

The CNB's reply to the European Commission's public consultation on the preparation of a revised framework for macroprudential policy in the EU

In August 2016, the European Commission launched public consultation¹ in which central banks, supervisory authorities, finance ministries, industry representatives and also members of public could contribute to the proposed review of the EU macroprudential policy framework. The CNB also shared its views in the consultation. The public consultation ended in October 2016. In November 2016, the European Commission published a legislative proposal on amending Regulation No. 575/2013 (CRR) and Directive 2013/36/EU and in September 2017 published a legislative proposal on amending Regulation No. 1092/2010 (establishing the ESRB). The legislative proposals constitute steps to revise the EU macroprudential framework.

Part A provides a summary of the CNB's views on the most important aspects of the consultation. It was then used to formulate replies to specific questions of the consultation, presented in Part B.

A. Summary of the CNB's position

1 The organisation of macroprudential policy

The CNB has long supported greater autonomy of the European Systemic Risk Board (ESRB) with regard to the ECB, stronger analytical capacity of the ESRB Secretariat and a change in the governance of ESRB consisting in the appointment of a full-time executive director and a strong financial stability chief economist. The CNB has pointed to the absence of synergies in the use of the ECB's resources due to unclear management of shared capacities. An internal ESRB analytical set-up made up of stable and experienced employees is a condition for enhancing the efficiency of the ESRB's activities and the fulfilment of its role. Delegation of decision-making on minor operational issues (e.g. data issues) to the Advisory Technical Committee (ATC) would also help increase the ESRB's efficiency.

2 Macroprudential instruments for banking

In line with the Commission's consultation paper, it is useful to divide macroprudential instruments into those applied to institutions' systemic importance ("institution-based instruments") and those applied to their exposures ("activity-based instruments").

2.1 Instruments applied to the systemic importance of credit institutions

The current macroprudential instruments for reducing the risks arising from the systemic importance of institutions primarily include the *buffer for global systemically important institutions* (G-SII buffer) and the *buffer for other* (i.e. local) *systemically important institutions* (O-SII buffer). The more generally defined *systemic risk buffer* (SRB) can also be used for this purpose.

The CNB has repeatedly emphasised the importance of giving national authorities flexibility in setting capital buffers for systemically important institutions. The current 2% cap on the O-SII buffer in the discretion of national authorities may not be sufficient for reducing risks. For example, the CNB's methodology currently proposes to set a buffer of 3% for three domestic

¹ The consultation document is available here: http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf. The consultation summary including the summary of responses is available here http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/index_en.htm

banks. This would require the consent of the European Commission. National authorities, including the CNB, thus often use the SRB for this purpose. We therefore consider it essential to significantly increase or entirely remove the cap on the O-SII buffer. The 3.5% cap on the G-SII buffer is currently not relevant to the CNB because no domestic institution has global systemic importance.

The rules for setting the O-SII buffer within groups are an equally important issue for the CNB. This buffer can be set on a consolidated basis, and for institutions whose parent undertakings already create O-SII G-SII buffers it cannot be set higher than the size of the parent institution's buffer (or 1% if the parent undertaking's buffer is below 1%). In reality, the O-SII buffer limit may be even lower than the above-mentioned 2%. The existence of these limits reduces the potential ability of national authorities to set an adequate buffer for domestic institutions integrated in international banking groups and again motivates domestic authorities to use the SRB to address risks associated with the systemic importance of domestic institutions.

