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EUROPEAN
COMMISSION

Brussels, 12.11.2020
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COMMISSION DECISION

of 12.11.2020

not to propose an implementing act to reject the planned extension of the period of application of the national measure notified on 16 September 2020 by Sweden under Article 458(9) in conjunction with Article 458(4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012[1], and in particular Article 458(9) thereof,

Having regard to the opinion of the European Systemic Risk Board ('ESRB')[2] and the European Banking Authority ('EBA')[3],

Whereas:

(1) On 16 September 2020, *Finansinspektionen*, the Swedish Financial Supervisory Authority ("FSA"), in its capacity as the designated authority in charge of the application of Article 458 of Regulation (EU) No 575/2013, notified the Commission of its intention to extend for one year the period of application of a national measure concerning risk weights for targeting asset bubbles in the residential immovable property sector as referred to in Article 458(2)(d)(vi) of Regulation (EU) No 575/2013 (the national measure). The national measure became applicable on 31 December 2018 and is due to cease to apply on 30 December 2020. With the extension, the national measure would continue to apply until 30 December 2021.

(2) The national measure was notified to the Commission on 24 May 2018, which adopted on 17 July 2018 a decision not to propose to the Council an implementing act rejecting it[4].

(3) The national measure addresses a macroprudential risk originating from the domestic market for residential mortgage loans and consists of an average risk weight floor of 25% on the Swedish mortgage exposures portfolios of credit institutions that use the internal ratings based (IRB) approach. According to the FSA, the extension of the

1 OJ L 176, 27.6.2013, p.1.

2 Opinion of the European Systemic Risk Board of 14 October 2020 regarding Swedish notification of an extension of the period of application 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/2020/13).

3 Opinion of the European Banking Authority of 16 October 2020 on measures in accordance with Article 458 Regulation (EU) No 575/2013 (EBA/Op/2020/16).

4 Commission decision of 17 July 2018 not to propose an implementing act to reject the draft national measure notified on 24 May 2018 by Sweden under Article 458(4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (C (2018) 4176 final).

period of application of the national measure is necessary in view of prevailing vulnerabilities in the Swedish residential real estate sector.

(4) In accordance with the second subparagraph of Article 458(4) of Regulation (EU) No 575/2013, the ESRB adopted its opinion on the planned extension of the period of application of the national measure ("ESRB opinion") on 14 October 2020, and the EBA adopted its opinion on 16 October 2020 ("EBA opinion"). The ESRB and EBA do not object to the planned extension of the period of application of the national measure.

(5) The FSA put forward that the COVID-19 pandemic has not yet given rise to significant credit risk losses in Sweden and that other stress indicators for the Swedish housing market also remained stable. Nevertheless, the FSA is of the view that, in light of the uncertainty as regards the current COVID-19 pandemic and its potential to trigger a financial crisis, the need to shore-up banks' balance sheets persists. Given that the national measure amounts to 22% of the overall capital requirement for the largest Swedish banks as at 2020 Q2, that measure accounts for a significant proportion of banks' cushion to absorb possible unexpected losses.

(6) The identified systemic risks in the financial system persist and the indebtedness of Swedish households (mainly consisting of mortgage loans) has further increased since 2018. The FSA therefore considers that an extension of the national measure is required. The FSA is of the opinion that, in light of the overvaluation of the house prices, there is a continued high risk for a substantial price correction in the Swedish housing market. Real estate valuation methods used by the European Central Bank[5] and also referred to in the ESRB opinion suggest that residential real estate prices in Sweden are overvalued by around 30% to 50%. The Commission recognises that valuation methodologies are always subject to uncertainty and that the resulting point estimates (and confidence intervals around those point estimates) notably depend on the characteristics of the models and indicators used. The Commission's own assessment of the valuation of the Swedish residential real estate sector, however, also points to an overvaluation of about 30%.[6] In this context, the Commission's Alert Mechanism Report 2020[7] notes that "*in Sweden overvalued house prices co-exist with a continued rise in household debt*", which is triggered by a favourable tax treatment of home ownership, low mortgage interest rates, specific features of the mortgage market and supply side restrictions.

