FIN-FSA Board decision on reciprocating a Norwegian systemic risk buffer

At its meeting, the Board of the Financial Supervisory Authority (FIN-FSA Board) has decided, in accordance with chapter 10, section 4d of the Act on Credit Institutions to reciprocate a systemic risk buffer requirement (SyRB) set by the Norwegian macroprudential authority (Finansdepartementet) for balance sheet items and off-balance-sheet commitments located in Norway with respect to Finnish credit institutions at the rate of 4.5%. The SyRB applies both on a consolidated and institution-specific basis to credit institutions whose risk-weighted exposures in Norway exceed 5 billion Norwegian krone. Due to the overlap of the risks covered by the Norwegian SyRB and Finland's national SyRB (the requirements address the same exposures and off-balance-sheet items), pursuant to chapter 10, section 9, subsection 3 of the Act on Credit Institutions, credit institutions must only meet the higher of these requirements. The requirement shall enter into force on 1 October 2025.

Background – In accordance with Article 134 of the EU Capital Requirements Directive (CRD), other Member States may recognise an SyRB set officially by another Member State and apply that buffer rate to domestically authorised institutions for exposures located in the Member State that sets that buffer rate. When deciding on the official recognition of an SyRB, the Member State shall take into consideration the information presented by the Member State that sets that buffer rate in accordance with Article 133(9) and (13).

In accordance with chapter 10, section 4d, subsection 1 of the Act on Credit Institutions, the FIN-FSA may make a decision to apply a requirement corresponding to an SyRB set by the supervisory authority of another EEA Member State on credit institutions' balance-sheet items and off-balance sheet commitments located in said Member State.

In August/September 2024, the Norwegian Ministry of Finance (Finansdepartementet), which functions as the macroprudential authority for Norway, updated its decision setting an SyRB of 4.5% on credit institutions' exposures in Norway.[1] The requirement entered into force on 31 December 2024. The level of the requirement remained unchanged, but contrary to the past, the new requirement applies both on a consolidated and institution-specific basis, and the justifications for setting it were revised.

According to an assessment by Finansdepartementet and an analysis by the Norwegian central bank (Norges Bank), the 4.5% SyRB is sufficient to restrict and prevent the abovementioned systemic risks. The materialisation of the

[1] https://www.regjeringen.no/no/aktuelt/videreforing-av-bankenes-kapitalbufferkrav/id3051659/

risks could have a considerably negative effect on Norway's financial system and real economy.

Prior to its decision of August/September 2024, Finansdepartementet had decided on an SyRB of 4.5% on Norwegian exposures in December 2022. In June 2023, the FIN-FSA Board decided to reciprocate Finansdepartementet's decision of December 2022. The reciprocation decision entered into force in July 2024.

At the time, the reciprocation by the FIN-FSA was implemented only partially so that the applicable level of the SyRB was 3.5%. The FIN-FSA justified the partial reciprocation by the following considerations:

- It could not be excluded that there is partial overlap between some of the criteria for setting the Norwegian SyRB and the Finnish O-SII buffers (interconnectedness, concentration);
- The assessment of overlap regarding concentration risk and the O-SII requirements was not extended to foreign credit institutions operating in Norway, and the stress test used to calibrate the level of the Norwegian SyRB did not consider branches of foreign credit institutions, which increased uncertainty regarding the proportionality of the requirement from the perspective of Finnish credit institutions.

In accordance with the FIN-FSA's reciprocation decision of June 2023, credit institutions must only meet the higher of the Norwegian SyRB and the Finnish national SyRB, since the requirements address the same exposures in accordance with section 9, subsection 3 of the Act on Credit Institutions.

Content of the new notification – In its updated notification sent in August/September 2024, Finansdepartementet requested that authorities of EU/EEA Member States approve the application of the updated requirement to the Norwegian exposures of credit institutions of their respective home country (reciprocation) and that the European Systemic Risk Board (ESRB) issue a recommendation to do so. The ESRB adopted its Recommendation in December 2024.[2] The Recommendation was published in the Official Journal of the EU on 12 February 2025. The Standing Committee of the EFTA States did not object to the SyRB set by Finansdepartementet by virtue of Article 133(11) and Article 131(15) of the CRD. The position taken by the Standing Committee of the EFTA States was consistent with the favourable opinions of the ESRB and the EBA.

