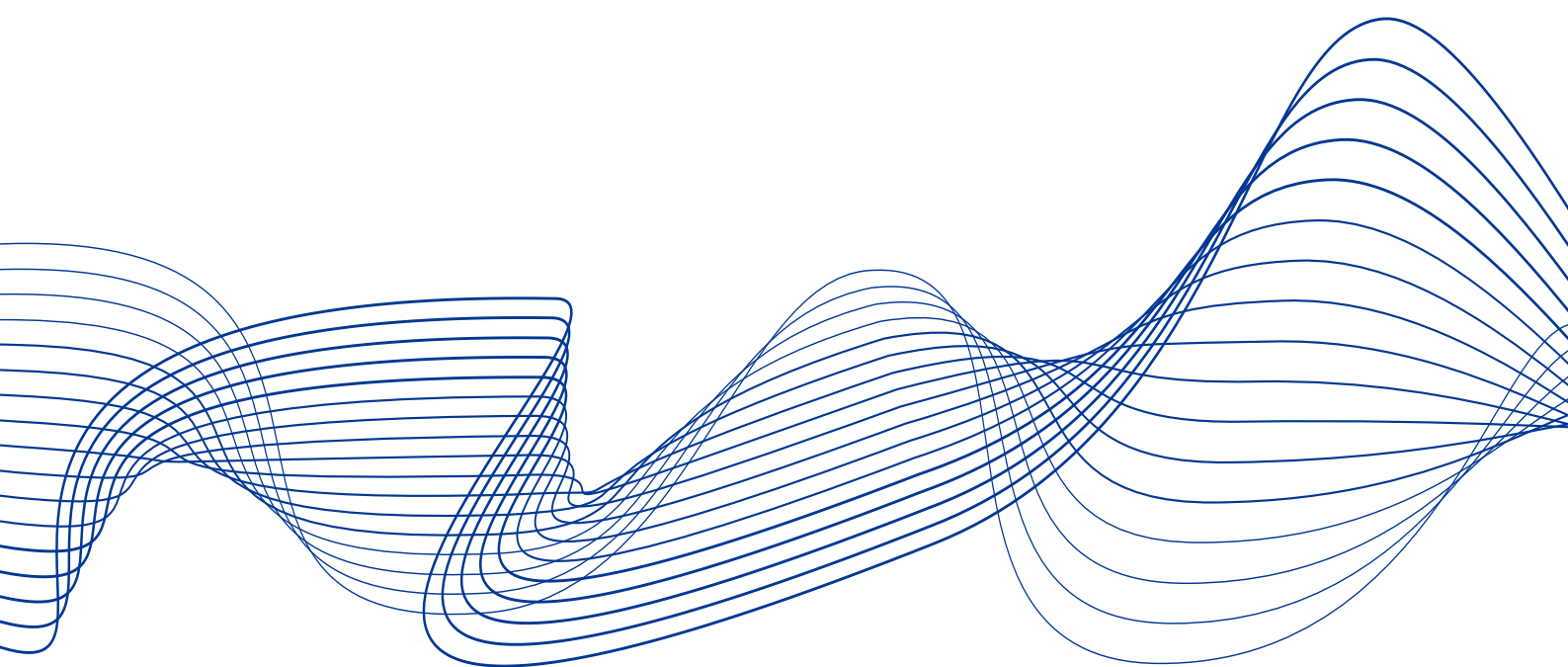


Summary Compliance Report

May 2022

Recommendation of the European
Systemic Risk Board of 11
December 2015 on recognising and
setting countercyclical buffer rates
for exposures to third countries
(ESRB/2015/1)



ESRB

European Systemic Risk Board

European System of Financial Supervision

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1 Introduction

This report provides a summary of the assessments¹ of the implementation of the European Systemic Risk Board’s Recommendation of 11 December 2015 on recognising and setting countercyclical buffer (CCyB) rates for exposures to third countries (ESRB/2015/1) (hereinafter “the Recommendation”), addressed to designated authorities (NDAs).² The report contains a summary of the assessments of addressees’ compliance or explanation for non-compliance with the Recommendation based on their submissions to the ESRB Secretariat. Addressees were asked to report on their own compliance, as provided for under Section 2 of the Recommendation, by 31 December 2016 and by 31 December 2020.

The Recommendation complements Article 139 of Directive 2013/36/EU³ (the Capital Requirements Directive (CRD)), which allows NDAs, in certain circumstances, to set a CCyB rate for exposures to a third country. Third countries are those that are not members of the European Economic Area (EEA). The CCyB framework for EEA countries is laid out in the CRD and in Recommendation ESRB/2014/1. In contrast to CCyB rates in EEA countries, where NDAs set rates and other NDAs cannot top them up (although the ESRB can recommend that they set higher rates), NDAs can set or increase CCyB rates for exposures to third countries.

This report focuses the implementation status of sub-recommendations B(2) and D as at 31 December 2016, and of sub-recommendations A(1), A(2), B(1), B(3) and C as at 31 December 2020. The deadline for the addressees to provide information on the level of implementation of sub-recommendations B(2) and D was 31 December 2016 and the assessment was completed by June 2017. Under the first time frame, addressees were also requested to report to the ESRB a list of criteria established for the materiality assessment of the relevant third countries, as a first step in the implementation of sub-recommendation B(1). The deadline for the addressees to submit the reporting template on the level of implementation of sub-recommendations A(1), A(2), B(1), B(3) and C was 31 December 2020 and the assessment was completed by February 2022.

¹ The first report, concerning sub-recommendations B(1), B(2) and Recommendation D, was adopted by the General Board in November 2017 (GB/WP/2017/028).

² For the purposes of the Recommendation, “designated authority” has the same meaning as in Recommendation ESRB/2014/1: a) “designated authority” means a public authority or body designated by a Member State in accordance with Article 136(1) of Directive 2013/36/EU or the ECB in accordance with Article 9(1) of Regulation (EU) No 1024/2013.

³ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, p. 338).



2 Policy objectives

The Recommendation aims to promote a coherent approach across the Union for recognising and setting countercyclical buffer rates for exposures to third countries, helping to protect the banking sector in EU Member States from risks associated with excessive growth in credit to the private non-financial sector in third countries.

Cross-border lending brings an international dimension to the CCyB. Losses can arise from exposures of Member States' domestic banking sectors to third countries. Such losses could be significant if a third country to which a Member State's domestic banking sector has material exposures entered an economic downturn following a period of excessive credit growth.

Article 139 of the CRD allows NDAs in certain circumstances to set a CCyB for exposures to a third country that domestically authorised institutions have to apply to calculate their institution-specific CCyB. An NDA can act in situations where a CCyB has not been set and published by the relevant third-country authority or if it considers that the CCyB set by the relevant third-country authority is not sufficient to protect the Member States' domestic banking sectors from potential losses associated with excessive credit growth in the third country in question.

However, if performed in an uncoordinated manner, setting or recognising CCyB rates for exposures to third countries can result in different capital requirements within the Union for exposures to the same third country and the same risks. Different capital requirements within the Union for exposures to the same third country and the same risks are undesirable, as they would undermine the level playing field within the Union and provide an opportunity for regulatory arbitrage.

