Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB)and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- DARWIN/ASTRA when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Banco de Portugal.
1.2 Country of the notifying authority	Portugal.
1.3 Type of measure (also for reviews of existing measures)	Which SyRB measure do you intend to implement? ☒ Activate a new SyRB ☐ Change the level of an existing SyRB ☐ Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures) ☐ De-activate an existing SyRB ☐ Reset an existing SyRB (review)

[1] 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 (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure

2.1 Institutions covered by the intended SyRB

Please indicate whether the SyRB applies to:

☐ All institutions authorised in the Member State

☒ One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

Name of institution	LEI code	Consolidation level
Banco Comercial Português, SA	JU1U6S0DG9YLT7N8ZV32	highest level of consolidation
Santander Totta, SGPS, SA	5493005RLLC1P7VSVC58	sub-consolidated (highest level of consolidation in Portugal)
LSF Nani Investments S.à.r.l.	222100K6QL2V4MLHWQ08	(highest level of consolidation)
Novo Banco, S.A.	5493009W2E2YDCXY6S81	Sub-consolidated
Banco BPI, SA	3DM5DPGI3W6OU6GJ4N92	(sub-consolidated (highest level of consolidation in Portugal)

☒ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

Name of subsidiary	Name of the parent	LEI code of the subsidiary
Santander Totta, SGPS, SA	Banco Santander S.A.	5493006QMFDDMYWIAM13
Banco BPI, SA	Caixabank, S.A.	7CUNS533WID6K7DGFI87

If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions: The measure applies to IRB banks (as risk weights applied by SA banks are deemed sufficient.

2.2 Exposures covered by the SyRB

(Article 133(5) CRD)

Please indicate the exposures to which the SyRB applies:

☐ (a) all exposures located in the Member State that is setting the buffer;

☐ (b) the following sectoral exposures located in the Member State that is setting the buffer:

(i) ☒ all retail exposures to natural persons that are secured by residential property;
(ii) ☐ all exposures to legal persons that are secured by mortgages on commercial immovable property;
(iii) ☐ all exposures to legal persons excluding those specified in point (ii);
(iv) ☐ all exposures to natural persons excluding those specified in point (i);

☒ (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;

☐ (d) all exposures located in other Member States;

☐ (e) exposures located in third countries.

2.3 Subsets of sectoral exposures

Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:

- The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA Guidelines on the appropriate subsets of exposures in the application of SyRB:

Dimensions/subdimensions	**Elements**
1. Type of debtor or counterparty sector	Natural persons
1.a Economic activity	
2. Type of exposure	Retail exposures
2.a Risk profile	IRB portfolios
3. Type of collateral	Exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal
3.a Geographical area	Portugal]

- Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account:
  (i) size
  (ii) riskiness
  (iii) interconnectedness.

- Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted?

  Assessment conducted in accordance with Section 5 of the EBA Guidelines 2020/13

- Size: The Banco de Portugal assesses that the size of the exposure of IRB banks to the Portuguese residential real estate sector is significant and, therefore, systemic to the financial system and economy in Portugal.

- Riskiness: Risks to financial stability remained high against a background characterized by the cycle of rising interest rates and gradual transmission of monetary policy to the economy. Although there are mitigants to RRE risks, a capital-based measure, such as a sSyRB, complements the existing BBMs by enhancing resilience in a potential downturn of the financial cycle and/or an unexpected significant correction of RRE prices. Banks' capital headroom and improving profitability reveal banks' capacity to retain results as additional capital buffers. This is a precautionary measure aimed at addressing the materialization of a potential tail risk. See point 4.1.

- Interconnectedness: the materialisation of risk in the targeted subset could lead to negative spillover effects to other exposures (including CRE-exposures). Increasing capital buffers allows IRB banks to absorb potential future losses under an adverse macroeconomic scenario, and to finance borrowers, hence limiting a potential increase in defaults, and the associated impact on housing prices. The intended measure, while not directly designed to cover such spillovers, is expected to limit them.

2.4 Exposures located in other Member States and in third countries	If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries. Not applicable.
2.5 Buffer rate **(Article 133(9)(e) CRD)**	Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2. Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.