The FIN-FSA Board has previously stated it will, as a rule, comply with ESRB Recommendations in its decision-making, and deviating from them should always require specific reasons. In its recommendation published in January

[2] https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation241203~46f83a4c6e.en.pdf?94de8de49f7abc35aaa1c10c4abfe496

2025, the ESRB continues to recommend full reciprocation of the Norwegian systemic risk buffer requirement.

The decision made by the FIN-FSA Board in June 2023 to reciprocate the Norwegian requirement only partially was due to the specific reasons described above, and based on the assessment that the justifications for setting the requirement partially overlapped with Finnish O-SII requirements. Due to the revised justifications in Finansdepartementet's updated notification, the FIN-FSA has reassessed the preconditions for the full reciprocation of the SyRB.

When comparing the justifications presented in Finansdepartementet's new notification to the previous notification and the related FIN-FSA reciprocation decision, it can be noted that:

- The primary justifications for the requirement continue to be high household indebtedness and banks' significant commercial real estate exposures.
- The interconnectedness of bank funding continues to be among the justifications for the requirement, but contrary to the past, it is no longer a primary justification.
- The concentration of the banking sector, which was previously presented as a secondary justification, is no longer cited as a specific vulnerability and a justification for the requirement.
- Banks' high exposures to customers vulnerable to transition risks arising from climate change are presented as a new justification for the requirement.

Due to the abovementioned changes to the justifications, overlap between the justifications for setting the Norwegian SyRB and those of the Finnish O-SII buffers has diminished. In particular, this is because the concentration of the banking sector is no longer a specific justification for the Norwegian requirement. There remains some degree of overlap between the justifications of these requirements, since the interconnectedness of funding is still cited as one. Based on the information available, it is not possible to make an exact quantitative assessment of the degree of overlap or change therein. However, the weight of the interconnectedness of funding as a justification for the Norwegian requirement has been reduced, and the Norwegian authority no longer presents it as one of the primary justifications for the requirement.

In the FIN-FSA's view, banks' exposures to customers vulnerable to climate change transition risk, presented as a new justification for the Norwegian requirement, does not result in overlap with the justifications for setting Finnish credit institutions' O-SII requirements or other macroprudential buffer requirements.

The FIN-FSA notes that Finansdepartementet's updated notification sets out the justifications for activating an SyRB in detail as required in Article 133(9) of CRD and that it includes the information specified in Article 133(13), which has been considered by the FIN-FSA.

According to the updated notification, the primary justifications for setting a systemic risk buffer requirement are household indebtedness and banks' significant commercial real estate exposures. According to the notification, household indebtedness is, similarly to the previous decision, at a historically high level, which makes households vulnerable to loss of income, higher interest rates or a fall in house prices. According to the updated notification, if households reduce their consumption at the same time, this impairs firms' earnings, and the values of banks' corporate exposures, constituting a risk to the Norwegian financial system and economy. According to the notification, banks' exposures to commercial real estate account for around half of the corporate sector's total loan stock. In previous crises, a significant proportion of losses incurred by credit institutions has stemmed from exposures to commercial real estate. Commercial real estate exposures as a proportion of Norwegian credit institutions' corporate credit have remained stable in recent years.

The adoption of the systemic risk buffer requirement in those EEA countries (incl. Finland) whose credit institutions have receivables from the Norwegian market, strengthens the capacity of these credit institutions to bear the risks associated with the Norwegian markets in accordance with the notification and the ESRB Recommendation, thereby also improving the functioning of the internal market. Credit institutions in many other EEA Member States have a significant proportion of their lending exposures in Norway.

According to the notification, the SyRB does not overlap with O-SII buffers. O-SII buffer requirements address individual credit institutions and risks they pose to the financial system. The SyRB addresses risks at the level of the entire financial system. According to the notification, national O-SII buffer levels have been taken into account in calibration of the SyRB. This guarantees that even though one of the objectives of both capital requirements is to cover concentration risk (this is no longer presented as an actual justification for the SyRB), according to the notification, there is no overlap between the capital requirements.

