Decision by the FIN-FSA Board on a buffer requirement for other systemically important institutions

In accordance with chapter 10, section 8 of the Credit Institutions Act, the FIN-FSA Board has taken a decision on other systemically important credit institutions (O-SIIs) and their additional capital requirements (O-SII buffers) to be met with consolidated Common Equity Tier 1 (CET1) capital. Accordingly, the O-SIIs and their O-SII buffer rates will be kept unchanged as follows.

- Nordea Bank Abp 2.5%
- OP Financial Group 1.5%
- Municipality Finance Plc 0.5%

In accordance with chapter 10, section 8 of the Credit Institutions Act, the FIN-FSA has reviewed the O-SII buffers applicable to the O-SIIs set by the FIN-FSA Board on 27 June 2022. In the review, no grounds have emerged to adjust these capital requirements.

Based on the O-SII scores as at end-2023, O-SIIs comprise Nordea Bank Abp, OP Financial Group and Municipality Finance Plc, as in the previous years, and the O-SII buffer requirements for all three credit institutions are retained at their present level.

The systemic importance of Finnish O-SIIs has not changed significantly during the year, and therefore the O-SII buffer requirements reviewed in June 2023 can still be regarded as proportionate to the systemic risks related to the systemic importance.

This was decided by the FIN-FSA's Board on 22 May 2024, whereafter the European Systemic Risk Board (ESRB) was notified of the decision one month before its publication, as provided in Article 131 of the Capital Requirements Directive.

In accordance with section 34 of the Administrative Procedure Act (434/2003), prior to decision-making, the relevant credit institutions 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. Nordea Bank Abp submitted its response to the FIN-FSA within the specified deadline.

According to Nordea Bank Abp's response, the credit institution acknowledges the need to assess the level of the additional capital requirements on a comprehensive basis in line with the FIN-FSA's view. However, according to Nordea's understanding, the assessment has been carried out incorrectly in that the overall combined buffer requirement (CBR) imposed on Nordea Bank Abp is excessively high relative to the risks of the credit institution's activities. Furthermore, the O-SII buffer requirement proposed by the FIN-FSA, at 2,5 %, is excessive with a view to other capital requirements and also deviates from comparable requirements applicable to Nordea Bank Abp's European competitors.

According to Nordea Bank Abp, the FIN-FSA should consider, in all respects, overlaps across the requirements of the macroprudential supervision framework. Taking into account the risk-mitigating factors and the sources of overlaps of the requirements, in the credit institution's view, the O-SII buffer requirement applicable to Nordea Bank Abp should be no more than 2,0 %. Nordea Bank Abp also finds that its CBR is one of the highest in the EU area, in particular considering the low level of risk of the activities of the credit institution.

As regards the level of the O-SII buffer requirements, Nordea Bank Abp also finds that there are significant differences across capital requirements applying to credit institutions of similar size in the EU area and that many global systemically important institutions (G-SII) are subject to lower G/O-SII buffer requirements than Nordea Bank Abp.

According to Nordea Bank Abp, the reason for the excessive combined buffer requirement is the stress test-based objective declared by the FIN-FSA in connection with its decision of March 2023 on the systemic risk buffer requirement to set the CBR rates for credit institutions at 6–7,0 %. In Nordea Bank Abp's view, this objective restricts the ability to assess overlaps between different capital requirements on an independent basis. Furthermore, Nordea Bank Abp does not acknowledge the rational for setting the CBR rates at the level of 6–7.0% as proposed by the FIN-FSA by mechanically adding up national capital requirements and those imposed by other countries.

Nordea Bank Abp also finds that the principles applied by the FIN-FSA in setting the O-SII buffer requirements result in higher additional capital requirements in comparison with other countries. Therefore, the principles should be adjusted so that they would better correspond with the needs of the financial system and the practices of other EU member states.

According to Nordea Bank Abp's understanding, the calibration of both the national systemic risk buffer requirement and of the O-SII buffer requirement is steered by the Nordea Bank Abp's size as well as the diversification of its activities and its funding structures. These overlaps should be taken into consideration in setting of capital requirements. In addition, the objective declared by the FIN-FSA to restrict the growth of credit institutions by applying the O-SII buffer requirements is, according to Nordea Bank Abp's understanding, in conflict with the EU's objective to improve the efficiency of financial market activities, which would also contribute to financial stability.

In Nordea Bank Abp's opinion, in setting additional capital requirements, the FIN-FSA should increasingly consider the impacts of the supervision by the European Central Bank and of the Single Resolution Mechanism (SRM) on credit institutions' risks.

With respect to the above considerations, the FIN-FSA states that the hearing letter presents the rationale as required by law for the setting and calibration of the anticipated O-SII buffer requirement, also taking the Guidelines of the European Banking Authority (EBA/GL/2014/10) into consideration. According to the FIN-FSA's opinion, no unfounded overlaps have emerged in the context of application of the buffer requirements.

According to the FIN-FSA's analysis, in an environment of average cyclical risks, an adequate aggregate level of additional macroprudential capital requirements imposed on the credit institution sector is close to the pre-pandemic level or slightly above it (6–7 % of risk-weighted assets). The assessment of the adequate overall level of the macroprudential buffer requirements is based on stress test calculations by the Bank of Finland and the FIN-FSA as well as research literature discussing the adequate level of capital requirements for credit institutions. In its assessment concerning the Finnish financial sector published in January 2023 (Financial Sector Assessment Program), the International Monetary Fund (IMF) reached a similar conclusion.[1] The overall level indicates the amount of capital the credit institution sector should have to be able to cover losses resulting from a severe shock to the economy or the financial system while retaining its operating capacity even after covering the losses and being able to continue to provide credit for the real economy. In the FIN-FSA's view, a stress-test based assessment of the risks of the Finnish financial system is justified stability-wise and also from a legal perspective in the context of assessing buffer requirements while applying capital requirements.

In its decision on the O-SII buffer requirement, the FIN-FSA has taken into consideration the impacts of supervision by the European Central Bank and of the Single Resolution Mechanism (SRM) on credit institutions' risks.

The rationale of this decision is expressed in detail in Annex 1 to the decision. Principles for identifying other systemically important credit institutions (O-SIIs) and setting additional capital requirements.

[1] IMF (2023) Finland: Financial Sector Assessment Program-Technical Note on Macroprudential Policy Framework and Tools. https://www.imf.org/en/Publications/CR/Issues/2023/01/31/Finland-Financial-Sector-Assessment-Program-Technical-Note-on-Macroprudential-Policy-528773