

## **GUIDELINES FOR THE MACRO-PRUDENTIAL POLICY OF THE BANK OF SLOVENIA<sup>1</sup>**

6.1.2015

### **Objective of the Guidelines**

The Guidelines set up an operational framework for the macro-prudential policy and macro-prudential supervision of the banking system, as performed by the Bank of Slovenia. They establish the connection between:

1. The ultimate objective of the macro-prudential policy and its intermediate objectives;
2. Instruments of the macro-prudential policy and its intermediate objectives; and
3. Selected indicators of systemic risk and intermediate objectives.

Additionally they set the principles of macro-prudential policy conduct and principles for the selection of the instruments.

The document is divided into four sections: definitions, intermediate objectives of the macro-prudential policy, instruments of the macro-prudential policy and the decision-making process, followed by an Appendix that describes selected macro-prudential instruments.

### **I. Definitions**

The Guidelines define the most important concepts, as set out below.

#### **Financial stability**

Financial stability is defined as a state in which all components of the financial system (financial markets, institutions and infrastructures) function without systemic disorders and in which every component of the financial system provides the highest possible level of flexible response to potential shocks. The law on banking and the law on the macro-prudential supervision of the financial system give a mandate for maintaining financial stability with macro-prudential tools to the Bank of Slovenia.

Financial stability ensures an operational financial system and a system of financial intermediation and thereby supports sustainable economic growth. The financial crisis has demonstrated a need for clearer definition of macro-prudential policy and macro-prudential supervision that mitigates and prevents the occurrence of systemic risk in the financial system. Macro-prudential policy contributes to mitigation of the financial cycle, which is characterised by longer and higher amplitudes than the business cycle.

Financial systems and financial cycles of states differ; therefore the macro-prudential policy has to take national risks as a starting point.

#### **Macro-prudential policy and its ultimate objective**

Macro-prudential policy is used to identify, monitor and assess systemic risks to financial stability with a view to protecting the stability of the financial system as a whole, which also includes

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<sup>1</sup> Guidelines have been adopted by the Governing Board of the Bank of Slovenia on the occasion of its 524<sup>th</sup> meeting on 6 January 2015.

enhancing the resilience of the financial system and preventing and reducing the accumulation of systemic risks to ensure that the financial sector makes a sustainable contribution to economic growth.

### **Systemic risk**

Systemic risk is defined as the risk of disruptions to the financial system which can have serious adverse effects on the functioning of the financial system and the real economy.

It is composed out of two components – structural and cyclical:

- The cyclical component refers to the distribution of risks in time, while the structural component refers to the distribution of risks across the financial system.
- The source of cyclical risks is the pro-cyclicality of the financial system, which is connected with reduced risk-aversion of financial institutions in periods of boom and excessive risk-aversion in periods of economic decline. Sources of structural risks are risks of concentrated exposures, interconnectedness and size that can cause contagion across several institutions with similar types of exposures.
- Both dimensions of risk require specific responses of the macro-prudential policy. The cyclical component is best addressed through activation and release of buffers in accordance with variations in systemic risk over time. The structural component is based on individual institutions' contribution to the systemic risk.

## **II. Intermediate objectives of the macro-prudential policy**

The following intermediate objectives of the macro-prudential policy that operationalise its ultimate objective and assure improved transparency and accountability have been defined:

- (a) Mitigate and prevent excessive credit growth and leverage;
- (b) Mitigate and prevent excessive maturity mismatch and illiquidity;
- (c) Limit direct and indirect exposure concentrations;
- (d) Limit the systemic impact of misaligned incentives aimed at reducing moral hazard;
- (e) Strengthen the resilience of financial infrastructures.

## **III. Instruments of the macro-prudential policy**

To pursue the intermediate objectives of the macro-prudential policy, the Bank of Slovenia will use instruments regulated in CRR and CRD IV, instruments that have been introduced into national legislation (a cap on the deposit interest rate and GLTDF), and other instruments recommended by the Financial Stability Committee in accordance with the Slovenian legislation (currently valid are the ZBan-1 and ZMbNFS, with the ZBan-2 foreseen for 2015) and based on the assessment of risks observed in the financial system. The list of the (potential) macro-prudential instruments is harmonised with the intermediate objectives pursued by the Bank of Slovenia.

