Summary
Compliance Report

July 2024

Assessment of the implementation of the ESRB Recommendation on guidance for setting countercyclical buffer rates (ESRB/2014/1)

Second assessment

ESRB
European Systemic Risk Board
European System of Financial Supervision

Contents

1 Introduction

This report provides the second assessment of implementing actions taken, following the European Systemic Risk Board (ESRB) Recommendation on guidance for setting countercyclical buffer rates[1] (ESRB/2014/1, hereinafter, the "Recommendation"), by its addressees – i.e public authorities or bodies designated by a Member State in accordance with Article 136(1) of Directive 2013/36/EU (hereinafter "national designated authorities") as well as the European Central Bank as a designated authority under Regulation (EU) No 1024/2013[2]. The current report covers the period 2017-22, immediately following completion of the first assessment round.[3]

The report assesses addressees' compliance with the Recommendation based on the addressees' submissions to the ESRB Secretariat using a dedicated template. In accordance with Section 2(3) of the Recommendation, addressees were requested to submit a report to the ESRB, by 31 August 2022, explaining any substantial changes since the last reporting round, which closed on 30 June 2016. To that end, the ESRB Secretariat prepared a standard follow-up questionnaire template to be completed and returned by all addressees.

To conduct the assessment, an Assessment Team was set up under the auspices of the ESRB Advisory Technical Committee (ATC) in 2022. [4] It comprised seven assessors and was supported by ESRB Secretariat staff (the team's composition is given in Annex I).

The assessment duly took into account:

- the criteria contained in Section 2(2) of the Recommendation;
- the methodology provided in the "**Handbook on the assessment of compliance with ESRB recommendations**" of April 2016 (hereafter, the Handbook);
- the implementation standards prepared by the Assessment Team, which specify the grading for each sub-recommendation based on the compliance criteria (the implementation standards are set out in Annex III);
- the principle of proportionality;
- the first compliance report, published in May 2019.

---

1 **Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates** (ESRB/2014/1) (OJ C 293, 02.09.2014, p. 1), attached to this report as Annex II. See Recital 4 of that Recommendation according to which "(…) if it deems it necessary, the ECB may apply higher requirements for countercyclical capital buffers than those applied by the national designated authorities. For this exclusive purpose, the ECB is considered, as appropriate, the designated authority and has all the powers and obligations, which designated authorities have under the relevant Union law. However, it would typically be national designated authorities that would be responsible for publishing countercyclical buffer rates."

2 **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, 29.10.2010, p. 63).

3 **Assessment of the implementation of the ESRB Recommendation on guidance for setting countercyclical buffer rates (ESRB/2014/1),** May 2019.

4 The Assessment Team was created in line with Subsections 3.2 and 3.4 of the Handbook on the assessment of compliance with ESRB recommendations, Revised Handbook, April 2016.

The current report summarises the implementation status as of August 2022.[5]

The report is structured as follows. The second section describes the policy objectives. The third section presents the methodology used for the assessment. The fourth section gives the main findings of the assessment. The fifth and final section presents the main conclusions of the assessment. It also gives an overview of the overall compliance of the addressees, including a comparison with the results of the first compliance assessment.

Annex I contains a description of the composition of the Assessment Team.

Annex II sets out the full text of the Recommendation (including the compliance criteria) and its Annex.

Annex III contains the implementation standards, which specify the grade to be awarded for each sub-recommendation on the basis of the compliance criteria. The standards have not changed since the first assessment in 2017.

Annex IV sets out the assessment criteria and methodology used for the addressee-specific analysis. To more clearly highlight the qualitative differences in implementation foreseen by the Recommendation, and therefore the different metrics used for assessment, the report first presents the assessment methodology applied to the national designated authorities. It then details the separate assessment methodology applied to the ECB as a designated authority under Regulation (EU) No 1024/2013. The ECB only has top-up powers, allowing it to apply higher countercyclical capital buffer (CCyB) rates than those applied by the national designated authorities, but no powers to reduce the CCyB rates set by national designated authorities. In the light of this limitation, several of the sub-recommendations were considered by the Assessment Team as not being applicable to the ECB, calling for its separate assessment. The same approach was applied during the first assessment round in 2017.

[5] Information received at a later stage during discussion of the findings of the Assessment Team with the addressees of the Recommendation was, however, also taken into consideration in the final assessment results.

2 Policy objectives

The Recommendation seeks to guide authorities in the operationalisation and application of the CCyB, as established under Capital Requirements Directive (CRD) IV[6], which, in turn, is based on the guidance drawn up previously by the Basel Committee on Banking Supervision (BCBS).[7]

The CCyB is part of a suite of macro-prudential policy tools. It is designed to counter the pro-cyclical amplification of financial shocks to the real economy through the banking system and financial markets. Additional capital buffers may be needed to increase the resilience of the banking sector if cyclical systemic risk builds up. The intention underlying the CCyB is that the buffer should be released promptly during such periods of stress, thereby helping credit institutions to absorb any losses while preventing severe disruptions of the flow of credit to the real economy. The CCyB could be released more gradually if the systemic risks of a financial cycle downswing did not materialise or once any threats to the resilience of credit institutions from excessive credit growth had receded. The CCyB can be used in isolation or in combination with other instruments. As regards the general framework established by the CRD IV, the designated authorities have “guided discretion” in deciding the appropriate buffer rate. This means that although they can use their expert judgement, they are restrained by specific rules that must be adhered to. Furthermore, designated authorities are required to publish a buffer guide on a quarterly basis as a reference benchmark, although this may not automatically result in a buffer being set or bind the authority concerned.

However, the credit-to-GDP gap proposed in the BCBS guidance may not appropriately capture certain country-specific features. Where this is the case, the Recommendation encourages the addressees concerned to develop a different approach to measurement and calculation of the credit-to-GDP gap that would reflect those features more accurately. The Recommendation also provides advice on the monitoring of a wide range of indicators that may assist with the CCyB rate decision-making process. It recommends that the designated authorities monitor a set of variables, i.e. measures of: (i) potential overvaluation of property prices; (ii) credit developments; (iii) external imbalances; (iv) bank balance sheet strength; (v) private sector debt burden; and (vi) potential mispricing of risk, as well as measures (vii) derived from models that combine the credit-to-GDP gap. The guidance provided in the Recommendation is, however, based on the assumption that the data it refers to are available in the Member State concerned.

Importance is also given to the communication policy strategy followed by the relevant designated authority, with a view to managing public expectations and enhancing coordination between the authorities, as well as, more generally, fostering awareness, accountability and effectiveness of macro-prudential policy measures.

---

6 **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, 27.6.2013, p. 338).

7 **Guidance for national authorities operating the countercyclical capital buffer, Basel Committee on Banking Supervision**, December 2010. For an overview of the international implementation of the CCyB, please refer to the document entitled **Range of practices in implementing the countercyclical capital buffer policy**, Basel Committee on Banking Supervision, June 2017.

More specifically, the Recommendation consists of four recommendations, which, in turn, are composed of several sub-recommendations. A description of the policy objectives of each recommendation and sub-recommendation follows.

Recommendation A – Principles

Recommendation A is composed of seven sub-recommendations which establish the guiding principles that the designated authorities should adhere to when assessing and setting CCyB rates. The compliance assessment of Recommendation A requires an examination of the national CCyB framework and of the application of the guiding principles when setting those rates.

Sub-recommendation A(1) (Objective) states that decisions on the CCyB rate should be guided by the objective of protecting the banking system from losses associated with the build-up of cyclical systemic risks, thereby supporting the sustainable provision of credit to the real economy throughout the financial cycle.

Sub-recommendation A(2) (Buffer guide) indicates that the credit-to-GDP gap (defined as the deviation of the credit-to-GDP ratio from its long-term trend) should be a common starting point in setting CCyB rates. designated authorities are also required to take into account other quantitative and qualitative information, including information reflecting country-specific features, and to explain its relevance to the public when a buffer rate is set.

Sub-recommendation A(3) (Risk of misleading information) recommends that designated authorities assess the information contained in the credit-to-GDP gap and other variables, or models that combine variables, to ensure that no potential risk is posed by misleading information. Designated authorities are required to take this assessment into account in exercising their judgement as to the sustainability of credit growth and in setting the CCyB rate. The usefulness of these variables and models should be reassessed periodically.

Sub-recommendation A(4) (Release of the buffer) provides guidelines for the release of the CCyB. The buffer release may be deemed appropriate either if the risks do not materialise or if the risks have materialised but are deemed to have receded. If the risks do not materialise, the release should occur promptly in order to help credit institutions to maintain lending to the real economy and to comply with solvency requirements while absorbing potential losses. If the risks have materialised but diminished, it may be more appropriate to release the buffer gradually and to establish an indicative period during which no increase in the rate is expected.

Sub-recommendation A(5) (Communication) advises designated authorities to develop a clear strategy for communicating their decisions on the CCyB. It specifies that this strategy should include a mechanism for coordinating with other designated authorities and the ESRB, as well as processes and channels for communication with key stakeholders and the public.

Sub-recommendation A(6) (Recognition of buffer rates) states that recognition of CCyB rates, beyond mandatory reciprocity arrangements, should be regarded as a general rule. In the event of a non-recognition decision by a designated authority, that designated authority should assess the cross-border implications of that choice and should notify the ESRB as well as the designated authority that set the buffer rate in question. It should also communicate with the ECB if at least one of the designated authorities concerned is from a Member State participating in the SSM.

Sub-recommendation A(7) (Other macro-prudential instruments) identifies the CCyB as part of a suite of macro-prudential instruments. Designated authorities should therefore consider when to: (i) apply this instrument in isolation; (ii) apply other macro-prudential instruments; (iii) combine this instrument with others.

Recommendation B – Guidance on the measurement and calculation of the credit-to-GDP gap, calculation of the benchmark buffer rate and the buffer guide

Recommendation B is composed of six sub-recommendations. The compliance assessment of Recommendation B requires examination of the methodology applied by designated authorities in measuring and calculating the credit-to-GDP gap, the benchmark buffer rate and the buffer guide. Three of six sub-recommendations are, however, optional.

Sub-recommendation B(1) instructs designated authorities to measure and calculate quarterly a standardised credit-to-GDP gap in accordance with BCBS guidance, as specified in Part I of the Annex to the Recommendation.

Sub-recommendation B(2) addresses the differences between national economies and points to the possibility of using a measurement and calculation complementary to the standardised credit-to-GDP gap calculated in accordance with BCBS guidance. Should they do so, the designated authorities are encouraged to: (i) use a method for measurement and calculation that reflects the deviation of the credit-to-GDP ratio from its long-term trend; (ii) base the measurement and calculation on empirical analysis of data relevant for the Member State concerned; (iii) base any revisions of the alternative method on a thorough review of its performance in signalling the build-up of the risks associated with the type of crisis that the CCyB is designed to mitigate; and (iv) measure and calculate the additional credit-to-GDP gap on a quarterly basis.

Sub-recommendation B(3) encourages designated authorities to calculate quarterly a benchmark buffer rate based on the standardised credit-to-GDP gap established in accordance with BCBS guidance. It is also recommended that, where appropriate, they calculate quarterly either a benchmark buffer rate based on the standardised credit-to-GDP gap or a benchmark buffer rate based on an additional credit-to-GDP gap that is calculated using a methodology differing from that of Part II of the Annex to the Recommendation.

Sub-recommendation B(4) is relevant when a benchmark buffer rate, based on either the standardised credit-to-GDP gap or the additional credit-to-GDP gap (calculated using a methodology differing from that of Part II of the Annex to the Recommendation), is calculated for a particular quarter. Where this is the cases, the designated authorities should, for the purposes of the CRD IV, select as a buffer guide the benchmark buffer rate that best reflects the country-specific features of the national economy concerned.

