Preliminary decision of the Board of the Financial Supervisory Authority on lowering the additional capital requirements for credit institutions

At its meeting of 17 March 2020, the Board of the Financial Supervisory Authority (FIN-FSA) took the preliminary decision to remove the additional capital requirement referred to in chapter 10, sections 4 and 6a of the Credit Institutions Act (610/2014), determined on the basis of the structural characteristics of the financial system (systemic risk buffer) from the following supervised entities: Nordea Group (previously 3.0%), OP Financial Group (2.0%), Municipality Finance Plc (1.5%) and other credit institutions (1.0%, Aktia Bank Plc, Danske Mortgage Bank Plc, Evli Bank Plc, Handelsbanken Finance Plc, Oma Savings Bank Plc, POP Bank Group, S-Bank Ltd, Mortgage Society of Finland Group, Savings Banks Group and Bank of Åland Plc).

The FIN-FSA Board has also taken the preliminary decision to lower the additional capital requirement for other systemically important institutions (O-SII buffer), as referred to in chapter 10, section 8 of the Credit Institutions Act, in the case of OP Financial Group, to 1.0% (2.0%).

Justifications for the decision

The coronavirus pandemic has weakened significantly the outlook for the global economy and the operating conditions of the financial sector. In the current situation, macroprudential policy can support banks' ability to provide credit and ease the funding conditions for households and businesses by adjusting the structural macroprudential buffer requirements, i.e. the so-called systemic risk buffer requirement and/or the additional capital requirement for other systemically important institutions (so called O-SII buffer requirement). The other macroprudential instruments are either prescribed by law, are not in use and therefore cannot be lowered (countercyclical buffer requirement) or are imposed solely on credit institutions' mortgage lending (maximum loan-to-collateral ratio, risk weight floor for residential mortgage loans).

Structural macroprudential buffers are set primarily to limit serious financial sector-related problems in the banking sector in a crisis situation. In the current extremely exceptional circumstances, however, it is justified to lower the buffers to prevent the weakening of credit institutions' ability to provide credit especially to the corporate sector, due to the restricting impact of the buffer requirements on the provision of credit.

The reduction of additional capital requirements is implemented by removing the systemic risk buffer requirement in the case of all credit institutions and by adjusting the O-SII additional capital requirements so that the structural buffer requirements of all credit institutions will fall by 1 percentage point. Overall, these adjustments and the other relief measures decided by the FIN-FSA and the macroprudential supervisors of other countries are estimated to increase the imputed lending capacity of Finnish credit institutions by up to EUR 95 billion.

The reduction of the O-SII additional capital requirement for nationally important institutions, here OP Financial Group, by 1 percentage point is in compliance with the European Central Bank's (ECB) new floor methodology and is justified also in the current crisis situation, in order to maintain fair competition. In the floor methodology, each O-SII institution's O-SII buffer is set at a minimum level, against which the capital requirements imposed by the national macroprudential authority are assessed in connection with the application of Article 5 of the SSM Regulation[1].

In the calibration methodology of the O-SII additional capital requirement, it is justified to transition closer to a pan-European assessment framework, but however so that the O-SII additional requirements that are higher than the minimum level are maintained at a higher level than the euro area average. Maintaining higher O-SII additional capital requirements than the minimum level is justified by, for example, the large size of the Finnish credit institution sector relative to the size of the economy, and the fact that the concentration of the sector and dependence on market funding are higher than the average for the euro area.

The table below show the O-SII scores for the individual credit institutions, calculated in accordance with EBA Guidelines[2] and using end-2019 data.

Banking group	Size	Importance	Complexity	Interconnectedness	Total O-SII scores
Nordea	62,29	48,85	90,12	70,23	**67,87**
OP Financial Group	15,55	18,33	3,03	8,69	**11,40**
Municipality Finance	4,76	1,06	1,75	7,06	**3,66**
Savings Bank Group	1,36	1,82	0,06	0,59	0,96
Aktia	1,03	1,20	0,12	0,75	0,77
S-Bank	0,81	1,47	0,05	0,28	0,65
Bank of Åland	0,69	0,78	0,33	0,54	0,58
Danske Mortgage Bank	0,65	0,41	0,20	0,77	0,51
POP Bank Group	0,55	0,90	0,01	0,13	0,40
Oma Savings Bank	0,42	0,54	0,00	0,11	0,27
Mortgage Society of Finland	0,40	0,37	0,01	0,15	0,23
Evli Bank	0,11	0,20	0,04	0,16	0,13
Handelsbanken Finance	0,06	0,03	0,00	0,00	0,02

The O-SII additional capital requirement, assessed and calibrated based on O-SII scores, is for OP Financial Group 1.0%. Based on the assessment, there is no need to adjust the O-SII additional capital requirements of Nordea Group (2.0%) and Municipality Finance Plc (0.5%).

[1] COUNCIL REGULATION (EU) 1024/2013, of 15 October 2013, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions

[2] EBA/GL/2014/10, of 16 December 2014, Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs)

The decision on the removal of the systemic risk buffer and the review of the O-SII buffers promotes also the transition to the regulatory framework as laid down in the new directive on credit institutions (CRD5)[3], under which the risks caused by the systemic importance of individual credit institutions must be covered solely with O-SII additional capital requirements. It is therefore justified that the O-SII buffer requirements reflect the differences in the systemic importance of the individual credit institutions.

The decision by the FIN-FSA Board is conditional and the final decision will be made after the procedures laid down in EU regulation.

[3] 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, Article 131