Pandemic Crisis and Financial Stability

Edited by Christos V. Gortsos and Wolf-Georg Ringe

European Banking Institute

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10 Balancing macro- and micro-prudential powers in the SSM during the COVID-19 crisis

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1. Introduction

As a result of the Corona crisis, we have returned to an era in which policies and far-reaching measures developed by regulators are published through press releases. The adage 'emergency breaks law' applies here. The status quo reminds us of the 2008's financial crisis and the following European sovereign debt crisis.[2] The financial sector and citizens must thereby trust that the measures and (policy) rules will have the

[1] This contribution is written using parts of a Dutch language publication I wrote together with Prof. Kitty Lieverse and as published in April 2020. This is particularly the case for parts of paragraph 1 and 2. This contribution has been finalised on 5 May 2020 and any further developments after this date have not been considered when drafting the text.

[2] The famous EBA press release of 8 December 2011 will still be fresh in the minds of many. See European Banking Authority, 'The EBA publishes Recommendation and final results of bank recapitalization plan as part of coordinated measures to restore confidence in the banking sector' (8 December 2011) <eba.europa.eu/the-eba-publishes-recommendation-and-final-results-of-bank-recapitalisation-plan-as-part-of-co-ordinated-measures-to-restore-confidence-in-the-banking>.

effect they intend. In the current COVID-19 crisis, none of us has been given much time to think and weigh up all the options.

For the time being, the far-reaching measures taken after the 2008's financial crisis to make banks resilient to extreme shocks appear to be bearing fruit. This also applies to the shift in emphasis to putting customer interests first. In any case, European banks have confidently taken up the gauntlet to help business and the real economy. Instead of the industry, so often criticised during the financial crisis of 2008 that sighed under the new and stricter regime, we now see banks acting as the institutions for which they are intended, or as many like to see them perform. Namely, to support customers and society in difficult times. Let us hope that the financial sector can continue to offer this role and that the corona crisis will not cause extreme adverse effects, which will also put the financial sector in difficulty.

What is also striking here is the fragmentation of information that comes to us and the various complex messages that are issued by the European authorities and supervisors in the Member States. In any case, I am putting my finger on the sore spot: in Europe, we are still far from central control and a uniform and harmonised approach for the financial sector. The recent developments in respect of prudential supervision of banks after the COVID-19 crisis emerged demonstrate that this also seems to be the case for the Single Supervisory Mechanism (SSM). The SSM purports to achieve such a centralised and harmonised approach on matters of prudential supervision of banks established in the Member States of the European Monetary Union (the 'Member States'). As will be explained, notwithstanding these firm intentions of the European policy makers, the exercise of powers by the ECB and authorities in the Member States produced a very fragmented set of measures and dispersed result as regards capital requirements.

Based on the core considerations of the SSM, the ECB '[….] should take full account of the relevant macroeconomic conditions in Member States, in particular the stability of the supply of credit and facilitation of productive activities for the economy at large.'[3] It is particularly with a view on the stability of the supply of credit to the real economy that the recent measures of both the ECB and the national competent authorities in the Member States (NCAs) to address the COVID-19 crisis have been taken. ECB's intervention as outlined further in this contribution could be qualified as relating to the microprudential rules and the NCAs interventions to macroprudential rules. Albeit that there is a thin line between the types of measures, as we will discuss.

This contribution discusses the relationship between the measures taken by the ECB in the context of its powers and authorities vested upon it pursuant to the arrangements in the SSM and the measures taken by the NCAs of the Member States. How do the different measures relate towards each other? In which manner do the macroprudential measures taken at the level of banks in the Member States require further scrutiny by the ECB? Is there a reason to apply the corrective measures at macroprudential level that ECB can take pursuant to the SSM Regulation?

2. Liquidity and the temporisation of the prudential measures

[3] Recital (18) of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, (the 'SSM-Regulation').

Banks are currently very confident in limiting the impact of the COVID-19 crisis on the sector and its resilience. This is reinforced by the rapid announcements of prudential supervisors at both European level and in the Member States of a series of relaxation of prudential requirements for banks. This easing aims to 'free up capital' so that banks will be able to complete the bridging measures for the real economy without having to deal with capital requirements. Banks will have to finance this extra space on the capital markets first, in order to be able to pass it on to businesses. There is a bottleneck here. Liquidity in global capital markets has dried up, certainly, when the first signs of a truly global pandemic became imminent.