Sub-recommendation B(5) expands the information that should accompany the CCyB rate announcement required under Article 136(7) of the CRD IV by adding the following items: (a) the standardised credit-to-GDP gap and the corresponding credit-to-GDP ratio; (b) the additional credit-to-GDP gap, including the corresponding credit-to-GDP ratio, and the justification for any deviations from BCBS guidance; (c) the benchmark buffer rate based on the standardised credit-to-GDP gap calculated in accordance with BCBS guidance; (d) the benchmark buffer rate based on a standardised credit-to-GDP gap calculated in accordance with a methodology differing from BCBS guidance, or the benchmark buffer rate based on an additional credit-to-GDP gap calculated using a methodology differing from BCBS guidance, as applicable; (e) the sources of the underlying data and other relevant metadata. It is recommended that these elements be published quarterly on the designated authorities' websites.

Sub-recommendation B(6) adds to the information that should accompany the CCyB rate announcement required under Article 136(7) of the CRD IV, by requiring an explanation to be provided of the reasons for any departure by the designated authority from the credit-to-GDP gap (sub-recommendations B(1) and (2)), the benchmark buffer rate (sub-recommendation B(3)) or the buffer guide (sub-recommendation B(4)) measurements and calculations.

Recommendation C – Guidance on variables that indicate the build-up of the system-wide risk associated with periods of excessive credit growth

Recommendation C is composed of three sub-recommendations. The compliance assessment requires examination of the variables used by designated authorities in setting a CCyB rate during periods of system-wide risk build-up.

Sub-recommendation C(1) recommends that designated authorities take into account a range of quantitative and qualitative information, in addition to the credit-to-GDP gap, in exercising their judgement as to the appropriate CCyB rate. That information should confirm the build-up of the system-wide risk associated with periods of excessive credit growth.

Sub-recommendation C(2) sets out seven groups of variables that should be monitored in assessing quantitative information, namely measures of: (a) potential overvaluation of property prices; (b) credit developments; (c) external imbalances; (d) bank balance sheet strength; (e) private sector debt burden; and (f) potential mispricing of risk; as well as (g) measures derived from models that combine the credit-to-GDP gap and a selection of the above measures.

Sub-recommendation C(3) recommends the quarterly publication, on the website of the designated authority concerned, of at least one measure belonging to each group of variables referred to in sub-recommendation C(2), other than the derived measures, that should accompany the CCyB rate announcement required under Article 136(7) of the CRD IV.

Recommendation D – Guidance on variables that indicate that the buffer should be maintained, reduced or fully released

Recommendation D is composed of four sub-recommendations. Compliance assessment of Recommendation D requires examination of the variables used by designated authorities in maintaining, reducing or fully releasing the CCyB.

Sub-recommendation D(1) recommends that designated authorities take into account a range of quantitative and qualitative information in exercising their judgement as to the appropriate CCyB rate and in deciding whether to maintain, reduce or fully release the CCyB.

Sub-recommendation D(2) sets out two groups of variables that should be monitored in assessing quantitative information, namely measures: (i) of stress in bank funding markets; and (ii) that indicate general systemic stress.

Sub-recommendation D(3) indicates that in taking a decision to maintain, reduce or fully release the CCyB, designated authorities should exercise greater judgement in monitoring the variables specified in sub-recommendation D(2).

Sub-recommendation D(4) recommends the quarterly publication, on the website of the designated authority concerned, of at least one of the variables mentioned in sub-recommendation D(2) that should accompany the CCyB rate announcement required under Article 136(7) of the CRD IV.

3 Methodology

An assessment of the implementation of the Recommendation (and thus, of each of the recommendations and sub-recommendations contained therein) has to be carried out in accordance with the “act or explain” mechanism laid down in Article 17 of the ESRB Regulation. This means that an addressee can either: (i) take action in response to the Recommendation and inform the ESRB of the action taken, or (ii) take no action, provided that it can properly justify the reasons therefore. The ESRB then 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 set out in the Handbook. The assessment of the Recommendation was carried out by an Assessment Team consisting of seven assessors, including the Chair, designated by the ATC (see Annex I of this report). In the first assessment, the Assessment Team had conducted a four-eye review, meaning that the compliance of each addressee was assessed by two assessors. In contrast, in this second assessment, the Assessment Team decided to perform two horizontal assessments, in which the compliance of each individual addressee with each and every recommendation was assessed, each assessor being responsible for seven to eight addressees. The assessors were not directly involved in grading their own respective authorities. The results of the first horizontal assessments were then cross-checked in preparation for the second horizontal assessment. In addition, to ensure consistency, certain specific sub-recommendations were cross-checked by undertaking a vertical assessment, i.e. by evaluating compliance with a recommendation by all the addressees. The overall outcomes were discussed at Assessment Team meetings. The ESRB Secretariat oversaw the entire procedure.

The grading methodology applied to the national designated authorities per se differed from that applied to the ECB. The methodology for each is therefore described separately in Annex IV.

4 Findings

The main findings of the assessment are presented below in an overall summary table. Table 1 presents the grades for each country for Recommendations A, B, C and D and indicates whether the designated authorities are fully compliant (FC), largely compliant (LC), partially compliant (PC), materially non-compliant (MN), non-compliant (NC), or, in the event of inaction, whether this is sufficiently (SE) or insufficiently (IE) explained. These grades are also colour coded for ease of reference. Detailed tables with individual results for each country for each sub-recommendation are given on the following pages.

Table 1
Overall results of the assessment

	A	B	C	D	Overall
BE	FC	LC	LC	FC	FC
BG	FC	FC	LC	SE	FC
CZ	FC	FC	FC	FC	FC
DK	FC	FC	FC	FC	FC
DE	FC	FC	LC	FC	FC
EE	FC	FC	FC	SE	FC
IE	FC	FC	FC	FC	FC
GR	FC	FC	LC	SE	FC
ES	FC	FC	FC	FC	FC
FR	FC	LC	FC	FC	FC
HR	FC	FC	FC	FC	FC
IS	FC	FC	FC	FC	FC
IT	FC	FC	FC	FC	FC
CY	FC	FC	LC	SE	FC
LV	FC	FC	FC	FC	FC
LI	FC	PC	PC	SE	LC
LT	FC	FC	FC	FC	FC
LU	FC	FC	FC	FC	FC
HU	FC	FC	FC	FC	FC
MT	FC	FC	LC	SE	FC
NL	FC	FC	LC	FC	FC
NO	FC	FC	FC	FC	FC
AT	FC	FC	LC	FC	FC
PL	FC	FC	FC	FC	FC
PT	FC	FC	LC	FC	FC
RO	FC	FC	FC	FC	FC
SI	FC	PC	FC	FC	LC
SK	FC	FC	LC	SE	FC

	A	B	C	D	Overall
FI	FC	LC	FC	FC	FC
SE	FC	FC	PC	LC	LC
ECB	FC	FC	FC	N/A	FC

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Regarding Recommendation A, all the addressees have been assessed as being fully compliant, as shown in Table 2 below.

Table 2

Assessment results for each addressee for Recommendation A

	A(1)	A(2)	A(3)	A(4)	A(5)	A(6)	A(7)	A
BE	FC	FC	FC	FC	FC	SE	FC	FC
BG	FC	FC	FC	SE	FC	SE	FC	FC
CZ	FC	FC	FC	FC	FC	SE	FC	FC
DK	FC	FC	FC	FC	FC	SE	FC	FC
DE	FC	FC	FC	FC	FC	SE	FC	FC
EE	FC	FC	FC	SE	FC	SE	FC	FC
IE	FC	FC	FC	FC	FC	SE	FC	FC
GR	FC	FC	LC	SE	FC	SE	FC	FC
ES	FC	FC	FC	SE	FC	SE	FC	FC
FR	FC	FC	FC	FC	FC	SE	FC	FC
HR	FC	FC	FC	SE	FC	SE	FC	FC
IS	FC	FC	FC	FC	FC	SE	FC	FC
IT	FC	FC	FC	SE	FC	SE	FC	FC
CY	FC	FC	FC	SE	FC	SE	FC	FC
LV	FC	FC	FC	SE	FC	SE	FC	FC
LI	FC	FC	FC	SE	FC	SE	FC	FC
LT	FC	FC	FC	FC	FC	SE	FC	FC
LU	FC	FC	FC	SE	FC	SE	FC	FC
HU	FC	FC	FC	SE	FC	SE	FC	FC
MT	FC	FC	FC	SE	FC	SE	FC	FC
NL	FC	FC	FC	SE	FC	SE	FC	FC
NO	FC	PC	FC	FC	FC	SE	FC	FC
AT	FC	FC	FC	SE	FC	SE	FC	FC
PL	FC	FC	FC	SE	FC	SE	FC	FC
PT	FC	FC	FC	SE	FC	SE	FC	FC
RO	FC	FC	FC	SE	FC	SE	FC	FC
SI	FC	FC	FC	SE	FC	SE	FC	FC

	A(1)	A(2)	A(3)	A(4)	A(5)	A(6)	A(7)	A
SK	FC	SE	FC	PC	FC	SE	FC	FC
FI	FC	FC	FC	SE	FC	SE	FC	FC
SE	FC	FC	FC	FC	FC	SE	FC	FC
ECB	FC	SE	FC	N/A	FC	SE	FC	FC

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

As regards Recommendation B, a large majority (26) of the addressees have been graded as fully compliant (FC), three addresses as largely compliant (LC) and the remaining two as partially compliant (PC), as presented in Table 3 below. All the addressees but one calculate a standardised credit-to-GDP gap on a quarterly basis, in accordance with BCBS guidance, as a starting point in guiding their decisions on CCyB rates. However, most of the designated authorities use an additional credit-to-GDP gap on the ground that the special features of their respective national economies are reflected more effectively by a different measurement and calculation of the credit-to-GDP gap.

Table 3

Assessment results for each addressee for Recommendation B

	B(1)	B(2)	B(3)	B(4)	B(5)	B(6)	B
BE	FC	FC	FC	FC	LC	FC	LC
BG	FC	N/A	FC	N/A	FC	N/A	FC
CZ	FC	FC	FC	FC	FC	FC	FC
DK	FC	N/A	FC	N/A	FC	N/A	FC
DE	FC	FC	FC	FC	FC	N/A	FC
EE	FC	FC	FC	FC	FC	N/A	FC
IE	FC	FC	FC	SE	FC	FC	FC
GR	FC	N/A	FC	N/A	FC	N/A	FC
ES	FC	FC	FC	FC	FC	N/A	FC
FR	FC	FC	FC	FC	PC	N/A	LC
HR	FC	FC	FC	FC	FC	N/A	FC
IS	FC	N/A	FC	N/A	FC	N/A	FC
IT	FC	FC	FC	FC	FC	N/A	FC
CY	FC	FC	FC	FC	FC	FC	FC
LV	FC	FC	FC	FC	FC	FC	FC
LI	SE	FC	FC	SE	NC	FC	PC
LT	FC	FC	FC	FC	FC	FC	FC
LU	FC	FC	FC	FC	FC	N/A	FC
HU	FC	FC	FC	FC	FC	N/A	FC
MT	FC	N/A	FC	N/A	FC	N/A	FC
NL	FC	N/A	FC	N/A	FC	FC	FC

	B(1)	B(2)	B(3)	B(4)	B(5)	B(6)	B
NO	FC	FC	FC	FC	FC	N/A	FC
AT	FC	N/A	FC	N/A	FC	N/A	FC
PL	FC	FC	FC	FC	FC	N/A	FC
PT	FC	FC	FC	SE	FC	FC	FC
RO	FC	FC	FC	FC	FC	N/A	FC
SI	FC	N/A	PC	FC	PC	N/A	PC
SK	FC	N/A	FC	N/A	FC	FC	FC
FI	FC	FC	FC	N/A	LC	FC	LC
SE	FC	N/A	FC	N/A	FC	N/A	FC
ECB	FC	FC	FC	N/A	SE	N/A	FC

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

In the case of Recommendation C, the number of fully compliant addressees amounts to 19, while ten addressees have been graded as largely compliant (LC) and two as partially compliant (PC), as detailed in Table 4 below. In the case of this recommendation, the largest deficiencies observed have been with regard to sub-recommendation C(3) in particular. Although most of the designated authorities monitor the indicators set out in sub-recommendation C(2)(a)-(g), not all of them publish these indicators as requested under sub-recommendation C(3). The Assessment Team found that 20 addressees were fully compliant with sub-recommendation C(3), while seven addressees were assessed as being largely compliant (LC), one as partially compliant (PC) and two as non-compliant (NC).