Credit institutions in a Member State where the CCyB that applies to the exposures to a given third country is lower than that applicable in other Member States would have an incentive to gain market share by increasing their lending to that third country. This could lead to large, concentrated exposures to a particular third country for credit institutions in a particular jurisdiction. Ultimately, such an uneven playing field and the resulting incentives for regulatory arbitrage could threaten financial stability in the Union. This Recommendation is designed to ensure that the same CCyB rate for exposures to a particular third country would apply across the Union. In this regard, the ESRB has an explicit mandate to achieve coherence for the buffer settings under Article 139(3) of the CRD.

Article 138 of the CRD provides the ESRB with a specific mandate to address risks arising from excessive credit growth in third countries. Specifically, when actions taken by authorities in a third country are deemed insufficient to protect the Union's banking sector from risks stemming from excessive credit growth in that third country, the ESRB may issue a recommendation to NDAs within the Union on the appropriate CCyB rate for such exposures.



Decision ESRB/2015/3⁴ sets out the framework for the ESRB mandate and “material third countries”⁵ therefore need to be identified. The potential impact of excessive credit growth in a given third country on the Union’s banking system depends on the size and nature of the exposures to that third country of banks which have their head offices in the Union. Given that the ESRB does not have the capacity to monitor developments in all third countries around the world, it considers that it can best discharge its mandate under Article 138 of Directive 2013/36/EU by monitoring only the countries to which Union’s banking system has material exposures for signs of excessive credit growth. This approach is enshrined in Recommendation and Decision ESRB/2015/3, which also propose a possible definition for materiality.

While the ESRB identifies and monitors third countries that are material for the EU as a whole, specific third countries could be material for individual Member States without being material for the Union. Therefore, the Recommendation aims to provide guidance for NDAs on how to identify and monitor material third countries at a national level. The EU-wide exercise and the assessment at individual Member State level complement each other.

The Recommendation is intended to ensure that NDAs: (i) recognise CCyB rates set by third-country authorities, (ii) set CCyB rates for exposures to third countries and, (iii) set lower CCyB rates when risks in a particular third country abate or materialise. More specifically, Recommendations A, B, C and D pursue the following policy objectives.

Recommendation A – Recognition of countercyclical buffer rates set by third-country authorities

Sub-recommendation A(1) is designed to ensure that, when a relevant third-country authority sets a countercyclical buffer rate for that third country in excess of 2.5%, NDAs promptly inform the ESRB with a view to seeking guidance on uniform recognition across the Union, unless the rate applies to a country that is a member of the BCBS or the ESRB has already been informed about the particular countercyclical buffer rate by another designated authority. Moreover, according to sub-recommendation A(2), when NDAs are unclear as to whether a particular measure adopted by a third-country authority should be recognised under Directive 2013/36/EU as a countercyclical buffer rate, they are recommended to promptly inform the ESRB, unless the ESRB has already been informed by another designated authority.

Recommendation B – Setting of countercyclical buffer rates for exposures to third countries

Recommendation B is designed to ensure that when exercising their powers to set a countercyclical buffer rate for exposures to a particular third country, NDAs set this rate at the same level. According to sub-recommendation B(1), each NDA should have a methodology in place to identify material third countries annually and should submit a list of these countries to the ESRB in the second quarter of each year. According to sub-recommendation B(2), the NDA should assess the macro-financial situation of material third countries at least annually, unless these countries are monitored by the ESRB. According to sub-recommendation B(3), the NDA should notify the ESRB

⁴ Decision of the European Systemic Risk Board of 11 December 2015 on the assessment of materiality of third countries for the Union’s banking system in relation to the recognition and setting of countercyclical buffer rates (ESRB/2015/3), OJ C 97, 12.3.2016, p. 23.

⁵ For the ESRB, material third countries account for at least 1% of total exposures, including domestic exposures.



of situations where it considers that a relevant third country authority should set and publish a countercyclical buffer rate for that third country, or where the level of the countercyclical buffer rate set and published by a relevant third-country authority for that third country is not considered sufficient to protect domestic financial institutions from the risks of excessive credit growth in the third country in question.

Recommendation C – Setting of countercyclical buffers rates for exposures to third countries at a lower rate

Sub-recommendation C(1) establishes that if a countercyclical buffer rate set by a relevant third-country authority for that third country is recognised on the basis of an ESRB recommendation, and the relevant third-country authority sets the countercyclical buffer rate at a lower rate, NDAs are recommended to promptly inform the ESRB with a view to seeking guidance on uniform recognition or setting of the new lower countercyclical buffer rates, unless the rate in question applies to a country that is a member of the BCBS, or the ESRB has already been informed of the new lower countercyclical buffer rate by another designated authority. Sub-recommendation C(2) states that if the relevant third-country authority sets the countercyclical buffer rate at a lower rate and the countercyclical buffer rate applying to exposures to that third country was set on the basis of an ESRB recommendation, NDAs are recommended to promptly inform the ESRB and seek guidance as to whether a lower countercyclical buffer rate should be applied to exposures to that third country, unless the rate in question applies to a country that is a member of the BCBS or the ESRB has already been informed of the new lower countercyclical buffer rate by another designated authority. Lastly, sub-recommendation C(3) states that if the countercyclical buffer rate applying to exposures to a third country was set on the basis of an ESRB recommendation, and an NDA considers that the risks are materialising or abating, the NDA is recommended to promptly notify the ESRB and seek guidance as to whether a lower countercyclical buffer rate should be applied to exposures to that third country, unless the ESRB has already been informed thereof by another designated authority.

Recommendation D – Communication of decisions on recognition and setting of countercyclical buffer rates for exposures to third countries

Recommendation D is designed to ensure that decisions on countercyclical buffer rates for exposures to third countries are clearly communicated to all the relevant stakeholders both within the Union and to third countries. The Recommendation seeks to manage public expectations, ensure that actions between NDAs can be coordinated and that the credibility, accountability and effectiveness of macroprudential policy are enhanced.

Compliance criteria

The Recommendation also sets out the following compliance criteria.

“Addressees should report on the actions they take in response to this Recommendation, or to adequately justify any inaction. The reports should contain as a minimum:

- (a) information on the type of action taken and its timing;



- (b) an assessment as to whether the actions taken achieved the objectives of this Recommendation;
- (c) detailed justification of any inaction or departure from this Recommendation, including any reasons for delay in reporting.”

EEA EFTA states

The Recommendation became applicable to and in EEA European Free Trade Association (EFTA) states with effect from October 2016. The EEA EFTA states were required to comply with all aspects of the Recommendation, including those for which follow-up reports were due before that date. However, owing to organisational matters and taking into account that, at that time, these states had just joined the ESRB, the first Compliance Report, which was based on reports submitted by addressees by 31 December 2016, did not cover EEA EFTA states. During the second assessment stage, the assessment team decided that it was sufficient to provide in the report a summary of the information on the methodologies used by the EEA EFTA states and of whether the relevant NDAs regularly submitted a list of material third countries to the ESRB in the second quarter of each year, based on the information available in the notifications and the reporting templates. Moreover, the differences in the legal frameworks of these states led the assessment team to consider the related information provided by the relevant national authorities.