2.2 Instruments applied to the exposures of credit institutions

The current macroprudential instruments for reducing risks arising from institutions' risk exposures include the *systemic risk buffer* (SRB) and the *countercyclical buffer* (CCyB). They also include *Article 458 CRR* focusing on macroprudential targets, which makes it possible under certain circumstances to depart from selected rules laid down in the CRR and from 2.5% for the capital conservation buffer laid down in CRD IV and thus introduce stricter rules than prescribed by the CRR. *Articles 124 and 164 CRR* are available for the important area of property risks. They allow the supervisory authority (not the macroprudential authority) to increase risk weights in the standardised approach and the LGD parameter in the IRB approach if it concludes, based on analyses, that the risk weights and the LGD parameter laid down in the CRR are not sufficient. In addition to the loss experience, the supervisory authority should take into account forward-looking markets developments and financial stability considerations. The microprudential *Pillar 2* can also be used to some extent for macroprudential purposes.

The key issues are: (1) whether the SRB may be used for risks associated with systemic importance and whether it can be applied to only a subset of exposures, (2) the possibility of applying the CCyB not to all exposures but only to a pre-defined subset, (3) simplification of the rules for the application of Articles 124, 164 and 458 CRR and the abolition of obligatory instrument sequencing, (4) the abolition of the option of using Pillar 2 for macroprudential purposes, and (5) the introduction and harmonisation of possible new instruments relating to property loans in European legislation.

In general, the CNB supports the definition of the SRB as a buffer designed primarily to address risks arising from institutions' exposures. However, inappropriate overlap with other buffers may be a problem. The CNB has long argued that the use of the SRB as a substitute for the O-SII buffer is primarily a result of having an inappropriate cap for the O-SII buffer. CNB representatives have always insisted that any debate about ending the use of the SRB as a substitute for the O-SII buffer should be held with regard to the need to abolish the overly restrictively O-SII buffer cap. In other words, we consider it a risk that the Commission might severely limit or eliminate the option of using the SRB without simultaneously increasing the overly restrictive cap on the O-SII buffer. We therefore recommend that it should be explicitly stated in any document regarding this issue that the only acceptable solution is to raise or abolish the cap on the O-SII buffer. We also strongly recommend leaving in place the option of applying the SRB to the subcategory of institutions with similar business models and, in the extreme case, even to a single institution (a less appropriate alternative would be to allow

this option under the O-SII buffer). Moreover, it should be possible to apply the SRB to individual subcategories of exposures.

The CNB welcomes the envisaged option of applying the CCyB to only a subset of exposures. For example, in the current situation of significant growth in mortgage loans to households and much slower growth in loans to non-financial corporations it would be possible to consider applying the CCyB to mortgage loans only. This would probably increase the impact of the measure on the sector concerned.

The CNB considers it essential to make the capital buffers (i.e. the SRB, O-SII and CCyB) sufficiently flexible as described above. Should this not happen, we regard it as important to make the other tools available to the macroprudential authority, especially Article 458 CRR, much more flexible and procedurally simpler. The existing rules of Article 458 CRR, for example in relation to Articles 124 and 164, can be considered too strict and limiting the necessary effectiveness of national authorities, especially in a situation where systemic risks are rising gradually. The CNB is aware that the use of discretions in these articles is a shift away from the Single Rulebook. This may potentially lead to cross-border bank groups reacting to further fragmentation of the rules and motivate them, for example, to centralise their activities or convert their subsidiaries into branches. It may also lead to pressure to harmonise macroprudential instruments at EU level or to centralise decision-making on such discretions at EU level. Given these possible unintended consequences, the CNB considers increasing the flexibility of capital buffers to be the preferred option.

The CNB considers it important to use Pillar 2 for macroprudential purposes in a situation where the preferred macroprudential instruments fail to deliver sufficient flexibility for national authorities. Pillar 2 is one of the most flexible instruments in terms of the design of measures. However, it is procedurally complicated to use, because Pillar 2 measures must be discussed for each institution in colleges of supervisors. This arises from Pillar 2's original nature as a microprudential instrument. The CNB therefore considers it a priority to increase the flexibility of capital buffers; Pillar 2 is a secondary issue for the CNB. Even so, we do not favour prohibiting the use of Pillar 2 for macroprudential purposes, because we see it as an instrument that can be used to pursue macroprudential objectives, albeit to a limited extent.

