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D E C I S I O N

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(Obligatory in replies)

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Recognition of the Finnish risk weight floor for mortgage exposures

Decision by Finansinspektionen

1. Finansinspektionen has passed a decision to recognise the Finnish supervisory authority's decision to implement an average, institute-specific risk weight floor of 15 per cent for Finnish mortgage exposures. This decision shall apply to Finnish mortgage exposures in the Finnish branches of Swedish credit institutions with authorisation to use a method based on an internal risk classification (the Internal Ratings Based (IRB) approach). Finansinspektionen will apply a threshold of EUR 1 billion as stated by the Finnish supervisory authority.

2. The decision in point 1 shall apply as of 1 January 2018 for two years.

(Article 458(5) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms)

Applicable provisions

According to Article 458(2)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation), the authority determined in accordance with paragraph 1 (Article 458), if it identifies changes in the intensity of macroprudential or systemic risk in the financial system with the potential to have serious negative consequences to the financial system and the real economy in a specific Member State and which it considers would better be addressed by means of stricter national measures, shall notify the European Parliament, the Council, the Commission, the ESRB and EBA of that fact and submit relevant quantitative or qualitative evidence of draft national measures for domestically authorised institutions, or a subset of those institutions, intended to mitigate the changes in the intensity of risk concerning risk weights for targeting asset bubbles in the residential and commercial property sector.

Article 458(5) of the Capital Requirements Regulation stipulates that other Member States may recognise the measures set in accordance with this Article and apply them to domestically authorised branches located in the Member State authorised to apply the measures.

According to Article 458(7) of the Capital Requirements Regulation, when deciding whether to recognise the measures set in accordance with this Article, the Member State shall take into consideration the criteria set in paragraph 4. The Member State shall consider whether:

a) the changes in the intensity of macroprudential or systemic risk are of such a nature as to pose risk to financial stability at national level;

b) Articles 124 and 164 of the Capital Requirements Regulation and Articles 101, 103, 104, 105, 133, and 136 of Directive 2013/36/EU cannot adequately address the macroprudential or systemic risk identified, taking into account the relative effectiveness of those measures;

c) the draft national measures are more suitable to address the identified macroprudential or systemic risk and do not entail disproportionate adverse effects on the whole or parts of the financial system in other Member States or in the Union as a whole, thus forming or creating an obstacle to the functioning of the internal market;

d) the issue concerns only one Member State;

e) the risks have not already been addressed by other measures in the Capital Requirements Regulation or Directive 2013/36/EU.

Background

The Finnish supervisory authority decided on 26 June 2017[1] pursuant to Article 458(2)(d) of the Capital Requirements Regulation to introduce a risk weight floor of 15 per cent for residential mortgage loans applicable to credit institutions that have authorisation to use a method based on internal risk-classification (the IRB approach). The Finnish measure targets residential mortgages where the collateral (the property) is located in Finland. According to a supervision release[2] published by the Finnish supervisory authority on its website on 8 December 2017, and which shall be viewed as clarification of the decision, the risk weight floor of 15 per cent applies to each credit institution.

[1] http://www.finanssivalvonta.fi/se/Tillsyn/makrotillsyn/beslutsfattande/Documents/2017_02/Beslut_om_makrotillsynsverktyg_260617.pdf

[2] http://www.finanssivalvonta.fi/se/Publicerat/tillsynsmeddelanden/Pages/68_2017.aspx

The measure will enter into force as of 1 January 2018 and be valid for two years, unless it is extended. The measure can be extended one year at a time.

According to the Finnish supervisory authority, the average risk weights of mortgage loans based on IRB models are relatively low in Finland, and the level of the risk weights varies significantly between credit institutions. The risk weights are low both from a risk perspective and in comparison with the risk weights in other relevant EU countries. The low interest rate level in combination with the low risk weights could mean that house prices will rise in the future to a level that does not correspond to the economic situation either in general or locally.

According to the Finnish supervisory authority, the measure aims to target potential asset bubbles in the real estate sector and mitigate changes in the intensity of system risk (see the Commission Decision dated 21 August 2017). The Finnish supervisory authority has expressed its wish that other Member States recognize the measure for branches and cross-border exposures.

The competent authority of each country sets the macroprudential measure that is to apply for that country. The European Council can, however, following a suggestion from the European Commission, decide to adopt an implementing act to reject the proposed national measures.

EBA and ESRB have published an opinion regarding the Finnish measures.[3] With consideration for these opinions, the European Commission has decided not to propose an implementing act to reject the measure proposed by the Finnish supervisory authority.[4]

Finansinspektionen's assessment

Other Member States may recognise the measures set in accordance with Article 458 of the Capital Requirements Regulation and apply them to domestically authorised branches located in the Member State authorised to apply the measures. When the Member State decides whether to recognise the measures set in accordance with the Article, it shall take into consideration the criteria set in paragraph 4.

With consideration for the criteria set out in Article 458(4) of the Capital Requirements Regulation, and since the European Commission has not

[3] See Opinion of the European Banking Authority on measures in accordance with Article 458 Regulation (EU) No 575/2013 and Opinion of the European Systemic Risk Board of 19 July 2017 regarding Finnish notification of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (ESRB/2017/3).

[4] See Commission decision of 21.8.2017 not to propose an implementing act to reject the proposed national measure notified on 27 June 2017 by Finland under Article 458(4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

opposed the implementation of the Finnish measure, Finansinspektionen makes the assessment that the Finnish measure shall be recognised and thus applied to exposures to Finnish mortgages in Swedish credit institution's branches in Finland. Finansinspektionen makes the assessment that the current wording of Article 458(5) does not allow for the decision to also include cross-border operations. However, Finansinspektionen makes the assessment that the Swedish credit institutions' Finnish mortgage exposures in all material respects are located in affected branches. According to the general principles set out in the Capital Requirements Regulation, the capital requirements apply at both the institution level and the group level. This means that the now current measure may be considered within group-based supervision.

Finansinspektionen will apply a materiality threshold of EUR 1 billion as stated by the Finnish supervisory authority. Since the Finnish measure applies to credit institutions with authorisation to use a method that is based on internal risk classification (the IRB approach), Finansinspektionen makes the assessment that the measure shall be applied only to the Swedish credit institutions that have received such authorisation.

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