The same phenomena as in 2008 are evident, with the mutual confidence of participants in the financial markets declining significantly. This means that banks will be reluctant to lend to each other, and that institutional investors will not just step into the hole to provide liquidity. Where the 2008's financial crisis had an immediate impact on the real economy and led to a crisis of unprecedented magnitude in Europe, the reverse is now threatening. The financial sector risks a collapse because of the real economy.

This article is not about the liquidity support that the ECB offers to the banking sector. However, in introducing my argument about the ECB's relaxation of capital requirements, I would like to briefly point out that the ECB provides very significant liquidity support to the banking sector. This was achieved through the expansion of the so-called 'Longer-Term Refinancing Operations' (LTRO).[4] This will enable banks to

[4] See European Central Bank, 'ECB announces measures to support bank liquidity conditions and money market activity' (12 March 2020) <www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312_2~06c32dabd1.en.html>.

participate in the (extended) medium-term financing tenders made available by the ECB, in support of banks' liquidity needs. The provisional calendar for this tender operation runs until the end of June 2020 and therefore provides air to the sector for approximately three months. The ECB notes that at the time of the release of the measure on 12 March 2020, there has been no evidence of pressurised liquidity in banks or a faltering money market. However, public reports after 12 March 2020 indicate that this is likely to have changed. Therefore, the measure taken by the ECB was introduced at the right time.

This also explains the relaxations that regulators have quickly announced for banks, concerning liquidity management. It also defines the period during which those easing measures will be necessary. Although supervisors underline their temporary nature, I estimate that the new rules will be necessary well into 2021 to avoid major problems in the banking sector. At the same time, supervisors in the Member States are bringing various signals forward in this area. The ECB, whose measures will be discussed in more detail in paragraph 3, appears to have a horizon of approximately one year. Instead, in order to meet the prudential requirements, NCAs assumes that the easing will last longer. Section 4 discusses this point in detail.

3. ECB measures in the context of the COVID-19 Crisis

3.1. Introduction

On 12 March 2020, together with the announcement of the expansion of the LTRO, the ECB announced the relaxation of certain prudential rules for the banking sector, at least for the significant banks directly supervised by the ECB.[5] The measures boil down to exempting significant banks from a number of capital requirements that apply to them and revising the forward-looking capital requirements in the form of so-called 'Pillar 2 Guidance' rules. Finally, the ECB also announced some relief from the Liquidity Coverage Ratio (LCR) requirements.

3.2. Capital Conservation Buffer

Firstly, the relaxed rules mean that one part of the Pillar 1 requirements, the so-called capital conservation buffer (CCB) of 2.5 %, may be undershot. CCB buffers are part of the combined buffer requirements as applicable based on article 129 CRD IV[5] and are their requirements are harmonised across the European Union. A CCB buffer requirements' relief means that with a growing portfolio of loans (or an increase of the risk weighted density of the portfolio), no additional capital needs to be held to meet the CCB requirement.

The CCB is a non-risk-weighted capital requirement and its application depends on the assessment of the Total Risk Exposure Amount (TREA), which relies on article 92(3) CRR.[6] After TREA amount's definition, a non-risk weighted additional buffer requirement applies of 2.5 % of the amount itself. In other words, if the risk weighting of certain assets of

[5] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. Text with EEA relevance.

[6] 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. Text with EEA relevance.

the bank changes, this has no direct impact on the CCB (which is calculated as a fixed percentage without re-assessing risk weights of the bank's assets or off balance sheet exposures), but an indirect impact.

Dropping the 2.5 % CCB requirement aims at accommodating the growth of the loan portfolio. This measure will enable banks to pursue a broader lending policy. The CCB was introduced in 2013 because of the implementation of Basel III in Europe and is referred to as a capital requirement that 'banks save in good times in case bad times come'. The ECB also points out precisely this background in the press release of 12 March 2020.