The CNB is of the opinion that instruments for combating property market risks – caps on loan size such as LTV/LTI/DTI/DSTI – are a vital part of the macroprudential toolkit. They can be more effective than the existing capital instruments. The option for national authorities to use them should therefore be laid down in European law. The CNB considers it essential that these tools meanwhile remain within the competence of national authorities given their deep knowledge of the domestic real estate market and the high political sensitivity of the issue.

2.3 The macroprudential policy framework beyond banking

The CNB has long held the opinion that macroprudential regulation outside the banking sector is desirable. This is due to growth in systemic risk in non-banking areas of the financial market and the need to prevent regulatory arbitrage linked with the potential transfer of activities outside the banking sector. However, the creation of a macroprudential framework beyond banking is hindered by the lack of experience with the effectiveness of macroprudential instruments in banking, the different nature of non-banking segments and the recent major changes in microprudential regulation in the non-banking sector. The CNB therefore believes that instruments must reflect the specificities of the non-banking sector and recommends that any new instruments should be introduced with prudence, especially at the current stage.

B. The CNB's replies to the consultation questions

- 1. Do you consider the degree of coordination between the different authorities in the current framework (i.e. ESRB, national macro-prudential authorities, Commission, Council, etc.) appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]**

The CNB's reply: 3

The CNB considers the degree of coordination between the ESRB and national macroprudential authorities to be appropriate. As a non-euro area country, albeit one with close currency and real economic links to the euro area, we would welcome the same level of information flows as that enjoyed by euro area countries, because this is essential for informed macroprudential policymaking.

- 2. (a) Would you consider appropriate to expand the macro-prudential framework beyond banking? [Please rank your answer from 1 (fully appropriate) to 5 (fully inappropriate), and explain your scoring.]**

The CNB's reply: 2

The CNB has long held the opinion that macroprudential regulation of the non-banking sector is necessary due to growth in systemic risk in non-banking areas of the financial market. This growth is being caused by the expanding balance sheet of the non-banking financial sector and its greater vulnerability to market risks, which are currently at an elevated level – for example, risks related to the low interest rate environment. The need to prevent regulatory arbitrage linked with the potential transfer of activities outside the banking sector also supports the expansion of macroprudential regulation, as shown by past experience in some countries. The CNB believes that coverage of the non-banking sector will lead to more effective macroprudential measures and lower systemic risks.

(b) If deemed appropriate, what kind of systemic risks should be targeted and how?

Question left unanswered.

- 3. Do you see a need to strengthen the coordination between designated and competent authorities when using stricter Pillar 1 measures for real estate exposures to address systemic risks? [Please rank your answer from 1 (strong need) to 5 (no need), and explain your scoring.] If you see a need, how should their coordination be strengthened?**

Question left unanswered.

- 4. Do activity-based instruments in the current framework allow to effectively tackle risks stemming from specific risk exposures? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]**

The CNB's reply: 3

See the answers to questions 5 (the CCyB for a subset of exposures), 6 (real estate exposures), 9 (the SRB for a subset of exposures) and 22 (simplification of procedures) for our explanation.

5. ***Do you consider a CCB for sectoral imbalances (e.g. in the real estate sector) a useful complementary instrument? [Please rank your answer from 1 (necessary complement) to 5 (useless complement), and explain your scoring.] If yes, how would you see the interaction of this sectoral CCB with the CCB already in place?***

The CNB's reply: 1

The CNB regards it as crucial to increase the flexibility of capital buffers. It therefore welcomes the envisaged option of allowing the countercyclical capital buffer (CCyB) to be applied to only a subset of exposures. A sectoral CCyB would increase the effectiveness of measures to reduce sectoral imbalances. To be useful, however, it would need to be highly flexible as regards its use by national authorities, which have the best information on the credit cycle and potential overheating in individual sectors.

