Consultation Paper

Draft regulatory technical standards on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer under Article 440 of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)
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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in Section 5.2.

Comments are most helpful if they:

- respond to the question posed;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/rationale proposed;
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 27.09.2014. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate on the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) No°45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive summary

This Consultation Paper proposes draft regulatory technical standards (RTS) on the disclosure of information relating to the compliance of institutions with the requirement for a countercyclical capital buffer under Article 440 of the CRR. It sets out two disclosure templates that will harmonise the information available to the general public on the institution-specific countercyclical buffer and the geographical location of the exposures determining that buffer.

Institutions are required to disclose this information at least on an annual basis. The level of application will follow Articles 6(3) and 13 of the CRR, which only require the disclosure of this information at an individual level if the institution is not part of a group, i.e. it is not a parent or a subsidiary institution. For institutions that are part of a group, the disclosure of information should be made at a consolidated level by the parent institution/financial holding of the group, in accordance with Article 13(1) of the CRR, or at an individual or sub-consolidated level for significant subsidiaries of EU parent institutions/financial holdings and subsidiaries which are of material significance for their local markets.

The Consultation Paper contains two disclosure templates, which are in the form of tables. The first template requires institutions to disclose the geographical distribution by country of exposure value (sum of net short and long positions for trading book exposures) and own fund requirements for an institution’s exposures (i.e. credit, trading book and securitisation exposures) that are relevant for the calculation of its countercyclical buffer in accordance with Article 140(4) of the Capital Requirements Directive (CRD). The geographical location of a relevant credit exposure is to be identified as per draft RTS EBA/RTS/2013/15. In addition, this template includes information on the countercyclical buffer rates applied in each country. The second template requires institutions to disclose the amount of institution-specific countercyclical capital buffer in accordance with Article 440 (1)(b) of the CRR.

These templates should ensure that the key information on the compliance of institutions with the requirement for a countercyclical capital buffer is disclosed in accordance with Article 440(1) of the CRR. These disclosure requirements and the use of uniform templates will facilitate the geographical comparison of the amounts that enter the calculation of the countercyclical buffers. This will also ensure there is transparency and consistency in the calculation of the buffer for all financial institutions across the EU.
3. Background and rationale

3.1 Background and regulatory approach followed in the draft RTS

Article 130 of the CRD requires institutions to maintain an institution-specific countercyclical capital buffer. This requirement follows closely the international approach of Basel III which introduced the countercyclical buffer to be deployed by national jurisdictions when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk.

Pursuant to Article 130 of the CRD, the institution-specific countercyclical capital buffer is determined by multiplying the total risk exposure amount (calculated in accordance with Article 92(3) of the CRR) and the institution-specific countercyclical buffer rate (calculated in accordance with Article 140 of the CRD) on an individual and consolidated basis, as per Part One, Title II of the CRR.

The institution-specific countercyclical capital buffer rate is calculated as the weighted average of the countercyclical buffer rates that apply in those countries where the relevant credit exposures of the institution are located in accordance with Article 140 of the CRD. The weighted average of the countercyclical buffer rates is calculated by applying to each applicable countercyclical buffer rate the institution’s own funds requirements for relevant credit exposures in the country in question, divided by the institution’s own funds requirements for credit risk that relate to all of the institution’s credit exposures relevant for the countercyclical buffer calculation. The countercyclical buffer rate is the buffer rate applicable in the country in question in accordance with Articles 136, 137, 138 and 139 of the CRD.

In December 2013, the EBA published its final draft RTS on the method for the identification of the geographical location of the relevant credit exposures (EBA/RTS/2013/15). In these final draft RTS, EBA proposed using primarily the country of the obligor (debtor in the case of trading book exposures) to determine the geographical location of relevant credit exposures for the calculation of the countercyclical buffer rate.