(7) The FSA observes that the household debt-to-GDP ratio has continued to rise since the introduction of the national measure (from 80,5% in 2018 Q1 to 82,5% in 2020 Q1). The FSA equally observes a faster increase in household debt compared to household disposable income and GDP dynamics over a prolonged period. Household debt has increased on average by 8,0% in annual terms between 1997 and 2019, whereas average disposable income increased by 4,3% during that period. Simultaneously, the FSA is concerned about the future evolution of the debt-to-income (DTI) ratio of Swedish households that has been rising for several years and is expected to increase, even in the absence of a further increase in house prices. After the introduction of stricter amortisation requirements targeting high DTIs, household aggregate debt still

[5] See Box 3 of the ECB Financial Stability Review, November 2015, for details on the methodology of the model-based approaches.

[6] Country Report Sweden 2020, Commission Staff Working Document, SWD (2020) 526 final.

[7] Alert Mechanism Report 2020, COM(2019) 651 final.

accounted for more than 186% of disposable income as of end-March 2020 (compared to 90% in 1997). Moreover, the FSA argues that Swedish households could be sensitive to sudden interest rate shocks, given the combination of high DTIs and the large share of mortgages with floating interest rates (roughly 60% as of March 2020). The FSA notes that household debt growth in Sweden is mainly driven by mortgage lending and that both household credit and mortgage loan growth rates have remained high as of end-March 2020 (at 5,4% and 5,3%, respectively, year-on-year). The FSA observes that Swedish banks are increasingly exposed to the residential property sector, with IRB credit institutions representing 95% of the total mortgage market. According to the FSA, mortgages account for 82% of monetary financial institutions' total lending to households and 70% of the Swedish GDP. Moreover, the three major Swedish banks (SEB, Svenska Handelsbanken, Swedbank) are particularly sensitive to negative developments in the housing market, with mortgage loans to households representing roughly 50% of their total lending. In addition, the FSA notes the high indebtedness of Swedish households in relation to the value of their home: 65% of outstanding mortgages volumes have loan-to-value (LTV) ratios higher than 50% as of March 2020.

(8) The FSA argues that in the event of a severe downturn in the economy or turbulence in the financial system, the residential real estate market could be negatively affected, and this could have negative repercussions for the real economy and the stability of the banking system. The FSA considers that the low level of microprudential risk weights that are being applied by credit institutions using the IRB approach for their residential real estate exposures (on average 4,5%, volume-weighted) still represents a source of concern from a macroprudential perspective.

(9) The medium-term financial stability risk emanating from the Swedish residential real estate sector was also highlighted in the ESRB Warning of 22 September 2016[8] and, more recently, in the ESRB Recommendation of 27 June 2019 ("ESRB Recommendation").[9] In recital 10 of its recommendation, the ESRB observes that "*house prices remain overvalued and household indebtedness has increased significantly since 2016*". These vulnerabilities can be a source of systemic risk, according to the ESRB. An accompanying ESRB report also refers to the high and rising household indebtedness, significant house price overvaluation, high mortgage credit growth and a high proportion of non-amortising mortgages, as well as interconnectedness with the Nordic banking system as key vulnerabilities in the Swedish housing market.[10] The EBA opinion also *"acknowledges the sustained high level of systemic risk related to the housing market and the persistence of macroprudential vulnerabilities in the Swedish financial system".*

(10) After carefully considering the evidence provided by the FSA, the opinions of the ESRB and EBA as well as the ESRB Recommendation, the Commission agrees that the intensity of macroprudential risk related to the housing market in Sweden remains elevated and could pose a threat to the financial system in Sweden and its national economy. The Commission recalls that recent national experiences, both in the Union and outside the Union, have illustrated that residential real estate risks can result in

8 ESRB Warning 2016/11 on medium-term vulnerabilities in the residential real estate sector of Sweden, (OJ C 31, 31.1.2017, p. 55).

9 ESRB Recommendation 2019/09 on medium-term vulnerabilities in the residential real estate sector in Sweden (OJ C 366, 30.10.2019, p. 35).

10 ESRB, *Vulnerabilities in the residential real estate sectors of the EEA countries,* September 2019.

significant costs to the real economy and cause adverse spill-over effects to other countries, when left unaddressed. The Commission also recalls that macroprudential measures should not only be assessed against the intensification of systemic risks, which may depend on multiple interlinked factors, but also against the need for enhanced resilience to an existing risk. The national measure aims to cushion the adverse impact in the event of the systemic risk materialising. The intensity of that systemic risk is still such that it justifies the extension of the national measure for one year.

