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Position of the Austrian Federal Ministry of Finance, Financial Market Authority and Oesterreichische Nationalbank to the

Basel Committee on Banking Supervision
Consultation Paper

"Countercyclical capital buffer proposal"

Austria supports efforts to mitigate cyclicality in the current regulatory regime to strengthen Financial Markets. Countercyclical capital buffers help to mitigate cyclicality and will provide supervisors with a standardised tool to enforce the build up of capital reserves and to curb excessive credit growth.

The concept of the BCBS proposed in the consultation paper presents a reliable and consistent concept. The building block approach introduces certain flexibility within the concept of capital buffers. Nevertheless, the results of the Quantitative Impact Study have to be taken into account when published.

The build-up of capital caused by capital buffers will enable banks to better resist future crisis in financial markets. This notwithstanding, situations might arise in which institutions are required to raise additional funds in a period of distress. The design of the proposed buffer should therefore set an incentive to build up capital in "good" times while preserving the institution's access to fresh capital on the capital markets in periods of distress.

However, the impacts of constraints on distributions on the ability to raise capital in periods of extreme stress in the financial markets should be carefully considered. In line with the Austrian comments regarding the BCBS's document "Strengthening the resilience of the Banking Sector" of April 2010 we call upon the BCBS to evaluate the calibration, i.e. the magnitude of the buffer, and the definition of capital required towards the countercyclical capital buffer in the light of these concerns. Currently, we view the constraints on distributions as being too severe.

Prospective capital buffer add-on decisions have to be reviewed on a quarterly or more frequent basis and published 12 months in advance. This period of time seems to be appropriate to allow banks to adjust their capital plans. But in exceptional cases (e.g. emergency situations) it might be necessary for competent authorities to impose capital add-ons with shorter prior announcement.

The BCBS points out that there was found significant evidence that the credit-GDP-gap-ratio functions well in many legislative systems but that there are other systems where this evidence cannot be established (e.g. emerging markets). In these cases other valid ratios should be developed in line with the principles proposed in Section 2 of the consultation paper. Particularly within the European Union a consistent approach is necessary, which could be achieved by involving the ESRB in this context. Furthermore, Austria welcomes the efforts undertaken in the consultation paper to treat all all banks' exposures located in a particular country equally so as to preserve a level playing field.

With a view to the level of application, in case of banking groups we agree that the buffers should be held on consolidated level. We also understand that in general host authorities would like to reserve the right to require the buffer to be held on level of the local entities (solo/sub-consolidated level) as well. However, within the European Union there could, for instance, be a role for the colleges to jointly decide on the level of application, taking into account the specific situation of the banking group.

Due to the cumulative effects of Basel III Austria proposes that the reference of the countercyclical capital buffer should be tier 1-capital and not core-tier 1-capital.