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**RESPONSE BY DANMARKS NATIONALBANK TO THE EUROPEAN COMMISSION'S PUBLIC CONSULTATION ON THE REVIEW OF THE EU MACRO-PRUDENTIAL FRAMEWORK**

12 October 2016

Danmarks Nationalbank welcomes the opportunity to comment on the European Commission's consultation ahead of the review of the EU macro-prudential policy framework.

The main points of the review are the scope of the ESRB's remit, the set of macro-prudential instruments and the institutional settings of the ESRB. As the central bank of a non-SSM country, we feel that there are some points that should be emphasised.

1) Danmarks Nationalbank supports the ESRB's view that the diversity of its General Board and substructures is one of its strengths. In particular, we believe that central banks have a key role to play in macro-prudential policy and, as such, should be central to the ESRB General Board. Traditionally central banks have had, and continue to have, a leading role in financial stability policy and so have important contributions to make to the macro-prudential policy stance. Furthermore, the macro-prudential decision-making process benefits from being independent of the political process. As one of the major politically-independent financial authorities in member countries, central banks should play a vital part of the process.

2) The ESRB's General Board should include all EU member states. The ESRB is concerned with macro-prudential policy. The legislation with regard to macro-prudential instruments covers the entire EU and is concerned with the functioning of the whole internal market. Furthermore, one of the advantages of the ESRB is its ability to bring together diverse authorities at the national and EU level to inform its decisions and analyt-

ical contributions. Therefore, the decisions and analysis of the ESRB should be made by all of the EU countries.

3) The caps on buffers should be lifted and prudential tools should be simplified. For example, the 2 per cent cap on the O-SII buffer is not appropriate in the Danish context and should be lifted. Reducing administrative hurdles and removing the 'pecking order' of instruments would help reduce the bias towards inaction that is inherent in the current complex framework.

Buffers should be set according to what is best for macro-prudential policy. The presence of caps on buffers tends to militate against this, as authorities might, for example, choose other, less appropriate, instruments or impose the buffer with the least restrictive cap. Thereby, a suboptimal policy response is produced.

4) Reciprocity should be simplified and made the default option. In general, simplification of procedures is to be recommended, as long as the effectiveness of policy can be maintained. If reciprocity were to become the default setting unless exceptional circumstances could be demonstrated, the decision-making process would be streamlined and full cooperation among member states would be ensured. Thereby the policy would become more effective.

Yours sincerely



Lars Rohde,  
Governor and Chairman of the  
Board of Governors