(11) The average risk weight floor under the national measure was calibrated so as to cover against the fall-out from a severe scenario with high financial stress, taking into account the broader systemic risks that could arise from spill-overs. The FSA considers that a risk weight floor of 25% remains adequate as the underlying risks have not materially changed since the introduction of the national measure. The FSA argues that credit institutions' IRB models are unlikely to fully capture the credit loss risk of Swedish mortgages from a severe downturn scenario, as these models reflect negligible credit losses that prevailed in the mortgage portfolio for a long period of time, which could lead to severe spill-over effects for the Swedish and regional economies. For the largest nine IRB credit institutions the risk weights resulting from IRB models range from 3,1% to 13,6%. The measure increases IRB credit institutions' implied risk weights on Swedish mortgage exposures from 4,5% on average (volume-weighted) to 25%. The FSA notes that the risk weight floor for Swedish mortgages constitutes an important element of IRB credit institutions' capital requirements. According to the FSA, the capital requirement corresponding to a 25% risk weight floor for Swedish mortgages amounts to SEK 94 billion at the consolidated level at 2020 Q2 or approximately 22% of the total capital requirements for the largest Swedish banks.

(12) Apart from the risk weight floor on residential mortgage loans, Sweden has, in recent years, implemented a broad range of measures to mitigate systemic risk. A set of supply-side measures[11] have been complemented by borrower-based measures with the aim of increasing the resilience of households (i.e. a LTV ratio limit of 85%, amortisation requirements linked to LTV (with households being required to amortise 2% of the mortgage where LTV>70% and 1% where LTV>50%) and loan-to-income (LTI) limits (i.e. households being required to amortise an additional 1% of the mortgage where LTI>450%)), and affordability tests (of a microprudential nature, introduced through the Consumer Credit Law). According to the FSA, these measures were necessary and appropriate to strengthen the resilience of households and possibly curb household indebtedness, but household credit growth remained high.[12]

(13) The Commission has considered the suitability, effectiveness and proportionality of the intended extension of the period of application of the national measure in

[11] The set mainly consists of capital-based measures aiming to ensure banks' resilience in case the residential real estate vulnerabilities materialise (e.g. the current risk weight floor, which has been implemented in one form or another since 2013, or the countercyclical capital buffer, which has been fully released in March 2020).

[12] In April 2020, the FSA clarified that borrowers can apply for a time-limited exemption from the amortisation requirements due to the COVID-19 pandemic (both for new and existing mortgages) until 31 August 2021. Those exemptions have been laid down in 2016 in Section 11 of the Finansinspektionen's regulations (FFFS 2016:16) regarding amortisation of loans collateralised by residential property and further guidelines on the exemption from amortisation requirements on special grounds have been published on 14 April 2020.

accordance with Article 458(2)(e) of Regulation (EU) No 575/2013. The Commission considers that the national measure remains suitable and effective as it strengthens credit institutions' resilience vis-à-vis financial-stability risks created by an overvalued market in a context of high household indebtedness and large mortgage exposures on credit institutions' balance sheets. Those elements, together with the relatively low internal model-based risk weights for residential real estate exposures from a macroprudential perspective, justify the extension of the period of application of the national measure.

(14) The Commission also considers that the national measure remains proportionate, in so far as its design does not go beyond what is necessary to address the identified systemic risk. The national measure only applies to credit institutions that use the IRB approach. Credit institutions that use the standardised approach for Swedish residential real estate are subject to higher risk weights and are exempted from the national measure. The Commission notes that, as pointed out in the opinions of the EBA and the ESRB, the risk weight floor applies to all retail exposures secured by real estate. That includes loans to enterprises secured by commercial real estate, which represent 1,4% of exposures secured by real estate property and for which IRB risk-weights amount to 34% on average. The Commission accepts that applying the national measure also to enterprise exposures secured by real estate is necessary to achieve the objective of strengthening the resilience of banks against disturbances on real estate markets. In line with the opinion of the EBA, however, the Commission invites the FSA to monitor the impact of the national measure on lending to SMEs and to reassess the measure in case of unintended consequences. It will be important to ensure that the national measure does not go against the objectives of Regulation (EU) 2020/873 of the European Parliament and of the Council.[13]

(15) The Commission, however, encourages Sweden to explore complementing measures to address overvalued house price levels and the continued rise in household debt, which pose risks of a disorderly correction. The Commission notes that in 2019 the ESRB has assessed the mix of policy measures to be appropriate, but not fully sufficient to mitigate existing systemic risk related to the Swedish housing market. In light of those persistent vulnerabilities, the ESRB issued a recommendation to Sweden in September 2019 suggesting *"a) broader policy action aiming to curb factors which facilitate or promote increasing household indebtedness; and b) the tightening of the existing, or the activation of other, macroprudential measures if the vulnerabilities related to household indebtedness and overvaluation of house prices continue to increase due to cyclical economic and financial reasons"*. The Commission concurs with the ESRB assessment. Although the Commission acknowledges that Sweden in recent years has implemented several measures to address the aforementioned imbalances, key policy gaps remain, as set out in the 2020 country report for Sweden, particularly in relation to tax incentives for debt-financed home ownership, housing supply and, in particular, the rental market.