The following instruments have been mapped to individual intermediate objectives:

- (a) Mitigate and prevent excessive credit growth and leverage:
  - LTD cap;
  - Countercyclical capital buffer;
  - Sectoral capital requirements;
  - Macro-prudential leverage ratio;
  - Loan-to-value (LTV) requirements;
  - Loan-to-income (LTI) requirements;
- (b) Mitigate and prevent excessive maturity mismatch and illiquidity:

- Gross loans to deposits flows (GLTDF) – implemented in June 2014;
- Macro-prudential adjustment to liquidity ratio (liquidity coverage ratio – LCR);
- Macro-prudential restrictions on funding sources (net stable funding ratio – NSFR);
- Macro-prudential unweighted limit to less stable funding (loan-to-deposit ratio);

(c) Limit direct and indirect exposure concentrations:

- Large exposure restrictions;
- Structural systemic risk buffer;

(d) Limit the systemic impact of misaligned incentives aimed at reducing moral hazard:

- Limitation of the excessive growth of deposit interest rates – implemented in February 2012;
- SIFI capital surcharges (O-SII);

(e) Strengthen the resilience of financial infrastructures:

- Structural systemic risk buffer;
- Increased disclosure.

The Bank of Slovenia is additionally responsible for the introduction of measures under Article 458 of the CRR.

In the event that additional intermediate objectives or instruments are needed, the list will be expanded accordingly. Selection of additional macro-prudential instruments will be based on their efficiency and effectiveness in addressing structural and cyclical risks in the financial system.

Since macro-prudential policy can only reduce the probability of the occurrence of future financial crisis but cannot eliminate them, it is crucial that crisis mechanisms are defined in advance.

The Bank of Slovenia is involved in the design and contributes to the national implementation of recovery and resolution regimes for banking and non-banking financial institutions and deposit guarantee schemes, where the macro-prudential view will also be considered.

#### **IV. Decision-making process**

The decision-making process of the macro-prudential policy follows a four-step cycle (following ESRB):

- Identification and evaluation of systemic risks;
- Selection and calibration of the macro-prudential instrument;
- Implementation of the macro-prudential instrument;
- Evaluation of the macro-prudential instrument.

##### **A. Identification of risks**

Identification of systemic risks is already established and publically presented in regular publications (*Financial Stability Review* and *Stability of the Slovenian Banking System*). Top-down stress tests are used to identify systemic risks and their potential impact in the horizon of two to three years. This framework will be further enhanced with the establishment of the early warning system. The Bank of Slovenia regularly monitors the risk of contagion and has developed a system of identification of systemically important banks. The development of systemic risk is monitored by means of a predetermined suite of indicators, which will be expanded further with the operationalisation of macro-prudential instruments, within the framework of meeting individual intermediate objectives and for guiding decisions in relation to the introduction, deactivation and calibration of macroeconomic instruments.

Table: List of possible indicators monitored by BoS linked to intermediate objectives.

**Mitigate and prevent excessive credit growth and leverage**

Real GDP growth  
Unemployment  
Real estate prices  
Credit-to-GDP gap  
Growth of loans to non-banking sector  
Share of non-performing assets in total assets  
Coverage of non-performing claims by impairments  
Capital adequacy  
Leverage

**Mitigate and prevent excessive maturity mismatch and illiquidity.**

Loan-to-deposit ratio  
Liquidity coefficient  
Balance sheet structure

**Limit direct and indirect exposure concentrations**

Exposure to the risk of contagion  
Concentration of exposures to individual subjects and individual risks

**Limit the systemic impact of misaligned incentives aimed at reducing moral hazard**

ROE  
Net interest margin  
Bank interest rates  
Assets-to-GDP  
HHI based on assets

**Strengthen the resilience of financial infrastructures.**

all of the listed above

The list of indicators will expand in parallel with the development and implementation of the macro-prudential instruments. The Bank of Slovenia will not publish the thresholds for individual indicators considered in the decision to activate or release the instrument or used in its calibration.

