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Regulations and guidelines related to the Capital Requirements Regulation

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Legal nature of regulations and guidelines

Regulations

Financial Supervisory Authority (FIN-FSA) regulations are presented under the heading 'Regulation' in the FIN-FSA's regulations and guidelines. FIN-FSA regulations are binding legal requirements that must be complied with.

The FIN-FSA issues regulations only by virtue of and within the limits of legal provisions that entitle it to do so.

Guidelines

FIN-FSA interpretations of the contents of laws and other binding provisions are presented under the heading 'Guideline' in the FIN-FSA's regulations and guidelines.

Also recommendations and other operating guidelines that are not binding are presented under this heading, as are the FIN-FSA's recommendations on compliance with international guidelines and recommendations.

The formulation of the guideline shows when it constitutes an interpretation and when it constitutes a recommendation or other operating guideline. A more detailed description of the formulation of guidelines and the legal nature of regulations and guidelines is provided on the FIN-FSA website.

fin-fsa.fi > Regulation > Legal framework of FIN-FSA regulations and guidelines

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1 Scope of application and definitions

- (1) These regulations and guidelines are applicable to the following supervised entities as referred to in section 4 of the Act on the Financial Supervisory Authority:
- credit institutions
 - investment firms, with the exception of investment firms referred to in chapter 6, section 1, subsection 4 of the Investment Services Act
 - management companies engaged in activities referred to in section 5, subsection 2 of the Act on Common Funds (fund management companies engaged in asset management)
 - central bodies of amalgamations of deposit banks
 - holding companies of credit institutions
 - holding companies of investment firms.
 - parent companies of financial and insurance conglomerates.
- (2) As regards credit institutions, these regulations and guidelines do not apply to credit institutions the supervision of which has been transferred to the European Central Bank in accordance with the SSM Regulation.¹
- (3) Parent companies of financial and insurance conglomerates are only subject to chapter 13 of these regulations and guidelines.
- (4) Chapter 12, addressing the own funds requirements for operational risk under Part Three, Title III of the Capital Requirements Regulation (CRR), is not applicable to management funds engaged in asset management, investment firms referred to in Article 95 of the Regulation, only engaged in activities referred to in chapter 1, section 11, subsections 1, 2, 4, 5, 7, 8 and 9 of the Investment Services Act or investment firms referred to in Article 96 of the Regulation. The above-mentioned investment firms are subject to an approach based on fixed overheads under Article 97 of the Regulation.
- (5) Chapter 13 (large exposures) is not applicable to management firms engaged in asset management, investment firms referred to in Article 95 of the CRR, only engaged in activities referred to in chapter 1, section 11, subsections 1, 2, 4, 5, 7, 8 and 9 of the Investment Services Act or investment firms referred to in Article 96 of the CRR.
- (6) These regulations and guidelines are applicable to the holding companies of credit institutions only on the basis of their consolidated situation.

1.2 Definitions

For the purposes of these regulations and guidelines, the following definitions shall apply:

- (7) *Supervised entity* refers to all supervised entities that fall within the scope of section 1.1 of these regulations and guidelines and that are referred to in the Act on the Financial Supervisory Authority.

¹ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

The ECB maintains a regularly updated list of credit institutions under its supervision. The list is available on the ECB's website: <https://www.bankingsupervision.europa.eu>

2 Legal framework and international recommendations

2.1 Legislation

The following legal provisions relate to the matters addressed in these regulations and guidelines:

- Credit Institutions Act (610/2014)
- Investment Services Act (747/2012)
- Act on Amalgamation of Deposit Banks (599/2010)
- Act on the Supervision of Financial and Insurance Conglomerates (699/2004)
- Ministry of Finance Decree on applicable exemptions to the limitations of large exposures of credit institutions, investment firms and financial and insurance conglomerates (699/2014)
- Act on Unincorporated State Enterprises (1062/2010)
- Act on the State-Owned Specialised Financing Company (443/1998)
- Act on Credit, Guarantee and Capital Investment Operations of the State-Owned Specialised Financing Company (445/1998).
- Act on the Forest Board (234/2016)
- Municipal Pensions Act (549/2003)
- Securities Markets Act (746/2012)
- Act on the Book Entry System and Clearing Operations (749/2012)
- Act on Common Funds (48/1999)
- Right-of-Occupancy Housing Act (650/1990)
- Limited Liability Companies Act (624/2006)
- Co-operatives Act (421/2013)
- Accounting Act (1336/1997)

2.2 EU Regulations

The following directly applicable European Union Regulations are related to the matters addressed in these regulations and guidelines:

- Regulation 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 (hereinafter the Capital Requirements Regulation, CRR).

- Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (hereinafter the SSM Regulation).
- Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC;
- Commission Implementing Regulation (EU) 2016/1646 of 13 September 2016 laying down implementing technical standards with regard to main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms;
- Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions
- Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due;
- Commission Delegated Regulation (EU) No 1187/2014 of 2 October 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets;
- Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk;
- Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions
- As regards the matters addressed in these regulations and guidelines, the European Commission has also provided many supplementary Regulations and Decisions pertaining to the EU capital requirements regulation other than those referred to above, which will implement the regulatory technical standards prepared by the European Banking Authority. The Commission Regulations and Decisions are available on the Commission's website at ec.europa.eu ([European Commission > Law > Banking prudential requirements > Regulation \(EU\) No 575/2013 > Amending and supplementary acts](#)) and the FIN-FSA website.