Table 4

Assessment results for each addressee for Recommendation C

	C(1)	C(2)	C(3)	C
BE	FC	LC	FC	LC
BG	FC	FC	PC	LC
CZ	FC	FC	FC	FC
DK	FC	FC	FC	FC
DE	FC	LC	FC	LC
EE	FC	FC	FC	FC
IE	FC	FC	FC	FC
GR	FC	LC	FC	LC
ES	FC	FC	FC	FC
FR	FC	FC	LC	FC
HR	FC	FC	LC	FC
IS	FC	FC	FC	FC
IT	FC	FC	FC	FC
CY	FC	LC	FC	LC

	C(1)	C(2)	C(3)	C
LV	FC	FC	FC	FC
LI	FC	LC	NC	PC
LT	FC	FC	FC	FC
LU	FC	FC	LC	FC
HU	FC	FC	FC	FC
MT	FC	LC	FC	LC
NL	FC	LC	FC	LC
NO	FC	FC	FC	FC
AT	FC	LC	LC	LC
PL	FC	FC	LC	FC
PT	FC	LC	FC	LC
RO	FC	FC	FC	FC
SI	FC	FC	LC	FC
SK	FC	LC	LC	LC
FI	FC	FC	FC	FC
SE	FC	FC	NC	PC
ECB	FC	FC	SE	FC

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stands for sufficiently explained inaction.

In the case of Recommendation D, as depicted in Table 5 below, 22 addressees have been assessed as being fully compliant (FC) and one as largely compliant (LC). Seven addressees have presented sufficient explanations for inaction (SE). This recommendation was not assessed, however, for the ECB, as explained in the introductory and methodological part of the report. The greatest heterogeneity in terms of grades was observed in the case of sub-recommendation D(4), which relates to publication of the indicators referred to in sub-recommendation D(2)(a)-(b). The majority of the designated authorities were found to be fully compliant (FC) with that sub-recommendation and some had sufficiently explained their inaction (SE). One addressee was, however, assessed as being largely compliant (LC) and one as materially non-compliant (MN).

Table 5

Assessment results for each addressee for Recommendation D

	D(1)	D(2)	D(3)	D(4)	D
BE	FC	FC	FC	FC	FC
BG	FC	SE	FC	SE	SE
CZ	FC	FC	FC	FC	FC
DK	FC	FC	FC	FC	FC
DE	FC	FC	FC	SE	FC
EE	FC	SE	FC	SE	SE
IE	FC	FC	FC	FC	FC
GR	FC	SE	FC	SE	SE
ES	FC	FC	SE	FC	FC
FR	FC	FC	FC	SE	FC
HR	FC	FC	FC	LC	FC
IS	FC	FC	FC	SE	FC
IT	FC	FC	SE	SE	FC
CY	FC	SE	FC	SE	SE
LV	FC	FC	FC	FC	FC
LI	FC	SE	FC	SE	SE
LT	FC	FC	FC	SE	FC
LU	FC	FC	SE	FC	FC
HU	FC	FC	FC	FC	FC
MT	FC	SE	SE	SE	SE
NL	FC	FC	FC	FC	FC
NO	FC	FC	FC	FC	FC
AT	FC	FC	SE	FC	FC
PL	FC	FC	SE	SE	FC
PT	FC	FC	FC	FC	FC
RO	FC	FC	FC	SE	FC
SI	FC	SE	FC	FC	FC
SK	FC	SE	SE	SE	SE
FI	FC	FC	FC	FC	FC
SE	FC	FC	FC	MN	LC
ECB	N/A	N/A	N/A	N/A	N/A

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

5 Conclusions

To ensure the consistency and clarity of the evaluation criteria, this second assessment of compliance with the Recommendation was conducted based on the same implementation standards that were used in the first assessment in 2017. Accordingly, the same weighting system for recommendations and sub-recommendations was applied as in the first assessment. It should, however, be noted that there has been a slight change to the pool of addressees since the previous assessment. Given the withdrawal of the United Kingdom from the EU, that country is not included in this latest assessment. However, three new addressees have been incorporated into the scope of the assessment: Iceland, Liechtenstein and Norway. Together with the ECB, the total number of the addressees evaluated in the current assessment rose to 31.

The overall level of compliance with the Recommendation remains high. All the addressees have been graded as either fully (FC) or largely compliant (LC) with the Recommendation. It should be noted, however, that the number of addressees graded LC has risen from two to three, owing to certain deficiencies in compliance with Recommendations B or C. One country that had not previously been assessed was assigned the grade of LC, for another country, the overall grade worsened from FC to LC, while for a third, overall compliance improved from LC to FC. In general, for most addressees, the overall level of compliance remained unchanged from the previous assessment. The deficiencies identified are not sufficiently material to diminish the efficiency of macro-prudential policies or the single market.

All addressees have been graded fully compliant (FC) with Recommendation A, the result being unchanged from the previous assessment. This is extremely important given that it shows that the guiding principles outlined in Recommendation A are well-grounded in the CCyB framework of the addressees. Compared with the last assessment in 2017, a large number of addressees experienced a CCyB release, notably during the COVID-19 pandemic, and their actions in releasing the buffer could therefore be assessed. This led to a greater number of fully compliant grades for sub-recommendation A(4). While all but one (the United Kingdom) of the addressees were assigned an SE grade in the last round for sub-recommendation A(4) because they had not been faced with a situation in which they needed to reduce the CCyB rate, the number of addressees with this grade fell to 19 in the current assessment. Ten addressees were assigned a fully compliant (FC) grade and one addressee was assessed as partially compliant (PC) owing to certain deficiencies in reporting on the indicative period during which no increase in the buffer rate could be expected.

As regards Recommendation B, the overall compliance level remained very similar to that of the first assessment. The number of fully compliant (FC) addressees increased from 25 to 26 and the number of largely compliant (LC) addressees increased from two to three, while the number of partially compliant (PC) addressees remained the same (2). Although one addressee improved its compliance (from PC to LC), one newly assessed country fell within the PC grade. In general, deficiencies in complying with sub-recommendation B(5) led to the overall grades for Recommendation B being below fully compliant. It is worth noting that compliance with sub-recommendation B(5) is slightly lower than in the previous assessment round given that one newly assessed country did not comply, although the grades for the other countries remained the same as in the previous round or, in one case, improved (from MN to LC). Although most (24) addressees have been found to be fully compliant (FC), several addressees need to work on improving the content of information published with the CCyB rate announcement required under Article 136(7) of the CRD IV.

Concerning Recommendation C, compliance is to a large extent similar to the first assessment round. The grades for three addressees were better than in the previous assessment round but worse for three other addressees. The grades remained unchanged for the remainder of the addressees assessed previously. The number of fully compliant (FC) addressees rose from 18 to 19, while the number of largely compliant (LC) addressees remained at the same level as previously (ten). The number of partially compliant (PC) addressees increased from one to two. This was due to the fact that, although one country previously assessed as PC had improved its compliance, another country not previously assessed received a PC grade and one country's grade worsened from FC to PC because it did not satisfy the sub-recommendation on the information to accompany CCyB rate announcement, namely the quarterly publication of measures.

In the case of Recommendation D, in comparison with the previous assessment round, a greater number of designated authorities received fully compliant (FC) grades. All but one of the addressees had FC or sufficiently explained (SE) grades for the recommendation as a whole, confirming a high level of compliance. This was mostly owing to addressees' first-time experience of CCyB releases during the COVID-19 pandemic. In the case of sub-recommendations D(1), D(2) and D(3), the addressees were assessed as being either FC or SE. One addressee was graded as largely compliant (LC) owing to certain deficiencies as regards sub-recommendation D(4) on quarterly publications.

It should be noted that one of the important changes in comparison with the first assessment was the diminishing prominence of the Basel credit gap among the indicators used to identify the need for a CCyB and the adoption of a "positive neutral CCyB" rate by a number of the addressees with the aim of preserving higher releasable capital buffers over the cycle by maintaining non-zero CCyB rates in a neutral risk environment. This approach helps to maintain additional macro-prudential space so that CCyBs could be released if sudden unexpected or unforeseen risks materialise. This is aligned with the view expressed by the ESRB in the 2022 Review of the Macro-prudential Framework[8], namely that CCyBs should be built up earlier in a more forward-looking manner and possibly combined with a positive neutral rate. Over the assessment period, seven designated authorities implemented this approach and decided to apply a positive CCyB rate of 1-2% in a neutral risk environment. It seems that the shift towards a positive neutral CCyB rate is a consequence of the experience gained during the COVID-19 pandemic, which unveiled the need for greater macro-prudential space in the form of buffers that can be released if a sudden shock materialises in order to support bank credit supply to the real economy. Furthermore, there seems to be a growing awareness among designated authorities of the weaknesses of the standardised credit gap. In many instances, addressees pointed to the fact that the Basel credit gap does not reflect the special features of their respective national economies, requiring them to develop an alternative additional credit-to-GDP gap and to monitor a wider range of additional indicators.

8 ESRB (2022) **Review of the EU Macro-prudential Framework for the Banking Sector: A Concept Note**, March 2022.

As with the previous assessment, the current assessment included the ECB-SSM among the addressees of the Recommendation. In accordance with its macro-prudential remit, as set out in Article 5 of the SSM Regulation,[9] the ECB's competence to object and eventually tighten CCyB rates proposed and set by national designated authorities from Member States participating in the SSM, but not to release the CCyB, was taken into account. The overall assessment of the ECB is high, given that it is fully compliant with Recommendations A, B and C and that Recommendation D is not applicable.

The next ESRB follow-up assessment of the implementation of this Recommendation is foreseen to take place in three years' time, starting from the last reporting deadline.

[9] Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (OJ L 141, 14.5.2014, p. 1).

Annex I
Composition of the Assessment Team

(approved by the ATC via Written Procedure ATC/WP/2022/082)

Chairperson	Institutions
Konstantinos Kanellopoulos	Bank of Greece
Assessment Team	
Anna Dobrzańska	Narodowy Bank Polski
Massimo Molinari	Banca d'Italia
Matthias Köhler	Deutsche Bundesbank
Fleurilys Virel	Banque de France
Boris Banovic	Narodna banka Hrvatske
Alexandr Palicz	Magyar Nemzeti Bank

Annex II
Recommendation ESRB/2014/1

RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD

of 18 June 2014

on guidance for setting countercyclical buffer rates

(ESRB/2014/1)

THE GENERAL BOARD OF THE EUROPEAN SYSTEMIC RISK BOARD,

Having regard to 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[10], and in particular Article 135 thereof,

Having regard to 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[11], and in particular Article 3(2)(b), (d) and (f) and Articles 16 to 18 thereof,

Having regard to Decision ESRB/2011/1 of the European Systemic Risk Board of 20 January 2011 adopting the Rules of Procedure of the European Systemic Risk Board[12], and in particular Article 15(3)(e) and Articles 18 to 20 thereof,

Whereas:

1. The pro-cyclical amplification of financial shocks to the real economy through the banking system and financial markets has been one of the most destabilising elements of the global financial crisis. An economic downturn following a period of excess credit growth can lead to large losses in the banking sector and spark a vicious circle. In this situation steps taken by credit institutions to strengthen their balance sheets can constrain credit supply to the real economy, exacerbating the economic downturn and further weakening their balance sheets. This pro-cyclical amplification of shocks highlights the importance of building up additional capital in the banking sector in periods when the risks of system-wide stress are growing. Such an additional capital buffer will help the banking sector absorb unexpected losses while continuing to provide credit to the real economy.