3.3. Pillar 2-Guidance Capital

Another ECB measure concerns the delay in the development of the Pillar 2 Guidance capital. It aims to strengthen the capital base of banks in view of risks that may arise in the future, but that have no foundation in the existing organisation or existing business operations. As a result, these risks have not been incorporated into the existing capital requirements for banks yet. The Pillar 2 Guidance capital in fact focuses on a future capital requirement, which takes into account, for example, the expected growth of the bank. So, where the regular 'Pillar 1 requirement'[7] and the Pillar 2-Required requirement are related to the existing organisation and the assessment of the risks arising from that organisation, the Pillar 2 Guidance capital will aim at hedging the future capital needs.

The ECB has now given banks the freedom to realize the Pillar 2 Guidance capital less quickly. This creates space to use extra

[7] The Pillar 1 requirements could be defined as the requirements following from article 92 CRR together with the combined buffer requirements of article 128 *et seq.* CRD IV.

capital for lending. In particular, this guide might be an extremely cautious step by the ECB to deviate as little as possible from the existing capital requirements for banks. In fact, a capital requirement is 'sacrificed' mainly related to a future development, which has not yet manifested, and which is not related to the existing organisation of the bank. In any case, the ECB measure with regard to the Pillar 2 Guidance rules is a real compensation, because it provides relief from the capital requirements that would apply under normal circumstances.

3.4. Relief Qualitative Capital Requirements

With regard to the Pillar 2 requirements, (i.e. the additional capital surcharge imposed by the supervisory authority), the ECB has now adopted the measure that this capital requirement may also be met with instruments of a 'lower' quality level, for example with Tier 2 capital, being bank medium-term subordinated loans. This also provides some relief, as banks will then become less dependent on raising CET1 capital for their financing, given the current situation in capital markets.

This relaxation of the rules is a policy shift from the ECB where the current requirements to meet Pillar 2 capital with Common Equity Tier 1 instruments (CET1) only originates from determination, as a result of the Supervisory Review and Evaluation process (SREP) using the powers contained in article 104 CRD IV. Based on this ECB policy, SREP capital of significant institutions must be filled in with CET1 instruments. This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the CRD IV.[8]

[8] See the new article 104a (4) CRD IV.

Because of the discretionary nature of the SREP framework, the ECB could use its powers in this respect to apply the policy change, albeit that this is to be considered as a temporary measure, and this policy-based discretion will be replaced by the mandatory rules becoming applicable from 1 January 2021.

3.5. Liquidity Coverage Ratio

Finally, the ECB has also proposed a concrete measure with regard to meeting liquidity standards.[9] This means that banks would adhere to a lower liquidity ratio than allowed in normal circumstances. It concerns an intervention in the arrangements for the so-called Liquidity Coverage Ratio (LCR). These schemes oblige banks to maintain a sufficient stock of liquid assets to meet an outflow of liquidity in a stressed situation (within a thirty-day horizon). The ECB's published statement does not indicate the extent to which the ECB is prepared to pull the LCR ratio lever. However, the ECB has stated that in particular, it will take a flexible approach when approving LCR restoration plans which banks are legally required to submit when breaching the LCR requirement.[10] For this reason, the impact of this measure remains unforeseeable.

4. NCA measures in the context of the COVID-19 Crisis

4.1. Introduction

[9] Reflecting a strong recommendation of the industry. See European Banking Federation, 'EBF call for European measures to face COVID-19 outbreak', (11 March 2020) <www.ebf.eu/ebf-media-centre/ebf-calls-for-european-measures-to-face-covid-19-outbreak/>.

[10] See SSM, 'FAQs on ECB supervisory measures in reaction to the coronavirus', (3 April 2020) <www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320_FAQs~a4ac38e3ef.en.html>.

Clearly, the relaxation of certain prudential requirements as discussed in the previous paragraph apply to significant institutions for which the ECB has the exclusive power and authority to adopt its policies and determination of rules. However, based on the current arrangements in the SSM, certain measures of prudential supervision have remained to be the power and authority of the NCAs as concerns significant institutions. This follows from the division of tasks and responsibilities as set out in article 5 of SSM Regulation. That is, the distinction between prudential capital requirements based on microprudential rules[11], for which the ECB has the powers and authority[12], and the requirements based on macroprudential rules or rules addressing systemic risks, for which in the SSM the NCAs retained powers and authority.

Typically, the latter concerns the determination of the Member State specific countercyclical buffer (CCYB)[13], the assessment of institutions in respect of their systematic importance and setting the buffer rates for such institutions (G-SII-buffer or O-SII Buffer)[14] and determining the application of the systemic risk buffer ('SRB')[15].

