Special Feature A: The ESRB as a coordination and notification hub under CRD V and CRR II[1]

The Capital Requirements Directive V (CRD V) and the Capital Requirements Regulation II (CRR II) have clarified and expanded the ESRB's role in coordinating macroprudential policies in the European Union (EU). In May 2019, the European Parliament and the Council adopted amendments to the Capital Requirements Regulation and Directive[2]. In addition to making changes to the macroprudential instruments[3], the CRR II and CRD V clarify and strengthen the role of the ESRB in the macroprudential decision-making process. Furthermore, they both require the ESRB to contribute to the further development of the macroprudential framework. Most of the provisions pertaining to the ESRB's role will come into force at the end of 2020.

A.1 The overarching objective of the ESRB's coordination role

The CRD V clarifies the overarching objective of the ESRB's coordination role. Recital 25[4] states that to ensure appropriate policy responses by Member States, the ESRB should monitor whether the macroprudential policy measures taken by them are sufficient and consistent.[5] This includes the assessment by the ESRB whether the macroprudential instruments are used in a non-overlapping manner. The ESRB is working with its members to form a common understanding of these concepts and to put them into operation.

A.2 Transmission of information ("Notification Hub")

The ESRB will be given a central role in the transmission of information on macroprudential measures. Under the CRD IV/CRR, the relevant authorities notify the ESRB and other stakeholders of the macroprudential measures that are planned or have been implemented,

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2 **Directive (EU) 2019/878**, OJ L 150, 7.6.2019, pp. 253-295, and **Regulation (EU) 2019/876**, OJ L 150, 7.6.2019, p. 1. These amendments form part of a broader overhaul of the EU's prudential and resolution rules for banks. The so-called banking package contains changes to the Capital Requirements Directive (**Directive 2013/36/EU**, OJ L 176, 27.6.2013, p. 338), the Capital Requirements Regulation (**Regulation (EU) No 575/2013**, OJ L 176, 27.6.2013, p. 1), the Bank Recovery and Resolution Directive (**Directive 2014/59/EU**, OJ L 173, 12.6.2014, p. 190) and the Single Resolution Mechanism Regulation (**Regulation (EU) No 806/2014**, OJ L 225, 30.7.2014, p. 1).

3 The changes pertain to eliminating the macroprudential use of Pillar 2, increasing the flexibility in the use of the systemic risk buffer (SyRB) and other systemically important institutions (O-SII) buffer, clarifying the scope of the SyRB as well as the roles and responsibilities of authorities in tackling financial stability risk linked to real estate exposures, streamlining activation and reciprocation procedures for macroprudential instruments, revising global systemically important institutions (G-SII) buffer requirements and the G-SII score methodology, and requiring the European Commission to reassess the macroprudential framework in banking by 30 June 2022 and every five years thereafter. For more information, see Special Feature C of **A Review of Macroprudential Policy in the EU in 2018**, ESRB, April 2019.

4 "[...] The ESRB…is expected to play a key role in the coordination of macroprudential measures, as well as the transmission of information on planned macroprudential measures in Member States, in particular through the publication of adopted macroprudential measures on its website and through information sharing across authorities following the notifications of planned macroprudential measures. In order to ensure appropriate policy responses among Member States, the ESRB is expected to monitor the sufficiency and consistency of Member States' macroprudential policies, including by monitoring whether tools are used in a consistent and non-overlapping manner."

5 Recitals form part of EU legal acts. While recitals of EU legal acts have no binding legal force, they spell out the intention of the European legislator, thereby providing important guidance on the interpretation of the respective legal act.

depending on the type of measure. Under the CRD V/CRR II, the ESRB has been assigned the role of notification hub: the relevant authorities will notify the ESRB of their planned/implemented macroprudential measures and the ESRB will, without delay, transmit the information to the other stakeholders depending on the type of measure taken (see Table A.1).