3 Methodology

In accordance with Article 17 of the ESRB Regulation⁶, an assessment of the implementation of each ESRB recommendation has to be carried out following the “act or explain” mechanism, where the addressee of a recommendation can either (i) take action in response to a recommendation and inform the ESRB of that action, or (ii) take no action provided that it can properly justify the reasons for inaction. The ESRB subsequently analyses the information provided and assesses whether the action taken duly achieves the objective of the recommendation or whether the justification provided for inaction is sufficient. This analysis results in a final compliance grade being assigned to each addressee.

The assessment follows the methodology provided in the **Handbook on the assessment of compliance with ESRB recommendations** of April 2016. The assessment of Recommendation ESRB/2015/1 was carried out in 2017 by a first assessment team (AT) of nine assessors, with one Chair, endorsed by the Advisory Technical Committee (ATC), and in 2021 by a second AT of six assessors (and one alternate), with one Chair, endorsed by the ATC (see Annex I to this report).

3.1 Grading methodology

In order to assign a single grade per sub-recommendation and recommendation for each addressee, a four-step grading methodology was employed, in line with the ESRB Handbook. This methodology ensures the full transparency of the single overall compliance grade and a high level of objectivity across the entire assessment process, while still allowing room for expert judgement, which can easily be identified and reviewed to gain an understanding of the rationale behind the allocation of particular overall grades.

Step I. When assessing compliance with the recommendations, the implementation of each sub-recommendation and its respective compliance criteria are each graded according to the following scale: fully compliant, largely compliant, partially compliant, materially non-compliant, or non-compliant. In the case of inaction, the grades sufficiently explained or insufficiently explained are used. Not applicable (N/A) is assigned if the sub-recommendation is not applicable. In this assessment, not all the grades were deemed appropriate. Therefore, the AT adjusted the implementation standards accordingly (see Annex IV).

The grading scale for action is as follows:

- fully compliant (FC): an addressee complies entirely with the requirements;

⁶ Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).



- largely compliant (LC): requirements have been met almost entirely and only negligible requirements remain to be implemented;
- partially compliant (PC): the most important requirements have been met; certain deficiencies affect the adequacy of the implementation, without resulting in a situation where the given recommendation has not been acted upon;
- materially non-compliant (MN): the requirements have been fulfilled to a degree, resulting in a significant deficiency in the implementation;
- non-compliant (NC): almost none of the requirements have been met, even if steps have been taken towards implementation.

The grading scale for inaction is as follows:

- sufficiently explained (SE): a complete and well-reasoned explanation for the lack of implementation has been provided. If one or more of the sub-recommendations are intended to address a particular systemic risk that does not affect a particular addressee, such justification/explanation may be considered sufficient;
- insufficiently explained (IE): the explanation given for the lack of implementation is not sufficient to justify the inaction.

The last grade is:

- not applicable (N/A): the sub-recommendation does not apply to a particular addressee.

Step II. Each compliance grade is converted into a numerical grade (see the table below) to be weighted and aggregated into a single compliance grade for each sub-recommendation at a later stage. For the purpose of this assessment, a numerical grade of one was allocated to the N/A compliance grade so as not to distort the weighting of the respective sub-recommendation.

Compliance grade	Numerical grade
FC	1
LC	0.75
PC	0.5
MC	0.25
NC	0
SE	1
IE	0
N/A	1

Step III (level of sub-recommendation). The weighted average of the numerical grades is calculated following the agreed weighting scheme, i.e. applying the respective weights of each sub-recommendation.

Step IV (level of sub-recommendation). Lastly, the overall compliance grade is determined by using the conversion table below. After reaching a single compliance grade for each sub-



recommendation, a final grade for compliance with the entire Recommendation is calculated according to the weights assigned to each sub-recommendation using the conversion table below.

Compliance grade	Numerical grade
FC	0.9 – 1
LC	0.65 - <0.9
PC	0.4 - <0.65
MN	0.15 - <0.4
NC	0 - <0.15

The level of compliance is then expressed in colour-coded form*:

Positive grades	Mid-grade	Negative grades
Fully compliant (FC) – Actions taken fully implement the Recommendation		Materially non-compliant (MN) – Actions taken only implement a small part of the Recommendation
Largely compliant (LC) – Actions taken implement almost all of the Recommendation	Partially compliant (PC) – Actions taken only implement part of the Recommendation	Non-compliant (NC) – Actions taken are not in line with the nature of the Recommendation
Inaction sufficiently explained (SE) – No actions were taken but the addressee provided sufficient justification		Inaction insufficiently explained (IE) – No actions were taken and the addressee did not provide sufficient justification

**Please note that for the assessment of the respective sub-recommendations of this Recommendation, the neutral grade, “Not applicable” (N/A), was also included in the grading scale.⁷*

3.2 Weights

Based on the first and second stages of the assessment, the AT assigned the following weights to the criteria of the respective sub-recommendations.

⁷ For instance, the AT included an N/A grading in sub-recommendation B(2) for countries that did not identify material third countries under B(1). Hence there is no need for monitoring.



Table 1

Weights assigned to criteria in each sub-recommendation: (B(1), B(2), D)⁸

Recommendation		Criteria
B	B(1)	Content/substance: 4/5
		Form/status: 1/5
	B(2)	Content/substance: 4/5
		Form/status: 1/5
D	Content/substance: 10	

Table 2

Weights assigned to criteria in each sub-recommendation: A(1), A(2), B(1), B(3) and recommendation C⁹

Recommendation		Criteria
A	A(1)	Content/substance: 2/3
		Form/status: 1/3
	A(2)	Content/substance: 2/3
		Form/status: 1/3
B	B(1)	Content/substance: 2/3
	B(3)	Form/status: 1/3
C		N/A

Weights assigned to criteria in each sub-recommendation

The different assessment criteria selected for each sub-recommendation, as well as the assigned weight of each criterion were developed together with the implementation standards outlined in Annex II. The selected criteria and their individual weights reflect the importance of the role the addressee's actions/inactions play in fulfilling the requirements of the specific sub-recommendation. As a result, the relative importance of each criterion is taken into account when assessing the extent to which the addressee's actions mitigate the risks addressed in the sub-recommendation.

The following criteria are applied when assessing the actions taken by the addressee under each sub-recommendation:

- "content/substance" is designed to assess whether the addressee has followed all the substance-related requirements provided both expressly and implicitly in the sub-recommendation;

⁸ Based on the previous compliance report.

⁹ Established by the current AT.



- “form/status” is also given due prominence and weight for certain sub-recommendations to grade the formal aspects of the implementation process (i.e. timeliness and medium of communication of measures in the sub-recommendation in accordance with Annex II).

The AT allocated weights to “content/substance” and “form/status” for sub-recommendations A(1), A(2), B(1), B(2) and B(3) (see Table 1). The form/status criterion was not considered applicable to the assessment of the implementation of Recommendation D since, unlike for the other above-mentioned sub-recommendations, no specific form or deadline for notification/submission is envisaged for this recommendation. Lastly, the AT decided not to assign weights for Recommendation C given that situations envisaged in this recommendation as triggers for recommended actions have never occurred.

Weights assigned to each sub-recommendation

Based on the first and second stages of the assessment, the AT assigned the following weights to the respective sub-recommendations.