FIN-FSA's view – In conclusion, the FIN-FSA finds that reciprocation of the Norwegian systemic risk buffer requirement will prevent and reduce risks to the stable operation of the financial system and the real economy. The risk caused by long-term non-cyclical factors threatening the financial system or the macroeconomy calls for a higher capital requirement, as stated in Finansdepartementet's updated notification. The risks to stability indicated by Finansdepartementet are also significant on a stand-alone basis. The risk threatens or may threaten the smooth operation and stability of the financial system also in Finland, and the adoption of the additional capital requirement does not have greater than minimal negative effects on the operation of financial systems in other countries.

As regards the applicability of macroprudential tools other than the SyRB to structural risks belonging to the scope of the SyRB, the FIN-FSA finds that macroprudential supervision measures applied in Norway and Finland to borrowers primarily affect new contracts (new lending business), and therefore do not prevent or limit structural risks or vulnerabilities associated with existing contracts.

The countercyclical capital buffer (CCyB) is intended for mitigating cyclical systemic risks stemming from excessive growth in credit to the private sector and its consequences. Therefore, the CCyB is not appropriate for mitigating systemic risks arising from structural vulnerabilities in the banking system, which are typically long-term in nature.

The purpose of the risk-weight floors applied in Norway to residential and commercial real estate loans is to prevent an excessive decline of risk weights relative to the risks, and therefore the floors do not correspond to the objective of the SyRB.

Supervisory measures available to the supervisory authority can be used to impose requirements on credit institutions, for example to, cover their institution-specific risks and to rectify shortcomings pertaining to their operations (so-called Pillar 2 requirement), but they are not primarily intended for limiting systemic risks to financial stability. Available liquidity requirements are not primarily intended for limiting identified systemic risks to financial stability, either.

In the FIN-FSA's opinion, the Norwegian SyRB, according to the updated notification as described above and in accordance with law, is based on risks other than those used as justifications for Finnish credit institutions' O-SII requirements.

Based on the considerations above, the FIN-FSA concludes that overlaps between the justifications of the Norwegian SyRB and those of the O-SII requirements for Finnish credit institutions have diminished to the extent that they no longer constitute a specific reason to reciprocate the Norwegian requirement only partially. Reciprocation of the Norwegian systemic risk buffer requirement both on a consolidated and institution-specific basis is warranted both to limit systemic risks and to ensure the functioning of the internal market. In accordance with Finansdepartementet's decision, the SyRB applies to credit institutions whose risk-weighted exposures in Norway exceed 5 billion Norwegian krone.

The ESRB recommends that the reciprocation of the Norwegian SyRB is made within three months of the publication of the recommendation in the Official Journal. The change in the requirement due to full reciprocation, compared to the previous requirement, is limited. Nevertheless, a relatively short transitional period is warranted for the implementation of the change. Entry into force occurring mid-month and mid-reporting period may impose heightened administrative burden and technical challenges on credit institutions. Therefore, it is warranted for the requirement to enter into force approximately three months after the reciprocation decision, on 1 October 2025.

Due to the overlap of the risks covered by the Norwegian SyRB and Finland's national SyRB (the requirements address the same exposures), in accordance with chapter 10, section 9, subsection 3 of the Act on Credit Institutions, credit institutions must only meet the higher of these requirements.

The earlier partial reciprocation of the Norwegian SyRB (3.5%) raised the capital buffer requirements for Finnish credit institutions by an estimated EUR 780 million (0.3% of risk-weighted assets) based on end-2024 data. The effect of full reciprocation of the requirement is estimated at approximately EUR 1,090 million (0.4% of risk-weighted assets).

The macroeconomic impacts of the slight increase in the requirement applicable to Finnish credit institutions are estimated to remain minor overall. This conclusion is supported by estimates, calculated in connection with the previous reciprocation decision concerning the Norwegian SyRB,[3] about the macroeconomic impacts of a significantly larger increase in capital requirements as well as experiences of earlier regulatory changes or decisions which had a considerably stronger effect on banks' capital requirements.

Responses to hearing under section 34 of the Administrative Prodecure Act – In accordance with section 34 of the Administrative Procedure Act (434/2003), prior to decision-making, the credit institutions concerned were provided an opportunity to express an opinion on the matter and to submit an explanation of claims and evidence which may influence the decision. The FIN-FSA received a written response from Nordea Bank Abp.