Table A.1
Transmission of information by the ESRB as mandated by CRD V/CRR II

Measure	Short description	Send notification to:					
		EC	EP	Council	EBA	CA/DA	MS
CCoB: (Art. 129(2) CRD V)	Exception for small and medium-sized investment firms	●			●	●	
CCyB: (Art. 130(2) CRD V)	Exception for small and medium-sized investment firms	●			●	●	
SII: (Art. 131(7) and 131(12) CRD V)	Setting or resetting of O-SII buffer	●			●	●	
	Identification of G-SII and O-SII (and subcategories)	●			●		
SyRB: (Art. 133(9) and 134(2) CRD V)	Setting or resetting	●			●	●	
	For third country exposures					●*	
	Reciprocation	●			●		●
Stricter national measures (Art. 458 (2) CRR II)**	Notification of stricter national measures		●	●	●		

Source: ESRB.
Notes: (*) Relevant supervisory authorities of third countries; (**) CRR II does not change the notification requirements that apply to reciprocation of stricter national measures. Therefore, Member States will continue to send the notification of stricter national measures to all relevant recipients at the same time they send it to the ESRB.

A.3 Publication requirements

In its role as a notification hub, the ESRB will also be required to publish some of the information it receives. The CRD IV/CRR already requires the ESRB to publish Member States' countercyclical capital buffer (CCyB) rates and related information on its website. Under Articles 124 and 164 of the CRR II, the ESRB will also be required to publish information on global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) buffers and real estate measures taken (see Table A.2).

Table A.2
Publication by the ESRB

Measure	Publication	New task
CCyB (Art. 136(7) CRD V)	Buffer rates and related information	
G-SII and O-SII (Art. 131(12) CRD V)	Names of G-/O-SII (and sub-categories)	●
Risk Weights (Art. 124(2) CRR II)	Risk weights and criteria for exposures as implemented for each relevant authority	●
Loss Given Default (Art. 164(6) CRR II)	Loss Given Default (LGD) values	●

Source: ESRB.

A.4 Requirements to issue ESRB opinions

The ESRB's existing role in the authorisation procedure for national macroprudential measures – e.g. in the activation of stricter national measures under Article 458 of the CRR or the activation of a systemic risk buffer (SyRB) rate above a certain threshold – has been broadened further to include other macroprudential measures, such as the O-SII buffer.

Stricter national measures under Article 458 of the CRR (flexible measures)

Article 458 of the CRR enables national authorities to enact macroprudential measures imposing stricter prudential requirements for domestically authorised institutions or a subset of those institutions provided that certain substantive conditions are met. The ESRB and the European Banking Authority (EBA) must already provide their opinions on these conditions to the Council, the Commission and the Member State concerned.[6]

Systemic Risk Buffer

The CRD V maintains the role of the ESRB in the activation of a SyRB rate above certain thresholds by the competent or designated authority, as applicable. The ESRB is required to issue a recommendation if the SyRB rate applies to a subsidiary of a parent company in another Member State and results in a combined SyRB rate of 3-5%. Where the setting or resetting of the SyRB rate results in a combined systemic risk buffer rate of above 5%, the ESRB must provide the Commission with an opinion as to whether the SyRB is appropriate. Furthermore, a Member State that sets a SyRB rate may ask the ESRB to issue a recommendation to other Member States which may then reciprocate the rate.

O-SII buffer

Where the competent or designated authority requires O-SIIs to maintain a buffer higher than 3%, the ESRB must provide the Commission with an opinion as to whether the O-SII buffer is appropriate. The opinion must be issued within six weeks of receipt of the notification by the competent or designated authority.

Combined SyRB and O-SII/G-SII buffer

In cases where the sum of the SyRB rate and the O-SII /G-SII buffer rate to which the same institution is subject to would be higher than 5%, the ESRB must give an opinion to the Commission on whether the SyRB rate is appropriate.

CRR II will also require the ESRB to issue an opinion on any adjustments to the risk weights and criteria relating to exposures secured by mortgages on immovable property under Article 124 of the CRR II and on the setting of higher minimum loss given default (LGD) values under Article 164 of the CRR II.

Table A.3 below provides an overview of the existing and new requirements for the ESRB to issue opinions on the activation of macroprudential measures.

[6] Šesták, L. and Bolhão Páscoa, T (2019), "Special Feature A: Use of national flexibility measures under Article 458 of the CRR", **A Review of Macroprudential Policy in the EU in 2018**, European Systemic Risk Board, Frankfurt am Main, April 2018.