Table 3
Weights per recommendation and sub-recommendation*

Category	Weight
Recommendation A(1)	1/8
Recommendation A(2)	1/8
Recommendation B(1) first assessment	1/8
Recommendation B(1) second assessment	2/8
Recommendation B(2)	1/8
Recommendation B(3)	1/8
Recommendation C(1)	N/A
Recommendation C(2)	N/A
Recommendation C(3)	N/A
Recommendation D	1/8

*The rows highlighted in yellow refer to (sub-)recommendations subject to the assessment conducted in 2021. The other rows refer to (sub-)recommendations subject to the assessment conducted in 2017.

Since the first assessment in 2017 did not cover EEA EFTA States, sub-recommendations B(1) (as of 2017), B(2) and D were not assessed. In these cases, the weights relating to those sub-recommendations were equally redistributed among the sub-recommendations that were assessed.

3.3 Principle of proportionality

In line with EU legislation, the ESRB Handbook recognises the prominent relevance of the principle of proportionality. In observance of this principle, the AT took into account the specificity of the sub-recommendations’ objectives and the legal powers of the addressees.



The principle of proportionality required the AT to take account of the magnitude and the character of the risk targeted when assessing the adequacy of the actions taken by the NDAs so as to achieve the set policy objectives.



4 Overall results

The assessment of compliance with the implementation of recommendations A, B, C and D of the Recommendation shows that all of the 31 national designated authorities assessed were graded “fully compliant”.

According to the results of the assessment, most NDAs comply with all the recommendations and sub-recommendations that required action on their part in the period analysed. A high level of compliance with Recommendation B(1) can be observed and, where applicable and assessed, there is almost full compliance with Recommendation B(2). There is also almost full compliance (where assessed) with Recommendation D.

A breakdown of the overall results by country is shown in the colour-shaded table below.



Addressees	Recommendation A – Recognition of countercyclical buffer rates set by third-country authorities		Overall compliance grade for Recommendation A	Recommendation B – Setting of countercyclical buffer rates for exposures to third countries				Overall compliance grade for Recommendation B	
	A(1) assessment in 2021	A(2) assessment in 2021		B(1) assessment in 2017	B(1) assessment in 2021	B(2) assessment in 2017	B(3) assessment in 2021		
AT	FMA	N/A	N/A	N/A	FC	FC	FC	N/A	FC
BE	NBB	N/A	N/A	N/A	FC	FC	FC	N/A	FC
BG	BNB/FSC	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
CY	CBC	N/A	N/A	N/A	FC	FC	FC	N/A	FC
CZ	CNB	N/A	N/A	N/A	FC	FC	FC	N/A	FC
DE	BaFin	N/A	N/A	N/A	FC	FC	FC	N/A	FC
DK	Ministry of Industry, Business and Financial Affairs	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
EE	EP	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
ES	BDE	N/A	N/A	N/A	FC	FC	FC	N/A	FC
FI	FIN-FSA	N/A	N/A	N/A	FC	FC	FC	N/A	FC
FR	BdF	N/A	N/A	N/A	FC	FC	FC	N/A	FC
GR	BoG	N/A	N/A	N/A	FC	FC	FC	N/A	FC
HR	HNB	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
HU	MNB	N/A	N/A	N/A	FC	FC	FC	N/A	FC
IE	CBI	N/A	N/A	N/A	FC	FC	FC	N/A	FC
IS	CBI	N/A	N/A	N/A	not assessed	SE	not assessed	N/A	FC
IT	BdI	N/A	N/A	N/A	FC	FC	FC	N/A	FC
LI	FMA	N/A	N/A	N/A	not assessed	SE	not assessed	N/A	FC
LT	BoL	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
LU	CSSF/BCL	N/A	N/A	N/A	FC	FC	FC	N/A	FC
LV	FCMC	N/A	N/A	N/A	FC	FC	FC	N/A	FC
MT	CBM	N/A	N/A	N/A	LC	FC	FC	N/A	FC
NL	DNB	N/A	N/A	N/A	FC	FC	LC	N/A	FC
NO	NB	N/A	N/A	N/A	not assessed	FC	not assessed	N/A	FC
PL	NBP	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
PT	BdP	N/A	N/A	N/A	FC	FC	FC	N/A	FC



Addressees		Recommendation A – Recognition of countercyclical buffer rates set by third-country authorities		Overall compliance grade for Recommendation A	Recommendation B – Setting of countercyclical buffer rates for exposures to third countries				Overall compliance grade for Recommendation B
		A(1) assessment in 2021	A(2) assessment in 2021		B(1) assessment in 2017	B(1) assessment in 2021	B(2) assessment in 2017	B(3) assessment in 2021	
RO	National Committee for Macroprudential Oversight	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
SE	Finansinspektionen	N/A	N/A	N/A	FC	FC	FC	N/A	FC
SI	BoS	N/A	N/A	N/A	FC	LC	N/A	N/A	FC
SK	NBoS	N/A	N/A	N/A	FC	FC	N/A	N/A	FC
ECB	ECB	N/A	N/A	N/A	LC	LC	FC	N/A	LC



Addressees	Recommendation C – Setting of countercyclical buffers rates for exposures to third countries at a lower rate			Overall compliance grade for Recommendation C	Recommendation D – Communication of decisions on recognition and setting of countercyclical buffer rates for exposures to third countries Assessment in 2017	Final overall compliance grade for Recommendation ESRB/2015/1
	C(1) assessment in 2021	C(2) assessment in 2021	C(3) assessment in 2021			
AT	FMA	N/A	N/A	N/A	FC	FC
BE	NBB	N/A	N/A	N/A	FC	FC
BG	BNB/FSC	N/A	N/A	N/A	FC	FC
CY	CBC	N/A	N/A	N/A	FC	FC
CZ	CNB	N/A	N/A	N/A	FC	FC
DE	BaFin	N/A	N/A	N/A	FC	FC
DK	Ministry of Industry, Business and Financial Affairs	N/A	N/A	N/A	FC	FC
EE	EP	N/A	N/A	N/A	FC	FC
ES	BDE	N/A	N/A	N/A	FC	FC
FI	FIN-FSA	N/A	N/A	N/A	FC	FC
FR	BdF	N/A	N/A	N/A	FC	FC
GR	BoG	N/A	N/A	N/A	FC	FC
HR	HNB	N/A	N/A	N/A	FC	FC
HU	MNB	N/A	N/A	N/A	FC	FC
IE	CBI	N/A	N/A	N/A	FC	FC
IS	CBI	N/A	N/A	N/A	not assessed	FC
IT	BdI	N/A	N/A	N/A	FC	FC
LI	FMA	N/A	N/A	N/A	not assessed	FC
LT	BoL	N/A	N/A	N/A	FC	FC
LU	CSSF/BCL	N/A	N/A	N/A	FC	FC
LV	FCMC	N/A	N/A	N/A	FC	FC
MT	CBM	N/A	N/A	N/A	FC	FC
NL	DNB	N/A	N/A	N/A	FC	FC
NO	NB	N/A	N/A	N/A	not assessed	FC
PL	NBP	N/A	N/A	N/A	FC	FC
PT	BdP	N/A	N/A	N/A	FC	FC
RO	National Committee for Macroprudential Oversight	N/A	N/A	N/A	FC	FC
SE	Finansinspektionen	N/A	N/A	N/A	FC	FC



Addressees		Recommendation C – Setting of countercyclical buffers rates for exposures to third countries at a lower rate			Overall compliance grade for Recommendation C	Recommendation D – Communication of decisions on recognition and setting of countercyclical buffer rates for exposures to third countries Assessment in 2017	Final overall compliance grade for Recommendation ESRB/2015/1
		C(1) assessment in 2021	C(2) assessment in 2021	C(3) assessment in 2021			
SI	BoS	N/A	N/A	N/A	N/A	FC	FC
SK	NBoS	N/A	N/A	N/A	N/A	FC	FC
ECB	ECB	N/A	N/A	N/A	N/A	FC	FC



5 Conclusions

Under the mandates of the ATC, two ATs conducted an assessment of NDA compliance with Recommendation ESRB/2015/1 (in 2017 and 2021, respectively). These assessments respond to the obligations foreseen in this Recommendation, and complement each other in the assessment of all parts of it.