The CNB does not regard the interaction between the CCyB already in place and the sectoral CCyB as problematic. There are essentially two types of solutions. One is not to apply the broad-based CCyB to sectors to which the sectoral CCyB is applied. The second is to apply a sectoral CCyB rate on top of the broad-based CCyB rate to the relevant sectors. The CNB favours the second option. ESRB or EBA guidance would help eliminate potential problems with the interaction of rates and the different ways of calculating the buffer base in different Member States.

6. ***Do you see a need for adjusting measures targeting risks associated with banks' real estate exposures? If so, please explain your answer.***

The CNB's reply:

The CNB is of the opinion that the current capital instruments and the instruments affecting risk weights are insufficient to eliminate the risks stemming from real estate exposures. It is therefore appropriate for the set of macroprudential instruments to give authorities the option to set caps on loan size in relation to collateral value (the LTV ratio) and in relation to the applicant's income (the LTI, DTI and DSTI ratios).

The option for national authorities to use them should be laid down directly in the European CRR/CRD. The application of these tools should meanwhile remain within the competence of national authorities given their deep knowledge of the domestic real estate market and the high political sensitivity of the issue. Creating a system for the collection of relevant data is a basic precondition for their informed and effective use. The ECB and Eurostat should be jointly responsible for the collection methodology and its implementation and harmonisation across EU countries.

Capital buffers are the CNB's preferred instrument. However, they are not flexible enough at present, and risks associated with real estate exposures must be addressed using other tools. The current instruments applying minimum risk weights to real estate exposures do not allow for the necessary degree of national discretion, particularly when systemic risks are building up gradually. Articles 124 and 164 CRR, which allow risk weights to be increased for macroprudential reasons, can be applied in the event of increased credit losses or when immovable property market developments so require; competent authorities can also take financial stability into account. However, if current credit losses remain low and current price developments do not indicate an immediate risk of a price bubble, it may be harder to apply these articles.

Articles 124 and 164 CRR serve the same purpose of increasing risk weights but relate to different approaches to calculating capital requirements. Their wording should therefore be

unified. Unlike Article 124, Article 164 does not directly stipulate minimum risk weights but only sets the LGD parameter used to calculate them. A measure at the LGD level may lead to different impacts on different categories of institutions. In addition, more prudent institutions will be more strongly affected by this measure.² The CNB is of the opinion that the regulator should have the power to set higher minimum risk weights for all approaches directly.

7. Do you see a need for disentangling different responsibilities between competent and designated authorities? If so, please explain your answer.

The CNB's reply:

In the Czech Republic, financial market supervision is integrated into the central bank, which is also the macroprudential authority. There are therefore no coordination problems in the Czech Republic. However, experience from other countries suggests that coordination problems can arise. In this respect, the CNB deems it appropriate to define clear responsibilities for the application of the relevant instruments by authorities.

8. Do you see merit in better distinguishing the activity-based from the institution-based instruments under Article 458 CRR, also in view of applicable activation procedure(s)? [Please rank your answer from 1 (a better distinction is necessary) to 5 (a better distinction is not necessary).]

The CNB's reply: 4

No. The CNB is of the opinion that the key parameter of Article 458 CRR is its flexibility. It should be close to the current flexibility in Pillar 2. In other words, application to both institutions (the institution-based type) and exposures (the activity-based type) should be allowed. A better distinction between the instruments applied under Article 458 is not only unnecessary, but also undesirable.

Significant simplification of the activation procedure, especially if the flexibility of capital buffers is not increased accordingly, is proposed in our answer to question 22.

9. Do you see the need to better frame either the focus (targeted risks) or the scope of the SRB (i.e. applicability to the entire stock only or also to subsets of exposures)? If so, please explain your answer.

The CNB's reply:

It is not entirely clear at present whether the SRB can also be applied to subsets of exposures. The CNB therefore sees a need to clarify this issue. The CNB recommends that the application of the SRB to both subsets of exposures and subsets of institutions be allowed (question 10), as national authorities should be given more flexibility in addressing systemic risks with capital buffers.