2. Measures have been taken to make banks more resilient to pro-cyclical dynamics. In December 2010 the Basel Committee on Banking Supervision (BCBS) published a number of measures to strengthen the regulation of the banking sector. One of these measures, on which the BCBS provided guidance to national authorities, concerns the countercyclical

---

[10] OJ L 176, 27.6.2013, p. 338.

[11] OJ L 331, 15.12.2010, p. 1.

[12] OJ C 58, 24.2.2011, p. 4.

capital buffer. The BCBS's guidance was implemented in the European Union by Directive 2013/36/EU.

3. The countercyclical capital buffer regime under Directive 2013/36/EU follows the principle of 'guided discretion'. According to this principle authorities responsible for setting the buffer rate combine a rules-based approach with the exercise of their discretionary powers when deciding on the appropriate buffer rate. Accordingly, they are required to publish a buffer guide on a quarterly basis as a reference benchmark, but are encouraged to exercise their judgement when setting the buffer rate.

4. National designated authorities and the European Central Bank (ECB) (for Member States participating in the Single Supervisory Mechanism) are assigned responsibilities for setting countercyclical buffer rates. Directive 2013/36/EU requires each Member State to designate a public authority or body responsible for setting the countercyclical buffer rate for that Member State. In addition, 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[13] assigns specific supervisory tasks to the ECB. In particular, if it deems it necessary, the ECB may apply higher requirements for countercyclical capital buffers than those applied by the national designated authorities. For this exclusive purpose, the ECB is considered, as appropriate, the designated authority and has all the powers and obligations, which designated authorities have under the relevant Union law. However, it would typically be national designated authorities that would be responsible for publishing countercyclical buffer rates.

5. Directive 2013/36/EU establishes that the European Systemic Risk Board (ESRB) may adopt recommendations giving guidance to designated authorities on setting countercyclical buffer rates. In particular, the ESRB may advise on principles to guide designated authorities in making their judgements as to the appropriate buffer rates and provide guidance on the measurement and calculation of the credit-to-GDP gap and the calculation of the buffer guide. In addition, the ESRB may provide guidance on the variables that indicate the build-up of system-wide risk associated with periods of excessive credit growth in the financial system and on the variables that indicate that the buffer should be maintained, reduced or fully released.

6. The countercyclical capital buffer is designed to help counter pro-cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialise. This will help maintain the supply of credit and dampen the downswing of the financial cycle. The countercyclical capital buffer can also help dampen excessive credit growth during the upswing of the financial cycle.

7. The buffer guide is not intended to give rise to an automatic buffer setting or to bind the designated authority. Analysis by the BCBS shows that, while the credit-to-GDP gap is a useful starting point in guiding decisions on countercyclical buffer rates, its performance can differ across countries and over time. Given the heterogeneity and dynamic nature of financial systems, the specificities of national economies and material differences in data

[13] OJ L 287, 29.10.2013, p. 63.

availability in the European Union, designated authorities should take into account a range of information when assessing the level of system-wide risk and set the buffer rate accordingly. This information should include additional indicators that signal the build-up of system-wide risk associated with periods of excessive credit growth, proxies for the degree of financial intermediation in the economy such as the level of the ratio of credit-to-GDP and qualitative information. The quantitative and qualitative information used for this assessment, including the buffer guide and the additional indicators, form the basis for explaining and justifying decisions on buffer rates.

8. Analysis by the BCBS shows that the credit-to-GDP gap and other indicators may sometimes convey misleading information. Designated authorities should be aware of this when exercising their judgement as to the sustainable level of credit in the economy and the appropriate countercyclical buffer rate. Designated authorities should thus periodically reassess the performance of the indicators on which they place most weight.

9. When risks materialise, the prompt release of the countercyclical capital buffer can help credit institutions absorb losses while maintaining lending to the real economy and complying with regulatory capital requirements. This countercyclical use of the buffer can mitigate the pro-cyclical behaviour of credit institutions which can otherwise constrain the supply of credit to the real economy. The countercyclical capital buffer can be released more gradually when the downswing of the financial cycle does not coincide with a materialisation of risks and when threats to the resilience of credit institutions from excessive credit growth have receded. Decisions on the use of any capital surpluses arising from the release of the buffer are at the discretion of the designated or competent authorities.

10. It is important for the authority setting the countercyclical buffer rate to have a good communication strategy. This helps manage public expectations, plays an important role in coordination between designated authorities, and is essential for the credibility, accountability and effectiveness of macro-prudential policy. Directive 2013/36/EU requires designated authorities to take all reasonable steps to coordinate the timing of their announcements on buffer rates.

11. Building a more resilient banking system in the Union entails that designated authorities recognise countercyclical buffer rates set by other Member States. Directive 2013/36/EU establishes a framework for the recognition of the buffer rates of other Member States and for recognition or setting of buffer rates for third countries. In addition to mandatory reciprocity arrangements, designated authorities should generally recognise the buffer rates set by other Member States. Without prejudice to future ESRB recommendations, this Recommendation does not address the actions of designated authorities within the Union in relation to third country countercyclical capital buffer rates.

12. The countercyclical capital buffer is part of a suite of macro-prudential instruments. Recommendation ESRB/2013/1 of 4 April 2013 of the European Systemic Risk Board on intermediate objectives and instruments of macro-prudential policy14 gives an indicative list of instruments that the Member States could assign to macro-prudential authorities. As part of their macro-prudential policy strategy designated authorities should consider when to use

[14] OJ C 170, 15.06.2013, p. 1.

the countercyclical capital buffer in isolation, when to use other instruments, and when to combine the countercyclical capital buffer with other instruments.

13. Empirical analysis suggests that the credit-to-GDP gap is the best single indicator for the Union as a whole for signalling the build-up of risks associated with the type of crisis that the countercyclical capital buffer is designed to mitigate. The credit-to-GDP gap has been shown to give a robust signal across a range of specifications of the gap. There are a few methods for calculating the gap that show better signalling qualities than the calculation method suggested in the BCBS's guidance, but these tend to be based on narrower credit aggregates and may thus be less robust in the face of financial innovation. The measurement and calculation of the credit-to-GDP gap and the benchmark buffer rate in line with the BCBS's guidance will increase comparability within the Union and outside it.

14. In some Member States, the measurement and calculation suggested in the BCBS's guidance may result in a credit-to-GDP gap that does not perform well in signalling the build-up of risks that precede financial crises. National specificities such as differences in the structure and degree of the development of the financial system, and in the quality and availability of credit data, mean that for some Member States some other method for calculating the credit-to-GDP gap than that given in the BCBS's guidance may exhibit stronger signalling qualities. In order to take account of such differences and to allow for other methodologies, designated authorities may – in addition – measure and calculate the credit-to-GDP gap using a method that better reflects the specificities of the respective Member State.

15. The methodology set out in the BCBS's guidance for mapping the credit-to-GDP gap to a benchmark buffer rate that serves as the buffer guide is an ad hoc methodology. Empirical analysis of alternative methodologies, while promising, is not sufficiently developed to provide guidance. Member States that measure and calculate the credit-to-GDP gap using an alternative method, in addition to the methodology published in the BCBS's guidance, should develop and publish a benchmark buffer rate corresponding to that alternative method in addition to the benchmark buffer rate specified in the BCBS's methodology. Member States that measure and calculate the credit-to-GDP gap in line with the BCBS's guidance can also develop and publish an alternative benchmark buffer rate in addition to that arrived at by using the BCBS's methodology.

16. Empirical findings suggest that other variables may complement the credit-to-GDP gap for signalling the build-up of system-wide risks related to excessive credit growth in the financial system. Such variables include measures of potential overvaluation property prices (e.g. commercial and residential real estate price-to-income ratios, price gaps and growth rates), measures of credit developments (e.g. real total credit or real bank credit growth, the trend deviation of deflated M3), measures of external imbalances (e.g. current account balances as a ratio to GDP), measures of the strengths of bank balance sheets (e.g. leverage ratios), measures of private sector debt burden (e.g. debt-service to income ratio) and measures of potential mispricing of risk (e.g. real equity price growth). Designated authorities should take account of such variables in exercising their judgement when setting of the appropriate rate for the countercyclical capital buffer. Combining such variables with the credit-to-GDP gap in

a multivariate model has been found to improve signalling performance. Designated authorities may also want to take account of such models.

17. Empirical findings suggest that, for the majority of Member States, financial market prices displayed the best signalling qualities to indicate a materialisation of risks that warrant a prompt reduction or full release of the countercyclical capital buffer. Limited availability of sufficiently long time series of such market-based indicators means that the empirical analysis on the release phase of the buffer is less robust than that of the build-up phase. It is also difficult to identify variables to indicate that the countercyclical capital buffer can be gradually reduced when risks from excessive credit growth recede. In principle, variables that perform well in the build-up phase of the countercyclical capital buffer may also inform the decision that the buffer should be maintained, reduced or fully released. These variables may, however, also provide misleading information. For example, the credit-to-GDP gap may not accurately reflect risks if credit has been growing excessively for a prolonged period. As research and experience in the release phase develops the set of variables indicated in this Recommendation will need to be augmented with further appropriate indicators, as they are identified. Overall, designated authorities need to exercise even greater judgement in the release phase of the buffer than during its build-up phase. This judgement could also be informed by market intelligence, supervisory assessments and stress tests.

18. Provided that such data are available in the Member State in question, the monitoring and publication of a minimum set of variables that signal that the countercyclical capital buffer should be built up, maintained, reduced or fully released should promote consistency and transparency on the part of designated authorities. It should not prevent designated authorities from considering further indicators or qualitative information in the light of the specificities of the Member State, nor should it prevent designated authorities placing more weight on certain variables than on others or placing greater weight on qualitative information.

19. ESRB recommendations are published after the General Board informs the Council of its intention to do so and provides the Council with an opportunity to react,

HAS ADOPTED THIS RECOMMENDATION:

Section 1 Recommendations

Recommendation A – Principles

Designated authorities are recommended to adhere to the following principles when assessing and setting the appropriate countercyclical buffer rates applicable in the respective Member State:

1. Principle 1: (Objective) Decisions on the appropriate countercyclical buffer rate should be guided by the objective of protecting the banking system against potential losses associated

with a build-up of cyclical systemic risk, thereby supporting the sustainable provision of credit to the real economy throughout the financial cycle.

2. Principle 2: (Buffer guide) The deviation of the ratio of credit-to-GDP from its long-term trend – the credit-to-GDP gap – should serve as a common starting point in guiding decisions on countercyclical buffer rates, most notably in the build-up phase. However, designated authorities should also take into account other quantitative and qualitative information when assessing cyclical system-wide risk and setting the appropriate countercyclical buffer rate. This includes information that reflects national specificities. Designated authorities should explain to the public what information is used, and how it is taken into account in setting the relevant buffer rate.

3. Principle 3: (Risk of misleading information) Designated authorities should assess the information contained in the credit-to-GDP gap and any other relevant variables or models that combine variables, being mindful that the information they provide may be misleading. Designated authorities should take this assessment into account when exercising their judgement regarding the sustainability of credit growth in order to set the appropriate countercyclical buffer rate. The usefulness of these variables and models should be periodically reassessed.

4. Principle 4: (Release of the buffer) Designated authorities should promptly release the countercyclical capital buffer when risks materialise. This can mitigate the pro-cyclical behaviour of credit institutions by helping them absorb losses, while still maintaining lending to the real economy and complying with solvency requirements. When risks do not materialise but are judged to recede, a gradual release of the buffer may be more appropriate. If a designated authority reduces the existing buffer rate, it should decide on an indicative period during which no increase in the buffer rate is expected.

5. Principle 5: (Communication) Designated authorities should develop a clear strategy for communicating their decisions on the countercyclical capital buffer. As part of this strategy, they should establish a mechanism for coordinating with other designated authorities as well as the ESRB. They should also establish transparent stable processes and well-defined channels of communication to key stakeholders and the public.