The first observation is that several provisions of the sub-recommendations in the scope of this assessment were found not to be applicable in practice because the situations envisaged as triggers for recommended action(s) on the part of the NDAs did not occur in the period under examination (cut-off date 31 December 2020). However, for the parts of the sub-recommendations for which the NDAs were expected to show positive action, almost full compliance was observed and all NDAs were overall rated as “fully compliant”.

Recommendation A

Sub-recommendations A(1) and A(2) apply only to situations in which a countercyclical buffer rate for exposure to third countries has been set in excess of 2.5%. No such situations had been recognised at the cut-off date of the last assessment (31 December 2020). Therefore, Recommendation A was deemed not to be applicable and compliance could not be assessed for the purpose of this evaluation.

Sub-recommendation B(1)

The overall level of compliance with sub-recommendation B(1) is high, and the latest assessment broadly matches the one conducted in 2017. The vast majority of NDAs are assessed as “fully compliant” and although they have the freedom to use a methodology of their choice, only two deviate substantially from the ESRB methodology (set out in Decision ESRB/2015/3).

Some NDAs have slightly adapted the quantitative criteria of the ESRB methodology. Adaptations mainly relate to the types of exposures taken into consideration and the respective threshold value.

- **Types of exposures.** Some NDAs do not take into account the defaulted exposures, whereas the ESRB methodology suggests the use of three different types of exposures: original, defaulted and risk-weighted. In some cases, the threshold of 1% was only reached for defaulted exposures, but this was deemed to be a one-off, temporary effect, or expert judgement was applied, and the third country in question was excluded from the list of material third countries.
- **Threshold value.** Some NDAs do not adhere to the 1% threshold suggested in Decision ESRB/2015/3. In those cases, they apply a higher threshold (of 2% or 5% for NDAs following a methodology that is close to the ESRB methodology). Although not required, in the vast majority of cases NDAs provide explanations for the reasons that have led them to use a different threshold. These explanations range from specific circumstances in the banking sector that warrant a different threshold to the need to balance two competing goals: i.e.



capturing relevant risks in third jurisdictions, while narrowing down the countries to be monitored to those for which enhanced monitoring is truly warranted.

A few other differences have been identified in relation to the ESRB methodology, such as the use of different time horizons (e.g. computing average exposures over the four most recent quarters instead of the eight most recent quarters), and the use of other data sources to complement COREP data (e.g. where there is missing data).

One area that appears to call for expert judgement relates to potential cyclical risks stemming from banking exposures to offshore financial centres (OFC). For instance, the Cayman and Marshall Islands have been flagged as material third countries for some Member States (according to the quantitative thresholds of their identification methodology), but these countries have typically been excluded from the final list of material third countries to be monitored and notified to the ESRB. This is because European banks are not really exposed to the real economy of offshore centres themselves but, through financial centres, they are exposed to the economic cycles in the countries that ultimately use the funds intermediated by banks established in financial centres. As a result, many NDAs find that monitoring the economic situation in offshore centres does not enhance their ability to identify and monitor relevant risks. Moreover, data for these offshore centres' GDP and housing markets developments are often sparse or not available.

Sub-recommendation B(2)

For sub-recommendation B(2), the AT has taken into account the fact that the CCyB is a recently implemented macroprudential instrument and the measurement of cyclical systemic risk is a complex task. At the time the first assessment was conducted in 2017, many NDAs were still in an initial phase of measuring and addressing cyclical systemic risk, therefore a number of replies appeared to be somewhat vague and short on details.

Some OFCs were included in the identification exercises, which in most cases were not material. When exposures to these countries are material and related to the private non-financial sector, systemic risk related to excessive credit growth should be monitored. However, monitoring could prove difficult given the lack of financial and macroeconomic data regularly observed for OFCs.

11 of the 29 NDAs carry out monitoring exercises. Moreover, several NDAs have identified and monitor more than one material third country. 13 of the 20 NDAs that have identified material third countries have submitted a notification to the ESRB stating that they do not monitor some or all of these. Five NDAs monitor developments in material third countries that are being monitored by the ESRB. One country has decided not to monitor identified material third countries, even though the ESRB does not monitor them. The overall compliance level with sub-recommendation B(2) is high, with the majority of the addressees graded as "fully compliant" and having reported to the ESRB on time.

The most frequently mentioned indicator in the national monitoring frameworks is the standard Basel credit-to-GDP gap, as used in the frameworks for the national CCyB rates. Other frequently used indicators are property prices indicators, in addition to indicators that measure external imbalances, the strength of banks' balance sheets, and the private sector debt burden.



Two NDAs have a monitoring framework in place even though no material third countries have been identified. This step enables them to monitor the development of potential systemic risks if and when they identify a material third country in the future.

Sub-recommendation B(3)

This recommendation applies only to situations where a member considers the countercyclical buffer in a third country to be inappropriate. Since no such situation had arisen as at the cut-off date of the last assessment (31 December 2020), sub-recommendation B(3) is deemed not to be applicable and thus compliance could not be assessed for the purpose of this evaluation.

Recommendation C

This recommendation applies only to situations in which a countercyclical buffer rate for exposure to third countries has been set or recognised by designated authorities based on an ESRB recommendation. Since, up to the cut-off date of the last assessment (31 December 2020), no such ESRB recommendations have been issued, Recommendation C is deemed not to be applicable and thus compliance could not be assessed for the purpose of this evaluation.

Recommendation D

The overall degree of compliance with Recommendation D is high. All NDAs are assessed to be “fully compliant”. Some NDAs have employed a number of good practices, which could be considered as guidance to further improve the effectiveness of the communication frameworks.

Apart from communicating their decisions on material third countries, some countries have explicitly disclosed the absence of material third countries. Moreover, some NDAs have reported third countries that have been identified as material, but for which no indication of excessive credit growth was noted. Most NDAs have made the information and decisions on CCyBs available in English for foreign stakeholders. These practices increase transparency and help to promote timely coordination between the NDAs and the authorities of the material third countries.

Nevertheless, the recommendation does not specify the types of decisions for recognising and setting CCyB rates for third countries that should be published, and NDAs have consequently adopted different approaches. As an example, not all NDAs disclose the methods they use to identify and monitor material third countries. Moreover, the recommendation does not indicate whether NDAs should publish the list of material third countries. If the NDA has reasons not to disclose this list, the communication strategy is clearer if it is explicitly stated that the list is not publicly available.