This set of final draft RTS also take into account materiality considerations for institutions with limited foreign credit exposures or trading book exposures. Institutions that have a total share of foreign credit exposures or trading book exposures below 2% of their aggregate credit-, trading- and securitisation-risk-weighted exposures may choose to allocate these exposures to the country of the institution.
Disclosure requirements and templates

Article 440(1) of the CRR requires that all banks disclose (a) the geographical distribution of their credit exposures relevant for the calculation of their countercyclical buffer; and (b) the amount of institution-specific countercyclical capital buffer. The EBA has therefore drawn up these draft RTS, which contain two disclosure templates for this purpose and in accordance with Article 440(2) of the CRR:

- **Table 1** provides a geographical distribution by country of institution’s exposure value (sum of net long and short positions in the case of trading book exposures), and own fund requirements of credit exposures relevant for the calculation of its countercyclical buffer in accordance with Article 140(4) of the CRD. The geographical location of a relevant credit exposure is identified as per draft RTS EBA/RTS/2013/15. In addition, the table includes information on the countercyclical buffer rates applied in each country and the weights applied to each rate for the purpose of calculation of the institution-specific countercyclical buffer rate.

- **Table 2** provides the amount of institution-specific countercyclical capital buffer in accordance with Article 440(1)(b) of the CRR. This table also includes the institution-specific countercyclical buffer rate (calculated in accordance with Article 140(1)(a) of the CRD) and total risk exposure amount (calculated in accordance with Article 92(3) of the CRR), both being used in the calculation of the amount of institution-specific countercyclical capital buffer in accordance with Article 130 of the CRD.

The disclosure template Table 1 requires the disclosure of two metrics of the relevant credit exposures:

- ‘own fund requirements’, as the main metric of relevant credit exposures which is used as a direct input for the calculation of the institution-specific countercyclical capital buffer and therefore shows the composition of the buffer and the drivers that are behind its growth;

- ‘Exposure value’ (‘sum of net long and short positions’ for trading book exposures) which provides a metric of exposures relevant for the calculation of the countercyclical capital buffer and that shows the distribution of the activities of the institution by country.

The templates should ensure that the key information on the compliance of institutions with the requirement for a countercyclical capital buffer is disclosed in accordance with Article 440(1) of the CRR. These disclosure requirements and the use of uniform templates will facilitate the geographical comparison of the amounts that enter the calculation of the countercyclical buffers. This will also ensure there is transparency and consistency in the calculation of the buffer for all financial institutions across the EU.
Level of application and frequency of disclosure

The calculation and maintenance of the institution-specific countercyclical capital buffer should be made on an individual and consolidated basis in accordance with Article 130 of the CRD.

The disclosure of information on the compliance of institutions with the requirement for a countercyclical capital buffer should take place on an individual level if the institution is not part of a group, i.e. it is not a parent, a subsidiary institution, and institution included in the consolidation pursuant to Article 18 of the CRR, in accordance with Article 6(1) and (3) of the CRR. If the institutions are part of a group, the disclosure of information should be made at a consolidated level by the parent institution/financial holding of the group and significant subsidiaries of EU parent institutions/financial holdings, and subsidiaries which are of material significance for their local markets should disclose this information on an individual or sub-consolidated basis, in accordance with Article 13 of the CRR.

Institutions must ensure that the information on the compliance of institutions with the countercyclical capital buffer in accordance with Article 440 of the CRR is publically disclosed as per the requirements of Part Eight of that Regulation: at least on an annual basis, in conjunction with the date of publication of the financial statements in accordance with Article 433 of the CRR on the frequency of disclosures under Part Eight.

In addition to the general requirement in Article 433 of the CRR, the amount of the countercyclical capital buffer should be disclosed as part of the final draft ITS on disclosure for own funds by institutions under Articles 437(2) and 492(5) of the CRR. This disclosure does not refer to the geographical distribution of relevant credit exposures. Therefore, the frequency required by the draft ITS on disclosure for own funds should not affect the frequency for the disclosure under Article 440 of the CRR.