## **B. Principles of selection and calibration of the macro-prudential instruments**

Selection and calibration of instruments will be based on the following principles:

- 1) **Effectiveness** in reducing or eliminating market failures and their contribution to the ultimate and intermediate objectives of the macro-prudential policy.
- 2) **Efficiency**. Capability of achieving ultimate and intermediate goals with minimum costs and minimum side-effects.
- 3) **Proportionality**. The burden on individual institutions should be in line with their contribution to the systemic risk.
- 4) **Straightforwardness and simplicity** in the definition of the instrument, its requirements and external communication in order to achieve better understanding of instruments, their functioning and objectives.
- 5) **Avoiding regulatory arbitrage** in both the definition and selection of the instrument. The goal is achieved through cooperation with other macro-prudential authorities within or outside Slovenia or with simultaneous use of several instruments.
- 6) **Avoiding negative cross-border spill-overs**. Negative cross-border spill-overs will be considered in the process of the selection of the instrument and minimised.
- 7) **National specifics**. Selection and calibration of the instrument will take into account the ESRB guidelines, characteristics of the Slovenian banking system and conditions in the financial and banking system.

### **C. Implementation and principles of the functioning of the macro-prudential policy**

The following principles will be pursued:

- 1) **Independence of the macro-prudential policy.** The costs of the macro-prudential policy are more easily measurable than its benefits. Therefore independence has to be assured in order to prevent the prevalence of short-term over long-term benefits. The macro-prudential policy is often under pressure not to tighten requirements during an upturn and ease them in a downturn. Therefore independence – and this also to preserve credibility – has to be assured from outside pressures (fiscal policy and financial institutions) as well as inside the Bank of Slovenia (from monetary and micro-prudential policy).

Monetary, micro-prudential and macro-prudential policies are tightly interconnected, as emphasised by the ESRB (ASC). This is especially true for the last two, as their instruments and indicators often overlap. However, macro-prudential policy, like monetary policy, requires a macroeconomic approach that focuses on the whole financial system, not only on individual institutions. Stability of the financial system is more important than the stability of an individual institution, so the macro concerns should override the micro ones, though necessarily taking into account micro-prudential considerations. Macro-prudential and monetary policies also interact. Due to the creation of the monetary and the banking union and mismatch between business and financial cycles in individual member states, macro-prudential policy becomes an extremely important tool for mitigation of imbalances at the country level.

- 2) **Transparency** improves the understanding of the macro-prudential policy by the financial sector and among the general public. Timely publication of macro-prudential decisions is needed unless such publication could have a disruptive effect on financial stability.
- 3) **Accountability.** The law on the macro-prudential supervision of the financial system established the Bank of Slovenia's mandate for the conduct of the macro-prudential policy. The Bank of Slovenia will pursue its ultimate objective (with the help of intermediate objectives) by activating and deactivating macro-prudential instruments, taking into account indicators and other tools, in a transparent manner.
- 4) **Avoiding inaction bias.** Explicit formulation of the ultimate and intermediate objectives and the objective or objectives of each individual instrument should assure timely introduction and accommodation of the tools of the macro-prudential policy to the changes in the financial system and risks. That is how macro-prudential policy can avoid both inaction as well as action bias. It should be noted, however, that the former of these is the more important, since the costs of financial crises normally surpass the potential loss of income and product caused by the introduction of macro-prudential measures.
- 5) **Guided discretion.** Due to the wide spectrum of effects and the fact that it is still under development, the macro-prudential policy cannot be entirely based on rules. Additionally, the transmission mechanism of macro-prudential instruments has not been fully explored, due to lack of experience with most of the instruments. Thorough reflection regarding selection, calibration, activation and deactivation of macro-prudential instruments that takes into account wider aspects of economic environment and risks is needed. Therefore macro-prudential policy requires discretion regarding introduction, deactivation and calibration of macro-prudential instruments.
- 6) **Flexibility.** Macro-prudential policy should have a sufficient range of instruments available to be introduced in order to mitigate or prevent the development of systemic risks. Additionally it should be able to introduce one or several appropriate instruments and to introduce them whenever it is necessary.

- 7) **Legal framework.** An adequate legal framework is required in order to assure timely introduction and control over the introduced macro-prudential instruments.
- 8) **Coordination.** The efficiency of the macro-prudential policy strongly depends on coordination with micro-prudential and monetary policy, other supervisory institutions both within and outside Slovenia, and European institutions and authorities (the ECB, ESRB, SSM, EBA and EC).