(16) The Commission has also assessed the justifications provided by the FSA as regards the adequacy and relative effectiveness of alternative instruments listed in Article 458(2)(c) of Regulation (EU) No 575/2013, namely Articles 124 and 164 of that

[13] Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (OJ L 204, 26.6.2020, p. 4).

Regulation and Articles 101, 103, 104, 105, 133, and 136 of Directive 2013/36/EU of the European Parliament and of the Council[14].

(17) The application of Article 124 of Regulation (EU) No 575/2013, which allows competent authorities to set higher values for risk weights of real estate exposures under the standardised approach for calculating capital requirements, would not adequately address the systemic risk identified, since credit institutions using the IRB approach dominate the market for residential mortgage loans, with a market share of about 95%. Furthermore, the current minimum risk weight of 35% for residential real estate exposures under the standardised approach is considered to be sufficient by the FSA. The Commission agrees with that assessment of the FSA.

(18) The FSA considers Article 164 of Regulation (EU) No 575/2013, under which competent authorities may, where appropriate on the basis of financial stability considerations, set higher minimum values of exposure weighted average loss given default (LGD) for exposures secured by immovable property in their territory, as inadequate to address the macroprudential or systemic risk identified for a number of reasons. First, credit risk models for residential mortgage loans in Sweden often generate low risk weights due to very low historical credit losses and the FSA considers that such low risk weights do not fully capture the potential credit losses of residential mortgage loans in Sweden in a severe downturn scenario. Second, the differences in risk weight estimations could partly reflect differences in banks' levels of prudence expressed in the probabilities of default (PD) used in the models and not necessarily differences in the risk profile of the underlying portfolio. However, as the low credit loss history affects both the estimation of PDs and LGDs in the IRB approach, increasing the LGD floor for residential mortgage loans would widen the existing differences in risk weights between credit institutions that use the IRB approach and might result in a disproportionate increase in risk weights for some credit institutions. As the IRB risk weight formula is a linear function of the LGD parameter, increasing the latter would lead to a larger increase in risk weights for more conservative credit institutions with higher PD estimates. Third, an increase in the average LGD floor would have implications beyond the calculation of the risk-weighted exposure amounts and also apply to other microprudential parameters, such as the calculation of expected loss amounts under Articles 158 and 159 of Regulation (EU) No 575/2013.

(19) Having examined the arguments and evidence put forward by the FSA and having taken into careful consideration the opinions provided by the ESRB and EBA, the Commission considers that measures taken pursuant to Articles 124 and 164 of Regulation (EU) No 575/2013 would either not be effective or might produce undesirable distortions and therefore could not adequately address the specific systemic risk identified. Measures taken under Article 164 of Regulation (EU) No 575/2013 would add further complexity to the determination of capital requirements and could reduce the transparency of risk weights for market participants, while not sufficiently ensuring resilience of the financial sector.

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[14] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

(20) The FSA argues that Article 101 of Directive 2013/36/EU, which relates to the ongoing review by competent authorities of the permission to use internal models, would not be as effective, as the credit institutions using the IRB approach are not in breach of the requirements of Regulation (EU) No 575/2013 when modelling their Swedish mortgage portfolios. At the same time, the FSA stresses that credit institutions' IRB approaches are unlikely to fully capture the credit loss risk of Swedish mortgages in a severe downturn scenario. The FSA argues that this is due to the fact that credit institutions have modelled their estimates using long time series of internal historical data from their Swedish mortgage portfolios, which reflect the extremely low credit losses from Swedish mortgages that credit institutions have experienced since the financial crisis at the beginning of the 1990s. The FSA is reviewing credit institutions' internal models for Swedish mortgages to ensure that the cycle and downturn adjustment used in the calibration of PD and LGD are sufficient, but does not expect measures taken under Article 101 of Directive 2013/36/EU to increase the risk weights to a level sufficiently close to the uniform 25% level of the national measure. According to the FSA, "bottom-up repair" measures would only gradually increase the risk weights over a number of years.