Other considerations

The ATs acknowledge high levels of cooperation from all NDAs, which provided the requested information/documentation on time. The teams also thank the Secretariat of the ESRB for its proficient and responsive assistance throughout the process.

The AT set up for the assessment conducted in 2021 found that some of the (sub)-recommendations were drafted in a manner that hindered, or could have hindered, their assessment. For example, some sub-recommendations (A2 or B3) identify as subjective



circumstances as triggers for action (i.e. the NDAs being “unclear” about or “considering” whether a given situation requires different action by third countries). To determine whether these circumstances have actually materialised, the AT could only rely on the declarations made by the NDAs. If the recommendations had envisaged more objective criteria, the AT could reach a determination as to whether the triggers have occurred by also referring to these criteria. The team also found that the recommendations condition the recommended actions for circumstances which may or may not be known to the NDA in question in real time (e.g. no other NDA has notified the ESRB, as per recommendations A1, A2, C1, C2, C3). The AT offers these observations, which may be useful if or when the Recommendation is reviewed.



Annexes

Annex I: Composition of the Assessment Teams

Composition of the 2017 AT

	Institutions
Karlo Kauko, Chairperson	Suomen Pankki – Finlands Bank
Agné Bukavickaitė	Lietuvos bankas
Bruno de Backer	Nationale Bank van België/Banque Nationale de Belgique
Georgios Efstathiou	Bank of Greece
Christian Gleble	Deutsche Bundesbank
Lenka Janik	European Central Bank
Matias Lamas	Banco de España
Sofia Melo	Banco de Portugal
Karol Zelenak	Národná banka Slovenska
Varvara-Faidra Frygana	ESRB Secretariat
Petranda Mansour	ESRB Secretariat
Tiago Páscoa	ESRB Secretariat
Alexander Trachta	ESRB Secretariat

Composition of the 2021 AT

	Institutions
Davide Lombardo, Chairperson	European Commission
Marina Feliciano (alternate: Ana Regina Pereira)	Banco de Portugal
Jörg Hicking	BaFin
Grigore Ivan	Banca Națională a României
Luca Moller	Banca d'Italia
Elise Peron	Banque de France
Aleksandra Granat	ESRB Secretariat
Eleni Katsigianni	ESRB Secretariat



Annex II: Implementation standards*

Implementation standards for the assessment conducted in 2017

Sub-recommendations B(1) and B(2)

Grade	Criterion	Standards	
		B(1)	B(2)
FC	Content/ substance	<p>An identification methodology based on, but not necessarily limited to, quantitative information (quantitative criteria) on exposures is in place. The list of criteria is either described or a reference is made to an existing methodology (such as the one described in Decision ESRB/2015/3).</p> <p>The methodology in place is applied to all third countries on an annual basis with up-to-date data to identify material third countries or state that no third country is found material. Sufficient explanations are provided when one or more third countries flagged as material by the quantitative criteria are not identified as material, or conversely when one or more third countries are not flagged but identified as material.</p>	<p>For identified material third countries not already being monitored by the ESRB, authorities have provided information on the risk indicators used to monitor excessive credit growth in material third countries. The reference to excessive credit growth is explicit (e.g. concrete indicators). The monitoring framework is completed in time (until end-2016), but can be developed further afterwards.</p> <p>Authorities have clearly stated that the monitoring is done for all material countries they identified under B(1), except if they notified not to monitor a material third country because that country is already being monitored by the ESRB.</p> <p>Authorities have indicated that the monitoring is done at least at annual frequencies in cases where material third countries have been identified, excluding countries that are notified not to be monitored because that country is already being monitored by the ESRB.</p> <p>Authorities have notified the ESRB of non-monitoring cases. The notification clearly says that the respective third country was identified as material at the national level and that the NDA decided not to monitor the third country because it is already being monitored by the ESRB.</p>
	Form/status	<p>The list of material third countries is submitted to the ESRB in the second quarter of each year in a template completed in accordance with Annex II to Recommendation ESRB/2015/1.</p>	<p>If applicable (i.e. for NDAs that decided not to monitor a third country because it is already being monitored by the ESRB), a completed template has been provided to the ESRB pursuant to Annex II to the Recommendation.</p> <p>The deadline for the notification to the ESRB about a decision not to monitor a third country because it is already being monitored by the ESRB (by 31 December 2016) was also met.</p>
LC	Content/ substance	<p>A methodology is in place and used to identify material third countries, but it is not applied to some third countries (e.g. those already being monitored by the ESRB).</p>	<p>Authorities have only provided general information on the components of monitoring (e.g. "measure of credit risk"). The reference to excessive credit growth is only implicit ("measure of excessive credit growth", no concrete indicators are provided).</p> <p>The monitoring framework is not completed in time (until end-2016), but at that time still under development. The NDA does, however, explain that the framework – albeit on-going – at the time of notification allows for a proper risk monitoring.</p>



	Form/status	<p>The list of material third countries is not submitted in the second quarter of the year; it is submitted with a significant delay that could hinder the work of the AT.</p> <p>The template used to submit the list of material third countries to the ESRB does not comply with Annex II to Recommendation ESRB/2015/1.</p>	<p>If applicable (i.e. for NDAs that decided not to monitor a third country because it is already being monitored by the ESRB), the notification of not monitoring a third country because monitoring is done by the ESRB has not been provided to the ESRB using a template completed in accordance with Annex II to the Recommendation. All the necessary information is delivered via other means.</p> <p>The deadline for the notification to the ESRB about a decision not to monitor a third country because it is already being monitored by the ESRB (by 31 December 2016) has been met.</p>
PC	Content/ substance	<p>The list of quantitative criteria is only partially described.</p> <p>An identification methodology has been defined as required by Recommendation ESRB/2015/1, but it is not used on an annual basis or with greater frequency.</p>	<p>The monitoring exercise is not carried out at least at annually when material third countries have been identified, excluding countries that are notified as not being monitored because they are already being monitored by the ESRB. Authorities have only provided general information on the components of monitoring (e.g. "measure of credit risk"). No (neither explicit nor implicit) reference to excessive credit growth has been made.</p> <p>The monitoring framework has not been completed in time (end-2016), but is still under development. The NDA does not explain that the framework – albeit on-going – at the time of notification allows for proper risk monitoring.</p>
	Form/ status		N/A
MN	Content/ substance	<p>Insufficient explanations are provided when one or more third countries flagged as material by the quantitative criteria are not identified as material, or conversely when one or more third countries are not flagged but identified as material.</p> <p>The identification methodology has not been carried out with up-to-date data.</p>	N/A
	Form/ status		N/A
NC	Content/ substance	<p>No identification methodology is in place, or it is applied only to a small set of third countries.</p> <p>The list of quantitative criteria is not described or no reference is made to an existing methodology.</p>	N/A
	Form/status	<p>The exhaustive list of material third countries is not submitted to the ESRB.</p>	<p>The deadline for reporting to the ESRB (31 December 2016) has not been met. The delay is significant (i.e. after end-2016), hindering the work of the AT.</p>



SE	Content/ substance	N/A	Authorities have identified material third countries under B(1) that are to be monitored by the NDA (i.e. there has been for some country(s) no notification not to monitor because the third country is already being monitored by the ESRB). However, the country or countries cannot be monitored because no data that allow the monitoring of excessive credit growth are available. A best-effort approach by the authority could result in a grade of "fully compliant". A best effort, for example, could be the development or indication of indicators that would signal excessive credit growth, bilateral contacts to third country authorities and gathering relevant internal and external information on the third country. The authority indicates the steps taken to carry out a best effort assessment in the notification.
	Form/status		N/A
IE	Content/ substance	N/A	Authorities do not monitor material third countries and do not provide adequate justifications or notifications of third countries not being monitored because these countries are already being monitored by the ESRB.
	Form/status		N/A
N/A			Where no material third countries are identified in B(1), sub-recommendation B(2) does not apply (N/A) since there is no requirement for monitoring.