10. Should the SRB be explicitly defined as either an activity based or an institution specific tool? Please explain your answer.

The CNB's reply:

² The impact of LGD on the final risk weight is affected, among other things, by the estimated probability of default (PD). Institutions that are more conservative than others in their PD estimates will report a higher risk weight with the same LGD.

No. The CNB generally supports the definition of the SRB as a buffer designed primarily to address risks arising from institutions' risk exposures. However, inappropriate overlap with other buffers may be a problem. The CNB has long argued that the use of the SRB as a substitute for the O-SII buffer is primarily a result of having an inappropriate cap for the O-SII buffer (see the answers to questions 14–16). CNB representatives have always insisted that any debate about ending the use of the SRB as a substitute for the O-SII buffer should be held with regard to the need to abolish the overly restrictive O-SII buffer cap. Severely limiting or eliminating the use of the SRB without simultaneously increasing the overly restrictive cap on the O-SII buffer would pose a significant risk to financial stability. The only acceptable solution, therefore, is to raise or abolish the cap on the O-SII buffer.

The CNB also considers it important to leave in place the option of applying the SRB to institutions that are unimportant on their own but whose business models, and hence also the risks they undertake or create, are very similar. Although these institutions are not covered by the current definition of systemically important institution, together they may take on systemic importance. Subsets that may together have taken on systemic importance for the domestic market have been identified, for example, in the Czech Republic (see Brechler et al.: *Similarity and Clustering of Banks: Application to the Credit Exposures of the Czech Banking Sector*. CNB Research Policy Note 4/2014). The CNB is of the opinion that the regulations should allow action to be taken to mitigate these risks under the SRB, not the O-SII buffer. A solution under the O-SII buffer would face the need to address two different types of risks with one instrument. There would be a risk of overlaps (if an O-SII were simultaneously in a group of institutions with similar business models), so the current methodologies for identifying O-SIIs and the guidance for setting O-SII rates would need to be significantly reworked.

11. *How do you assess the interactions of institution-specific instruments in the current framework?*

The CNB's reply:

The interaction of instruments is imperfect. The current 2% cap on the O-SII buffer may not be sufficient to reduce risks. This is resulting in frequent use of the SRB for these purposes (see the answers to questions 10 and 14–16). A problem also arises in setting the O-SII buffer for banks whose parent groups already create an O-SII or G-SII buffer on a consolidated basis.

At a general level, we are of the opinion that it is better to have several potentially overlapping tools than to be in a situation where a necessary instrument is lacking or impossible to apply at a crucial moment due to overly rigid application procedures.

12. *How do you assess the main weaknesses of institution-specific instruments in the current framework?*

The CNB's reply:

The O-SII buffer is limited to 2% for national discretion, which is too restrictive. Moreover, the buffer rate for credit institutions that are part of international groups whose parent banks are subject to O-SII or G-SII buffers is limited by the buffer rate of the parent bank. See also the answers to questions 14–16.

- 13. Do you consider that the capital buffers for systemically important institutions are appropriately calibrated in the current framework? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]**

The CNB's reply: 4

See the answers to questions 14–15 for our explanation.

- 14. Do you assess the caps of the G-SII and the O-SII buffers as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]**

The CNB's reply: 4

The CNB has repeatedly emphasised the importance of giving national authorities flexibility in setting capital buffers for systemically important institutions of the O-SII type. Caps can make it impossible for institutions to set buffers at a sufficient level to reduce risks in the domestic financial system. National authorities, including the CNB, thus often use the SRB for this purpose, which leads to a lack of transparency. We therefore consider it crucial to significantly increase or entirely remove the cap for the O-SII buffer below which the instrument remains fully within the competence of national authorities.