In a recent overview published by the ECB on 15 April 2020[16], a complete specification of the policies adopted in the 19 participating Member States of the combined buffer

[11] This concerns the Pillar 1 requirements based on article 92 CRR and the CCB of article 129 CRD IV and the Pillar 2 requirements as set out in articles 104 and 104a CRD IV.
[12] See article 4(1) (d) SSM Regulation.
[13] Based on articles 130 and 135 *et seq* CRD IV.
[14] Based on article 141 CRD IV.
[15] Based on articles 133-134 CRD IV.
[16] See European Central Bank, 'ECB supports macroprudential policy actions taken in response to coronavirus outbreak', (15 April 2020) <www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200415~96f622e255.en.html>.

requirements[17] is given.[18] This overview is based on the information requirement imposed on the NCAs to report to the ECB (the intention to) apply countercyclical buffer rates, and any other measures aimed at addressing systemic or macroprudential risks. The ordinary notification period requires the dispatch of a notification from the NCA 10 days prior to the introduction of the requirement, with a possible objection issued by the ECB against such introduction.

The ECB overview also gives an indication which Member States introduced revised policies or requirements as regards the 'combined buffers' in the context of the COVID-19 crisis. This concerns eleven Member States as follows (in alphabetical order):

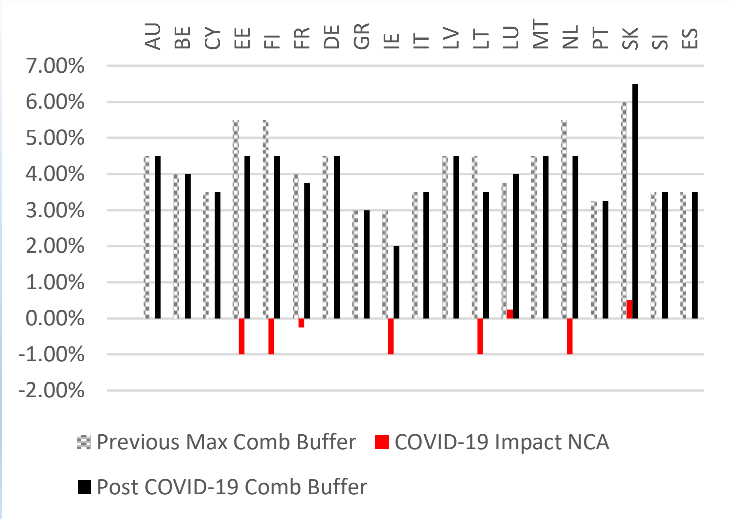
- *Belgium*, amending the announced to be introduced CCYB rate from 0.5 % to 0 % with the effect that the actual combined buffer requirements do not change;
- *Cyprus*, postponing the remaining phasing in by 12 months of the O-SII Buffer with the effect that the actual combined buffer requirements do not change;
- *Estonia*, reducing the SRB rates applicable to the entire sector from 1 % to 0 %;

[17] The use of the expression *combined buffer* in this overview should be considered to cover for all the four types of buffers, being the CCB, the CCYB, the G-SII-buffer or OSII-buffer and the SRB, that together represent the combined buffer requirements as defined in article 128 CRD IV. However, as has been explained in the previous paragraph, based on the arrangements between the ECB and the NCA's of the Member States, it is the ECB who actually has been turning the CCB knob as concerns the significant institutions, although in theory, and based on the somewhat unclear provisions of article 5(1) SSM Regulation, the determination of the applicable rates for the CCB is to be concerned a power of the Member States (which may have delegated such power to the NCAs concerned).

[18] See European Central Bank, 'Macroprudential measures taken by national authorities since the outbreak of the coronavirus pandemic', (14 April 2020) <www.ecb.europa.eu/pub/financial-stability/macroprudential-measures/html/index.en.html>.