Recommendation D

	Standards
Grade	D
FC	<p>Authorities have:</p> <ul style="list-style-type: none"> developed a clear strategy for communicating their decisions on the CCyB (= provided an overall description of the communication framework and how it operates); established a mechanism for coordinating with other designated authorities as well as the ESRB (= provided a description of the communication framework); established transparent stable processes and well-defined channels of communication to key stakeholders and the public (= provided a description of how the communication mechanism operates and the method used to make the decisions public (e.g. website, financial stability report, etc.); the communication channels have been announced to addressees and key stakeholders before they are used.
LC	N/A
PC	<ul style="list-style-type: none"> Authorities have provided a description of the communication framework and a sample of the method used to make the decisions public (e.g. website) but have not provided information about a mechanism for coordinating with other designated authorities as well as the ESRB and/or decisions on CCyB rates and material third countries are made public but authorities have only provided a sample of the method used to make the decisions public (e.g. website) and/or the communication channels have not been announced to the addressees before they are used.
MN	N/A
NC	<ul style="list-style-type: none"> No communication framework and no strategy for coordination with other designated authorities or the ESRB is in place and/or the established communication framework does not entail clear, transparent and stable processes as well as well-defined channels of communication to key stakeholders and the public and/or decisions on CCyB rates are not made public at all.
SE	N/A
IE	N/A



Implementation standards for the assessment conducted in 2021

Recommendation A

Grade	Criterion	Standards	
		A(1)	A(2)
FC	Content/ substance	Designated authorities consistently and in a timely manner inform the ESRB when the authority of a relevant third country which is not a member of the BCBS sets a countercyclical buffer rate for that third country in excess of 2.5%, with a view to seeking guidance on uniform recognition across the Union, unless they are reasonably sure that the ESRB has already been informed about the particular countercyclical buffer rate by another designated authority.	Designated authorities consistently and in a timely manner seek the ESRB's views whenever they are unclear as to whether a particular measure adopted by a third-country authority should be recognised under Directive 2013/36/EU as a countercyclical buffer rate, unless they are reasonably sure that the ESRB has already been informed about the particular measure by another designated authority.
	Form/status	Designated authorities use the template in Annex I to Recommendation ESRB/2015/1.	Designated authorities use the template in Annex I to Recommendation ESRB/2015/1.
LC	Content/ substance	Designated authorities consistently inform the ESRB when the authority of a relevant third country which is not a member of the BCBS sets a countercyclical buffer rate for that third country in excess of 2.5%, with a view to seeking guidance on uniform recognition across the Union, unless they are reasonably sure that the ESRB has already been informed about the particular countercyclical buffer rate by another designated authority.	Designated authorities consistently seek the ESRB's views whenever they are unclear as to whether a particular measure adopted by a third-country authority should be recognised under Directive 2013/36/EU as a countercyclical buffer rate, unless they are reasonably sure that the ESRB has already been informed about the particular measure by another designated authority.
	Form/status	Designated authorities notify the ESRB, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1 or with some delay.	Designated authorities notify the ESRB, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1 or with some delay.
PC	Content/ substance	Designated authorities occasionally fail to notify the ESRB when a relevant third country which is not a member of the BCBS sets a countercyclical buffer rate for that third country in excess of 2.5%, and the ESRB has not already been informed about the particular countercyclical buffer rate by another designated authority.	Designated authorities occasionally fail to notify the ESRB when they are unclear as to whether a particular measure adopted by a third-country authority should be recognised under Directive 2013/36/EU as a countercyclical buffer rate, and the ESRB has not already been informed about the particular measure by another designated authority.
	Form/status	Designated authorities notify the ESRB most of the time, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1 or with some delay.	Designated authorities notify the ESRB, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1 or with some delay.
MN	Content/ substance	Designated authorities fail to notify the ESRB most of the time when the authority of a relevant third country which is not a member of the BCBS sets a countercyclical buffer rate for that third country in excess of 2.5%, and the ESRB has not already been informed about the particular countercyclical buffer rate by another designated authority.	Designated authorities fail to notify the ESRB most of the time when they are unclear as to whether a particular measure adopted by a third-country authority should be recognised under Directive 2013/36/EU as a countercyclical buffer rate, and the ESRB has not already been informed about the particular measure by another designated authority.



	Form/status	Designated authorities notify the ESRB a few times, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1 or with some delay.	Designated authorities notify the ESRB a few times, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1 or with some delay.
NC	Content/ substance	Designated authorities consistently fail to inform the ESRB when the authority of a relevant third country which is not a member of the BCBS sets a countercyclical buffer rate for that third country in excess of 2.5%, and the ESRB has not already been informed about the particular countercyclical buffer rate by another designated authority.	Designated authorities consistently fail to inform the ESRB whenever they are unclear as to whether a particular measure adopted by a third-country authority should be recognised under Directive 2013/36/EU as a countercyclical buffer rate, and the ESRB has not already been informed about the particular measure by another designated authority.
	Form/status	No notification is made to the ESRB.	No notification is made to the ESRB.
SE	Content/ substance	Designated authorities explain, to the ESRB's satisfaction, the reasons for their failure to inform the ESRB in a timely manner when the authority of a relevant third country which is not a member of the BCBS sets a countercyclical buffer rate for that third country in excess of 2.5%.	Designated authorities explain why they consider that a particular measure adopted by a third-country authority should not be recognised under Directive 2013/36/EU as a countercyclical buffer rate, and said explanation is logical, reasonable and does not contradict established jurisprudence (i.e. established categorisation of similar measures in the past as countercyclical buffers).
	Form/status	For each occasion in which the recommended notification to the ESRB has not taken place or has taken place with undue delay, the designated authority explains the reasons for such failure in a documented, reasoned and convincing manner.	For each occasion in which the recommended notification to the ESRB has not taken place or has taken place with undue delay, the designated authority explains the reasons for such failure in a documented, reasoned and convincing manner.
IE	Content/ substance	N/A	N/A
	Form/status	The designated authority provides incomplete explanations for its failure to make some or all of the expected notifications.	The designated authority provides incomplete explanations for its failure to make some or all of the expected notifications.
N/A		The situation envisaged in Recommendation A(1) has never occurred.	The situation envisaged in Recommendation A(2) has never occurred.



