



**Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements**

The Ministry's response to the consultative document on countercyclical capital buffers

The Ministry of Finance Finland welcomes the Committee's proposal for countercyclical capital buffers. The need for countercyclical capital buffers is imminent and the Committee's preliminary proposal sets a good ground for further design and calibration. Specifically, we support the idea of a buffer set above the minimum that does not constrain the operation of a bank, but constrains the distribution of profits.

There are, however many challenges when considering the exact design and calibration of the buffers. The structural model for calculating the trend and deviations from it (HP-filter) seems appropriate with respect to the provided simulations and that seems a good way forward.

The main challenges are:

- How to ensure a level playing field, with regarding to home-host issues
- How to ensure that the buffers are comparable and do not distort the markets asymmetrically
- As the definition and level of capital is not yet decided, how to calibrate accordingly
- How to set appropriate levels for the conservation buffers and countercyclical buffer
- What is the possible interplay with the transmission of monetary policy

Furthermore, we find that the buffer could have effects on the price of new capital as the restrictions necessarily impose additional risks to investors.

Also, the possible lags should be taken into account. There could be times when there is a building of financial stress in the markets and the buffer does not require additional capital. Therefore the competent authorities should have a clear mandate to respond swiftly. As the consultation states, the buffer is neither a standardized Pillar 1 –requirement, or a Pillar 2 measure. This clearly stresses the role of the supervisors.

Finally, we encourage the Committee to re-simulate the model based on the assumptions that such buffers are already enforced.