(21) The Commission notes that the EBA is of the opinion that the issue underlying the macroprudential measure could at least partly be addressed by making changes to credit institutions' internal models. The EBA notes that pursuant to EBA/RTS/2016/03[15] *"(...) competent authorities should assess whether the institution has adopted a sufficient margin of conservatism, which should account, in particular, for any identified deficiencies in data or methods used in risk quantification and for any increased uncertainty that might result."* and suggests that *"In this situation (...) it may be necessary to adopt a greater margin of conservatism"*. Furthermore, the EBA points to the possibility of adjusting the average of observed one-year default rates to estimate a long-run average default rate where historical observations are not representative, as clarified by EBA Guidelines on PD (probability of default) estimation, LGD (loss-given-default) estimation and treatment of defaulted exposures (EBA/GL/2017/16)[16], applicable as of 1 January 2021.

(22) The Commission notes, however, that internal models may not be capable of taking into account all macroprudential risks. The Commission, while welcoming the ongoing review of IRB models, recalls that the objective of the ongoing review by competent authorities of the permission to use internal models is not to ensure resilience against systemic risks.

(23) Competent authorities that determine that credit institutions with similar risk profiles are or might be exposed to similar risks or pose similar risks to the financial system, currently may, under Article 103 of Directive 2013/36/EU, apply the Supervisory Review and Evaluation Process (SREP) to those institutions in a similar or identical manner. Article 104 of Directive 2013/36/EU provides a set of supervisory powers to the competent authority in the application of Article 103 of that Directive, including additional own fund requirements. However, by 28 December 2020, Member States

[15] EBA Final Draft Regulatory Technical Standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach in accordance with Articles 144(2), 173(3) and 180(3)(b) of Regulation (EU) No 575/2013, 21 July 2016.

[16] EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures, EBA/GL/2017/16, 20 November 2017.

are required to have adopted and published the measures to implement Directive 2019/878/EU of the European Parliament and of the Council[17], which repeals Article 103 of Directive 2013/36/EU. The FSA has put forward arguments against the adequacy of the use of Articles 103 and 104 of Directive 2013/36/EU (jointly referred to as "Pillar 2" measures by the FSA). The FSA argues that Pillar 2 measures are predominantly microprudential in nature and not suitable to address the identified risk, since two significant lenders on the Swedish mortgage market are not under Swedish supervision. In this context, the FSA also considers that the national measure has clear benefits in terms of reciprocation by other Member States over Pillar 2 measures, and notes that the use of Pillar 2 measures for macroprudential purposes will not be permitted after 28 December 2020.

(24) The Commission concurs with the FSA that Article 103 and Article 104 of Directive 2013/36/EU would be less effective than the national measure in achieving the intended objectives. In particular, the Commission notes that the repeal of Article 103 of Directive 2013/36/EU aims to achieve a clear delineation between microprudential and macroprudential measures. The Commission also considers that it would be more difficult for Member States to reciprocate Pillar 2 measures than the national measure.

(25) Given that the systemic risk the FSA aims to tackle with the national measure is not linked to credit institutions' liquidity risks, the Commission considers that Article 105 of Directive 2013/36/EU, which allows competent authorities to impose specific liquidity requirements where that is deemed necessary to capture liquidity risks to which an institution is or might be exposed, remains unsuitable to address the identified risk.

(26) After examining the arguments and evidence put forward by the FSA and taking utmost account of the opinions provided by the ESRB and EBA, the Commission considers that measures under Articles 101, 103, 104 and 105 of Directive 2013/36/EU would currently not be adequate as their application would be less effective in addressing the identified specific systemic risk than an extension of the national measure.

(27) The FSA argues that a systemic risk buffer (SyRB) as referred to in Article 133 of Directive 2013/36/EU is not designed to apply to specific exposures, such as residential mortgage loans. Applying that instrument, therefore, risks penalising other types of exposures, including exposures to the corporate sector. The Commission considers that, compared to the national measure, the SyRB is inadequate to address the specific risk related to the residential real estate market as targeting directly such exposures is currently not possible under Article 133 of Directive 2013/36/EU. The Commission notes that in Sweden, a SyRB of 3% already applies to the three biggest credit institutions, addressing the risk of a large and concentrated banking sector.

