**Annex 2:**

**OVERVIEW OF SELECTED MACRO PRUDENTIAL TOOLS**

| | **Instruments under CRDIV**[25] | | | **Instruments under CRR** | | | **Other** |
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| **Instrument** | **Countercyclical Capital Buffer (CCB)** | **Systemically Important Institution (SII) buffer** | **Systemic risk buffer (SRB)** | **Higher requirements on capital / liquidity /large exposures / risk weights** | **Higher real estate risk weights and stricter lending criteria** | **Higher minimum Exposure weighted average LGDs for retail exposures** | **Including LTV/LTI/DSTI and LTD limits** |
| **Purpose** | Purpose is to counteract effects of the economic cycle on banks' lending activity, making the supply of credit less volatile and possibly even reduce the probability of credit bubbles or crunches.<br>In good times, i.e. booming economy and strong credit growth, banks need to hold additional capital. | The G-SII buffer is aimed at reducing the moral hazard of implicit support and bail-out by taxpayer money.<br><br>The O-SII buffer targets domestically important institutions and EU important institutions in order to prevent adverse impacts on the internal market. | The Systemic Risk Buffer applies to the financial sector or one or more subsets of the sector, in order to prevent and mitigate long term non-cyclical systemic or macro-prudential risks with the potential of serious negative consequences to the financial system and the real economy in a specific Member | To adopt stricter national measures when justified because of changes in the intensity of macro-prudential or systemic risk. | To react to increased losses and forward looking market developments no longer sufficiently reflected by the risk weights for the part of an exposure fully and completely secured by immovable properties, provided this insufficiency is relevant for financial stability considerations. | To react to increased losses and forward looking market developments no longer sufficiently reflected by the minimum average LGD for retail exposures, provided this insufficiency is relevant for financial stability considerations. | Loan-to-value (LTV), loan-to-income (LTI) and debt service-to-income (DSTI) caps are exclusively based on national law. They include caps that restrict credit in relation to the value of the underlying real estate (LTV cap) or the income of the borrower (LTI/DSTI cap). In contrast to capital-based instruments, they target the borrowers who take credit, rather than the banks that provide the credit. |

[25] CRDIV provides a systemic liquidity risk indicator for Pillar 2 purposes as well as supervisory measures in reaction to insufficient management and coverage of the risk an institution poses to the financial system under Pillar 2.

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| **Relevant Article** | **CRD 130, 135-140** | **CRD 131** | **CRD 133 and 134** | **CRR 458** | **CRR 124** | **CRR 164** | **National legal framework** |
| **Who activates instrument** | Each Member State shall designate a public authority or body (‘a designated authority’) that is responsible for setting the countercyclical buffer rate for that Member State. | Member States shall designate the authority in charge of identifying, on a consolidated basis, global systemically important institutions (G-SIIs), and, on an individual, sub-consolidated or consolidated basis, as applicable, other systemically important institutions (O-SIIs), which have been authorised within their jurisdiction. That authority shall be the competent authority or the designated authority. Member States may designate more than one authority. | Member States shall designate the authority in charge of setting the systemic risk buffer and of identifying the sets of institutions to which it applies. This authority shall be the competent authority or the designated authority. | Member States shall designate the authority in charge of the application of this Article. The authority shall be the competent authority or the designated authority. | Competent authority | Competent authority | |

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| **Mandatory versus optional requirements**[26] | **Mandatory buffer:** Member States have to decide on a buffer rate informed by a buffer guide based on the credit-to-GDP gap. Other relevant variables also have to be considered. Member States can decide to apply the CCB from 2014 and must apply it from 2016. Mandatory | 1) **Mandatory surcharge for global systemically important banks (GSII)** applicable from 2016. A surcharge between 1% and 3.5% of RWAs, depending on the degree of systemic importance of an institution. 2) **Optional surcharge for other SIFIs (O-SII)** applicable from 2016. A surcharge up | **Optional buffer** on all or a subset of institutions. Until 2015 the competent or designated authority can set a buffer between 1% and 3% subject to notification to the European Commission, EBA and ESRB. An SRB above 3% requires authorisation by the European | **Optional:** National authorities may apply stricter rules for a number of selected measures subject to an EU procedure. It has to be established that the measure is necessary, effective and proportionate, and that other specified measures cannot | **Optional:** Competent authorities can set higher risk weights up to 150% based on financial stability considerations, taking into account loss experience and forward looking market developments. | **Optional:** Competent authorities can set higher minimum exposure weighted average LGDs (no upper limit) based on financial stability considerations, taking into account loss experience and forward-looking market | **Optional:** Member States can assign macro-prudential instruments that are not covered by the scope of EU legislation. This includes instruments, such as loan-to-value (LTV)/loan-to-income (LTI)/debt-service-to-income (DSTI) limits (e.g. to dampen a boom in real estate mortgage lending or to curb excessive consumption lending), |

[26] Source: Table 5 of the ESRB Flagship Report on Macro-prudential Policy in the Banking Sector.

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| | reciprocity up to a buffer rate of 2.5% applies from 2019. | to 2% of RWAs. 3) **Combination** rules between G-SII and O-SII buffers and the SRB ensure a floor/cap on all three buffers at the consolidated and subsidiary level. | Commission after the EBA and ESRB have provided opinions.<br>From 2015, the same authorisation is required for an SRB of above 3% on exposures in other Member States and of above 5% on local and third country exposures. | adequately address the systemic risk. These measures are subject to a notification and non- objection process, with the Council having the final decision on whether to block a measure if objections are raised. | | developments. Applies only to retail exposures. | liquidity instruments, such as LTD limits. These instruments are based on national law. |