2.3 EU Directives

The following European Union Directive relates to the matters addressed in these regulations and guidelines:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereinafter the Credit Requirements Directive).

2.4 FIN-FSA's regulatory powers

The FIN-FSA's power to issue binding regulations is based on the following legal provisions:

- Chapter 11, section 16 of the Credit Institutions Act
- Chapter 6, section 4 of the Investment Services Act

2.5 International recommendations

In preparing these regulations and guidelines, consideration has been given to the following international recommendations:

- (1) As regards the standardised approach to credit risk (chapter 6), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):
 - Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07)
 - Guidelines on specification of types of exposures to be associated with high risk (EBA/GL/2019/01)
- (2) As regards the internal ratings based approach (chapter 7), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):
 - Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07)
 - Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16).
 - Guidelines for the estimation of LGD appropriate for an economic downturn (EBA/GL/2019/03)
 - Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs (EBA/GL/2020/05) (*Issued on 25.8.2021, valid from 1.3.2021*)
- (3) As regards market risk (chapter 10), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on Stressed Value at Risk (Stressed VaR) (EBA/GL/2012/2)
 - Guidelines on the Incremental Default and Migration Risk Charge (IRC) EBA/GL/2012/3
 - Guidelines on corrections to modified duration for debt instruments, as referred to in Article 340(3)(2) of Regulation (EU) No 575/2013 (EBA/GL/2016/09)
 - Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation) (EBA/GL/2020/09) (*Issued on 21.10.2021, valid from 1.3.2021*)
- (4) As regards securitisation (chapter 11), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):
- Guidelines on Significant Credit Risk Transfer relating to Articles 243 and 244 of Regulation (EU) No 575/2013 (EBA/GL/2014/05)
 - Guidelines on implicit support for securitisation transactions, in accordance with Article 248 of Regulation (EU) No 575/2013 (EBA/GL/2016/08)
 - Guidelines on the determination of the weighted average maturity of contractual payments due under the tranche of a securitisation transaction in accordance with point (a) of Article 257(1) of Regulation (EU) No 575/2013 (EBA/GL/2020/04) (*Issued on 25.8.2021, valid from 1.3.2021*)
- (5) As regards large exposures (chapter 13), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):
- Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013 (EBA/GL/2015/20)
 - Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 (EBA/GL/2017/15)
- (6) As regards disclosure of capital adequacy and liquidity risk information (chapter 15), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):
- Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14)
 - Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03)
 - Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11)
 - Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01)
 - Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01)
 - Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10)

- Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) (*Issued on 20.1.2021, valid from 1.3.2021*)
- Guidelines on supervisory reporting and disclosure requirements in compliance with CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/11) (*Issued on 20.1.2021, valid from 1.3.2021*)
- Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/12) (*Issued on 20.1.2021, valid from 1.3.2021*)

The EBA’s Guidelines and Recommendations are available at www.finanssivalvonta.fi and on the EBA’s website at www.eba.europa.eu (Regulation and policy).

In addition, the website www.eba.europa.eu (Single Rulebook Q&A) contains interpretations of the Commission and EBA on regulation.

In preparing these regulations and guidelines, consideration has also been given to guidance provided by the European Central Bank:

- ECB guide to internal models, October 2019 (*Issued on 25 August 2020, valid from yy*)
- Guideline (EU) 2020/978 of the European Central Bank of 25 June 2020 on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council by national competent authorities in relation to less significant institutions with regard to the threshold for assessing the materiality of credit obligations past due (ECB/2020/32) (*Issued on 25.8.2020, valid from 1.3.2021*)

3 Objectives

- (1) The objective of these regulations and guidelines is to provide supervised entities with instructions, within the limits allowed by EU regulation, on the capital adequacy and liquidity risk requirements, on large exposures and the disclosure of information.
- (2) The instructions are related to the national application of the CRR as well as regulations and guidelines of the European Banking Authority and the European Central Bank (ECB).
- (3) These regulations and guidelines include the FIN-FSA's regulations on options and matters left in the CRR within the discretion of the competent authority.

4 Own funds and their minimum amount

4.1 Approval of terms and conditions of new capital instruments qualifying as own funds and their submission to FIN-FSA

- (1) In accordance with Article 26, paragraph 3 of the CRR, supervised entities may, after 28 June 2013, classify capital as CET1 instruments only after permission is granted by the competent authorities. The competent authorities may consult the EBA.
- (2) In accordance with Article 26, paragraph 3 of the CRR, the EBA shall establish and publish a list of all the forms of capital instruments in each Member State that qualify as Common Equity Tier 1 instruments based on information submitted by each competent authority. In accordance with Article 80 of the CRR, it is the EBA's duty to monitor the quality of own funds instruments issued by institutions across the Union.
- (3) The EBA's first CET1 list was published on 28 May 2014. This list of Common Equity Tier 1 capital instruments is updated regularly and it is available on the EBA website, the section on Other publications (eba.europa.eu – regulation and policy – own funds). The list shows eligible CET1 instrument types in each Member State.
- (4) On 7 October 2014, the EBA published its first report on eligible criteria for AT1 instruments and it will regularly update the report. The EBA has also published standardised templates for AT1 instruments. They are also available on the EBA website.
- (5) On its website, the FIN-FSA has published further instructions on inspection of the quality of own funds (Finanssivalvonta.fi/en – Banks – Credit institutions – Regulation – Regulatory framework (in Finnish and in Swedish))

GUIDELINE (paragraphs 6–8)