(28) Sweden has had in place a countercyclical buffer (CCyB), as referred to in Article 136 of Directive 2013/36/EU, of 2,5% since 2019. The FSA argues that the use of the CCyB would not appropriately target the identified risk, as it would also affect exposures towards small and medium-size firms as well as non-financial corporations. The Commission notes that the CCyB addresses total credit growth and cannot be

[17] Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (OJ L 150, 7.6.2019, p. 253).

tailored to specific exposures, such as residential mortgage loans, as is the case with the national measure. Furthermore, the CCyB rate would be applicable to the whole Swedish banking system and cannot be narrowed down to a subset of institutions, such as credit institutions using the IRB approach, as is the case with the national measure. The FSA decided on 16 March 2020 to fully release the CCyB in response to the COVID-19 pandemic and the confinement measures taken to limit its spread, to avoid a credit crunch and limit the negative impact on the economy.

(29) After examining the arguments and evidence put forward by the FSA and carefully considering the opinions provided by the ESRB and EBA, the Commission agrees that Articles 133 and 136 of Directive 2013/36/EU both would not allow to adequately address the identified risk.

(30) After carefully considering the opinions of the ESRB and the EBA, the Commission concludes that an extension of the period of application of the national measure for one year is justified, proportionate, effective and efficient in addressing the systemic risk that the FSA is targeting and that the alternative measures to be considered in accordance with Article 458(2)(c) of Regulation (EU) No 575/2013 cannot adequately address the systemic risk identified, taking into account their relative effectiveness.

(31) At the same time, the Commission, in line with the EBA opinion, invites the FSA to reassess the appropriateness and the suitability of the national measure under Article 458(2)(d)(ii) of Regulation (EU) No 575/2013 once Directive (EU) 2019/878 becomes applicable, allowing the application of the SyRB for sectoral exposures (by 29 December 2020), including for cyclical systemic risks. The Commission also invites the FSA to consider to what extent the EBA guidelines on PD estimation, LGD estimation and treatment of defaulted exposures (EBA/GL/2017/16), once applied, mitigate the concerns that motivated the activation and extension of the national measure.

(32) The Commission has also assessed the effect of the extension of the period of application of the national measure on the internal market. The FSA does not expect the national measure to have a negative impact on the internal market that would outweigh the financial stability benefits resulting from a reduction of the identified risk. The FSA argues that the extension of the application period of the national measure would ensure the continued resilience of the Swedish banking sector. Given the high degree of interconnectedness with the financial systems of other Nordic and Baltic countries, the FSA considers the national measure to be conducive to financial stability, provided that regulatory arbitrage and leakages can be avoided by the reciprocation of the national measure for material exposures of foreign credit institutions to the domestic mortgage market, including the operations of any significant Swedish branches. The Commission notes that foreign banks and branches account for a significant share of the Swedish mortgage market, and that several Member States (Belgium, Denmark, Finland, France, Lithuania and Portugal) as well as Norway have reciprocated the national measure during the past two years. As highlighted in the ESRB opinion, the effectiveness of the national measure will depend on the extent to which it will continue to be reciprocated by other Member States. The Commission concurs with the FSA that improved financial stability in the domestic banking sector reduces the likelihood of negative spill-over effects to other Member States, which is important in the context of significant financial interlinkages in the Nordic-Baltic region. The Commission is not aware of any robust, strong and detailed evidence that the national measure had a negative impact on the internal

market that outweighs the financial stability benefits due to a reduction of the systemic risk. The EBA and ESRB share this assessment in their opinions.

(33) The Commission, after having assessed the national measure and taking utmost account of the opinions of the ESRB and the EBA, concludes that there is no robust, strong and detailed evidence that the planned extension of the period of application of the national measure will have a negative impact on the internal market that outweighs the financial stability benefits resulting in a reduction of the macroprudential or systemic risk identified. At the same time, the Commission, in line with the ESRB and the EBA opinions, encourages the FSA to re-evaluate the appropriateness of the national measure once the implications of the COVID-19 pandemic for systemic risks related to the housing market in Sweden become clearer.

HAS DECIDED AS FOLLOWS:

Sole Article

The Commission does not propose to the Council an implementing act to reject the intended extension of the period of application of the national measure, notified on 16 September 2020 by Sweden in accordance with Article 458(4) of Regulation (EU) No 575/2013.

Done at Brussels, 12.11.2020

For the Commission
Mairead McGUINNESS
Member of the Commission