Exposures	New SyRB rate		Previous SyRB rate	
	All institutions (SyRB rate)	**Set of institutions** (range of SyRB rates)	**All institutions** (SyRB rate)	**Set of institutions** (range of SyRB rates)
(a) All exposures located in the Member State that is setting the buffer	%	% - %		
(b) *The following sectoral exposures located in the Member State that is setting the buffer:*				
(i) All retail exposures to natural persons that are secured by residential property	%	% - %		
(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property	%	% - %		
(iii) All exposures to legal persons excluding those specified in point (ii)	%	% - %		
(iv) All exposures to natural persons excluding those specified in point (i)	%	% - %		
(c) All exposures located in other Member States	%	% - %		
(e) Exposures located in third countries	%	% - %		
(f) *Subsets of any of the sectoral exposures identified in point (b):*				
(i) IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal]	4%	% - %		

If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.

Set of institutions				
Exposures	**Name of institution**	**LEI code**	**New SyRB rate**	**Previous SyRB rate**
			%	
			%	
			%	

3. Timing for the measure	
3.1 Timing for the decision	What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. 29/09/2023
3.2 Timing for publication	What is the proposed date of publication of the notified measure? 17/11/2023
3.3 Disclosure	Information about the strategy for communicating the notified measure to the market. Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system? The Banco de Portugal intends to publish a justification for the sectoral SyRB when implementing the measure. In particular, the Banco de Portugal intends to focus its communication on the following aspects: • The targeted institutions are relevant participants with a significant share of the real estate loan sector (see 4.1. below). • The measure is introduced to strengthen IRB banks' resilience to this particular sectoral risk. The measure is introduced in a moment in which these institutions reveal particularly strong financials. • The measure is not expected to generate any negative consequences. Expectation management facilitates banks' capital planning and provides transparency about the risk assessment and benefits of the proposed policy. Considering the uncertain economic outlook, it is useful to clarify in the communication strategy that Banco de Portugal stands ready to release the buffer or call back announcements if the risk outlook so warrants. This alleviates market fears of banks being overburdened by rapid net increases in their capital requirements.
3.4 Timing for application	What is the intended date of application of the measure? 01/10/2024
3.5 Phasing in	No phase-in is foreseen
3.6 Review/deactivation of the measure	Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD. The measure is expected to remain in place until targeted risks materialise or disappear. The Banco de Portugal intends to review the level of the buffer looking forward, based on the observed changes in the risk in the stock of targeted exposures, while also considering the impact of the existing borrower-based measure on the credit quality of the new mortgage credit.
4. Reasons for the notified SyRB	

4.1 Description of the macroprudential or systemic risk in your Member State **(Article 133(9)(a) of the CRD)**	Where applicable, please classify the risks targeted by the notified SyRB under the following categories: (i) risks stemming from the structural characteristics of the banking sector - Size and concentration of banks - Ownership structure - Other structural risks (ii) risks stemming from the propagation and amplification of shocks within the financial system - Exposure concentration/asset commonality - Commonality in bank business models - Financial interconnections and contagion (iii) risks to the banking system stemming from either the real economy or specific sectors - Economic openness - Sectoral risks from the private non-financial sector, households and the public sector (iv) Other risks Please specify: - Whether these risks are widespread across the whole financial sector? - Or whether they are concentrated only in one or more subsets of the sector? The Banco de Portugal has been closely monitoring developments in the Portuguese real estate market and the quality of banks' loan portfolios. This monitoring indicates that, in the event of a strongly adverse scenario, banks may suffer significant credit losses on their mortgage portfolios (see section 4.4. below). The aim of the measure is to enhance the resilience of the banking sector to absorb potential losses. The risk assessment mainly covers the persistence of the following: (i) Risks to financial stability remained high as the cycle of rising interest rates continued, and the transmission of the monetary policy normalization to the economy takes time, but the high prevalence of floating rates in housing loans granted in Portugal is particularly relevant; (ii) Lower risk weights applied by IRB banks in comparison to SA banks against exposures to mortgage lending to Portuguese households; (iii) downside risks in housing prices. (i) Rising interest rates In the event of an economic downturn and persistently high inflation, coupled with additional increases in market interest rates, households' financial situation may worsen, especially those already more vulnerable, thereby increasing their default risk. However, some factors mitigate this, such as: (i) a reduction in the household indebtedness ratio, in particular for lower-income households, to a level below the euro area average; (ii) a concentration of credit for house purchase in higher-income households; (iii) an improvement in the risk profile of new borrowers as a result of the macroprudential Recommendation; (iv) labour market shortages, which will tend to limit the increase in unemployment in the event of a sharper slowdown in economic activity; (v) an accumulation of deposits during the pandemic period, partly explained by credit moratoria as well as by