- (6) Prior to the permission granted by FIN-FSA by virtue of Article 26, paragraph 2 of the CRR, a capital instrument should not be presented or reported as a capital instrument qualifying as CET1.
- (7) FIN-FSA recommends that supervised entities give a prior notice to FIN-FSA of new capital instruments intended to be categorised as Additional Tier 1 (AT1) and Tier 2 (T2) capital and their key terms and conditions. Because the EBA monitors and supervises eligible criteria for AT1 instruments, the FIN-FSA recommends that the supervised entities well in advance contact the FIN-FSA and submit to the FIN-FSA planned criteria and a comparison of them to the criteria set in the CRR and the Commission Delegated Regulation 241/2014, which criteria the capital instruments must meet.² When preparing eligibility criteria applicable to AT1 instruments, the recommendations of the EBA should be complied with as they are provided in the EBA report or in EBA interpretations provided in the so-called Q&A process.
- (8) The FIN-FSA recommends that supervised entities give a prior notice to FIN-FSA of capital injections to be made in the non-restricted equity reserve, their amount, and related terms and conditions.

² Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (OJ L 74/8, 14.3.2014).

4.1.2 Entry of capital loans under Limited Liability Companies Act in own funds

- (9) Capital instruments qualifying as own funds must satisfy the conditions provided in the CRR:
- The conditions for capital instruments qualifying as CET1 are provided in Article 28 of the CRR, in addition to which Article 29 contains more provisions on the conditions for CET1 capital instruments issued by institutions established in another form than a limited liability company
 - The conditions for capital instruments to qualify as Additional Tier 1 (AT1) are provided in Article 52 of the CRR
 - The conditions for capital instruments to qualify as Tier 2 (T2) are provided in Article 63 of the CRR.
- (10) Chapter 12 of the Limited Liability Companies Act also contains specific provisions on capital loans. In accordance with chapter 12, section 1, subsection 2, the principal of a capital loan may be repaid and interest paid only insofar as the sum total of the non-restricted equity and all of the capital loans of the company at the time of payment exceed the loss on the balance sheet to be adopted for the latest financial period or the loss on the balance sheet from more recent financial statements. In accordance with chapter 12, section 2, subsection 1, change in the terms of the loan shall be invalid, if it is contrary to section 1, subsection 1 of the same chapter.

GUIDELINE (paragraphs 11–12)

- (11) Since in accordance with Article 28, paragraph 1, subparagraph h) and Article 52, paragraph 1, subparagraph l) of the EU CRR, the principal of CET1 and AT1 capital instruments may be paid only out of distributable items, a capital loan referred to in the Limited Liability Companies Act cannot, in accordance with the FIN-FSA's interpretation, be classified as Common Equity Tier 1 (CET1) or Additional Tier 1 (AT1) capital.
- (12) In order that capital instruments could qualify as own funds, the FIN-FSA recommends that supervised entities established as limited liability companies or a cooperative only issue such capital instruments meeting the conditions of the Limited Liability Companies Act and the Co-operatives Act that also meet the conditions provided in the CRR.

4.2 Transitional provisions

4.2.1 Applicable percentages of deduction for Tier 2 (T2) capital

- (13) In accordance with Article 478, paragraph 3 of the CRR, competent authorities shall determine and publish applicable percentages of deductions for Tier 2 capital items referred to in Article 478, paragraph 2.

REGULATION (paragraph 14)

- (14) By virtue of Article 478, paragraph 3 of the CRR, the FIN-FSA rules that a percentage of 100% shall be applied to the items referred to in paragraph 2 of the same Article during the period from 1 January 2014 to 31 December 2023.

4.2.2 Grandfathering of old capital instruments and items

- (15) In accordance with Article 484, paragraph 1 of the CRR, old capital instruments shall only refer to capital instruments and other equity items that were issued or that constituted part of the own funds before 31 December 2011 and which are not the instruments referred to in Article 483, paragraph 1 involving government aid.
- (16) In accordance with Article 486, paragraph 6 of the CRR, competent authorities shall determine and publish the applicable percentages in the ranges specified in Article 486, paragraph 5 for old capital instruments and items.

REGULATION (paragraphs 17–19)

- (17) By virtue of Article 486, paragraph 6 of the CRR, the FIN-FSA rules that non-restricted items referred to in paragraph 2 of the same Article may be recognised as Common Equity Tier 1 (CET1) capital applying the following percentages at the maximum:
- 30% for the period from 1 January 2019 to 31 December 2019
 - 20% for the period from 1 January 2020 to 31 December 2020
 - 10% for the period from 1 January 2021 to 31 December 2021
- (18) By virtue of Article 486, paragraph 6 of the CRR, the FIN-FSA rules that restricted items referred to in paragraph 3 of the same Article may be recognised as Common Equity Tier 1 (CET1) capital applying the following percentages at the maximum:
- 30% for the period from 1 January 2019 to 31 December 2019
 - 20% for the period from 1 January 2020 to 31 December 2020
 - 10% for the period from 1 January 2021 to 31 December 2021
- (19) By virtue of Article 486, paragraph 6 of the CRR, the FIN-FSA rules that additional own funds items referred to in paragraph 4 of the same Article may be recognised as Tier 2 (T2) capital applying the following percentages at the maximum:
- 30% for the period from 1 January 2019 to 31 December 2019
 - 20% for the period from 1 January 2020 to 31 December 2020
 - 10% for the period from 1 January 2021 to 31 December 2021

5 Capital adequacy treatment of qualifying holdings outside the financial sector

- (1) In accordance with Article 89, paragraph 3 of the CRR, competent authorities shall either prohibit institutions from having qualifying holdings referred to in paragraphs 1 and 2 of said Article the amount of which exceeds the percentages of eligible capital laid down in those paragraphs or require that institutions apply a certain risk weight to such holdings.