6. Principle 6: (Recognition of buffer rates) In addition to the mandatory reciprocity arrangements set by Union law, designated authorities should generally recognise the countercyclical buffer rates applied in other Member States. Designated authorities should consider the cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level. When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, designated authorities should notify:

   (a) the ESRB;

   (b) the designated authority setting the buffer rate;

   (c) the ECB, when at least one of the designated authorities setting or not recognising the buffer rate is from a Member State participating in the Single Supervisory Mechanism in accordance with Council Regulation (EU) No 1024/2013.

7. Principle 7: (Other macro-prudential instruments) The countercyclical capital buffer is part of a suite of macro-prudential instruments at the disposal of the authorities in the Union. As part of their macro-prudential policy strategy designated authorities should consider when to use the buffer in isolation, when to use other instruments instead of the buffer and when to combine the buffer with other instruments.

Recommendation B – Guidance on the measurement and calculation of the credit-to-GDP gap, calculation of the benchmark buffer rate and the buffer guide

1. Designated authorities are recommended to measure and calculate quarterly a standardised credit-to-GDP gap in accordance with the BCBS's guidance, as specified in Part I of the Annex to this Recommendation.

2. Where designated authorities deem that a different measurement and calculation of the credit-to-GDP gap would better reflect the specificities of the national economy, they are recommended to measure and calculate quarterly an additional credit-to-GDP gap further to the gap calculated in accordance with paragraph 1. When calculating the additional credit-to-GDP gap, designated authorities are recommended to adhere to the following guidance:

   (a) the method for measurement and calculation should reflect the deviation of the ratio of credit-to-GDP from its long-term trend;

   (b) the measurement and calculation should be based on empirical analysis of data relevant for the corresponding Member State;

   (c) any revisions of the method for measurement and calculation of the additional credit-to-GDP gap should be based on a thorough review of the performance of the chosen method in signalling the build-up of risks that are associated with the type of crisis the countercyclical capital buffer is designed to mitigate.

3. Designated authorities are recommended to calculate quarterly the following:

   (a) a benchmark buffer rate based on the standardised credit-to-GDP gap in accordance with the BCBS's guidance, as set out in Part II of the Annex; and, where applicable; either

   (b) a benchmark buffer rate based on the standardised credit-to-GDP gap and calculated in accordance with a methodology that differs from that set out in Part II of the Annex where such a methodology is used; or

   (c) a benchmark buffer rate based on the additional credit-to-GDP gap and calculated in accordance with a methodology that differs from that set out in Part II of the Annex, where the additional credit-to-GDP gap is calculated.

4. Where, in addition to the benchmark buffer rate set out in accordance with paragraph 3(a), another benchmark buffer rate set out in accordance with paragraph 3(b) or paragraph 3(c) has been calculated for a particular quarter, for the purposes of Directive 2013/36/EU

designated authorities are recommended to select as a buffer guide the benchmark buffer rate that best reflects the specificities of the respective national economy.

5. As part of the information accompanying the announcement of the countercyclical buffer rate required under Article 136(7) of Directive 2013/36/EU, designated authorities are recommended to publish quarterly on their website:

   (a) the standardised credit-to-GDP gap and the corresponding ratio of credit-to-GDP;

   (b) the additional credit-to-GDP gap and the corresponding ratio of credit-to-GDP, where calculated, and justification for the deviations from the formula in Part I of the Annex;

   (c) the benchmark buffer rate calculated in accordance with paragraph 3(a);

   (d) the benchmark buffer rate calculated in accordance with paragraph 3(b) or paragraph 3(c), where applicable;

   (e) the sources of the underlying data and other relevant metadata.

6. As part of the information accompanying the announcement of the countercyclical buffer rate required under Article 136(7) of Directive 2013/36/EU, designated authorities are recommended to explain their reasons whenever they depart from:

   (a) the selected measurement and calculation of the credit-to-GDP gap as set out in paragraphs 1 and 2, including any of its components;

   (b) the selected calculation of the benchmark buffer rate as set out in paragraph 3;

   (c) the selected buffer guide as set out in paragraph 4.

Recommendation C – Guidance on variables that indicate the build-up of system-wide risk associated with periods of excessive credit growth

1. In order to inform their judgement as to the appropriate countercyclical buffer rate, designated authorities are recommended to take account of a range of quantitative and qualitative information that indicates the build-up of system-wide risk associated with periods of excessive credit growth, in addition to the credit-to-GDP gap.

2. When assessing quantitative information, designated authorities should monitor a set of variables that indicate the build-up of cyclical systemic risk. Subject to such variables being available in Member States, this set should include the following:

   (a) measures of potential overvaluation of property prices (e.g. commercial and residential real estate price-to-income ratios, price gaps and growth rates);

   (b) measures of credit developments (e.g. real total credit or real bank credit growth, the trend deviation of deflated M3);

   (c) measures of external imbalances (e.g. current account balances as a ratio to GDP);

(d) measures of the strength of bank balance sheets (e.g. leverage ratios);

(e) measures of private sector debt burden (e.g. debt-service to income ratios);

(f) measures of potential mispricing of risk (e.g. real equity price growth).

(g) measures derived from models that combine the credit-to-GDP gap and a selection of the above measures.

3. If such variables are available and relevant in Member States, designated authorities are recommended to publish at least one of the measures set out in each of the paragraphs 2 (a), (b), (c), (d), (e) and (f) quarterly on their website to accompany the announcement of the countercyclical buffer rate required under Article 136(7) of Directive 2013/36/EU.

Recommendation D – Guidance on variables that indicate that the buffer should be maintained, reduced or fully released

1. In order to inform their judgement as to the appropriate countercyclical capital buffer rate, designated authorities are recommended to take account of a range of quantitative and qualitative information that indicates that the buffer should be maintained, reduced or fully released.

2. When assessing quantitative information, designated authorities should monitor a set of variables that indicate whether the buffer should be maintained, reduced or fully released. If such variables are available in the Member State, this set should include the following:

   (a) measures of stress in bank funding markets (e.g. the LIBOR-OIS (overnight index swaps) spread, bank CDS (credit default swap) premia);

   (b) measures that indicate general systemic stress (e.g. a composite indicator measuring stress in the national or EU financial system such as the ECB CISS (Composite Indicator of Systemic Stress) indicator).

3. In order to decide on whether to maintain, reduce or fully release the buffer, designated authorities are recommended to exercise greater judgement when monitoring the variables under paragraph 2.

4. If such variables are available and relevant in Member States, designated authorities are recommended to publish at least one of the variables set out in each of the paragraphs 2 (a) and (b) quarterly on their website to accompany the announcement of the countercyclical buffer rate required under Article 136(7) of Directive 2013/36/EU.

Section 2 Implementation

5.1.1 Interpretation

1. For the purposes of this Recommendation, the following definitions apply:

   (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 Council Regulation (EU) No 1024/2013;

   (b) 'benchmark buffer rate' means a countercyclical buffer rate, calculated in accordance with recommendation B(3);

   (c) 'buffer guide' means a benchmark buffer rate, selected in accordance with sub-recommendation B(4);

   (d) 'credit-to-GDP gap' means the deviation of the ratio of credit-to-GDP from its long-term trend in a particular Member State;

   (e) 'standardised credit-to-GDP gap' means a credit-to-GDP gap measured and calculated in accordance with recommendation B(1);

   (f) 'additional credit-to-GDP gap' means a credit-to-GDP gap measured and calculated in accordance with recommendation B(2);

   (g) 'countercyclical buffer rate' means the rate that institutions must apply in order to calculate their institution-specific countercyclical capital buffer, set in accordance with Articles 136 and 137 of Directive 2013/36/EU or by a relevant third country authority, as the case may be.

2. The Annex forms an integral part of this Recommendation. In the event of conflict between the main text and the Annex, the main text prevails.

5.1.2 Criteria for implementation

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

   (a) information on the substance and timing of the actions taken;

   (b) an assessment of the functioning of the actions taken, from the perspective of the objectives of this Recommendation;

   (c) detailed justification of any inaction or departure from this Recommendation, including any delays.

5.1.3 Timeline for the follow-up

1. Addressees are requested to report to the ESRB, the Council and the Commission on the actions they have taken in response to this Recommendation, or adequately justify any inaction, as specified in the following paragraphs.

2. By 30 June 2016 addressees are requested to send to the ESRB, the Council and the Commission a report explaining the measures they have taken to comply with this Recommendation. The recommended measures should apply from the date by which the Member States require the credit institutions in their jurisdiction to maintain an institution-specific countercyclical capital buffer in accordance with Article 130 of Directive 2013/36/EU. The report should include details of measures taken from that date onwards.

3. Addressees are requested to send a report explaining the measures they have taken to comply with this Recommendation every three years.

4. The General Board will decide when this Recommendation needs to be reviewed or updated in the light of experience in setting buffers pursuant to Directive 2013/36/EU or of developments in internationally agreed practices.

5.1.4 Monitoring and assessment

1. The ESRB Secretariat:

   (a) assists the addressees, including by facilitating coordinated reporting, providing relevant templates and detailing where necessary the modalities and the timeline for the follow-up;

   (b) verifies the follow-up by the addressees, including by assisting them at their request, and reports on the follow-up to the General Board via the Steering Committee.

2. The General Board assesses the actions and the justifications reported by the addressees and, where appropriate, decides whether this Recommendation has not been followed and the addressees have failed to adequately justify their inaction.

Annex (of the Recommendation)

PART I

Methodology for the measurement and calculation of the credit-to-GDP gap in accordance with the BCBS's guidance

The standardised credit-to-GDP gap, denoted GAPt, is measured and calculated as:

GAPt = RATIOt - TRENDt

where:

t	= end-period date, the period being one quarter;
RATIOt	= (CREDITt / (GDPt + GDPt-1 + GDPt-2 + GDPt-3)) × 100%;
GDPt	= gross domestic product of the Member State of the designated authority in quarter t;
CREDITt	= broad measure of the stock of credit to the private non-financial sector in the Member State of the designated authority outstanding at the end of quarter t;
TRENDt	= recursive Hodrick-Prescott filtered trend of the RATIO with a smoothing parameter, lambda of 400,000*.

*Notes: * The Hodrick-Prescott filter (HP filter) is a standard mathematical tool used in macroeconomics to establish the trend of a variable over time. It is implemented in any standard statistical packages. A one sided, recursive, HP filter ensures that only information available at each point in time is used for the calculation of the trend. The smoothing parameter, generally referred to as lambda in the technical literature, is set to 400,000 to capture the long-term trend in the behaviour of the credit-to-GDP ratio.*

PART II

Methodology for the calculation of the benchmark buffer rate in accordance with the BCBS'S guidance*

The size of the benchmark buffer rate (as a percentage of risk-weighted assets) is zero when the credit-to-GDP gap is below or equal to the lower threshold. It then increases linearly with the credit-to-GDP gap until the benchmark buffer rate reaches its maximum level when the credit-to-GDP gap reaches or exceeds the upper threshold.

In formal terms:

if GAPt ≤ L, the benchmark buffer rate is zero,

if GAPt ≥ H, the benchmark buffer rate is at 2.5 %,

between L and H the benchmark buffer rate is linearly interpolated and equals to
(0.3125 × GAPt - 0.625)

where:

GAPt is the credit-to-GDP gap defined in the Annex Part I;

L = 2 percentage points is the lower threshold;

H = 10 percentage points is the upper threshold.

* While the benchmark buffer rates increase linearly in line with GDP and can thus take any value between zero and 2.5 %, Article 136(4) of Directive 2013/36/EU specifies that the buffer rate set by the designated authority shall be calibrated in steps of 0.25 percentage points or multiples thereof.