3.2 The nature of these RTS under EU law

These draft RTS are produced in accordance with Article 10 of the EBA Regulation. Pursuant to Article 10(4) of the EBA Regulation, these RTS shall be adopted by means of a regulation or decision. Under EU law, EU Regulations are binding in their entirety and directly applicable in all Member States. This means that, on the date of their entry into force, they become part of the national law of the Member States and that enactment in national law is not only unnecessary but also prohibited by EU law, except insofar as this is expressly required by the Member States.

Shaping these rules in the form of a regulation would ensure there is a level playing field by preventing diverging national requirements and easing the cross-border provision of services. Currently, an institution that wishes to begin working in another Member State has to apply different sets of rules.

The EBA has developed these draft RTS on the basis of the CRD. The EBA must submit this document to the Commission by 31 December 2014.
4. Draft RTS on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer

In between the text of the draft RTS that follows, further explanations about specific aspects of the proposed text are occasionally provided, which either offer examples or give the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.
COMMISSION DELEGATED REGULATION (EU) No …/.. of XXX

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and in particular Article 440 thereof,

Whereas:

(1) Institutions should disclose the key elements of the calculation of their countercyclical capital buffer, in particular the geographical distribution of their relevant credit exposures and the final amount of the countercyclical capital buffer. With the view to improving the transparency and comparability of these figures across institutions, several disclosure templates should be designed.

(2) The institution specific countercyclical buffer should be calculated as the product of its total risk exposure amount and the institution specific countercyclical buffer rate. Therefore, this information should be part of the templates disclosed by the institutions.

(3) The institution specific countercyclical capital buffer rate should be calculated as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located. Therefore, the distribution by country of relevant credit exposures should be disclosed in a template, in accordance with the provisions laid down in the EBA RTS on the method for the identification of the geographical location of the relevant credit exposures EBA/RTS/2013/15.

(4) For the purpose of the calculation of the institution specific countercyclical buffer rate, the weights applied to countercyclical buffer rates are proportionate to the total own funds requirements for credit risk that relates to the relevant credit exposures in each

country where the institution holds exposures. Therefore, institutions should disclose own fund requirements for all relevant credit exposures.

(5) In order to provide an additional measure of relevant credit exposures, institutions should disclose the breakdown of the exposure value in case of credit and securitisation exposures; the sum of net long and short positions in case of trading book exposures should also be disclosed.

(6) Institutions should disclose their countercyclical buffer requirements at least on an annual basis in conjunction with the date of publication of financial statements in accordance with Article 433 Regulation (EU) No 575/2013, unless otherwise specified in Part Eight of Regulation (EU) No 575/2013.

(7) Pursuant to Article 6(1) of Regulation (EU) No 575/2013, institutions should disclose the information relating to the countercyclical capital buffer on an individual basis. However, an institution which is either a parent undertaking or a subsidiary, and an institution included in the consolidation pursuant to Article 18 of Regulation (EU) No 575/2013 should not be required to comply with the disclosure requirements laid down in Part Eight on an individual basis as required in Article 6(3) of such Regulation. EU parent institutions and institutions controlled by a parent financial holding company should disclose this information on a consolidated basis, while significant subsidiaries of EU parent institutions or EU parent financial holding company or EU parent mixed financial holding company and subsidiaries which are of material significance for their local markets should disclose this information on individual or sub-consolidated basis, as provided for in Article 13 of Regulation (EU) No 575/2013.

(8) This Regulation is based on the draft regulatory technical standards submitted by the European Supervisory Authority (European Banking Authority) to the European Commission.

(9) The European Supervisory Authority (European Banking Authority) has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010.