In its response, Nordea Bank Abp notes that the Norwegian SyRB overlaps in all respects with other existing capital requirements. In its response, Nordea Bank Abp points out in detail how the justifications recounted in the notification on the Norwegian SyRB are already covered by existing capital and other requirements. The justifications are: high household

[3] See Decision of the Board of the Financial Supervisory Authority on the application of macroprudential instruments of 28 June 2023

indebtedness, significant exposures to commercial real estate (CRE), interconnectedness of funding, concentration and complexity of the credit institution sector as well as climate risks. Hence, Nordea Bank Abp opposes to the application of the Norwegian SyRB in Finland in its entirety.

Nordea Bank Abp’s subsidiary operating in Norway and granting household loans is already subject to the Norwegian SyRB and O-SII requirements. According to Nordea Bank Abp, any additional risks in the Norwegian markets are well covered by Nordea Bank Abp's Pillar 1 and Pillar 2 requirements as well as the O-SII buffer and Finnish SyRB. As regards CRE exposures, Nordea Bank Abp is subject to a high risk weight floor set by the European Central Bank (ECB), which amplifies the impact of the buffer requirements in euro terms. According to the company, Nordea Bank Abp's funding is well diversified geographically, and its liquidity risks are covered by related regulatory and Pillar 1 requirements. Moreover, covered bonds issued by Norwegian banks comprise only a small proportion of Nordea Bank Abp's liquidity reserve in comparison with Norwegian credit institutions.

According to the company, in comparison with other euro area credit institutions, Nordea Bank Abp's capital requirements are significantly higher due to Nordic macroprudential requirements, although the company's risks are at a low level. In addition, Norway applies risk weight floors to residential real estate (RRE) and commercial real estate (CRE) exposures as well as borrower-based macroprudential measures. No quantitative evidence has been presented to Nordea Bank Abp of the extent of any residual risks. According to the company, the volume of household debt, CRE exposures and liquidity risks are key points of interest for the Single Supervision Mechanism (SSM). Other supplementary supervision is often more effective than additional capital requirements. The amount of lending to households and CREs also correlates with the size of the credit institution, as a result of which, there will be overlaps between O-SII requirements and the Finnish SyRB requirement.

According to Nordea Bank Abp, Finansdepartmentet discriminates against other EEA Member States’ credit institutions by only considering Norwegian banks’ O-SII buffers in setting the SyRB. Hence, according to the company, the Norwegian SyRB continues to overlap with Nordea Bank Abp’s O-SII buffer, calling for only partial reciprocation of the Norwegian requirement in Finland. Interconnectedness has a significant weight in the calibration of the O-SII additional capital requirements, and the same factor continued to be used as a justification for the Norwegian SyRB. Nordea Bank Abp also notes that the interconnectedness of the credit institution sector remains a driver the Norwegian SyRB. In Nordea Bank Abp’s understanding, the reference in the notification to cross-border activities also indicates an overlap of requirements because it corresponds to the criteria for setting an O-SII buffer.

The Norwegian SyRB has credit institutions' claims on customers exposed to climate change as a new justification, although this justification is not a primary one. According to Nordea Bank Abp, it is not possible to assess the weighting of primary and other justifications in quantitative terms. Therefore, the FIN-FSA should not ignore overlaps across the requirements. In Nordea Bank Abp's view, the text of the notification also includes inconsistencies concerning the quantity of covered bonds associated with interconnectedness. In conclusion, Nordea Bank Abp states that existing overlaps between the requirements cannot be eliminated by adjusting the justifications and their weighting, considering that the the Norwegian SyRB remains at 4.5%.

According to Nordea Bank Abp, the Credit Requirements Directive, the Act on Credit Institutions and the ESRB Recommendation provide that the reciprocation of another EEA Member State's SyRB is a voluntary measure. The company finds the FIN-FSA to be wrong in stating in its hearing letter that the ESRB requires full reciprocation of the requirement. Nordea expects the FIN-FSA to conduct an independent analysis of level of systemic risk in the Norwegian financial market and disclose the analysis as a part of the reciprocation decision.

Nordea Bank also challenges the calibration of the Norwegian requirement. According to the company, the stress tests on which the calibration is based does not include Nordea Bank Abp's branch or its subsidiaries. Nordea Bank Abp is also subject to higher risk weight floors, and its business mix differs from Norwegian credit institutions. Moreover, according to the company, the national SyRB set by Finland is based on a Nordic stress test that also covers Nordea Bank Abp's functions and exposures in Norway.