- *Finland*, reducing the O-SII Buffer for one bank and reducing the SRB rates applicable to the entire sector from 1 % to 0 %;
- *France*, revoked decision on announced CCYB and release of implemented CCYB, with the effect that the CCYB is now set at 0 % and with the effect that the actual combined buffer requirements do not change;
- *Germany*, amending the CCYB to revoke the decision on announced CCYB with the effect that the actual combined buffer requirements do not change;
- *Ireland*, amending the CCYB to 0 % (from 1 %);
- *Lithuania*, amending the CCYB to 0 % (from 1 %);
- *Luxembourg,* amending the CCYB from 0.25 % to 0.50 %;
- *Slovakia*, increasing the CCYB to 2 % (from 1.5 %);
- *The Netherlands*, reducing the O-SII rate for one bank, reducing the SRB rate for three other banks and postponement of announced measure as to the floor on risk weights of domestic mortgage loan exposures of IRB banks pursuant to the article 458 CRR procedure.

In a diagrammatic overview, the effect of the COVID-19 measures for the combined buffer levels can be displayed as follows (with the exception of institution specific Pillar 2-Guidance capital and the ECB measure concerning the CCB). Taking the highest rates applicable in the Member State to display the pre-COVID-19 requirements and taking into account the maximum relief (so using the upper rates of reduction proposed in the context of the COVID-19 crisis):



This overview shows that six Member States (Estonia, Finland, France, Ireland, Lithuania and the Netherlands) opted for an actual decrease of the aggregate combined buffer rate at percentages from 0.25 % to 1 %. Two jurisdictions (Belgium and German) postponed the introduction of the CCYB as announced in 2019, but with an effect that the other combined buffer requirements remain unaltered. Two Member States (Slovakia and Luxemburg) opted for the increase of the CCYB. As regards the Netherlands, the true effect of the changes to the combined buffer requirements is difficult to assess, as the measures taken by the Dutch Central Bank are mixed up in amending the D-SIB buffer rate for one bank and the SRB for three other banks. In the communications of the Dutch Central Bank it is unclear, however, which rate reduction applied for which bank, as the measures have been presented under the summary of 'reduction of systematic buffer' thus combining the communication on the reduction to address both the O-SII and SRB.[19]

In general, it may furthermore be noted that the decrease of combined buffer requirements may even be more significant if significant banks, established in Member States, would opt to apply the relaxation of the CCB as announced by the ECB. In one jurisdiction (being Ireland), supposing the optimal use of the CCB underscoring up to 2.5 %, this would even result in a (hopefully theoretical) negative combined buffer requirement.

In the further paragraphs, the specific measures taken as regards the different buffers will be discussed in more detail.

4.2. Countercyclical capital buffer

Among the seven euro area countries with positive CCYB rates, authorities in France, Ireland and Lithuania reduced the CCYB to 0 %. Those in Belgium and Germany revoked the CCYB activations announced in 2019. These adjustments reduce requirements for all banks with exposures to these countries. This means that the measures taken are indifferent whether it concerns a significant institution or a less-significant institution. In addition, the measures are neutral as regards the country of establishment of the bank concerned. The CCYB operates based on the risk positions held in the relevant Member States, whether held in the domestic banking book of banks established in that Member State or whether the positions are held by banks established in other Member States. This is due to existing reciprocity arrangements, which require banks from other jurisdictions to apply the same capital requirement to their

[19] For the Netherlands, the 'average' impact of the buffer-reduction of 1% has been taken into account, although reductions appear to be introduced for a small subset of the banks established in the Netherlands only, in a bandwidth of 0.5%-1.5%.

exposures in the country applying the CCYB. According to the ECB in its communication of 15 April 2020, euro area banks have seen their requirements reduced by the CCYB reductions in Denmark, Hong Kong, Iceland, Norway, Sweden, and the United Kingdom.

In any event, it can be noted that most of the Member States have opted to introduce relaxation as regards the combined buffer requirements by means of adjustments to the CCYB, whether by lowering existing rates or by postponing announcements of the introduction of the applicability of the CCYB in the relevant Member State. It is remarkable that, in deviation from the procedural requirements as set out in CRD IV, such rate adjustments have been introduced with more or less immediate effect, with no phasing out being proposed. This is in clear deviation from the ordinary procedures as set forth in the CRD IV text, which require a gradual phasing in and out of the CCYB requirement.