Annex III
Implementation standards for Recommendation ESRB/2014/1

Sub-recommendation A(1)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	Decisions on the appropriate CCyB rate are clearly guided by the tool's objective, as defined in Principle 1 of Recommendation ESRB/2014/1.	
LC	Decisions on the appropriate CCyB rate are for the most part guided by the tool's objective, as defined in Principle 1 of the Recommendation ESRB/2014/1. There is also another objective which plays a minor role in the decision-making of the designated authority.	
PC	N/A	
MN	Decisions on the appropriate CCyB rate are guided partly by the tool's objective, as defined in Principle 1 of Recommendation ESRB/2014/1. However, there is another objective which plays a major role in the decision-making of the designated authority.	
NC	Decisions on the appropriate CCyB rate are not guided by the tool's objective, as defined in Principle 1 of Recommendation ESRB/2014/1 at all.	
SE	1. Adequate justification has been provided for not guiding decisions on the appropriate CCyB rate by the tool's objective, also in terms of the principle of proportionality. 2. A commitment has been made to guide decisions on the appropriate CCyB rate by the tool's objective, as defined in Principle 1 of Recommendation ESRB/2014/1.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation A(2)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	1. The credit-to-GDP gap serves explicitly as a common starting point in guiding decisions on CCyB rates, most notably in the build-up phase. 2. Designated authority also takes into account other quantitative and qualitative information when setting the CCyB rate (which reflects national specificities). 3. Designated authority explains in detail to the public what information is used and how it is taken into account when setting the relevant rate (applicable to the ECB only in the event of exercising a top-up measure).	
LC	1. The credit-to-GDP gap serves implicitly as a common starting point in guiding decisions on CCyB rates. 2. The designated authority also takes into account other quantitative and qualitative information when setting the CCyB rate (which reflects national specificities). 3. The designated authority explains to the public what information is used but not how it is taken into account when setting the relevant rate (applicable to the ECB only in the event of exercising a top-up measure).	
PC	1. The credit-to-GDP gap serves implicitly as a common starting point in guiding decisions on CCyB rates. 2. The designated authority takes into account either qualitative or quantitative indicators. 3. The designated authority explains to the public what information is used but not how it is taken into account when setting the relevant rate (applicable to the ECB only in the event of exercising a top-up measure).	
MN	N/A	
NC	1. The credit-to-GDP gap does not serve as a common starting point in guiding decisions on CCyB rates. 2. The designated authority does not take into account other quantitative and qualitative information when setting the CCyB rate. 3. The designated authority does not explain to the public what information is used or how it is taken into account (applicable to the ECB only in the event of exercising a top-up measure).	
SE	1. Adequate justification has been provided for: (a) not using the credit-to-GDP gap or any other quantitative or qualitative information when setting the CCyB rate; (b) not explaining to the public what information is used or how it is taken into account. 2. A commitment has been made to: (a) start using the information contained in these indicators; also in terms of the principle of proportionality. (b) explain to the public what information is used and how it is taken into account.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation A(3)

Grade	Criterion	
	Content/substance	**Effect/appropriateness**
FC	1. The designated authority assesses the information in the credit-to-GDP gap and any other relevant variables or models, being mindful that the information it provides may be misleading. 2. The usefulness of these variables and models is regularly reassessed.	The designated authority takes this assessment into account when exercising its judgement on the sustainability of credit growth in order to set the appropriate CCyB rate.
LC	1. The designated authority assesses the information in the credit-to-GDP gap and any other relevant variables or models. 2. The usefulness of these variables and models is reassessed on an irregular basis.	The designated authority takes this assessment into account when exercising its judgement on the sustainability of credit growth in order to set the appropriate CCyB rate.
PC	1. The designated authority assesses the information in only one of the following indicators: a) the credit-to-GDP gap; b) other relevant variables or models (other than the credit-to-GDP gap). 2. The usefulness of these variables and models is not reassessed.	The designated authority takes this assessment into account when exercising its judgement on the sustainability of credit growth in order to set the appropriate CCyB rate.
MN	1. The designated authority assesses the information in some indicators that differ from the credit-to-GDP gap and other relevant variables or models. 2. The usefulness of these variables and models is not reassessed.	The designated authority does not take this assessment into account when exercising its judgement on the sustainability of credit growth in order to set the appropriate CCyB rate.
NC	The designated authority does not assess the information in any indicators.	N/A
SE	1. Adequate justification has been provided for: (a) not assessing information in the credit-to-GDP gap or in any other quantitative or qualitative information; (b) not reassessing periodically the usefulness of these variables or models; in terms of the principle of proportionality. 2. A commitment has been made to: (a) start assessing information in these variables or models, being mindful that the information they provide might be misleading; (b) reassess periodically the usefulness of these variables or models.	1. Adequate justification has been provided for not taking this assessment into account when exercising judgement on the sustainability of credit growth in order to set the appropriate CCyB rate, also in terms of the principle of proportionality. 2. A commitment has been made to take into account this assessment.
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	No satisfactory explanation has been provided for inaction, also in terms of future commitment.

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation A(4)

Grade +A2:C 16	Criterion	
	Content/substance	Effect/appropriateness
FC	If a designated authority reduces the existing buffer rate, it also decides on an indicative period during which no increase in the buffer rate is expected.	1. The designated authority promptly releases the CCyB when risks materialise. 2. When risks do not materialise but are deemed to recede, the designated authority releases the buffer gradually.
LC	If a designated authority reduces the existing buffer rate, it also decides on an indicative period during which no increase in the buffer rate is expected.	e
PC	If a designated authority reduces the existing buffer rate, it does not decide on an indicative period during which no increase in the buffer rate is expected.	1. The designated authority releases the CCyB when risks materialise. 2. When risks do not materialise but are deemed to recede, the designated authority releases the buffer fully rather than gradually.
MN	N/A	N/A
NC	If a designated authority reduces the existing buffer rate, it does not decide on an indicative period during which no increase in the buffer rate is expected.	1. The designated authority does not release the CCyB when risks materialise. 2. When risks do not materialise but are deemed to recede, the designated authority does not consider a gradual release of the buffer or its full release.
SE	1. Adequate justification has been provided for not deciding on an indicative period during which no increase in the buffer rate is expected (after reducing the existing buffer rate), also in terms of the principle of proportionality. 2. A commitment has been made to communicate this period when the existing buffer rate is reduced in the future. 3. A situation where the designated authority has not made a decision to apply a non-zero CCyB rate or the release phase of the CCyB framework has not occurred yet is also considered to provide sufficient explanation.	1. Adequate justification has been provided for not releasing promptly the CCyB when risks materialise or releasing it gradually when risks do not materialise but recede, also in terms of the principle of proportionality. 2. A commitment has been made to release promptly the CCyB when risks materialise and to release it gradually when risks do not materialise but recede.
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	No satisfactory explanation has been provided for inaction, also in terms of future commitment.

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation A(5)

Grade	Criterion	
	Content/substance	Effect/ appropriateness
FC	The designated authority developed a clear strategy for communicating its decisions on the CCyB. As part of the developed strategy, all of the following mechanisms or channels were established: a) a mechanism for coordinating with other designated authorities; b) a mechanism for coordinating with the ESRB; c) transparent and stable processes and well-defined channels of communication to key stakeholders and the public.	
LC	The designated authority developed a general strategy for communicating its decisions on the CCyB. As part of the developed strategy, two of the following mechanisms or channels were established: a) a mechanism for coordinating with other designated authorities; b) a mechanism for coordinating with the ESRB; c) transparent and stable processes and well-defined channels of communication to key stakeholders and the public.	
PC	The designated authority developed a general strategy for communicating its decisions on the CCyB. As part of the developed strategy, one of the following mechanisms or channels were established: a) a mechanism for coordinating with other designated authorities; b) a mechanism for coordinating with the ESRB; c) transparent and stable processes and well-defined channels of communication to key stakeholders and the public.	
MN	N/A	
NC	The designated authority did not develop any strategy for communicating its decisions on the CCyB. None of the following mechanisms or channels of communication was established: a) a mechanism for coordinating with other designated authorities; b) a mechanism for coordinating with the ESRB; c) transparent and stable processes and well-defined channels of communication to key stakeholders and the public.	
SE	1. Adequate justification has been provided for not developing a clear strategy for communicating decisions on the CCyB, and not establishing following mechanisms or channels: (a) a mechanism for coordinating with other designated authorities; (b) a mechanism for coordinating with the ESRB; (c) transparent and stable processes and well-defined channels of communication to key stakeholders and the public, also in terms of the principle of proportionality. 2. A commitment has been made to develop a clear strategy for communicating these decisions.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation A(6)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	1. The designated authority recognises the countercyclical capital buffer rates applied in other Member States, in addition to the mandatory reciprocity arrangements established under Union law. 2.When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, the designated authority (1) considers the cross-border implications and (2) (not applicable to the ECB) notifies all of the bodies stated in sub-recommendation A(6).	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, a comprehensive analysis of the cross-border implications is conducted.
LC	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, the designated authority considers cross-border implications and (not applicable to the ECB) notifies the majority of the bodies stated in sub-recommendation A(6)..	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, a general analysis of the cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level is conducted by the designated authority.
PC	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, the designated authority considers the cross-border implications, but (not applicable to the ECB) does not notify any of the bodies stated in sub-recommendation A(6)..	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, an adequate analysis of cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level is conducted by the designated authority.
MN	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, the designated authority does not consider the cross-border implications but (not applicable to the ECB) it notifies the bodies stated in sub-recommendation A(6)..	The designated authority does not consider the cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level or the analysis conducted is considered inadequate.

Grade	Criterion	
	Content/substance	Effect/appropriateness
NC	National regulation limits the recognition of other Member States' buffer to 2.5% or when not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, the designated authority does not consider the cross-border implications neither does it notify any of the bodies stated in sub-recommendation A(6)..	When not recognising a buffer rate set by the designated authority of another Member State in excess of the mandatory level, the designated authority does not consider the cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level.
SE	1. The designated authority has not encountered the need to decide on recognition of the countercyclical capital buffer rates applied in other Member States. 2. Adequate justification has been provided for not recognising the countercyclical capital buffer rates applied in other Member States, in addition to the mandatory reciprocity arrangements established under Union law, not considering the cross-border implications and (not applicable to the ECB) not notifying any of the bodies stated in sub-recommendation A(6), also in terms of the principle of proportionality.	1. Adequate justification has been provided for: (i) not recognising the CCyB rates applied in other Member States; (ii) not considering the cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level; also in terms of the principle of proportionality and (iii) not notifying the bodies stated in sub-recommendation A6. 2. A commitment has been made to: (a) generally recognise the CCyB rates applied in other Member States; (b) consider cross-border implications of not recognising a buffer rate for exposures to another Member State in excess of the mandatory level. 3. The designated authority has not encountered the need to decide whether or not to recognise the countercyclical capital buffer rates applied in other Member States.
IE	No satisfactory explanation has been provided for inaction, also in terms of future commitment.	No satisfactory explanation has been provided for inaction, also as regards any future commitment.

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation A(7)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC		As a part of its macroprudential policy strategy, the designated authority considers when to use the buffer in isolation, when to use other instruments instead of the buffer and when to combine the buffer with other instruments.
LC		N/A
PC		N/A
MN		N/A
NC		The designated authority does not consider when to use the buffer in isolation, when to use other instruments instead of the buffer or when to combine the buffer with other instruments.
SE		1. Adequate justification has been provided for not considering when to use the buffer in isolation, when to use other instruments instead or when to combine the buffer with other instruments, also in terms of the principle of proportionality. 2. A situation where the ECB has not formally exercised its CCyB rate-setting powers (i.e. the ECB has not topped up any CCyB rate decided by a NDA) is also considered to provide sufficient explanation.
IE		No satisfactory explanation has been provided for inaction, also in terms of future commitment.