REGULATION (paragraphs 2–3)

- (2) By virtue of Article 89, paragraph 3 of the CRR, the FIN-FSA rules that supervised entities apply a risk weight of 1,250% to the greater of the following:
- Qualifying holdings, the amount of which exceeds 15% of the eligible capital of the supervised entity, in an undertaking referred to in Article 89, paragraph 1 of the CRR; and
 - Qualifying holdings, the amount of which exceeds 60% of the eligible capital of the supervised entity, in an undertaking referred to in Article 89, paragraph 2 of the CRR.
- (3) The provision in paragraph (2) does not affect the application of Article 90 of the CRR.

6 Capital requirements for credit risk under the standardised approach

6.1 Definitions

- (1) In this chapter, assets refer to balance sheet items, investments and off-balance sheet items.

6.2 Exposure classes

6.2.1 Exposures to central governments or central banks; Article 114 of the CRR

GUIDELINE (paragraphs 2–4)

- (2) In accordance with the FIN-FSA's interpretation, in Finland assets referred to in Article 114 of the CRR mean exposures to:
- the Finnish government
 - Finnish government enterprises
 - the Social Insurance Institution.
- (3) In accordance with the FIN-FSA's interpretation, Finnish government enterprises referred to in paragraph (2) comprise Senate Properties and Metsähallitus (the Forest Board).
- (4) In accordance with the FIN-FSA's interpretation, exposures to unincorporated state enterprises do not fall within the scope of Article 114 of the CRR, but they are included in exposures to corporates.

6.2.2 Exposures to regional governments or local authorities; Article 115 of the CRR

GUIDELINE (paragraphs 5–6)

- (5) In accordance with the FIN-FSA's interpretation, the following exposures can under Article 115 of the CRR be treated similarly to exposures to the central government:
- exposures to Finnish municipalities and municipal federations;
 - exposures to the province of Åland
- (6) In accordance with the FIN-FSA's interpretation, under Article 115 of the CRR, exposures to religious communities belonging to a church authorised to raise taxes in accordance with legislation conferring on them the right to do so, shall be treated as exposures to regional governments and local authorities.

6.2.3 Exposures to public sector entities; Article 116 of the CRR

GUIDELINE (paragraphs 7–9)

- (7) In accordance with the FIN-FSA's interpretation, exposures to the Employment Fund shall be treated as exposures to public sector entities referred to in Article 116 of the CRR.
- (8) In accordance with the FIN-FSA's interpretation, exposures to universities shall be treated as exposures to public sector entities referred to in Article 116 of the CRR.
- (9) Under Article 116, paragraph 4 of the CRR, exposures to public sector entities may in certain circumstances be treated as exposures to the central government. In accordance with the FIN-FSA's interpretation, the Municipal Guarantee Board is a public sector entity whose exposures can be treated as exposures to the central government.

6.2.4 Exposures to credit institutions and investment firms; Article 119 of the CRR

GUIDELINE (paragraphs 10–11)

- (10) In accordance with the FIN-FSA's interpretation, also the following items can be included in exposures to credit institutions and investment firms as referred to in Article 119 of the CRR:
- Exposures to the Deposit Guarantee Fund and the Investors' Compensation Fund,
 - Exposures to the registration fund of the central securities depository and the clearing fund referred to in chapter 2, section 9 of the Act on the Book-Entry System and Clearing Operations.
 - Exposures to fund management companies providing services referred to in chapter 2, section 5 of the Act on Common Funds (management companies engaged in asset management) and deemed comparable to investment firms,
 - Exposures to exchanges referred to in the Securities Markets Act, exposures to the central securities depository referred to in the Act on the Book-Entry System and Clearing Operations.
- (11) In accordance with the FIN-FSA's interpretation, exposures to Municipality Finance are included in exposures under Article 119 of the CRR to credit institutions and investment firms. The risk weights of bonds issued by Municipality Finance are determined on the basis of the risk weight of the Finnish government, since they are guaranteed by the Municipal Guarantee Board. However, this requires that the guarantee satisfies the conditions referred to in Articles 213 and 215 of the CRR.

6.2.5 Retail exposures; Article 123 of the CRR Article

GUIDELINE (paragraphs 12–14)

- (12) In accordance with the FIN-FSA's interpretation, the reasonable steps referred to in Article 123 of the CRR in the calculation of the EUR 1 million threshold entail that supervised entities should take into account the complexity of the exposures, expenses related to the implementation of the steps and the extent of the impact of the matter on the capital requirement.

- (13) The FIN-FSA recommends that supervised entities determine items calculated as retail exposures as follows:
- The conditions for retail exposures set out in Article 123 of the CRR are satisfied
 - The total exposures to one counterparty, referring both to an individual inhabitant and a group of connected clients, do not exceed 0.2% of the total retail exposures, and the supervised entity has ascertained that the retail exposure portfolio does not include sectoral or similar risk exposures.
- (14) When a supervised entity is determining exposures belonging to the retail exposures in accordance with paragraph (13) applying the 0.2% threshold in line with the Basel recommendation, it can be considered sufficient that the supervised entity conducts the calculation on an annual basis based on the information of the last day of December. This entails that the supervised entity determines the total amount of exposures belonging to retail exposures taking into account Article 123, paragraphs a) and c) of the CRR and subsequently removes from this pool any exposures exceeding 0,2% of the total value of the portfolio and finds out any sectoral or similar exposures related to the portfolio. Any exposures qualifying for the portfolio after this shall be treated as retail exposures for the purposes of capital requirements calculation.