	precautionary reasons; and (vi) the adoption of government measures to support households (ii) Lower risk weights applied by IRB banks against exposures to mortgage lending to Portuguese households in comparison to SA banks For IRB banks, the average risk-weight of RRE exposures stands at 18.5% in 2023Q2, which compares to around 35% under the standard approach. The level of risk-weights for IRB banks appears to reflect the low rates of default in the RRE segment in the most recent period. However, given the current level of (medium-term) vulnerabilities, a downturn in the Portuguese RRE market cannot be excluded. The share of IRB banks in the Portuguese banking system total lending for house purchase stood at 61% in 2023 Q2. (iii) Downside risks in housing prices A capital-based measure, such as a sectoral SyRB, would complement the existing BBMs by enhancing resilience against accumulated vulnerabilities in the mortgage stock in a potential downturn of the economic cycle or unexpected significant correction of RRE prices.
4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State **(Article 133(9)(b) CRD)**	Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate. See 4.1.
4.3 Indicators used for activation of the measure	Provide the indicators triggering activation of the measured. When notifying the ECB, please provide the data on which the decision is based, if possible (preferably in an Excel file). The main indicators are: • House prices • Average PD, LGD and risk weights under the IRB approach of RRE exposures in Portugal • Expected RRE losses under an adverse macroeconomic scenario
4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms? A capital-based measure, such as a sectoral SyRB, would complement the existing BBMs by enhancing resilience against accumulated vulnerabilities in the mortgage loans stock in a potential downturn of the economic cycle or unexpected significant correction of RRE prices. The Banco de Portugal is closely monitoring the observed systemic risks in mortgage portfolios and RRE markets and signs of their potential materialisation. The Banco de Portugal will consider the release of the measure if the conditions for a suitable release are met. The exact release modalities will be based on specific market developments. Calibration

	The sectoral SyRB rate is calibrated to cover unexpected losses in banks' RRE portfolio under a strongly adverse scenario. It is assumed that in the adverse scenario banks do not operate temporarily below the level of the capital conservation buffer. It is also expected that banks would not use the O-SII buffer to absorb losses incurred in a macro event. The total impact of the proposed measure (4% sectoral SyRB) on IRB banks' CET1 capital is estimated at € 402 million. <u>Procyclicality</u> In the current environment, excessive increases in capital buffers could lead to procyclicality (amplifying banks' deleveraging beyond what would occur solely due to changes in the financial cycle). Procyclicality is a relevant concern, but quantitative impact is likely limited in practice given the level of banks' capital headroom and improving profitability. Considering that uncertainty about the economic outlook, mostly associated with inflation and interest rate developments, is still high, the current juncture represents a window of opportunity to build up capital buffers. The current level of banks' capital headroom seems to be sufficient to meet the proposed sectoral SyRB requirements. MREL requirements were also taken into account. This suggests that the level of management buffers should not be a binding constraint when considering strengthening bank resilience through higher macroprudential capital buffers.
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD **(Article 133(9)(f) CRD)**	Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD. The intended buffer focuses on IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal, whereas the O-SII buffer intends to mitigate the build-up of systemic risk arising from misaligned incentives and moral hazard.
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member States. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. See title "Calibration" under section 4.4. above. This measure is assessed to be sufficient. The implementation of the intended macroprudential buffer allows to absorb direct credit losses projected under an adverse macroeconomic scenario. No unintended impact on the general economy is expected as IRB banks have sufficient management buffers to comply with the sectoral SyRB requirement.