In addition, it is crucial to decouple the O-SII rate applied to domestic institutions from the O-SII rates (or G-SII rates for global systemically important banks) applied to their parent banks – see the answer to question 16.

- 15. Do you think that the 2 percent cap for the O-SII buffer should be revised? If so, please explain your answer.**

The CNB's reply:

In the CNB's opinion, the current 2% cap significantly limits the room for reducing risks. It is not clear why the O-SII buffer is limited to 2% while the cap for the G-SII buffer for globally important banks is 3.5%. The domestic market may be dominated by one or several banks. Each of these institutions is then systemically more important for that market than a global bank for the global market.

- 16. Do you consider that the current cumulation rules applicable to institution-specific buffers need to be revised? If yes, what revisions would you consider necessary?**

The CNB's reply:

Yes. The CNB sees a serious shortcoming in the rules for setting the O-SII buffer in bank groups. The buffer can be set on a consolidated basis, and for institutions whose parent undertakings already create O-SII or G-SII buffers on a consolidated basis it is limited by the size of the parent institution's buffer (or by 1% if the parent undertaking's buffer is below 1%). However, the systemic risk of domestic institutions for the domestic market may be much higher than the systemic risk of the parent banks in their jurisdictions or globally. The limit thus reduces the potential ability of national authorities to set an adequate buffer for domestic institutions integrated in international banking groups to cover the risks they pose to the domestic market. The CNB therefore suggests cancelling these limits by leaving out paragraph 8 of Article 131 CRD

17. Do you see a need for developing additional harmonized macro-prudential instruments? If yes, what type of new instrument would you deem necessary and why?

The CNB's reply:

No. The CNB sees a need to enact the possibility for national authorities to use new macroprudential tools to combat risks in property markets (see the answer to question 6). However, those instruments should not be harmonised. Property markets and ways of financing property purchases differ greatly from country to country and discretion of national authorities is essential for such tools to work effectively.

18. How do you assess the possibility for the ESRB to develop technical guidance on the use of non-harmonised instruments, for example via issuing recommendations? Would you see a specific type of instrument for which such an approach could be warranted and suitable?

The CNB's reply:

As stated above, the CNB sees a need for new macroprudential instruments for combating property market risks (see the answers to questions 6 and 17). As such risks are relevant in a large proportion of EU countries, non-binding technical guidance of the ESRB in this area could be beneficial for sharing experience and describing best practice.

19. Do you consider the current hierarchy of instruments ('pecking order') as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

The CNB's reply: 3

Capital buffers are the CNB's preferred instrument. However, they are not flexible enough at present to address risks in a timely and precise fashion. In particular, if they are not made more flexible, as we suggest in our answers to questions 5, 9–10 and 14–16, we consider it crucial to increase the flexibility of national authorities by removing the sequencing requirement under which, for example, first Articles 124 and 164 CRR can be applied (where relevant), then Pillar II measures can be deployed, and only then, after it has been documented that the previous instruments cannot adequately be used, the general Article 458 CRR can be used subject to approval by the Commission based on the opinions of various bodies. This duty generally entails an administrative burden, causes a time delay in the introduction of instruments and may discourage national authorities from taking preventive measures (inaction bias).

The abolition of sequencing would enable national authorities, which have the best information for identifying risks in the domestic financial system, to apply measures that are the most appropriate in the situation. This would significantly aid more effective macroprudential policymaking.

20. Can overlaps in the tools' scope facilitate the circumvention of control elements embedded in the activation mechanism? If you answer yes, please explain how.

The CNB's reply:

The CNB does not circumvent control elements and has not observed such circumvention in any other countries. By contrast, rigid and complex activation mechanisms may lead to the

application of suboptimal instruments (e.g. Pillar 2 versus Article 458 CRR) or even make it impossible for national authorities to take sufficiently effective macroprudential measures in time.

21. *What adjustments, if any, would you suggest for the notification and activation requirements for the SRB?*

Question left unanswered.

