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The Systemic Risk Council
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PRESS RELEASE

REVISED METHOD FOR THE COUNTERCYCLICAL CAPITAL BUFFER

The Systemic Risk Council has revised its method to assess the countercyclical capital buffer rate in order to increase the probability of timely build-up of the buffer. The Council finds it important that the buffer is built up before the financial system is hit by a negative shock. In the event of a negative financial shock the buffer can be fully or partially released in order to mitigate any excessive tightening of credit standards.

Revised method based on early phasing-in of the buffer

The revised method aims at early phasing-in of the buffer to increase the probability that the buffer is built up before risks materialise. As such, the revised method incorporates a broader set of key indicators designed to detect the build-up of risks at an earlier stage. The previous method entailed a greater risk that the buffer would not be built up before a negative shock to the financial system occurred.

The Council assesses that the buffer should be phased in early and gradually in times of optimism. Increasing the buffer earlier makes it easier for credit institutions to adapt to the new, higher capital requirements by retaining profits. Therefore, the costs of increasing the buffer early on in the financial cycle are relatively low compared with the costs, for society as well as the individual institution, of not having sufficient capital in crisis periods.

Every quarter, the Systemic Risk Council assesses the appropriate level of the countercyclical capital buffer rate. If the Council finds that the rate should be changed, it will publish a recommendation addressed to the Minister for Industry, Business and Financial Affairs. The Council published its first method paper on which the assessment is based in December 2014. It states that the Council will evaluate the method on an ongoing basis and update it if necessary. An English version of the revised method paper will be published soon.

What is the countercyclical capital buffer?

The countercyclical capital buffer was introduced in international regulation after the financial crisis as part of a larger set of reforms aiming to make the financial sector more robust. The buffer is an instrument aimed at increasing the resilience of credit institutions through higher capital requirements.

The buffer must be built up as systemic risk increases to ensure that it is built up before the financial system is exposed to stress. In the event of

systemic stress the buffer will be released. The buffer thus reduces the risk that insufficient capital makes the institutions constrain their supply of credit to such an extent that it has a negative impact on the real economy.

Setting the buffer rate

The Systemic Risk Council assesses the level of the buffer rate based on the method every quarter. If the Council finds that the rate should be changed, it will publish a recommendation addressed to the Minister for Industry, Business and Financial Affairs. The Minister is responsible for setting the buffer rate in Denmark. As a main rule, an increase in the buffer rate will enter into force 12 months after the Minister for Industry, Business and Financial Affairs has decided to change the buffer rate.

At its meeting in [September 2017](#), the Council noted that risks in the financial system are building up. The Council's discussion of the countercyclical buffer rate at its meeting on 18 December 2017 will take the revised method as its point of departure.

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