6.2.6 Exposures secured by mortgages on residential property; Article 125 of the CRR Article

GUIDELINE (paragraphs 15–18)

- (15) In accordance with the FIN-FSA's interpretation, Article 125 of the CRR may be applied to the following exposures:
- exposures secured by shares carrying entitlement to a right to control an apartment
 - exposures to a housing corporation or mutual real estate companies secured by a pledged apartment owned and controlled by the housing corporation itself
 - exposures secured by a property suitable for year-round use or shares carrying entitlement to a right to control it
 - an exposure or part of an exposure secured by a part related to residential housing belonging to a confirmed pledge on an agricultural property. This requires that the part of an agricultural property intended for residential purposes has been assessed separately.
- (16) In accordance with the FIN-FSA's interpretation, exposures to housing corporations or mutual real estate companies secured by confirmed pledges on residential properties owned by the corporation qualify for the application of Article 125 of the CRR. However, the following conditions should be satisfied:
- it is not a corporation yet to be established
 - it is not a corporation with less than 5 shareholders
 - the building is complete and indirectly held by the residents through the housing corporation
 - the supervised entity must ascertain according to its best ability, e.g. through internal guidelines and control that the collateral is not accounted for twice

- the residential property collateral for exposures to a housing corporation or mutual real estate company satisfies the minimum conditions for residential property collateral and the valuation rules provided on the measurement of residential property collateral.

- (17) The FIN-FSA recommends that where the loan of a housing corporation is significant, the supervised entity also assesses the impact of this corporate loan as a factor impairing the value of the share. In determining the value of an individual apartment, the proportion of corporate loan related to the apartment should be deducted from the value of the shares accepted as collateral. The supervised entity should also pay specific attention to the repayment capacity of the owner of an individual apartment, if a corporate loan amounts to a considerable proportion of the collateral (more than 50% of debt-free value).
- (18) In accordance with FIN-FSA's interpretation, exposures secured by a pledged right-of-occupation payment as referred to in the Right-of-Occupancy Housing Act do not satisfy the conditions set out in Article 125 of the CRR.

6.2.7 Exposures in default; Article 127 of the CRR Article

- (19) On 28 September 2016, under Article 16 of Regulation (EU) No 1093/2010, the EBA has issued "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" (EBA/GL/2016/07).

GUIDELINE (paragraph 20)

- (20) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines entering into force on 1 January 2021 referred to above in paragraph (19). By that date, supervised entities should incorporate the requirements of the Guidelines in their internal procedures and IT systems. The Guidelines are available at Finanssivalvonta.fi.
- (21) Article 178, paragraph 2, subparagraph d) of the CRR requires that the competent authority defines thresholds for material credit obligations past due.

REGULATION (22)

- (22) The threshold referred to in paragraph (20) is the same regardless of whether the supervised entity applies the standardised approach or internal ratings-based approach in the calculation of capital requirements for credit risk. Supervised entities must comply with the provisions on the definition of default in chapter 7.4.

6.2.8 Items associated with particular high risk, Article 128 of the CRR

- (23) On 17 January 2019, the EBA has issued Guidelines on specification of types of exposures to be associated with high risk (EBA/GL/2019/01).

GUIDELINE (paragraph 24)

- (24) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraph (23), available at Finanssivalvonta.fi.

7 Capital requirements for credit risk under the internal ratings based approach

7.1 IRBA-related abbreviations

(1) The following abbreviations are used in this chapter:

- IRBA Internal Ratings Based Approach
- FIRB Foundation Internal Ratings Based Approach
- AIRB Advanced Internal Ratings Based Approach

7.2 Regulatory framework

- (2) On 21 July 2016, the EBA published and submitted a draft regulatory technical standard for adoption by the Commission on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach.³
- (3) In addition, on 16 November 2018, the EBA published and submitted a draft regulatory technical standard for adoption by the Commission on the specification of the nature, severity and duration of an economic downturn.⁴

GUIDELINE (paragraph 4)

- (4) The FIN-FSA recommends that supervised entities take into account the draft EBA regulatory technical standards referred to in paragraphs (2) and (3) in developing their credit rating systems. The drafts are available at Finanssivalvonta.fi.
- (5) On 28 September 2016, the EBA has issued guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).
- (6) On 20 November 2017, the EBA has issued guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16). *(Issued on 25.8.2020, valid from 1.3.2021)*
- (7) On 6 March 2019, the EBA has issued guidelines for the estimation of LGD appropriate for an economic downturn (EBA/GL/2019/03).
- (8) On 5 May 2020, the EBA has issued guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs (EBA/GL/2020/05). *(Issued on 25.8.2020, valid from 1.3.2021)*

³ The Final draft RTS on assessment methodology for IRB approach (EBA/RTS/2016/03)

⁴ The Final draft RTS on the specification of the nature, severity and duration of an economic downturn (EBA/RTS/2018/04)

GUIDELINE (paragraph 9)