Sub-recommendations B(1) and B(3)

Grade	Criterion	Standards	
		B(1)	B(3)
FC	Content/ substance	<p>An identification methodology based on, but not necessarily limited to, quantitative information (quantitative criteria) on exposures is in place. The list of criteria is either described or a reference is made to an existing methodology (such as the one described in Decision ESRB/2015/3).</p> <p>The methodology in place is applied to all third countries on an annual basis with up-to-date data to identify material third countries or state that no third country is found material. Sufficient explanations are provided when one or more third countries flagged as material by the quantitative criteria are not identified as material, or conversely when one or more third countries are not flagged [by a mechanic application of the methodology] but are identified as material [as a result of expert judgement].</p>	<p>Designated authorities consistently notify the ESRB when they consider that: (i) a relevant third-country authority should set and publish a countercyclical buffer rate for that third country, or (ii) the level of the countercyclical buffer rate set and published by a relevant third-country authority for that third country is not sufficient to protect domestic financial institutions from the risks of excessive credit growth in the third country in question.</p> <p>The methodology and procedures for identification of these situations are in place and are applied consistently.</p>
	Form/status	<p>The list of material third countries is submitted to the ESRB in the second quarter of each year in a template completed in accordance with Annex II to Recommendation ESRB/2015/1. One-month delay (i.e. until 31 July each year) does not cause the downgrading the relevant addressee.</p>	<p>Designated authorities use the Template in Annex I to Recommendation ESRB/2015/1.</p>
LC	Content/ substance	<p>A methodology is in place and used to identify material third countries, but it is not applied to all third countries and/or not consistently over time.</p>	<p>The methodology and procedures for identification of these situations are in place but not applied consistently to all the relevant third countries.</p>
	Form/status	<p>The list of material third countries is not consistently submitted in the second quarter of the year; delays (up until 30 September each year for at least one year when the reporting has been required) have been at times experienced, which could hinder the work of the AT.</p> <p>The template used to submit the list of material third countries to the ESRB does not fully comply with Annex II to Recommendation ESRB/2015/1.</p>	<p>Designated authorities notify the ESRB, but not in a format consistent with the template in Annex I to Recommendation ESRB/2015/1.</p>



PC	Content/ substance	<p>The list of quantitative criteria is only partially described.</p> <p>An identification methodology has been defined as required by Recommendation ESRB/2015/1, but it is not used consistently on an annual basis, or with any greater frequency.</p>	<p>The methodology in place only identifies one of the two situations below:</p> <p>a relevant third-country authority should set and publish a countercyclical buffer rate for that third country;</p> <p>the NDA establishes that the level of the countercyclical buffer rate set and published by a relevant third-country authority for that third country is not sufficient to protect domestic financial institutions from the risks of excessive credit growth in the third country in question.</p> <p>As a result, designated authorities only notify the ESRB in some of the required circumstances, but fail to do so systematically for others.</p>
	Form/ status	<p>The list of material third countries is not consistently submitted in the second quarter of the year; significant delays (up until 30 November each year for at least one year when the reporting has been required) have been at times experienced, which could hinder the work of the AT.</p> <p>The template used to submit the list of material third countries to the ESRB does not comply with Annex II to Recommendation ESRB/2015/1.</p>	<p>Not all situations are notified to the ESRB. The notifications that do take place do not follow the prescribed template in Annex I to Recommendation ESRB/2015/1.</p>
MN	Content/ substance	<p>Insufficient explanations are provided when one or more third countries flagged as material by the quantitative criteria are not identified as material, or conversely when one or more third countries are not flagged but identified as material.</p> <p>The identification methodology has not been carried out with up-to-date data.</p>	<p>Designated authorities fail to notify the ESRB most times in which they consider that: (i) a relevant third-country authority should set and publish a countercyclical buffer rate for that third country, or (ii) the level of the countercyclical buffer rate set and published by a relevant third-country authority for that third country is not sufficient to protect domestic financial institutions from the risks of excessive credit growth in the third country in question.</p>
	Form/ status	<p>The list of material third countries is not consistently submitted in the second quarter of the year or for at least one year in which the notification is required, or the latter takes place with significant delay (after 30 November of the relevant year) or not at all.</p> <p>The addressee submits the list of material third countries without following the prescribed template in Annex II to Recommendation ESRB/2015/1.</p>	<p>Notifications occur only a few times, and do not follow the prescribed template in Annex I to Recommendation ESRB/2015/1.</p>
NC	Content/ substance	<p>No identification methodology is in place, or it is applied only to a small set of third countries.</p> <p>The list of quantitative criteria is not described or no reference is made to an existing methodology.</p>	<p>Designated authorities fail to notify the ESRB when they consider that: (i) a relevant third-country authority should set and publish a countercyclical buffer rate for that third country, or (ii) the level of the countercyclical buffer rate set and published by a relevant third-country authority for that third country is not sufficient to protect domestic financial institutions from the risks of excessive credit growth in the third country in question.</p>
	Form/status	<p>An exhaustive list of material third countries is not submitted to the ESRB.</p>	<p>No notification is made to the ESRB.</p>



SE	Content/ substance	For each occasion in which the methodology could not be applied to identify material third countries, or the recommended notification to the ESRB has not taken place or has taken place with undue delay, the designated authority explains the reasons for such failure in a documented, reasoned and convincing manner.	
	Form/status	For each occasion in which the recommended notification to the ESRB has not taken place or has taken place with undue delay, the designated authority explains the reasons for such failure in a documented, reasoned and convincing manner.	For each occasion in which the recommended notification to the ESRB has not taken place, the designated authority explains the reasons for such failure in a documented, reasoned and convincing manner.
IE	Content/ substance	N/A	
	Form/status	The designated authority provides incomplete explanations for its failure to make some or all of the expected notifications.	The designated authority provides incomplete explanations for its failure to make some or all of the expected notifications.
N/A			The situations envisaged in Recommendation B(3) have never occurred.

** These standards have been used to ensure consistent and equal treatment of addressees.
Note that they merely provide guidance for the assessment.*



Annex III: Abbreviations

I. Compliance grades

FC	fully compliant
LC	largely compliant
PC	partially compliant
MN	materially non-compliant
NC	non-compliant
IE	inaction insufficiently explained
SE	inaction sufficiently explained
N/A	Not applicable

II. Countries/addressees

BE	Belgium	LT	Lithuania
BG	Bulgaria	LU	Luxemburg
CZ	Czech Republic	HU	Hungary
DK	Denmark	MT	Malta
DE	Germany	NL	Netherlands
EE	Estonia	NO	Norway
IE	Ireland	AT	Austria
GR	Greece	PL	Poland
ES	Spain	PT	Portugal
FR	France	RO	Romania
HR	Croatia	SO	Slovenia
IT	Italy	SK	Slovakia
CY	Cyprus	FI	Finland
LV	Latvia	SE	Sweden
LI	Liechtenstein	ECB	European Central Bank



III. Other abbreviations

ATC	Advisory Technical Committee
BCBS	Basel Committee on Banking Supervision
CCyB	Countercyclical capital buffer
COREP	Common reporting framework according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012
CRD	Capital Requirements Directive – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, p. 338)
EEA	European Economic Area
EFTA	European Free Trade Association
ESRB	European Systemic Risk Board
EU	European Union
GDP	Gross domestic product
NDA	National designated authority
OFC	Offshore financial centre



Imprint and acknowledgements

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For specific terminology please refer to the [ESRB glossary](#) (available in English only).

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