5.2 Consistency of application of the policy response	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives as outlined in ESRB/2013/1[3] and must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. The intended macroprudential measure strengthens the resilience of IRB banks, in line with the intermediate objectives set out in ESRB Recommendation 2013/1
5.3 Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. The intended instrument is not assessed to be overlapping with other tools. The measure focuses on credit losses that could occur in IRB banks' mortgage loan portfolios in Portugal.
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2[4])**	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[5] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure.

[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).
[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).
[5] Available on the ESRB's website at www.esrb.europa.eu.

	The measure applies only to the Portugal residential market thus there is no indication that the measure will result in any significant impact on individuals or companies outside Portugal. In addition, in view of the degree of openness of the economy, safeguarding financial stability in Portugal will also have positive effects on financial stability in Europe. The Banco de Portugal does not expect a negative impact on the Internal Market that would outweigh the financial stability benefits of implementing a sectoral SyRB requirement due to the systemic risk identified.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e., circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? The impact on other sectors of the financial system will continue to be closely monitored. It is not expected that the sectoral SyRB will lead to a substantial leakage to the non-bank sector, in particular having in mind the relevance of this sector in Portugal.
6.3 Request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD? Yes - If yes, please provide in Section 6.4. the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation?
6.4 Justification for the request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	To request reciprocation, please provide the following: - a concise description of the measure to be reciprocated; - the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness; - the proposed materiality threshold and justification for that level. If the ESRB deems the request for reciprocation to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of Recommendation ESRB/2015/2. In view of the systemic nature of the identified risks, the Banco de Portugal asks the ESRB to recommend that other Member States recognise the measure. Ideally, the measure should be reciprocated using the exact same scope as the Banco de Portugal's measure, i.e., IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal. Alternatively, the measure can be reciprocated using the following scope in COREP reporting: IRB retail exposures secured by

	residential immovable property vis-à-vis individuals located in Portugal (both non-defaulted and defaulted). In order to avoid disproportionate implementation costs for reciprocating Member States, the Banco de Portugal, suggests setting an institution-level maximum materiality threshold of € 1 billion (approximately 1% of the stock of credit for house purchase in Portugal) to be applied when reciprocating the measure.
7. Combination of the SyRB with other buffers	
7.1 Combination with G-SII and/or O-SII buffers **(Article 131(15) CRD)**	Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%? Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission).

Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates
Banco Comercial Português, SA	1.00%	Highest consolidation level	5.00%
Caixa Geral de Depósitos, SA	1.00%	Highest consolidation level	1.00%
LSF Nani Investments S.à.r.l.	0.50%	Highest consolidation level	4.50%
Santander Totta, SGPS, SA	0.50%	Highest consolidation level	4.50%
Banco BPI, SA	0.50%	Highest consolidation level	4.50%
Caixa Económica Montepio Geral, Caixa Económica Bancária, SA	0.25%	Highest consolidation level	0.25%
Caixa Central – Caixa de Crédito Agrícola Mútulo CRL	0.25%	Highest consolidation level	0.25%

7.2 Combination with other systemic risk buffers **(Article 133(11) and (12) CRD)**	Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below: - above 3% and up to 5% - above 5% Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%. All institutions identified under 2.1. above have a combined systemic risk buffer above 3% and up to 5%, including two subsidiaries (also identified under section 2.1. above).
8. Miscellaneous	
8.1 Contact person(s)/mailbox at notifying authority	Ana Cristina Leal Head of Financial Stability Department Rua Castilho, 24 - 2º, 1250-069 Lisboa, Portugal Tel. +351 211 597 083

	aleal@bportugal.pt or Fátima Silva Head of Macroprudential Policy Division Rua Castilho, 24 - 2º, 1250-069 Lisboa, Portugal Tel. +351 211 597 024 mfsilva@bportugal.pt
8.2 Any other relevant information	
8.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. Click or tap to enter a date.