- (9) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraph (5) latest on 1 January 2021 and in paragraphs (6)–(8) latest on 1 January 2022. Guidelines are available at Finanssivalvonta.fi.
- (10) In preparing the guidelines on internal models for significant credit institutions under its supervision, the European Central Bank (ECB) has relied on the EBA draft standards referred to paragraphs (2) and (3) as well as the EBA guidelines referred to in points (5) to (8). On 1 October 2019, the ECB published the first consolidated version of its guide to internal models, which includes chapters on general topics and chapters on specific risks. The Financial Supervisory Authority takes into account, where applicable, the aforementioned ECB guide in its supervision related to the internal models of less significant financial institutions. *(Issued on 25.8.2020, valid from 1.3.2021)*

7.3 Implementation of IRBA

- (11) In accordance with Article 148, paragraph 2 of the CRR, competent authorities shall determine the implementation period over which a supervised entity shall be required to implement the IRB Approach for all exposures, excluding items permanently excluded from the IRBA.

REGULATION (paragraphs 12–13)

- (12) By virtue of Article 148, paragraph 2 of the CRR, the FIN-FSA rules that the duration of the implementation period shall not exceed five years.
- (13) A supervised entity may apply an implementation period of up to five years in migrating from the FIRB to the AIRB.

7.4 IRBA-related applications and notifications

- (14) The FIN-FSA's Guidelines on the submission to the FIN-FSA of applications and notifications related to the internal rating based approach have been published on the FIN-FSA's online service in connection with these regulations and guidelines. *(Issued on 25.8.2020, valid from 1.3.2021)*

GUIDELINE (paragraph 15)

- (15) The FIN-FSA recommends that supervised entities follow the Guidelines referred to in paragraph (14) when submitting IRBA-related applications and notifications to the FIN-FSA. The guidelines are available at Finanssivalvonta.fi.

7.5 Definition of default

- (16) Article 178, paragraph 2, subparagraph d) of the CRR requires that the competent authority defines a threshold for the materiality of a credit obligation past due.

- (17) In accordance with Articles 1 and 2 of Commission Delegated Regulation (EU) No 2018/171⁵, a competent authority shall set for all institutions in its jurisdiction a single materiality threshold for retail exposures and a single materiality threshold for exposures other than retail exposures.
- (18) The European Central Bank has issued Guideline (EU) 2020/978⁶ on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 by national competent authorities in relation to less significant institutions with regard to the threshold for assessing the materiality of credit obligations past due, irrespective of the method used for the calculation of their risk-weighted exposure amounts. *(Issued on 25.8.2020, valid from 1.3.2021)*

REGULATION (paragraphs 19–21)

- (19) In applying Article 178, paragraph 2d of the CRR as supplemented by Articles 1 and 2 of Commission Delegated Regulation No 2018/171, credit institutions shall assess the materiality of the credit obligation past due relative to the following threshold consisting of two components:
- a) a limit (absolute threshold) in terms of the sum of all amounts past due owed by an obligor to the credit institution, the parent undertaking of that credit institution or any of its subsidiaries (hereinafter “credit obligation past due”) and corresponding to:
- i) EUR 100 for retail exposures;
 - ii) EUR 500 for exposures other than retail exposures;
- and
- b) a limit (relative threshold) in terms of the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor for the credit institution, the parent undertaking of that institution or any of its subsidiaries – excluding equity exposures – and corresponding to 1%.
- (20) Credit institutions applying the definition of default provided in Article 178, paragraph 1, subparagraphs (a) and (b) to retail exposures at the level of an individual credit facility are subject to the threshold provided in paragraph (19) at the level of a credit facility granted to an obligor by the credit institution, parent company or any subsidiary thereof.
- (21) Default shall be deemed to have occurred when both limits determined in subparagraphs a) and b) of paragraph (19) are exceeded for more than 90 consecutive days. *(Issued on 25.8.2020, valid from 1.3.2021)*

⁵ Commission Delegated Regulation (EU) No 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due;

⁶ Guideline (EU) 2020/978 of the European Central Bank of 25 June 2020 on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council by national competent authorities in relation to less significant institutions with regard to the threshold for assessing the materiality of credit obligations past due (ECB/2020/32)

8 Credit risk mitigation techniques

8.1 Sovereign and other public sector counter-guarantees

- (1) In accordance with Article 214, paragraph 2 of the CRR, the treatment established in paragraph 1 of the same Article shall apply to exposures protected by a guarantee which is counter-guaranteed by central government or central bank (subparagraph a).
- (2) Finnvera Plc is a specialised financial institution whose activities are governed by the Act on the State-Owned Specialised Financing Company and the Act on Credit, Guarantee and Capital Investment Operations Provided by the State-Owned Specialised Financing Company. These Acts provide that the responsibility of the state for Finnvera Plc's commitments is a direct commitment comparable to an absolute guarantee.
- (3) In accordance with the further requirements set out in Article 215, paragraphs 1 and 2 of the CRR, guarantees and counter-guarantees by entities listed in Article 214 qualify as eligible unfunded credit protection, where the relieved requirements referred to in Article 214, paragraph 2, subparagraphs a) and b) are satisfied.