4.3. Systemic risk buffer

The authorities in Estonia and Finland have reduced the SRB to a rate of 0 % from the prevailing buffer rate of 1 %, while the authority in the Netherlands reduced the existing 3 % rate, for three institutions, to rates between 0.5 % for the largest bank to 1.5 % for the smallest domestic systemically important bank. This different outcome of the rate reduction is noteworthy, as it demonstrates the very different application of the powers by the authorities in the different Member States. While most of the Member States apply the SRB as a sector wide measure to address certain systemic risks within the Member States domestic economy, the Dutch authorities have from the outset applied the SRB as a correction to the G-SIII and O-SII Buffers, so as to be able to surpass the bandwidth defined in the provision of article 141 CRD IV for G-SIII and O-SII Buffers.

What purports to be a macroprudential tool for authorities in the Member States to address the development of long term non-cyclical systemic risks in certain parts of the economy (with the default scenario of addressing ‘housing bubbles’ being presented by most Member States to justify the introduction of the SRB[20]), has been applied by a few Member States (including the Netherlands) to address other risks or concerns. The potentially far-reaching consequences of the application of the discretionary powers of the NCAs that propose the introduction of the SRB is embedded in a complex notification and approval process by the European institutions.[21] The missing link in that approval process, in my view, is the involvement of the ECB if the imposition of the SRB relates to significant institutions subject to its direct supervision.

The very different levels of the combined buffer requirements in the Member States as displayed in the diagram set out above are particularly caused by the dispersed application of this discretionary power by the Member States’ NCAs. In my view, the SRB rules are one of the main contributors to the very different levels of combined buffer requirements as they apply in the Member States. The wide ranging discretionary powers of the NCAs to apply or, as we now have seen, disapply the SRB or to reduce the buffer rate with significant steps (in the

[20] See the notification suite as published by the ESRB. European Systemic Risk Board, ‘Systemic risk buffer’, (12 August 2019) <www.esrb.europa.eu/national_policy/systemic/html/index.en.html>. The ESRB explains the rationale of this buffer (a typical European measure not based on Basel Committee standards) as follows ‘The systemic risk buffer […] aims to address systemic risks of a long-term, non-cyclical nature that are not covered by the Capital Requirements Regulation’.

[21] See the provisions of articles 130 and 135 *et seq* CRD IV.

context of the COVID-19 crisis even with immediate effect), is a counterproductive element for the intentions to achieve harmonisation and the creation of a level playing field for banks in Europe (or at least in the eurozone).

4.4. Other Systemically Important Institution (O-SII) bufferSystemic risk buffer

In combination with the reductions in the SRB, Finland and the Netherlands also decided to lower the O-SII Buffer for one bank each. According to the ECB, these reductions prevent the O-SII Buffers from limiting the reductions in the SRB, given the interactions between the two requirements stipulated in Article 131 CRD IV. The ECB refers to the provision of article 131(14) second paragraph CRD IV where there is a requirement to apply the highest outcome of the O-SII Buffer or the SRB and not to accumulate requirements.[22] For the institutions in Finland it ensures that the combined structural buffers (SRB and O-SII Buffers) are effectively reduced by 1 % of the TREA. But the exact impact for the measures taken by The Netherlands cannot be measured. This adds up to the lack of harmonised application of the combined buffer rules as may be observed in this respect.

4.5. Postponing the phase-in or intrioduction of announced measures

Cyprus announced that it will delay the phase-in of O-SII Buffers by one year, while the Netherlands postponed the introduction of capital surcharges on domestic mortgage loan exposures under Article 458 of the Capital Requirements Regulation (CRR). The first measure (delay of the introduction

[22] The provision reads as follows 'Where an institution, on an individual or sub-consolidated basis is subject to an O-SII buffer and a systemic risk buffer in accordance with Article 133, the higher of the two shall apply'.

of the O-SII Buffer requirement) cannot be aligned with the implementation requirements of the CRD IV provisions, where O-SII Buffers, if there is an assessment that a bank qualifies as O-SII, should have been introduced on a fully loaded basis yet. The question arises whether this particular measure taken by Cyprus complies with European Union law.

The latter measure as taken by the Netherlands concerns the introduction of a 'capital floor' for the largest banks in the Netherlands in respect of certain residential real estate exposures. The need for the Dutch authorities to apply this very specific provision of article 458 CRR may be explained by the fact that other measures that this NCA could take to address macroprudential concerns based on the existing provisions of CRR and CRD IV apparently had been exhausted.