#### **D. Evaluation**

The Bank of Slovenia will follow two basic principles when evaluating macro-prudential instruments used:

- 1) **Examination of the transmission mechanism.** The Bank of Slovenia will study the transmission mechanism of the instruments in order to better understand their impact and assure better selection and more precise calibration of the instruments.
- 2) **Periodical evaluation of objectives and instruments.** The Bank of Slovenia will regularly evaluate the appropriateness of intermediate objectives of the macro-prudential policy, structural conditions in the financial system and development of new types of systemic risk. There will be a regular review of the effectiveness and efficiency of macro-prudential instruments in meeting the ultimate and intermediate objectives of macro-prudential policy, and regular adjustments to the suite of intermediate objectives and macro-prudential instruments when necessary, particular in the event of new risks to financial stability arising that cannot be satisfactorily managed within the existing framework.

**Sources:**

European Systemic Risk Board, *ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector*, March 2014.

European Systemic Risk Board, Recommendation of the ESRB of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3).

European Systemic Risk Board, Recommendation of the ESRB of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

European Systemic Risk Board, Reports of the ASC #5, "Allocating macro-prudential powers", August 2014.

BIS, Committee on the Global Financial System, *Operationalising the Selection and Application of Macroprudential Instruments*, CGFS Publications, No. 48, December 2012.

IMF, *Macroprudential Policy: An Organizing Framework*, March 2011.

Law on macro-prudential supervision of the financial system (*Zakon o makrobonitetnem nadzoru finančnega sistema (ZMbNFS)*), *Uradni list Republike Slovenije* 100/13, 6 December 2013.

Law on banking, draft (*Zakon o bančništvu, osnutek (ZBan-2)*)

## **APPENDIX 1: Description of individual macro-prudential instruments**

A description of the instruments of macro-prudential policy follows the preliminary list of possible measures to meet individual intermediate objectives as illustrated in the Table. There is no direct link between the order of the instruments and the priority of their implementation in the event of a threat to the intermediate objectives of macro-prudential policy being met because of the realisation of systemic risks.

### **Countercyclical capital buffer**

The countercyclical capital buffer rate as regulated by Article 130 of the CRD may be increased or reduced (countercyclically) in accordance with the variation in systemic risk over time. The purpose of the instrument is to protect the banking system against potential losses when excessive growth in lending is linked to an increase in risks in the system as a whole, which directly increases the resilience of the banking system. Furthermore the countercyclical capital buffer indirectly contributes to a curb on the expansive phase of the credit cycle by reducing the supply of loans or increasing the cost of lending. The relaxation of the buffer (at the reversal of the credit cycle) mitigates the risk of the supply of loans being limited by regulatory capital requirements. The capital buffer rate may range from 0% to 2.5% of risk-weighted assets, and may exceptionally be higher. The primary criterion for setting the buffer rate is the credit-to-GDP gap. However, other relevant indicators (growth in total lending, growth in bank lending, property prices, etc.) are also of significance, given their specific economic attributes. The buffer can be optionally introduced as of January 2014, and is mandatory as of 2016.

### **Sectoral capital requirements**

Sectoral capital requirements are a tool that is used when the micro-prudential requirements of systemic risk are not captured to a sufficient extent. They are pitched at a specific sector or class of financial asset, although the current legal framework mainly limits them to the real estate sector (with the exception of measures under Pillar II and Article 458 of the CRR). In accordance with Article 124 of the CRR, for exposures secured by mortgages on real estate competent authorities may, having regard to financial stability, set a higher risk weight or stricter criteria in terms of exposure treatment than for those secured in full. In accordance with Article 164 of the CRR, for exposures secured by real estate competent authorities may, with the objective of ensuring financial stability, set higher minimum values for the exposure-weighted average loss given default (LGD). Under Pillar II (Article 103 of the CRD), the competent authority may request banks with a similar risk profile to apply higher risk weights or higher minimum LGDs. Furthermore, Article 458 of the CRR provides for the possibility of setting higher risk weights in the event of real estate bubbles. Other sectoral measures include certain instruments presented below (LTV, LTI). An increase in the capital requirements for a specific sector alters the relative prices/costs, thereby reducing growth in lending to the targeted sector. The measure additionally encourages banks to reduce exposures to the specific sector. Risk build-up can be identified on the basis of lending data itemised by sector (e.g. the sectoral credit-to-GDP gap, the stock of mortgages, real estate prices).

### **Macro-prudential leverage**

Leverage is defined as the ratio of a bank's equity to its total (non-risk-weighted) assets (Article 429 of the CRR). For the needs of macro-prudential policy leverage may be used as an additional static instrument or a dynamic instrument. The advantage of the instrument is its simplicity and transparency. Its use can be based solely on national law. The transmission mechanism is similar to that for risk-weighted capital requirements. The introduction of the instrument brings an increase in the price of lending, and a decline in the amount of lending approved. Alternatively, leverage can also act as one of the indicators of systemic risk.