HAS ADOPTED THIS REGULATION:

Article 1
Disclosure of information

Institutions shall disclose the information in relation to the compliance with the requirement for a countercyclical capital buffer, by completing and publishing both of the following:

(a) Table 1 of Annex I in accordance with the instructions contained in Annex II, Part I and II;
(b) Table 2 of Annex I in accordance with the instructions contained in Annex II, Part I and III;

Article 2
Disclosure of the geographical distribution of credit exposures

Institutions shall disclose the geographical distribution of their credit exposures relevant for the calculation of countercyclical buffer, by completing and publishing rows 010 and 020 of Table 1 of Annex I in accordance with the instructions contained in Annex II, Part I and II.

Article 3
Disclosure of the amount of institution specific countercyclical buffer

Institutions shall disclose the amount of their institution specific countercyclical buffer, by completing and publishing rows 010 to 030 of Table 2 of Annex I in accordance with the instructions contained in Annex II, Part I and III.

Article 4
Final provision

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission

The President

On behalf of the President
[Position]

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Annex I – Template for disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer

**Explanatory text for consultation purposes**

The proposed template is meant to ensure that the key features of the information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer are disclosed in accordance with Article 440(1) of Regulation (EU) No 575/2013.

The tables include information that is required to be disclosed in accordance with Article 440(1) of Regulation (EU) No 575/2013.

Institutions shall have to complete and publish Table 1 and Table 2 with numerical values.
Disclosure of information relevant for the calculation of the countercyclical buffer

Level of application

Table 1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

<table>
<thead>
<tr>
<th>Row</th>
<th>Exposure value of credit exposures</th>
<th>Sum of net long and short positions of trading book exposures</th>
<th>Exposure value of securitisation exposures</th>
<th>Own funds requirements of which: Credit exposures</th>
<th>Own funds requirements of which: Trading book exposures</th>
<th>Own funds requirements of which: Securitisation exposures</th>
<th>Total</th>
<th>Own funds requirements weights</th>
<th>Countercyclical capital buffer rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>010</td>
<td>Breakdown by country:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Country: 001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Country: 002</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>NNN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>020</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 - Amount of institution-specific countercyclical capital buffer

<table>
<thead>
<tr>
<th>Row</th>
<th>Column</th>
</tr>
</thead>
<tbody>
<tr>
<td>010</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Row</th>
<th>Column</th>
</tr>
</thead>
<tbody>
<tr>
<td>010</td>
<td>Total risk exposure amount</td>
</tr>
<tr>
<td>020</td>
<td>Institution specific countercyclical capital buffer rate</td>
</tr>
<tr>
<td>030</td>
<td>Institution specific countercyclical capital buffer requirement</td>
</tr>
</tbody>
</table>
Annex II – Instructions for disclosure templates

PART I. GENERAL INSTRUCTIONS

Reference data

1. Under the field ‘Level of application’ institutions shall indicate the level of application that forms the basis for the data provided in Tables 1 and 2. When completing this field institutions shall select one of the following, in accordance with Article 6 and 13 of the Regulation (EU) NO. 575/2013:
   - Consolidated
   - Individual
   - Sub-consolidated

2. For disclosure on an individual basis in accordance with Part One, Title II of Regulation (EU) NO. 575/2013, institutions shall complete Tables 1 and 2 of these Instructions on an individual basis in accordance with Part One, Title II, Chapter 1 of the Regulation (EU) NO. 575/2013.

3. For disclosure on a consolidated or sub-consolidated basis in accordance with Part One, Title II of Regulation (EU) NO. 575/2013, institutions shall complete Tables 1 and 2 of these Instructions based on a consolidated basis in accordance with Part One, Title II, Chapter 2 of the Regulation (EU) NO. 575/2013.

PART II. INSTRUCTIONS FOR TABLE TEMPLATE 1

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

4. Institutions shall apply the instructions provided in this section in order to complete Table 1 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.