As regards climate risks, Nordea Bank Abp states that the justifications of the Norwegian requirement are fully overlapping with the SSM's credit risk management procedures and supervisory expectations for climate risk management. According to the company, Finansdepartementet's objective to integrate climate risks into systemic risk cannot be considered appropriate and justifiable by virtue of the CRD when related microprudential supervision measures and requirements are taken into consideration. Since the FIN-FSA's decision to reciprocate the Norwegian requirement only concerns Nordea Bank Abp, the relevance of climate risks should be assessed from a micro- rather than macroprudential perspective.

Nordea Bank Abp also calls attention to the impacts of the full reciprocation of the Norwegian requirement on Nordea Bank Abp's competitiveness and a level playing field in the market. In Nordea Bank Abp's understanding, full reciprocation of the requirement makes its capital requirements much higher than those of its Norwegian competitors. Additionally, the reciprocation would also impair the company's ability to serve its customers in Finland. According to the company, the FIN-FSA has not presented a calculation of the costs of the potential decision to the economy and the Finnish credit institution sector. Nordea Bank Abp demands that the FIN-FSA, in cooperation with the ECB and other authorities, examines the level playing field effects of the Norwegian requirement.

The FIN-FSA's comments on the response to the hearing – As regards the arguments presented, the FIN-FSA states that, in its opinion, any overlap between the Norwegian SyRB and other capital requirements applicable to Nordea Bank Abp is marginal as described in the decision above. Reciprocation of the Norwegian SyRB is a macroprudential measure concerning the Finnish credit institution sector as a whole.

In the FIN-FSA's view, there are some regional differences across Europe in the levels of macroprudential buffer requirements, explained by differences in the risk assessments by different Member States' regulatory authorities and in the methodologies applied to the calibration of the buffers. The Nordic economies and financial systems are interconnected in many ways, and the financial systems also demonstrate similar structural vulnerabilities. Therefore, buffer requirements should be compared primarily to other Nordic credit institutions. The FIN-FSA also finds any overlaps between the risks covered by O-SII buffers in Finland and by the Norwegian SyRB marginal as described in the decision above. In assessing the relationship between the Norwegian requirement and the Finnish SyRB, only the higher of the two applies, and therefore there are no overlaps.

The FIN-FSA also finds that the notification's statement that only previously set national O-SII buffers were considered in the calibration of the Norwegian requirement does not, for reasons indicated in the decision, affect the FIN-FSA's view of any overlap between the Norwegian requirement and the Finnish O-SII buffer being higher than marginal. According to the FIN-FSA's understanding, the reference to the interconnectedness, concentration and cross-border activities of the Norwegian credit institution sector has a low weight in the calibration of the Norwegian requirement, and the weights of each justification in presented in the notification are comparable.

Nordea Bank Abp also suggests that the ESRB Recommendation concerning the Norwegian requirement does not require full reciprocation by EEA Member States. In this context, the FIN points out that, in a review conducted by the ESRB in 2024 regarding compliance with its recommendations, the FIN-FSA was reprimanded because the previous reciprocation of the Norwegian SyRB should have been full instead of partial. As regards Nordea Bank Abp's requirement of an independent assessment to be made by the FIN-FSA regarding systemic risks in the Norwegian markets, the FIN-FSA finds that Norwegian authorities have the best knowledge of their markets and that the requirements of the CRD and

Finnish law concerning the reciprocation of another EEA Member State's requirement do not necessitate this.

Nordea Bank Abp's observation that the stress test used in reviewing the level of the Norwegian requirement excluded Nordea Bank Abp's branch and its subsidiaries is noteworthy as such. Having reviewed the methodology, however, the FIN-FSA's finds that the inclusion of Nordea Bank Abp would have had, at most, a marginal impact on the test results. In the FIN-FSA's view, credit institutions' exposures to customers vulnerable to climate change transition risk, presented as a new justification for the Norwegian requirement, do not result in any overlap with the justifications for setting Finnish O-SII buffers or other quantitative macroprudential requirements for Finnish credit institutions. Moreover, the FIN-FSA has assessed that application of the Norwegian requirement does not have greater than minimal negative impacts on the proper functioning of the internal market.