Table A.3

Requirements to issue ESRB opinions

Measure	Short description	Deadline	New task
O-SII (Art. 131(5a) CRD V)	Appropriateness of the O-SII buffer above 3%	6 weeks	●
G/O-SII and SyRB (Art. 131(15) CRD V)	Appropriateness of buffer where the sum of SyRB and G/O-SII > 5%	6 weeks	●
SyRB (Art. 133(12) CRD V)	Appropriateness of buffer above 5%*	6 weeks	●**
Risk Weights (Art. 124(2) CRR II)	Adjustments to risk weights and criteria for exposures secured by mortgages on immovable property	1 month	●
Loss Given Default (Art. 164(6) CRR II)	Setting higher minimum Loss Given Default values for exposures secured by mortgages on immovable property	1 month	●
Stricter national measures (Art. 458 (4) and (9) CRR II)	Notification of stricter national measures	1 month	
	Extensions	1 month	

Source: ESRB.

*Notes: *If the proposed rate applies to a subsidiary of a parent company established in another Member State and is between 3-5%, the ESRB must issue a recommendation. **CRD IV already requires the ESRB to issue an opinion on the appropriateness of the SyRB rate to the Commission. CRD V changes the circumstances in which such an opinion is required.*

A.5 ESRB contributions to the further development of the macroprudential framework

The CRD V and CRR II require the ESRB to contribute to the further development of the macroprudential framework. The ESRB will collaborate closely with the EBA which has the mandate to develop draft regulatory technical standards (RTS) to provide more details on certain elements of Articles 124 and 164 of the CRR II. Under the same articles, the ESRB may give guidance in the form of recommendations, on factors which could “adversely affect current or future financial stability”, and on indicative benchmarks that are to be taken into account when determining higher risk weights or higher minimum LGD values. Furthermore, the ESRB will be consulted by the EBA on its report to the Commission on the appropriate methodology for the design and calibration of O-SII buffer rates and on its guidelines on the appropriate subset of exposures for the sectoral SyRB. In addition to these immediate tasks, the ESRB will be consulted by the EBA on its report on sustainable finance in 2025 and by the European Commission on the review of macroprudential rules in 2022 and every five years thereafter. Table A.4 below provides an overview of the ESRB’s mandates to further develop the macroprudential framework.

Table A.4

ESRB contributions to the further development of the macroprudential framework mandated by CRD V/CRR II

Measure	Short description	ESRB involvement	Deadline
O-SII (Art. 131(3) CRD V)	EBA report to the European Commission (EC) on the calibration of O-SII buffer rates	Consultation by EBA	31 December 2020
SyRB (Art. 133(6) CRD V)	EBA guidelines on appropriate subset of exposures	Consultation by EBA	30 June 2020
Risk Weights (Art. 124(4) and (5) CRR II)	EBA draft RTS on assessment of mortgage values and appropriateness of risk weights	Close cooperation with EBA	31 December 2019
	Guidance on factors which could “adversely affect current or future financial stability” and on indicative benchmarks that are to be taken into account when determining higher risk weights	ESRB recommendation	No deadline
Loss Given Default (Art. 164(8) and (9) CRR II)	EBA draft RTS on appropriateness of LGD values	Close cooperation with EBA	31 December 2019
	Guidance on factors which could “adversely affect current or future financial stability” and on indicative benchmarks that are to be taken into account when determining higher minimum LGD values	ESRB recommendation	No deadline
Sustainable Finance (Art. 501c CRR II)	EBA report assessing the justification for dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives	Consultation by EBA	28 June 2025
Review of macroprudential rules (Art. 513(1) and (2) CRR II)	EC reviews whether the macroprudential rules are sufficient to mitigate systemic risk in sectors, regions and Member States	Consultation by EC	30 June 2022 and every five years thereafter
	EC report to the European Parliament and to the Council on above assessment	Consultation by EC	31 December 2022 and every five years thereafter

Source: ESRB

A.6 Conclusion

CRD V and the CRR II have reinforced the role played by the ESRB in the oversight of macroprudential policy and its suitability to identify sources of systemic risk and mitigate its effects if and when such risks materialise. Accordingly, the new role of the ESRB as a notification hub will help it to improve its monitoring of the sufficiency and consistency of Member States' macroprudential policies. In addition, the ESRB’s scope of intervention has been expanded regarding the issuing of opinions before authorities can implement certain macroprudential measures. This will streamline the use of macroprudential tools and allow the ESRB to safeguard their harmonised application throughout the EU and ensure that they are used in a consistent and non-overlapping manner.

Furthermore, the new requirements for EU institutions and authorities to cooperate with and consult the ESRB will provide the organisation with an opportunity to contribute its skills and experience to the further development of the macroprudential framework.