## **Required LTV ratio and required LTI ratio**

The required loan-to-value (LTV) ratio represents the maximum loan value relative to pledged collateral (e.g. residential real estate), while the required loan-to-income (LTI) ratio represents the maximum cost of servicing debt relative to available income. The objectives of the measures are to boost the credit cycle and to increase the resilience of financial institutions. A stricter LTV ratio reduces the amplitude of the credit cycle and improves the resilience of the banking system, as eventual losses given default are lower. A lower LTI ratio reduces the probability of default. The instrument is usually used statically, but it can also vary over time. Articles 125, 126 and 129 of the CRR, or measures under Pillar II, can act as the legal framework at EU level for the use of the instruments that are otherwise exclusively regulated by national law.

## **Restriction of the pace of reduction in the GLTDF**

The instrument defines minimum requirements for the ratio of the annual change in the stock of loans to the non-banking sector before impairments to the annual change in the stock of deposits by the non-banking sector (gross loans to deposits flows or GLTDF). The purpose of the instrument is to slow the pace of the reduction in the LTD ratio, to help stabilise the structure of the banking system's funding and to reduce systemic liquidity risk in funding. The instrument is pitched at the gradual reduction of the LTD, which should primarily be based on growth in deposits by the non-banking sector and not on a contraction in lending. The measure was introduced on the basis of national legislation (the ZBan-1).

## **Macro-prudential adjustments to liquidity ratio (liquidity coverage ratio or LCR)**

Article 412 of the CRR requires institutions to hold liquid assets whose total value covers liquidity outflows minus liquidity inflows under stress conditions. Institutions thus maintain sufficient levels of liquidity buffers to cover sudden outflows of liquidity in highly stressed conditions for a period of thirty days. The ratio will be introduced gradually between 2015 and 2018. The primary intermediate objective is to reduce excessive mismatching in the maturity structure of assets and liabilities and funding risk.

The macro-prudential measure can be implemented in the form of an addition, or other macro-prudential adjustments of the instrument. The measures can be pitched at specific bank groups, or the banking sector as a whole. An increase in the ratio is reasonable in periods of excess liquidity (in a situation of disproportionately high values of assets used as collateral, low volatility and low interest rate spreads). The required value of the ratio can be increased gradually or in a single step. The banks meet these liquidity requirements by increasing the maturity of funding or investing in liquid assets. To avoid procyclicality banks should have the possibility of relaxing the ratio during periods of liquidity difficulties. Bank balance sheet figures and economic indicators could act as triggers for an increase of the ratio, while the triggers for a relaxation of the restrictions could include large changes in volume and interest rates on the interbank market, and the use and availability of collateral. Certain indicators could overlap with those related to time-variable capital instruments.

The legal basis for introduction at the EU level consists of measures under Pillar II (for institutions with similar risk profiles) and Article 458 of the CRR, while the instrument can also be applied on the basis of national legislation.

## **Macro-prudential restrictions on funding (NSFR)**

The net stable funding ratio or NSFR (the ratio of the available stable funding to the requisite stable funding) sets the lower limit for the amount of long-term funding that banks hold as a counterweight to less-liquid assets. Its general definition, at present solely for reporting purposes, is given in Article 413 of the CRR.

Like the LCR, the indicator can be used for macro-prudential purposes as a time-variable addition to the minimum value for the ratio. Tightening and relaxing the allowed mismatching between assets and liabilities in various parts of the financial cycle can help to reduce the amplitude of the credit cycle.

The use of the instrument is allowed on the basis of national legislation, while the basis in EU law comprises the measures under Pillar II and Article 458 of the CRR.

### **Additional liquidity requirements**

Before the final introduction and harmonisation of liquidity instruments (LCR, NSFR) at EU level, the Member States have the option of using national liquidity requirements to limit systemic liquidity risk such as liquidity ratios defined within the framework of national legislation, and the use of an instrument under Pillar II (Articles 103, 104 and 105 of the CRD IV).