22. *What adjustments, if any, would you suggest for the notification and activation requirements for the measures under Article 458 CRR?*

The CNB's reply:

The CNB, along with some other member states, considers the activation requirements for Article 458 CRR to be extremely complex and inflexible. This may reduce the effectiveness of macroprudential policy. If the flexibility of capital buffers is not increased appropriately, we suggest that the application of Article 458 be left to the discretion of the relevant national macroprudential authority. We also suggest that the application of Article 458 be allowed without the need to document the impossibility of addressing risks using higher-priority instruments (i.e. we suggest that the "pecking order" be removed; see the answer to question 19).

23. *What adjustments, if any, would you suggest for the notification and activation requirements for the CCB?*

Question left unanswered.

24. *Do you see the risk that especially the O-SII buffer and the SRB could be used for ring-fencing purposes? If yes, what do you suggest to address this risk?*

The CNB's reply:

This is not the case at the CNB. The aim of the macroprudential measures taken by the CNB is to respond to risks that have arisen, not to keep the capital of international banking firms in their domestic subsidiaries.

25. *How do you assess the shared responsibilities of the ECB/SSM and national authorities for macro-prudential policy within the Banking Union? In particular, do you think that the current asymmetry of powers conferred upon the ECB/SSM is appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]*

Question left unanswered.

26. *How do you assess the coordination need between the different authorities involved? [Please rank your answer from 1 (strong need for more coordination) to 5 (no need for further coordination), and explain your scoring.] Do you see areas in which this coordination could be improved?*

Question left unanswered.

27. *Do you see need for amending the time periods of the notification process between national authorities and the ECB/SSM? [Please rank your answer from 1 (strong need for amending) to 5 (no need for amending).] What time limitations would you suggest?*

Question left unanswered.

28. *Do you see need to broaden the scope for mandatory reciprocity in the CRR/CRDIV? If yes, for which instrument(s) do you see such a need?*

Question left unanswered.

29. *Do you think that the ESRB's mandate and tasks are appropriately formulated to ensure efficient coordination of macro-prudential policies in the EU? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all).] If not deemed fully appropriate, what changes would you suggest to ensure such efficient coordination?*

Question left unanswered.

30. *How do you assess the current capacities of the ESRB to deliver on its mandate for conducting system-wide risk analysis, including its access to relevant data? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]*

The CNB's reply: 3

The CNB is of the view that the ESRB does not have sufficient analytical capacity to fulfil its mandate. We have long argued for an enhancement of the ESRB's analytical base (see the answer to question 31). The existing ad-hoc setting-up of working groups is affected by incoherence, potential capacity restraints and by the prolongation of analyses and the formulation of conclusions. The outputs may also be adversely affected by preferences or restraints relating to the issues being solved in the countries participating in the working group. More efficient capacity organisation would also be fostered by a two-tier structure with a strong executive director and a chief financial stability economist (or a director for research), as proposed in the answer to question 35.

31. *In particular, do you consider that the resources of the ESRB Secretariat are adequate in this context? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]*

The CNB's reply: 4

The CNB believes that the ESRB does not have adequate analytical capacity. The CNB has pointed to the absence of synergies in the use of the ECB's resources due to unclear management of shared capacities. Another problem is high staff turnover caused by short-term contracts in the ESRB Secretariat. There are frequent changes in sub-committees' secretaries, which is having a negative effect on the quality of management. An internal ESRB analytical set-up made up of stable and experienced employees is a condition for enhancing the efficiency of the ESRB's activities and the fulfilment of its role.

- 32. What do you consider to be the best ways to ensure that the macro-prudential perspective is sufficiently reflected in EU policy making where systemic risk considerations are involved?**

The CNB's reply:

The best way to ensure that the macroprudential perspective is reflected in EU policy making is to maintain flexible national discretion to pursue macroprudential policy and apply its instruments.