The relevant introduction of a 'capital floor' would have been only applicable to a few Internal Rating Based-banks in the Netherlands, which, in my view blurs the underlying rationale of the macroprudential powers given to the NCAs. Application of article 458 CRR in this case, may be considered to introduce a microprudential measure, rather than a macroprudential one. It puzzles me, why the Dutch authorities have not considered the introduction of CCYB measures instead, to address the subject matter of the perceived development of a housing bubble.[23]

5. Commentary

[23] The other suitable measure that authorities can take to address long-term non-cyclical macroeconomic concerns is the imposing of the SRB, but as we have seen, this particular measure has been applied by the Dutch authorities for other objectives, and this tool was no longer available in the macroprudential toolkit.

The approach of ECB and the supervisors in the Member States differs considerably. The NCAs policies appear to be aimed at solving the problems in the medium term. The ECB's measures are more focused on the shorter term. The qualification 'incentives' is more appropriate for the ECB's measures than for the NCAs. This relates to two factors in my view. It concerns the absolute levels of the relaxation and the implementation of the capital relief.

As concerns the absolute levels, the ECB policy to release the banks to meet the CCB requirements has an immediate effect and an immediate lowering of the capital requirements for banks originating lending transactions to the real economy. The fact that the available cushion of 2.5 % is to be used to the fullest extent (and in a manner consistent with the rationale of the CCB), produces in all likelihood the most significant freefall of capital, and hence the most widened up ability for banks to support the real economy. The macroprudential relief offered by the NCAs differs from 0.0 % (for those Member States delaying the introduction of the CCYB, the O-SSII Buffer or the article 458 CRR capital floor measure) to up to 1 % (for those Member States that decided to lower the SRB or O-SII Buffer).

As concerns the implementation, one could applaud the policy promoted by the ECB to anticipate on the forthcoming changes of CRD IV as concerns the qualitative requirements for capital to be maintained to meet the Pillar 2 Required capital levels. In view of the turbulence on the capital markets as we have seen recently, and the fact that bank's will be facing even more constraints to raise CET1 capital at this point in time, my view is that the ECB policy in respect of the composition of the Tiers to meet Pillar 2 Required capital is a very effective and very appropriate measure. Furthermore, in view of the differences in application of the relaxation of capital requirements by the Member States, a very blurred outcome is produced for the banking industry in the Member States. Some of the NCAs decided to apply relaxation on a sector wide basis (this is particularly the case for Member States that relaxed the CCYB) whilst other Member States only introduced relaxation for a handful of banks.

My main concern and point of critics concerns the excessively dispersed outcome of the measures taken by the ECB on the one hand and the NCAs on the other hand. We must note that the ECB obviously only could introduce policies for the significant banks in respect of which it bears the exclusive powers and responsibilities. Whether or not less-significant institutions established in the Member States will be obtaining the same relaxation of rules depends on the nature of the macroprudential measures taken by the Member States as noted hereabove. In theory, in some Member States relaxation of the rules only applies for the larger banks, whilst the smaller banks (that may also assist the real economy by providing loans to the small and medium-sized enterprises, which constitute their typical clients) are not benefiting from the relief measures.

It may be considered that the consequences of the corona crisis for the financial sector will lag for more than a year, if not longer. I hope that the very far-reaching consequences for public health will be over shortly, but I estimate that the job for the financial sector will only start after that. First, the shrapnel will have to be picked up from ailing companies that, despite all the support measures, ultimately failed. This will also have consequences for the financial sector, given its involvement in lending. Subsequently, a recalibration of the relaxed prudential requirements will have to take place in order to achieve a 'recovery to the old state'. It should also be hoped that politicians and policymakers (and regulators) will not forget the exceptional circumstances in which we were in this first half of 2020. I recommend that reasonable and realistic transitional arrangements be introduced to oblige banks to restore their capital requirements back to pre-corona crisis ratios.

The current provision of article 5(1) SSM Regulation needs to be reconsidered. To achieve a truly harmonised and uniform application of prudential supervision on all banks in the Member States, the ECB should be given the power to apply the microprudential and macroprudential measures for banks to the fullest extent, for significant banks and less-significant ones. The stress test of the COVID-19 crisis demonstrates that the system of division of powers between the ECB and the NCAs as embedded in the SSM produces obstructive results for the SSM in accordance with its objectives.

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