### **Macro-prudential unweighted limit on less-stable funding (LTD ratio)**

The macro-prudential unweighted limit on less-stable funding is defined as a maximum required LTD ratio. In addition to deposits, the denominator may also include other stable funding, while the numerator may be expanded to other non-liquid assets that have similar attributes to loans. The maximum value of the ratio can vary over time, as in the case of the NSFR. In this case the measure is also suited to the management of cyclical risks. The measure is left to national discretion, while it can also be applied to a group of institutions with similar risk profiles within the framework of Pillar II (Article 103 of the CRD IV). The objective of the measure is to prevent excessive reliance on short-term wholesale funding, which on the other hand leads to excessive growth in loans and leverage. It can also contribute to an improvement in the liquidity position of the banks.

### **Large exposure restrictions**

The CRD defines a large exposure as an exposure to a person or group of connected clients that is equal to or greater than 10% of own funds (Article 392). Credit institutions and investment companies may not accept an exposure to any person or group of connected clients that exceeds 25% of their own funds (capital) (Article 395).

The CRD envisages Member States' right of discretion in the treatment of certain exposure classes (e.g. systemically important sectors) that are classed as particularly high-risk, which could create the conditions for macro-prudential intervention. Large exposure restrictions can mitigate concentration risk and reduce counterparty risk and the possibility of contagion (including for the shadow banking system). They also reduce financial institutions' sensitivity to general or sectoral shocks. Micro-prudential measures can be tightened to meet macro-prudential objectives on the basis of Pillar II or Article 458 of the CRD. The Bank of Slovenia is already using this measure on the basis of the ZBan-1.

### **Limits on deposit rates**

It is reasonable to impose limits on deposit rates in a situation when banks are increasingly competing for deposits by the non-banking sector by raising deposit rates, which does not lead to an increase in the overall stock of deposits but merely to deposit-switching between banks and a rise in their funding costs. The measure can contribute to a fall in interest rates and to the narrowing of their dispersal across the different maturity intervals. The Bank of Slovenia introduced this measure in March 2012 on the basis of national legislation.

### **Capital buffers for systemically important financial institutions (OSII)**

As of January 2016 it will be possible to introduce mandatory additional capital buffers whose value can range from 0% to 2% (Article 131 of the CRD) for systemically important financial institutions

(institutions whose size, complexity, cross-border operations and integration with the financial system means that their failure would have serious consequences for the financial system and the economy).

The objective of the surcharge is to increase the ability to cover losses, thereby reducing the likelihood of stress events, and also their potential consequences. The buffer could also correct for the implicit financial benefits enjoyed by systemically important financial institutions as a result of the implicit government guarantee. This would maintain the same business conditions for small and medium-size banks, while systemically important banks would be better-prepared for shocks. As a result of this capital surcharge, business can switch to the shadow banking sector, while in addition the status of a systemically important financial institution becomes explicit, thereby activating the implicit financial subsidy and distorting competition.

### **Structural systemic risk buffer**

In accordance with Article 133 of the CRD, a systemic risk buffer in the form of common Tier 1 equity may be introduced for the financial sector or for one or several institutions to prevent and mitigate long-term non-cyclical (structural) systemic or macro-prudential risks that the CRR does not capture. The issue is the risk of disruptions arising to the financial system that could have serious adverse consequences for the financial system and the real economy in a country. The risk can arise as a result of changes in legislation or accounting standards, cyclical spillover from the real economy, and a large (or excessively large) financial system relative to GDP, or as a result of financial innovations that increase the complexity of the system. There are three main factors in the intensity with which these risks arise: the financial system's intra-sectoral exposure and exposure to clients, types of investment, economic regions or currencies and funding of the same type, close links between financial institutions that speed up the transmission of any disruptions, and high concentration in the financial sector. The more important the financial sector is to the real economy, the greater are the consequences of any disruptions that arise. The structural buffer increases the resilience of the financial system by increasing the ability to cover losses, limits the level of indebtedness and mitigates the risks taken up by the banking system and the financial system. It transfers more of the risk of adverse scenarios to the shareholders and increases solvency, thereby reducing the likelihood of the realisation of structural risk. The potential adverse effects of the structural buffer are a loss of equal business conditions at the cross-border level, a decline in banks' voluntary capital and a flight to the shadow banking system.

### **Increased disclosure**

Institutions may be compelled to make more frequent or more detailed disclosures of information. Special forms may be prescribed for the disclosures. This is a supplementary measure that makes it easier for the public to oversee the operations of financial institutions, via which the resilience of the financial system is strengthened. The measure can be introduced on the basis of national legislation or Article 458 of the CRR.