Sub-recommendation B(1)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	The designated authorities have computed a standardised credit-to-GDP gap in accordance with the BCBS's guidance, as specified in Part I of the Annex of the Recommendation.	
LC	N/A	
PC	N/A	
MN	N/A	
NC	The designated authorities have not computed the standardised credit-to-GDP gap in accordance with the BCBS's guidance, as specified in Part I of the Annex of the Recommendation.	
SE	Adequate justification has been provided for not computing the standardised credit-to-GDP gap in accordance with the BCBS's guidance, as specified in Part I of the Annex of the Recommendation.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation B(2)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	1. If designated authorities have deemed that a different measurement and calculation of the credit-to-GDP gap would better reflect the specificities of the country, authorities have computed an additional credit-to-GDP gap further to the standardised credit-to-GDP gap. 2. Where an alternative credit-to-GDP gap has been computed, that computation was carried out quarterly. 3. Where an alternative credit-to-GDP gap has been computed, sub-recommendation B(2) (a) – (c) has been followed in its entirety.	
LC	N/A	
PC	N/A	
MN	N/A	
NC	At least one of the three criteria referenced above has been violated.	
SE	Adequate justification has been provided for not following one or more of the above three criteria.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	
N/A	The designated authorities do not deem a different measurement and calculation of the credit-to-GDP gap to better reflect the specificities of the national economy.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation B(3)

Grade	Criterion: Content/substance	Criterion: Effect/appropriateness
FC	1.The designated authorities have computed the benchmark buffer rate based on the standardised credit-to-GDP gap mentioned in sub-recommendation B(1) or an alternative credit-to-GDP gap as mentioned in sub-recommendation B(2) in its entirety as recommended in Part II of the Annex of the Recommendation. 2. Sub-recommendation B(3) (a) - (c) has been followed in its entirety. 3. Computations have been carried out quarterly.	
LC	1. The designated authorities have computed the benchmark buffer rate based on the standardised credit-to-GDP gap mentioned in sub-recommendation B(1) or an alternative credit-to-GDP gap as mentioned in sub-recommendation B(2) with some minor computational deviations from Part II of the Annex of the Recommendation. 2. Sub-recommendation B(3) (a) - (c) has largely been followed. 3. Computations have been carried out quarterly.	
PC	1. The designated authorities have computed the benchmark buffer rate based on the standardised credit-to-GDP gap mentioned in sub-recommendation B(1) or an alternative credit-to-GDP gap as mentioned in sub-recommendation B(2) with substantial computational deviations from Part II of the Annex of the Recommendation. 2. Sub-recommendation B(3) (a) - (c) has partially been followed. 3. Computations have been carried out quarterly.	
MN	1. The designated authorities have computed the benchmark buffer rate based on the standardised credit-to-GDP gap mentioned in sub-recommendation B(1) or an alternative credit-to-GDP gap as mentioned in sub-recommendation B(2) but Part II of the Annex of the Recommendation has not been followed in most aspects. 2. Substantial deviations or omissions from sub-recommendation B(3) (a) - (c) but some principles similar in nature to sub-recommendation B(3) (a) - (c) have been followed. 3. Computations have not been carried out quarterly.	
NC	1.The designated authorities have not computed the benchmark buffer rate. 2. Strong deviations from sub-recommendation B(3) (a) - (c) such that the objective of these principles is missed. 3. Any existing computations have not been carried out quarterly.	
SE	Adequate justification has been provided for not computing the benchmark buffer rate as recommended in Part II of the Recommendation.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	
N/A		

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation B(4)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	If the designated authorities have calculated an alternative buffer rate following guidance in sub-recommendation B(3) for a particular quarter, they should select the buffer rate that best reflects national specificities.	
LC	N/A	
PC	N/A	
MN	N/A	
NC	Although the authorities have calculated an alternative buffer rate following the guidance in sub-recommendation B(3) for a particular quarter, they have not selected the buffer rate that best reflects national specificities.	
SE	Adequate justification has been provided for not selecting the buffer rate that best reflects national specificities.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	
N/A	If the designated authorities have not calculated an alternative buffer rate.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation B(5)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	1. Sub-recommendation B(5) (a) - (e) has been followed in its entirety. 2. In the event that it imposes a top-up measure, the ECB has not published the information required by sub-recommendation B(5) (a) - (e) that was taken into account when the higher CCyB rate was set and that was not published by the national designated authority.	
LC	1. Sub-recommendation B(5) (a) - (d) has been implemented with only minor deficiencies. 2. Sub-recommendation B(5) (e) is mostly fulfilled. 3. Not applicable to ECB.	
PC	1. Sub-recommendation B(5) (a) - (d) has been implemented with a number of deficiencies. 2. Fulfilment of sub-recommendation B(5) (e) is missing or incomplete. 3. The minimum requirement is that authorities publish the standardised and – if applicable – the preferred credit gap. 4. Not applicable to ECB.	
MN	1. Sub-recommendation B(5) (a) - (d) has been implemented with substantial deficiencies. 2. Fulfilment of sub-recommendation B(5) (e) is missing. 3. Not applicable to ECB.	
NC	1. The designated authorities have not published any of the information specified in sub-recommendation B(5) (a) - (d). 2. In the event that it imposes a top-up measure, the ECB has not published any information required by sub-recommendation B(5) (a) - (e) that was taken into account when the higher CCyB rate was set and that was not published by the national designated authority.	
SE	A situation where the ECB has not yet topped up any CCyB rate decided by a national designated authority is also considered to provide sufficient explanation.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	
N/A		

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation B(6)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	The designated authorities have explained their reasons for departing from the provisions of sub-recommendations B(1), B(2), B(3) and B(4).	
LC	N/A	
PC	N/A	
MN	N/A	
NC	When required, the authorities have not explained their reasons for departing from the provisions of at least one of the sub-recommendations B(1), B(2), B(3) or B(4).	
SE	Adequate justification has been provided for not explaining their reasons for departing from the provisions in sub-recommendations B(1), B(2), B(3) and B(4).	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	
N/A	The designated authorities have not departed from the provisions of sub-recommendations B(1), B(2), B(3) and B(4).	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation C(1)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	The designated authority takes into account quantitative and qualitative information about excessive credit growth.	
LC	N/A	
PC	N/A	
MN	N/A	
NC	Neither quantitative nor qualitative information about excessive credit growth is taken into account by the authority.	
SE	Adequate justification has been provided for not taking account of a range of quantitative and qualitative information about excessive credit growth.	
IE	No satisfactory justification, also in terms of future commitment, has been provided.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation C(2)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	Subject to availability, the designated authority monitors at least one indicator for each indicator group in sub-recommendation C(2) (a) – (g).	
LC	Subject to availability, the designated authority monitors at least one indicator for the majority of indicator groups in sub-recommendation C(2) (a) – (g).	
PC	1. Subject to availability, the designated authority monitors at least one indicator for the minority of indicator groups in sub-recommendation C(2) (a) – (g). 2. Failure to provide explanation for not monitoring some indicator in sub-recommendation C(2) (a) - (g) leads to a PC grade.	
MN	N/A	
NC	The designated authority does not monitor any indicators from the indicator groups in sub-recommendation C(2) (a) – (g).	
SE	Adequate justification has been provided for those indicator groups in sub-recommendation C(2) (a) - (g) for which indicators are not monitored.	
IE	No satisfactory justification, also in terms of future commitment, has been provided for not monitoring any indicators from the indicator groups in sub-recommendation C(2) (a) - (g).	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation C(3)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	1. Subject to availability and relevance, the designated authority publishes quarterly at least one indicator of each indicator group in sub-recommendation C(2) (a) – (f). An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate. 2. In the event that it imposes a top-up measure, the ECB publishes the information required by sub-recommendation C(2) (a) - (f) that was taken into account to set the higher CCyB rate and not published by the NDA.	
LC	1. Subject to availability and relevance, the designated authority publishes at least annually at least one indicator each in the majority, i.e. more than three, of indicator groups in sub-recommendation C(2) (a) – (f). An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate. 2 Not applicable to ECB.	
PC	1. Subject to availability and relevance, the designated authority publishes at least annually at least one indicator each in three of the indicator groups in sub-recommendation C(2) (a) – (f). An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate. 2 Not applicable to ECB.	
MN	1. Subject to availability and relevance, the designated authority publishes occasionally or less frequently than annually at least one indicator each in three of the indicator groups in sub-recommendation C(2) (a) – (f). An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate. 2 Not applicable to ECB.	
NC	1. The designated authority has not published any indicators mentioned in sub-recommendation C(2) (a) - (f). 2. In the event that it imposes a top-up measure, the ECB does not publish any of the information required by sub-recommendation C(2) (a) - (f) that was taken into account to set the higher CCyB rate and not published by the NDA.	
SE	1. Adequate justification has been provided for not publishing any available and relevant indicators from the indicator groups in sub-recommendation C(2) (a) - (f). 2. A situation where the ECB has not yet topped up any CCyB rate decided by a NDA is also considered to provide sufficient explanation.	
IE	No satisfactory justification has been provided for not publishing any available and relevant indicators from the indicator groups in sub-recommendation C(2) (a) - (f).	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation D(1)

Grade	Criterion	
	Content/substance	**Effect/appropriateness**
FC	The designated authority takes into account quantitative and qualitative information.	
LC	N/A	
PC	N/A	
MN	N/A	
NC	Either quantitative or qualitative information is not taken into account by the authority.	
SE	1. Adequate justification has been provided for not taking account of a range of quantitative and qualitative information. 2. If the CCyB rate set by the designated authority stands at 0%, this grade may apply on the grounds that this sub-recommendation is not relevant.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation D(2)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	Subject to availability, the designated authority monitors at least one indicator from each indicator group in sub-recommendation D(2) (a) - (b).	
LC	N/A	
PC	Subject to availability, the designated authority monitors either indicators mentioned in sub-recommendation D (2) (a) or in sub-recommendation D (2) (b).	
MN	N/A	
NC	The designated authority does not monitor any indicators from indicator groups in sub-recommendation D (2) (a) and (b).	
SE	1. Adequate justification has been provided for those indicator groups in sub-recommendation D (2) (a) - (b) which are not monitored. 2. If the CCyB rate set by the designated authority stands at 0%, this grade may apply on the grounds that this sub-recommendation is deemed not relevant.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation D(3)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC		Designated authority exercises greater judgement when monitoring variables under paragraph 2.
LC		N/A
PC		N/A
MN		N/A
NC		Designated authority does not exercise greater judgement when monitoring variables under paragraph 2.
SE	1. Adequate justification has been provided for not exercising greater judgement when monitoring the variables under paragraph 2. 2. If the CCyB rate set by the designated authority stands at 0%, this grade may apply on the grounds that this sub-recommendation is not relevant.	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Sub-recommendation D(4)

Grade	Criterion	
	Content/substance	Effect/appropriateness
FC	Subject to availability and relevance, the designated authority publishes quarterly at least one indicator from each indicator group in sub-recommendation D(2) (a) - (b) . An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate.	
LC	Subject to availability and relevance, the designated authority publishes at least annually at least one indicator from each indicator group in sub-recommendation D(2) (a)-(b).	
PC	Subject to availability and relevance, the designated authority publishes at least annually either indicators mentioned in sub-recommendation D (2) (a) or in sub-recommendation D (2) (b). An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate.	
MN	Subject to availability and relevance, the designated authority publishes occasionally or less frequently than annually either of the indicators mentioned in sub-recommendation D (2) (a) or in sub-recommendation D (2) (b). An exact link to the statistical database on the website of the designated authority is acceptable if it accompanies the announcement of the CCyB rate.	
NC	The designated authority has not published any indicators from indicator groups in sub-recommendation D (2) (a) and (b).	
SE	Adequate justification has been provided for not publishing any available and relevant indicators from indicator groups in sub-recommendation D (2) (a)-(b).	
IE	No satisfactory explanation has been provided for inaction, also as regards any future commitment.	

Notes: FC stands for fully compliant. LC stands for largely compliant. PC stands for partially compliant. MN stands for materially non-compliant. NC stands for non-compliant. SE stand for sufficiently explained inaction. IE stands for insufficiently explained inaction. NA stands for not applicable.

Annex IV
Addressee-specific analysis methodology: National designated authorities

Introduction

This section provides an assessment of the level of implementation of the Recommendation by each national designated authority. The assessment is based on the submissions made by the addressees by the reporting deadline specified in Section 2.3 of the Recommendation, i.e. 31 August 2022, and on further dialogue between the Assessment Team and the addressees in the course of the assessment process.