5. If foreign credit exposures of an institution represent less than 2% of its aggregate credit, trading and securitisation risk weighted exposures, the institution may choose to allocate these exposures to the place of the institution, in accordance with point b of Article 2(6) of the EBA/RTS/2013/15. If the exposures disclosed for the place of institution include exposures form other countries, these should be clearly identified in a (foot)note to the disclosure table.

<table>
<thead>
<tr>
<th>Row number</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Breakdown of relevant credit exposures by country

List of countries in which the institution has credit exposures relevant for the calculation of the institution specific countercyclical buffer in accordance with EBA/RTS/2013/15.

The number of rows may vary depending on the number of countries where the institution has its credit exposures relevant for the calculation of the countercyclical buffer.

If foreign exposures of an institution represent less than 2% of its aggregate credit, trading and securitisisation risk weighted exposures, the institution may choose to allocate these exposures to the place of institution, in accordance with EBA/RTS/2013/15. If the exposures disclosed for the place of institution include exposures form other countries, these should be clearly identified in a (foot)note to the disclosure table.

<table>
<thead>
<tr>
<th>Column number</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>010</td>
<td>Exposure value of credit exposures</td>
</tr>
<tr>
<td></td>
<td>In the case of SA, the exposure value is determined in accordance with Article 111 of the Regulation (EU) NO. 575/2013. In the case of IRB, the exposure value is determined in accordance with Article 166 of the Regulation (EU) NO. 575/2013.</td>
</tr>
<tr>
<td>020</td>
<td>Sum of net long and short positions of trading book exposures</td>
</tr>
<tr>
<td></td>
<td>Sum of net long and short positions for trading book exposures is calculated as the sum of the net long positions and net short positions determined in accordance with Article 327 of the Regulation (EU) NO. 575/2013.</td>
</tr>
<tr>
<td>030</td>
<td>Exposure value of securitisisation exposures</td>
</tr>
<tr>
<td></td>
<td>In case of securitisisation exposures, the exposure value is determined in accordance with Article 246 of the Regulation (EU) NO. 575/2013.</td>
</tr>
<tr>
<td>040</td>
<td>Own funds requirements - Of which: credit exposures</td>
</tr>
<tr>
<td></td>
<td>Own funds requirements for credit exposures are determined in accordance with Part Three, Title II of the Regulation (EU) NO. 575/2013.</td>
</tr>
<tr>
<td>050</td>
<td>Own funds requirements - Of which: trading book exposures</td>
</tr>
<tr>
<td></td>
<td>Own funds requirements for trading book exposures in the country in question are determined in accordance with Part Three, Title IV, Chapter 2</td>
</tr>
</tbody>
</table>
of the Regulation (EU) NO. 575/2013 for specific risk, or in accordance with Part Three, Title IV, Chapter 5 of the Regulation (EU) NO. 575/2013 for incremental default and migration risk.

<table>
<thead>
<tr>
<th>060</th>
<th><strong>Own funds requirements - Of which: securitisation exposures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own funds requirements for securitisation exposures in the country in question are determined in accordance with Part Three, Title II, Chapter 5 of the Regulation (EU) NO. 575/2013.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>070</th>
<th><strong>Own funds requirements - Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The sum of columns 040, 050 and 060.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>080</th>
<th><strong>Own funds requirements weights</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The weight applied to the countercyclical buffer rate in each country is equal to the total own funds requirements that relates to the relevant credit exposures in the country in question (row 010, column 070), divided by the total own funds requirements for credit risk that relates to all credit exposures relevant for the calculation of the countercyclical buffer in accordance with Article 440 (4) of the Directive 2013/36/EU (row 020, column 070).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>090</th>
<th><strong>Countercyclical capital buffer rate</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Countercyclical capital buffer rate applicable in the country referred to in column 010 of the same row of the same Table, and set in accordance with Articles 136, 137, 138 and 139 of the Directive 2013/36/EU. Article 136 (7) requires national authorities to notify the ESRB on the countercyclical buffer rate and the ESRB is to publish these buffer rates on their website.</td>
</tr>
<tr>
<td></td>
<td>This value is disclosed as percentage.</td>
</tr>
</tbody>
</table>

**PART III. INSTRUCTIONS FOR TABLE TEMPLATE 2**

**Table 2: Amount of institution specific countercyclical capital buffer**

6. Institutions shall apply the instructions provided in this section in order to complete table 2 Amount of institution specific countercyclical capital buffer.

