsche Girozentrale	0,25 %		2,25 %

7.2 Combination with other systemic risk buffers **(Article 133(11) and (12) CRD)**	**Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below:** **6. above 3% and up to 5%** **7. above 5%** **Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%.** None
8. Miscellaneous	
8.1 Contact person(s)/mailbox at notifying authority	**Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries.** Mailbox for e-mail correspondence: syrb@bafin.de Rainer Stühler, +49 (0) 228-4108-3752, Rainer.Stuehler@bafin.de Michael Vormann, +49 (0) 228-4108-4091, Michael.Vormann@bafin.de
8.2 Any other relevant information	
8.3 Date of the notification	**Please provide the date on which this notification was uploaded/sent.** 10/03/2022