1. Criteria and weights for the assessment of implementation

The assessment criteria applied in assessing addressees' actions in response to the Recommendation were based on best practice established in previous follow-up assessments conducted for ESRB recommendations. In the current assessment, each sub-recommendation was evaluated applying the same implementation standards as those developed during the first assessment round in 2017 and which are set out in Annex III below. The Assessment Team also took due account of the implementation criteria indicated in Section 2(2) of the Recommendation.

(a) Criteria for the assessment of implementation

The following criteria were applied in assessing the actions taken by each addressee with respect to each sub-recommendation:

- content/substance;
- effect/appropriateness.

Content/substance was applied as a criterion in assessing whether an individual addressee had complied with all the requirements laid down in each sub-recommendation.

Effect/appropriateness was applied as a criterion in assessing how the actions taken by an addressee had contributed to achievement of the objective of the sub-recommendation concerned. In other words, this criterion makes it possible to evaluate the effectiveness of measures taken by an addressee in the light of the particular situation prevailing in its place of jurisdiction. Accordingly, the principle of proportionality is taken into consideration.

(b) Criteria for the assessment of justifications given for inaction

If an addressee has not taken action in response to a sub-recommendation, the assessment determines whether the justification given for that inaction is sufficiently or insufficiently explained.

2. Grading methodology

Calculation of addressees' final compliance grade was conducted in accordance with a four-step assessment process, as set out in the revised Handbook. The application of this methodology ensures full transparency of the compliance grades for each addressee and guarantees a high level of objectivity in the assessment process. It also leaves room for expert judgement, and makes it easy to identify, review and understand the rationale behind the gradings. The detailed methodology and the reasoning underlying certain assumptions made is given in the first compliance report.

The following compliance scales were used throughout the grading process.

(a) Grading scale for action taken

- Fully compliant (FC): the addressee complies entirely with the requirements.
- Largely compliant (LC): the requirements have been met almost entirely and only negligible requirements remain to be implemented.
- Partially compliant (PC): the core requirements have been met; there are certain deficiencies in implementation, but the recommendation has been acted on.
- Materially non-compliant (MN): the requirements have been fulfilled to a degree, but there are significant deficiencies in implementation.
- Non-compliant (NC): almost none of the requirements have been met, even if steps have been taken towards implementation.

(b) Grading scale for inaction

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

The numerical gradings and weightings applied to these grading scales in the various steps undertaken to arrive at an overall grade were the same in this second assessment round as in the first.

Step I: At the level of each sub-recommendation, each criterion (Content/substance and Effect/appropriateness) was assessed and given a compliance grade.

This compliance grade (FC, LC, PC, MN, NC, SE, IE) was then converted into a numerical grade (see Table 1). If a sub-recommendation included two criteria, the corresponding numerical grades were weighted (see Table 2) and aggregated into a compliance grade for the sub-recommendation as a whole (e.g. Recommendations A(3), A(4), etc.).

Table A1

Conversion of compliance grades for criteria to numerical grades

Compliance grades	Numerical grades
Action	
FC	1
LC	0.75
PC	0.5
MN	0.25
NC	0
Inaction	
SE	1
IE	0

Step II: The numerical grades for each recommendation were then calculated as a weighted average of the grades assigned to each sub-recommendation within that recommendation. The weights applied reflected the relative importance of each criterion within a particular sub-recommendation and of each sub-recommendation within a particular recommendation (see Table 2, column 5, below).

Table A2

Weights to be applied to the numerical grades in the case of action

Recommendation	Sub-recommendation	Criteria	Weight of criteria	Weight of sub-recommendation in recommendation
A	A(1)	Content/substance	100%	30%
	A(2)	Content/substance	100%	15%
	A(3)	Content/substance	60%	5%

Recommendation	Sub-recommendation	Criteria	Weight of criteria	Weight of sub-recommendation in recommendation
		Effect/appropriateness	40%	
	A(4)	Content/substance	20%	20%
		Effect/appropriateness	80%	
	A(5)	Content/substance	100%	10%
	A(6)	Content/substance	60%	10%
		Effect/appropriateness	40%	
	A(7)	Effect/appropriateness	100%	10%
B	B(1)	Content/substance	100%	0%
	B(2)	Content/substance	100%	0%
	B(3)	Content/substance	100%	50%
	B(4)	Content/substance	100%	0%
	B(5)	Content/substance	100%	50%
	B(6)	Content/substance	100%	0%
C	C(1)	Content/substance	100%	0%
	C(2)	Content/substance	100%	60%
	C(3)	Content/substance	100%	40%
D	D(1)	Content/substance	100%	0%
	D(2)	Content/substance	100%	60%
	D(3)	Effect/appropriateness	100%	0%
	D(4)	Content/substance	100%	40%

Step III: Once numerical grades had been established for each recommendation, a final overall numerical grade was calculated for the entire Recommendation applying the weights assigned to the individual recommendation concerned, i.e. Recommendations A, B, C and D (see Table 3).

Table A3

Weights assigned to individual recommendations to derive the overall grade

Recommendation	Weight for addressees' overall compliance grade
A	30%
B	30%
C	20%
D	20%

Step IV: The numerical value of the overall grade was then converted to an overall compliance grade for the Recommendation as a whole (see Table 4).

Table A4

Conversion of numerical grades for the Recommendation as a whole to compliance grades

Numerical grades	Compliance grades
Action	
0.9-1	FC
0.65-0.89	LC
0.4-0.64	PC
0.15-0.39	MN
0-0.14	NC
Inaction	
0.65-1	SE
<0.65	IE

Annex V
Addressee-specific analysis methodology: European Central Bank

Introduction

This section provides an assessment of the level of implementation of the Recommendation by the European Central Bank (ECB). The assessment is based on the ECB's submission and additional information received from the ECB during the assessment process.

Assessment of the ECB was conducted on the basis of the same implementation standards as those applied to the national designated authorities of the Member States. However, a different weighting scheme was used (see Section 3 below), as the Assessment Team decided that the ECB should be treated as a special case given its unique macro-prudential powers and the role it plays within the SSM.

The ECB derives its macro-prudential mandate and powers from both the CRD IV[15] and the SSM Regulation.[16] In particular, under Article 5(2) of the SSM Regulation "the ECB may, if deemed necessary, (…) apply higher requirements for capital buffers than applied by the national competent authorities or national designated authorities of participating Member States". Consequently, while the ECB has the power to "top up" a CCyB rate set by a national designated authority, it cannot scale it down. This seemingly reactive and asymmetrical role, together with the fact that CCyB rates are set on a country-by-country basis (and not at euro area-wide level), means that the ECB is primarily expected to monitor application of the Recommendation.

The particular role of the ECB is explicitly acknowledged in Recital (4) of the Recommendation:

"National designated authorities and the European Central Bank (ECB) (for Member States participating in the Single Supervisory Mechanism) are assigned responsibilities for setting countercyclical buffer rates. Directive 2013/36/EU requires each Member State to designate a public authority or body responsible for setting the countercyclical buffer rate for that Member State. In addition, 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 assigns specific supervisory tasks to the ECB. In particular, if it deems it necessary, the ECB may apply higher requirements for countercyclical capital buffers than those applied by the national designated authorities. For this exclusive purpose, the ECB is considered, as appropriate, the designated authority and has all the powers and obligations, which designated authorities have under

---

15 **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 EU L 176/338, 27.6.2013, p. 338).

16 **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 EU L 287/63, 29.10.2013, p. 63).

the relevant Union law. However, it would typically be national designated authorities that would be responsible for publishing countercyclical buffer rates."

Since the introduction of the CCyB in the EU on 1 January 2016, the ECB has not exercised its discretionary powers to increase the CCyB rate set by a national designated authority participating in the SSM. This, together with the fact that the ECB has not published a methodological framework document on the CCyB, hinders full assessment of its compliance with the Recommendation. The ECB was, however, assessed specifically in terms of its regular monitoring and assessment of the CCyB rates proposed by the national designated authorities of countries participating in the SSM.[17]

In the absence of any CCyB rate-setting decision by the ECB's Governing Council, a number of key aspects of the ECB's approach to the operationalisation of this instrument cannot be assessed on the same basis as for designated authorities.

1. Criteria and weightings for assessment of addressee implementation

The compliance criteria applied to assessment of the ECB are the same as those applied in assessing the national designated authorities (see Part 1). Nevertheless, given that the SSM Regulation does not grant the ECB powers to release the capital buffers set by national designated authorities, the Assessment Team decided that the following (sub)-recommendations are not applicable to the ECB:

- sub-recommendation A(4), which relates to the principles governing buffer release;
- recommendation D in its entirety, which provides guidance on variables that indicate whether a buffer should be maintained, reduced or fully released.

If the ECB has not taken action in response to a sub-recommendation, then it is assessed whether the justification for inaction was sufficiently or insufficiently explained, and the addressee graded accordingly.

As was the case for the designated authorities, some of the sub-recommendations received a 0% weighting, as set out in Part I.

2. Assigned weights

Table 5 shows the criteria and weights applied in assessing the ECB for each sub-recommendation, as well as the weight of a sub-recommendation within a particular recommendation. It should be noted that the weighting scheme that was applied to Recommendation A differs from that applied in grading national designated authorities given that that it was decided that sub-recommendation A(4) was not applicable to the ECB.

[17] Pursuant to Article 5(1) of the SSM Regulation, the national designated authority must notify the ECB ahead of its upcoming CCyB rate decision. The ECB must then communicate its stance on the notified measure and raise its objections (if any).

Table A5
Weights applied in grading the ECB in the case of action

Recommendation	Weight of sub-recommendation in the recommendation	Sub-recommendation	Criteria	Weight of criteria
A	30%	A(1)	Content/substance	100%
	30%	A(2)	Content/substance	100%
	10%	A(3)	Content/substance	60%
			Effect/appropriateness	40%
	Not applicable	A(4)	Not applicable	
	10%	A(5)	Content/substance	100%
	10%	A(6)	Content/substance	60%
			Effect/appropriateness	40%
	10%	A(7)	Effect/appropriateness	100%
B	0%	B(1)	Content/substance	100%
	0%	B(2)	Content/substance	100%
	80%	B(3)	Content/substance	100%
	0%	B(4)	Content/substance	100%
	20%	B(5)	Content/substance	100%
	0%	B(6)	Content/substance	100%
C	0%	C(1)	Content/substance	100%
	60%	C(2)	Content/substance	100%
	40%	C(3)	Content/substance	100%

D	Not applicable	D(1)	Not applicable
	Not applicable	D(2)	Not applicable
	Not applicable	D(3)	Not applicable
	Not applicable	D(4)	Not applicable

Given that the whole of Recommendation D is not applicable to the ECB, a separate weighting scheme (see Table 6) was applied in calculating the overall grade for the ECB.

Table A6

Weights assigned to individual recommendations to derive the overall grade for the ECB

Recommendation	Weight for addressees' overall compliance grade
A	40%
B	30%
C	30%
D	Not applicable

Imprint and acknowledgements

This compliance report is based on the results of an assessment conducted by the Assessment Team and was prepared by:

Konstantinos Kanellopoulos
Bank of Greece

Anna Dobrzańska
Narodowy Bank Polski

Massimo Molinari
Banca d'Italia

Matthias Köhler
Bundesbank

Fleurilys Virel
Banque de France

Boris Banovic
Narodna banka Hrvatske

Alexandr Palicz
Magyar Nemzeti Bank

Jari Friebel
ESRB Secretariat

Vincent Carl Jacobsen
ESRB Secretariat

Kiki Kuijs
ESRB Secretariat

Zuzanna Sus
ESRB Secretariat

Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Website **www.esrb.europa.eu**

The cut-off date for the data included in this report was August 2022.

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

PDF ISBN 978-92-899-6787-7, doi:10.2866/644014, DT-09-24-493-EN-N