GUIDELINE (paragraphs 4–6)

- (4) In accordance with the FIN-FSA's interpretation, the Finnish government shall be deemed a central government referred to in Article 214, paragraph 2, subparagraph a) of the CRR.
- (5) In accordance with the FIN-FSA's interpretation, a guarantee provided by Finnvera Plc qualifies as an eligible unfunded credit protection as referred to in Article 197 of the CRR and similar to a guarantee provided by the Finnish government insofar as the guarantee provided by Finnvera Plc satisfies the other conditions set out in Articles 213 and 215 of the CRR.
- (6) In accordance with the FIN-FSA's interpretation, supplementary guarantees provided by the Finnish government and municipalities qualify as mitigating credit risk in capital requirements calculation insofar as they, in addition to the general provisions of Article 213 of the CRR, satisfy the specific conditions set out in Article 214, paragraph 2, subparagraphs a) and b).

9 Capital requirements for counterparty risk

9.1 Hedging sets

- (1) Supervised entities shall establish hedging sets in accordance with Article 282 of the CRR. As regards transactions referred to in Article 6, the competent authority shall either determine the size of the risk positions and the applicable counterparty credit risk multipliers (CCRMs) conservatively, or require the institution to use the method set out in Section 3.

REGULATION (paragraph 2)

- (2) By virtue of Article 282, paragraph 6 of the CRR, the FIN-FSA rules that supervised entities must apply the fair value model provided in Article 274 of the Regulation to transactions referred to in Article 274 of the Regulation.

10 Capital requirements for market risk

10.1 EBA Guidelines

- (1) On 16 May 2012, the EBA has issued Guidelines on the Incremental Default and Migration Risk Charge (IRC) (EBA/GL/2012/3)
- (2) On 16 May 2012, the EBA has issued Guidelines on Stressed Value at Risk (Stressed VaR) (EBA/GL/2012/2)
- (3) On 11 October 2016, the EBA has issued Guidelines on corrections to modified duration for debt instruments, in accordance with Article 340(3)(2) of Regulation (EU) No 575/2013.
- (4) On 1 July 2020, the EBA has issued Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation) (EBA/GL/2020/09) (Issued on 21.10.2020, valid from 1.3.2021)

GUIDELINE (5)

- (5) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraphs (1)–(4), available at Finanssivalvonta.fi.

10.2 Maturity-based calculation of commodity risk

GUIDELINE (paragraph 6)

- (6) An example of calculation of the own funds requirement for commodity risk in accordance with Article 359 of the CRR using the maturity-based approach for a single commodity:

Maturity band	Positions		Calculation	Own funds requirement	Explanation
	Long	Short			
1	50	150	$50 \times 3.0\% =$ $1 \times 50 \times 0.6\% =$ $3 \times 50 \times 0.6\% =$	1.5 0.3 0.9	Netting within band 1 Transfer from band 1 to band 2 Transfer from band 1 to band 4
2	50	0	$50 \times 3.0\% =$	1.5	Netting between bands 1 and 2
3	0	40	$1 \times 40 \times 0.6\% =$	0.24	Transfer from band 3 to band 4
4	100		$50 \times 3.0\% =$ $40 \times 3.0\% =$ $10 \times 15\% =$	1.5 1.2 1.5	Netting between bands 1 and 4 Netting between bands 3 and 4



					Final open position
5					
6					
7					
	Total own funds requirement			8.64	

11 Capital requirement for securitisation

11.1 EBA Guidelines

- (1) On 7 July 2014, the EBA has issued guidelines on assessment of significant credit risk transfer in securitisation transactions (EBA/GL/2014/05).

GUIDELINE (paragraph 2)

- (2) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to in paragraph (1) insofar as they apply to a supervised entity as the originator of a security transaction. The EBA Guidelines are available at Finanssivalvonta.fi.

- (3) On 4 May 2020, the EBA has issued Guidelines on the determination of the weighted average maturity of contractual payments due under the tranche of a securitisation transaction (EBA/GL/2020/04) (*Issued on 25.8.2020, valid from 1.3.2021*)

GUIDELINE (paragraph 4)

- (4) The FIN-FSA recommends that supervised entities follow the Guidelines mentioned in paragraph (3) when calculating the maturity of contractual payments due under the tranche of a securitisation transaction, under Article 257 (1)(a) of Regulation EU No 575/2013. The Guidelines are available at Finanssivalvonta.fi. (*Issued on 25.8.2020, valid from 1.3.2021*)

- (5) On 24 November 2016, the EBA has issued Guidelines on implicit support for securitisation transactions (EBA/GL/2016/08).

GUIDELINE (paragraph 6)

- (6) FIN-FSA recommends that sponsor institutions and originator institutions comply with the EBA Guidelines referred to in paragraph (5) on support provided to securitisations beyond their contractual obligations. The EBA Guidelines are available at Finanssivalvonta.fi.

12 Capital requirements for operational risk

12.1 Permission to adopt different calculation approaches

- (1) Article 312 of the CRR provides the general preconditions for adopting different calculation methods.
- (2) The use of different calculation approaches as a combination is provided for in Article 314 of the CRR.
- (3) If a supervised entity adopts the standardised approach, an alternative standardised approach or an advanced approach, it may revert to the method with less accurate measurement of operational risk only when the conditions listed in Article 313 of the CRR are satisfied.
- (4) The capital requirements for operational risk under this chapter is not applicable to investment firms referred to in Articles 95 and 96 of the CRR. The own funds requirements for these investment firms is partly based on the fixed overheads referred to in Article 97 of the CRR.
- (5) In addition to these regulations and guidelines, regulations and guidelines related operational risk management are provided in FIN-FSA regulations and guidelines 8/2014: Management of operational risk in supervised entities of the financial sector

12.1.1 Basic Indicator Approach

GUIDELINE (paragraph 6)

- (6) For a supervised entity applying the basic indicator approach, the capital requirement for operational risk is calculated in accordance with Articles 315 and 316 of the CRR.

