

2021-06-21

DECISION



FI Ref. 21-8663

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Reciprocation of the Norwegian risk weight floor

Decision by Finansinspektionen

1. Finansinspektionen passed a decision to reciprocate the Norwegian Ministry of Finance's decision to implement an average risk weight floor of 20 per cent for retail exposures collateralised by real estate in Norway (floor for retail exposures) and of 35 per cent for corporate exposures collateralised by real estate in Norway (floor for corporate exposures). This decision shall apply in other words to Swedish institutions' branches and exposures located in Norway.

Finansinspektionen will apply the thresholds of NOK 32.3 billion for the floor for retail exposures and NOK 6.7 billion for the floor for corporate exposures as stated by the Norwegian Ministry of Finance.

2. The decision in point 1 shall apply from 30 September 2021 until 31 December 2022.

(Article 458(5) of Regulation (EU) No 575/2012 of the European Parliament and of the Council on prudential requirements for credit institutions)

Applicable provisions

According to Article 458(2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions (Capital Requirements Regulation, CRR), the authority determined in accordance with paragraph 1 of the same article shall notify the Commission and the ESRB if it identifies changes in the intensity of macroprudential or systemic risk with the potential to have serious negative consequences to the financial system and the real economy in a specific Member State and which that authority considers would better be addressed by means of stricter national measures.

If the authority identifies any such changes, it shall submit relevant quantitative or qualitative evidence. This applies to information about, for example, the changes in the intensity of the macroprudential or systemic risk and the justification for why these changes could threaten the financial stability on a national level. The authority shall also submit draft national measures for domestically authorised institutions, or a subset of those institutions, intended to mitigate the changes in the intensity of risk. Article 458(2)(d) specifies a number of potential national measures, including measures that target the risk weights for exposures to asset bubbles in the residential and commercial property sectors.

Article 458(5) of the CRR states that other Member States may recognise the measures set in accordance with this Article and apply them to domestically authorised institutions that have branches or exposures located in the Member State that applies the measure.

According to Article 458(7) of the CRR, when deciding on whether to recognise the measures set pursuant to Article 458, a Member State shall take into consideration the criteria set out in Article 458(4). The Member State, in other words, shall consider the following:

- a) If the changes in the intensity of the macroprudential or systemic risks are of such a nature as to pose risk to financial stability at the national level.
- b) If the tools for macroprudential oversight in the CRR and the Capital Requirements Directive (Directive 2013/36/EU) are less suitable or effective than the draft measures for managing the identified macroprudential or systemic risk.
- c) If the draft national measures 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.

Background

In November 2020, the Norwegian Ministry of Finance announced¹² to the relevant authorities in the EU and the EEA that it would introduce temporary risk weight floors³ for retail exposures collateralised by real estate in Norway and corporate exposure collateralised by real estate in Norway of 20 and 35 per cent, respectively. The floors apply to institutions authorised to use an approach based on the internal ratings-based approach (IRB). The risk weight floor entered into force in Norway on 31 December 2020 and is valid for two years, unless it is extended.

According to the Norwegian Ministry of Finance, high household debt, high house prices, and high commercial real estate prices are prominent vulnerabilities for the financial system in Norway. The Norwegian Ministry of Finance also attributes the build-up of financial imbalances and increase in the systemic risk related to various institutions' real estate exposures in Norway to the significant and long-term increase in real estate prices.

The Norwegian Ministry of Finance considers the levels of the decided risk weight floors to be proportionate to the intensity of the cyclical systemic risk associated with the Norwegian real estate market and in particular the risk associated with potential asset bubbles. The aim of the measures, according to the Norwegian Ministry of Finance, is for domestic institutions to achieve a minimum level of risk weights at the portfolio level. According to the Norwegian Ministry of Finance, the measures are also effective in terms of the possibility of applying them to foreign institutions' Norwegian branches. The Norwegian Ministry of Finance has emphasised the importance of other Member States recognising the measures for branches and exposures in Norway.

The Norwegian Ministry of Finance has introduced the measures through regulatory amendments and issued them in accordance with Article 458(10) of the CRR.

Finansinspektionen has previously recognised Norwegian measures regarding risk weights for Norwegian mortgages. This was communicated most recently in the memorandum "Nya kapitalkrav för svenska banker" (FI Ref. 20-20990)⁴ published on 20 November 2020. The Norwegian measures were initially

¹https://www.regjeringen.no/contentassets/930d262f82fd47349b9c21891f96c962/notification_458_risk-weight-floors-rre-norway.pdf.

²https://www.regjeringen.no/contentassets/930d262f82fd47349b9c21891f96c962/notification_458_risk-weight-floors-cre-norway.pdf.

³ The Ministry of Finance also announced the introduction of a systemic risk buffer of 4.5 per cent for Norwegian exposures and buffers for other systemically important institutions.

⁴ <https://www.fi.se/contentassets/7638443691724cf195f9097b139362d4/nya-kapitalkrav-svenska-banker-20-20990-eng-fulln.pdf>.

recognised through the capital requirements memorandum (FI Ref. 14-6258)⁵ published on 8 September 2014.

Finansinspektionen's assessment

Finansinspektionen may recognise the measures decided by the Norwegian Ministry of Finance pursuant to Article 458 of the CRR and thus apply them to Swedish institutions' branches and exposures located in Norway. When Finansinspektionen decides on whether to recognise the measures adopted in Norway, it shall take into consideration the criteria set out in Article 458(4) of the CRR.

Considering the criteria set out in Article 458(4) of the CRR, Finansinspektionen makes the assessment that the Norwegian measures should be recognised. The measures should be applied by Swedish institutions that have branches or exposures in Norway and are authorised to use an approach based on the internal ratings-based approach (IRB approach). The measures apply to retail exposures collateralised by real estate and corporate exposures collateralised by real estate. They apply regardless of the counterparty's nationality and as long as the exposure is collateralised by real estate located in Norway. According to the general principles set out in the CRR, the capital requirements apply at both the institution level and the group level.

Finansinspektionen will apply the thresholds of NOK 32.3 billion for the floor for retail exposures and NOK 6.7 billion for the floor for corporate exposures as stated by the Norwegian Ministry of Finance. The add-on to risk-weighted exposures amounts (REA⁶) for an institution should correspond to the difference between the institution's exposure amount (EAD⁷) for the relevant exposures multiplied by the institution's average risk weight for exposures and the same exposure amount multiplied by the risk weights of 20 and 35 per cent, respectively, as stated by Norway. When calculating an institution's average risk weight, the risk-weighted exposure amount used should be prior to deductions for the so-called SME⁸ factor. Exposures to multi-dwelling properties where the aim of the property is non-commercial (for example, tenant-owner associations) or where there are fewer than four residences are exempt from the floor for corporate exposures. If such exposures are classified as retail exposures, however, they should be subject to the floor for retail exposures.

As of 29 September 2021, given the measures being decided now, Finansinspektionen will no longer apply the existing Pillar 2 add-on for

⁵ https://www.fi.se/contentassets/f9a0e4c448c2457d90a05467f9caf6c9/kapital_ny3.pdf.

⁶ Risk exposure amount.

⁷ Exposure at default.

⁸ Small and medium enterprise.

Norwegian mortgages that was previously communicated in the memorandum
“Nya kapitalkrav för svenska banker”.

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