- 33. How do you assess the instruments and powers of the ESRB? In particular, do you see the need for the ESRB's powers to explicitly include 'soft power' tools with a view to fulfil its mandate?**

The CNB's reply:

The CNB assesses the ESRB's current tools – the ability to issue non-binding recommendations and warnings – as sufficient with regard to the primarily coordinating role the ESRB plays in the European macroprudential policy framework. We consider it unnecessary to explicitly include “soft power” tools, as they arise inherently and any enactment will run into the difficulty of precisely defining them in legislative documents.

- 34. Do you consider the transparency related to the act or explain mechanism (e.g. in following up recommendations, etc.) as satisfactory? [Please rank your answer from 1 (fully adequate) to 5 (not adequate at all).] If not deemed fully satisfactory, what improvement would be necessary?**

The CNB's reply: 2

The CNB considers the current mechanism to be sufficiently transparent.

- 35. Would you consider the two-tier managerial structure along the lines proposed above an appropriate way to improve the governance structure of the ESRB? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]**

The CNB's reply: 1

According to the CNB, a two-tier structure consisting in the appointment of an executive director of the ESRB and a strong chief financial stability economist would result in greater autonomy of the ESRB Secretariat from the ECB and improved public “visibility” of the institution. In addition to ensuring greater independence from the ECB, the executive director could represent the ESRB more actively externally (including in the media). This would enhance the ESRB's reputation and make it easier for national authorities to refer to the ESRB when communicating their measures to experts and the general public. The chief financial stability economist would help improve the organisation and prioritisation of analytical and research activities and the exchange of information between various expert groups within the ESRB.

- 36. How does the current size of the General Board affect the exchange of confidential and sensitive information and smooth decision making? Do you see merit in reducing its size and/or shifting some of its tasks to the Steering Committee? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]**

The CNB's reply: 4

The CNB is of the view that the current size of the GB is too large for in-depth discussions. However, discussions are held at lower levels of committees (ATC/ASC) and ATC sub-committees. Moreover, documents can be commented on in consultations and written procedures. We consider the proposed increase in the role of the Steering Committee (SC) to be problematic because it is not clear what types of tasks would be shifted to the SC. Like a number of other countries, we fundamentally oppose the proposals where the SC would decide on issues on its own, as not all countries are represented in the SC, so it is not a suitable format for deciding on matters with potential impacts on individual countries.³ On the contrary, we recommend that the GB's workload should be reduced by delegating minor operational decisions to the ATC, as we state in our answer to question 38.

37. (a) How do you suggest accommodating the establishment of macro-prudential authorities at the national level, and the SSM and SRB, in the General Board's membership? (b) Do you consider it warranted to require Member States to designate a single national representative, with representation possibly varying in accordance with the concrete issues for discussion and decision? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

The CNB's reply: 3

In the Czech Republic, financial market supervision is integrated into the central bank, which is also the macroprudential authority. The issues of accommodating macroprudential authorities in the GB or varying representation according to the issues for discussion are thus not relevant to the Czech Republic. We support representation of new EU structures (SSM, SRB) in the GB provided that it does not lead to a change in voting rights to the detriment of non-euro area countries.

38. How do you assess the work of the two ESRB advisory committees (ATC and ASC)? In particular, would you suggest any changes in their role and/or composition?

The CNB's reply:

The CNB supports the delegation of decision-making on minor operational issues from the GB to the ATC. For that matter, some issues are already decided on at the ATC level, with governors only formally commenting on them subsequently.

³ The role of the Steering Committee is currently defined in Article 4(3) of Regulation (EU) No. 1092/2010 as follows: "The steering committee shall assist in the decision-making process of the ESRB by preparing the meetings of the General Board, reviewing the documents to be discussed and monitoring the progress of the ESRB's ongoing work". It is thus stated clearly that the role of the SC does not involve making decisions independently.