Decision by the Board of the Financial Supervisory Authority on a countercyclical buffer requirement and setting a minimum level for risk weights on housing loans

At its meeting on 14 June 2016, the Board of the Financial Supervisory Authority (FIN-FSA) 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). Further, the Board decided to take measures to introduce a credit institution-specific minimum level of 10% for the average risk weight on housing loans[1] of credit institutions that have adopted the Internal Ratings Based Approach. The minimum level would come into force on 1 July 2017 at the latest. The contemplated means for setting the minimum level is the application of Article 458 of the Capital Requirements Regulation[2], in respect of which discussions will continue with the European Commission, European Systemic Risk Board (ESRB) and European Banking Authority (EBA).

Justifications for the decision

Overall, cyclical systemic risks to the Finnish financial system have remained unchanged. Supplementary risk indicators are not signalling such an increase in financial system vulnerabilities as would necessitate a higher countercyclical capital buffer requirement.

On the basis of analyses carried out by the FIN-FSA and the Bank of Finland, it is justified to set a minimum level of at least 10% for the risk weights of housing loans in order to cover possible credit losses arising to credit institutions from housing loans. In setting a minimum level, consideration was given to the multiplicative effects of possible disruptions in housing and mortgage markets in stressed conditions as well as to other systemic risks related to mortgage lending and the current level of indebtedness of households.

On the initiative of the European Commission, the Council may reject a measure based on Article 458 and proposed by a Member State. The European Systemic Risk Board (ESRB) and the European Banking Authority will give statements on this matter.

The decision is based on a proposal by the Director General of FIN-FSA. An assessment made in concert by experts from FIN-FSA, the Bank of Finland and the Ministry of Finance of the need for the use of macroprudential tools as well as statements received from the Bank of

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[1] In applying this provision, a housing loan is defined in accordance with Chapter 7, Section 7, Subsection 4 of the Consumer Protection Act. The minimum level will apply to housing located in Finland.

[2] REGULATION (EU) NO 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Finland, the Ministry of Finance and the Ministry of Social Affairs and Health formed the basis of preparations.

In accordance with the regulations governing the Single Supervisory Mechanism, the European Central Bank was informed of the planned decision. The ECB announced that it has no objections to the decision.