<table>
<thead>
<tr>
<th>Legal references and instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Row number</strong></td>
</tr>
<tr>
<td>010</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>020</td>
</tr>
</tbody>
</table>
Countercyclical capital buffer rate is calculated as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located in accordance with Article 140 CRD and reported in rows 010 to 01X of column 090 of the Table 1.

The weight applied to the countercyclical buffer rate in each country is disclosed in Table 1 column 080.

This value is disclosed as percentage.

**Table 1**

<table>
<thead>
<tr>
<th>Column number</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>010</td>
<td>The value as described in accordance with the explanation for rows 010 to 030 of the current Table.</td>
</tr>
</tbody>
</table>

**Institution specific countercyclical capital buffer requirement**

Institution specific countercyclical capital buffer requirement is calculated as the institution specific countercyclical buffer rate, as reported in row 020 of this Table, applied to the total risk exposure amount as reported in row 010 of this Table.
5. Acccompanying documents

5.1 Draft cost-benefit analysis/impact assessment

5.1.1 Introduction

Article 15(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council) provides that when any draft ITS developed by the EBA are submitted to the Commission for endorsement, they shall be accompanied by an analysis of ‘the potential related costs and benefits’. This analysis should provide the reader with an overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impacts of these options.

This note outlines the impact assessment of the draft RTS on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer. The draft RTS stem from the requirement for this as set out in Article 440 of the CRR.

5.1.2 Problem definition

The draft RTS specify the format of the templates that credit institutions should use and the information they should report. These draft RTS have the following two objectives:

- ensuring that the key information required by Article 440(1) of the CRR in relation to the compliance of institutions with the requirements for the computation of a countercyclical capital buffer in accordance with Title VII, Chapter 4 of Directive 2013/36/EU is disclosed;

- complying with the draft final RTS on the method for the identification of the geographical location of the relevant credit exposures under Article 140(7) of the CRD (EBA/RTS/2013/15).

5.1.3 Options considered

This section explains why the EBA has made specific choices when drafting the RTS.

Exposure measure

Article 440 of the CRR requires that institutions disclose the geographical distribution of their credit exposures relevant for the calculation of their institution-specific countercyclical capital buffer. Certain exposure values and own funds requirements have been proposed to describe the relevant credit-risk exposures for the calculation of the countercyclical capital buffer. Each one has a specific role and therefore both are necessary:
• ‘own fund requirements’ are used as a direct input for the calculation of the institution-specific countercyclical capital buffer and therefore show the composition of the buffer and the drivers behind its growth;

• ‘Exposure values’ (‘sum of net long and short positions’ for trading book exposures) provides a metric of exposures which shows the distribution of the institution’s activities by country; unlike own funds requirements, it is not risk sensitive, and therefore provides a better measure of what exposures are relevant for the calculation of the countercyclical capital buffer.

If either of these two metrics were excluded, it would not be possible to provide a full picture of the credit-risk exposures which are relevant for calculating the institution-specific countercyclical capital buffer. Therefore, both have been included in the disclosure templates.

Granularity of relevant credit exposures

Several levels of granularity were considered disclosing the geographical breakdown of relevant credit exposures. The options considered were (from the broader to the more specific):

(a) disclosure of total values (exposure values and own fund requirements) for relevant credit exposures;

(b) disclosure at the level of three exposure groups as defined in Article(140)(4)(a), (b) and (c) of the CRD;

(c) disclosure at the level of exposure class in accordance with Article 112 of the CRR.

