FIN-FSA Board decision on macroprudential tools: application of a countercyclical capital buffer requirement, higher housing loan risk weights or activation of other macroprudential tools

The Board of the Financial Supervisory Authority (FIN-FSA), at its meeting on 21 December 2015, decided not to impose a countercyclical capital buffer requirement (variable capital add-on) as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014).

The FIN-FSA Board has also decided not to introduce other macroprudential tools, i.e. higher than regulatory minimum capital requirements to be applied to exposures secured by mortgages on immovable property, as referred to in Articles 124 and 164 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the Capital Requirements Regulation), and further decided not to apply Article 458 of said Regulation.[1]

‘The FIN-FSA Board has decided to issue a separate statement regarding the low level of housing loan risk weights applied by banks in capital adequacy calculations, and the need to increase the risk weights.’.

Justification for the decision

Overall, the cyclical systemic risks to the Finnish financial system have remained unchanged, and the observed widening in the trend deviation of the credit-to-GDP ratio is largely accounted for by growth in intra-group liabilities in the corporate sector. Complementary risk indicators do not indicate an increase in financial system vulnerabilities in a manner that would require the tightening of the countercyclical capital buffer requirement.

Housing loan risk weights are low if assessed from the macroprudential perspective and compared with those applied in other EU and Nordic countries. FIN-FSA should commence preparations for increasing the risk weights.

The Board decision was made in line with a proposal by the Director General of FIN-FSA. The decision was based on an assessment of the need for the use of macroprudential tools prepared in concert by experts from FIN-FSA, the Bank of Finland and the Ministry of Finance. Opinions of the Bank of Finland, the Ministry of Finance and the Ministry of Social Affairs and Health corroborated the decision. The European Central Bank indicated that it will offer no objections.

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[1] Chapter 15, section 11 of the Credit Institutions Act describes the loan-to-value ratio but does not enter into force until 1 July 2016.