The disclosure of total values for relevant credit exposures provides the inputs for calculating the institution-specific countercyclical capital buffer. However, this does not provide any more detailed information about the composition of the countercyclical capital buffer and the components which drive its level. Moreover, exposure value is defined only for credit and securitisation exposures, and not for trading book exposures, for which the value of sum of net long and short positions is used instead. This means that a total exposure value for all relevant credit exposures cannot be calculated.

A more detailed disclosure at the level of exposure class in accordance with Article 112 of the CRR could provide more insights into the drivers of the countercyclical capital buffer. Currently, Article 442 of the CRR requires the separate disclosure of geographical distribution of exposures and distribution of exposures by exposure class. Therefore, the EBA believes that more detailed information than this is not necessary.

Finally, the disclosure at the level of exposure group as defined in Article (140)(4)(a), (b) and (c) of the CRD, provides a good balance between sufficient detail to explain the composition of the buffer and sufficient aggregation to take account of the disclosure requirements which already exist elsewhere in Part Eight of the CRR.
Geographical breakdown

Article 440 of the CRR requires that institutions disclose the geographical distribution of their credit exposures relevant for the calculation of their countercyclical capital buffer, without giving further detail on the unit of geography to be used. This Consultation Paper proposes that the breakdown is done at country level, thus following the draft EBA/RTS/2013/15 on the method for the identification of the geographical location of relevant credit exposures under Article 140(7) of the CRD. Any other geographical classification apart from country-level would not be consistent with EBA/RTS/2013/15.

5.1.4 Impact of the proposals

Benefits

The templates proposed in these RTS will illustrate the allocation of exposures by country as per the RTS on the method for the identification of the geographical location of relevant credit exposures under Article 140(7) of the CRD (EBA/RTS/2013/15). Once these RTS are implemented, the disclosure of information will not imply an additional burden on the disclosing institution.

The proposed templates will provide investors, market analysts and other users of financial information and stakeholders with more detailed information on the nature and size of the exposures in different countries, and on the composition of the countercyclical buffer and what drives any change thereof.

The disclosure of this information should mean better comparability of information on geographical allocation of exposures, which is used to calculate the countercyclical capital buffer as per the draft RTS EBA/RTS/2013/15. Disclosure requirements in other parts of the CRR generally allow flexibility in the method of allocation of exposures by country. Comparability will ensure that there is transparency and market discipline.

Costs

The main costs for institutions relate to setting up the required disclosure templates. However, these costs would be incurred anyway for calculating the countercyclical capital buffer, thus the disclosure of information about compliance with this buffer will not incur any additional costs.

Application and disclosure of countercyclical buffer rates has not yet begun; the buffer is to be applied gradually from 1 January 2016, in accordance with Article 160 of the CRD. As a result, there will be no incremental costs for harmonising templates for the disclosure of the countercyclical capital buffer.
Figure 1. Summary of the costs and benefits of the proposals.

<table>
<thead>
<tr>
<th></th>
<th>Costs</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutions</strong></td>
<td>Negligible: preparing disclosure templates</td>
<td>Medium: the higher degree of transparency on the calculation of the countercyclical buffer rate calculation may increase the confidence of the market in the institution</td>
</tr>
<tr>
<td><strong>Markets and Investors</strong></td>
<td>Zero</td>
<td>Medium: the templates will help markets and investors to compare institutions, their countercyclical capital buffer rates, and their relevant exposures by country, increasing market confidence and financial stability</td>
</tr>
</tbody>
</table>
5.2 Overview of questions for consultation

Questions for consultation

Q01: Are the provisions included in these draft RTS sufficiently clear? Are there aspects which need to be expanded in more detail?

Q02: Are the instructions provided in Annex 2 of the draft RTS sufficiently clear?

Q03: Our analysis shows that the costs of implementation are negligible. Do you agree with our assessment? If not please explain why.