12.1.2 Standardised approach

GUIDELINE (paragraphs 7–8)

- (7) In accordance with Article 312, paragraph 1 of the CRR, a supervised entity may apply the standardised approach, if it in addition to the provisions of chapter 9, section 16 of the Credit Institutions Act satisfies the criteria set out in Article 320 of the CRR and has, prior to the implementation of the standardised approach, submitted a related notification to the FIN-FSA.
- (8) For a supervised entity applying the standardised approach, the capital requirement for operational risk is calculated in accordance with Articles 317 and 318 of the CRR. The relevant risk indicator is defined in Article 316.

12.1.3 Alternative standardised approach

GUIDELINE (paragraphs 9–11)

- (9) In accordance with Article 312, paragraph 1 of the CRR, the FIN-FSA may permit a supervised entity to use an alternative relevant indicator for the business lines of retail banking and commercial banking where the conditions set out in Articles 319, paragraph 2, and 320 are met.
- (10) The FIN-FSA recommends that a supervised entity planning to adopt an alternative standardised approach notifies its plans to the FIN-FSA in order to have more detailed instructions for filing an application.
- (11) For a supervised entity applying an alternative standardised approach, the capital requirement for operational risk is calculated in accordance with Article 319 of the CRR. The relevant risk indicator is defined in Article 316.

12.1.4 Advanced approach

GUIDELINE (paragraphs 12–14)

- (12) In accordance with Article 312, paragraph 2 of the CRR, a supervised entity may adopt an advanced approach in the calculation of capital requirements for operational risk if it has been permitted by FIN-FSA to apply this approach. The FIN-FSA may grant the permission where all the qualitative and quantitative standards set out in Articles 321 and 322 of the CRR and in Commission Delegated Regulation No 2018/959⁷ respectively are met and where the supervised entity meets the general risk management standards set out in chapter 9, section 16 of the Credit Institutions Act.
- (13) The impact of insurance and other risk transfer mechanisms on the capital requirements is provided for in Article 323 of the CRR. In accordance with the FIN-FSA's interpretation, the outsourcing of activities to an external party cannot be considered a risk transfer mechanism in this context.
- (14) In accordance with Article 312, paragraph 2 of the CRR, supervised entities shall apply for permission from the FIN-FSA for any material extensions and changes to advanced measurement approaches. In accordance with Article 312, paragraph 3 of the CRR, supervised entities shall notify the FIN-FSA of all changes to their advanced measurement approaches.

⁷ Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk

13 Large exposures

13.1 EBA Guidelines

- (1) On 14 November 2017, the EBA has issued Guidelines on connected clients (EBA/GL/2017/15).
- (2) On 15 December 2015, the EBA has issued Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework (EBA/GL/2015/20).

GUIDELINE (paragraph 3)

- (3) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraphs (1) and (2), available at Finanssivalvonta.fi.

13.2 Application of the regulations to financial and insurance conglomerates

- (4) In accordance with Article 389 of the CRR, client risk refers to any assets or off-balance sheet commitments referred to in Part Three, Title II, Chapter 2 of the Regulation.

GUIDELINE (paragraphs 5 - 6)

- (5) In accordance with the FIN-FSA's interpretation, credit and guarantee insurance is comparable to off-balance sheet commitments.
- (6) In accordance with the FIN-FSA's interpretation, the approach to unknown clients referred to in Commission Delegated Regulation No 1187/2014⁸ does not need to be applied to the calculation of customer exposures due to insurance companies' investments at the level of the financial and insurance conglomerate.

13.3 Limits to large exposures

- (7) In accordance with Article 395, paragraph 3 of the CRR, competent authorities may set a lower limit than EUR 150 million.
- (8) The FIN-FSA has not set a lower limit.

13.4 Reporting of exceeded limits

- (9) The limits to large exposures referred to in Article 395 of the CRR may not be exceeded. However, if exposures exceptionally exceed the limits, the supervised entity must, in

⁸ Commission Delegated Regulation (EU) No 1187/2014 of 2 October 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets

accordance with Article 396, paragraph 1 of the CRR report the exposure value to the FIN-FSA without delay.

GUIDELINE (paragraphs 9–11)

- (10) The supervised entity may submit the excess report to the FIN-FSA in a free-format letter or in the FIN-FSA's standardised form, which is available on the FIN-FSA website (in Finnish)
- (11) The FIN-FSA recommends that the supervised entity in its excess report provides the following information:
- contact information of the reporter
 - time when the excess occurred
 - the value of excess
 - the reason for excess
 - plan made by the supervised entity describing the manner and time in which it is able to align its risk exposures with the legal limit. If a plan has already been made in respect of a customer or a customer group, and the plan has not been followed, there shall also be additional information for example on the schedule of the new plan, the planned measures for reducing the exposures and the reasons why the plan failed.

14 Liquidity risk requirements

14.1 Application of Part Six of the CRR to investment firms

- (1) In accordance with Article 6, paragraph 4 of the CRR, pending the report from the Commission in accordance with Article 508(3), competent authorities may exempt investment firms from compliance with the obligations laid down in Part Six taking into account the nature, scale and complexity of the investment firms' activities.

REGULATION (paragraph 2)

- (2) By virtue of Article 6, paragraph 4 of the CRR, FIN-FSA rules that Part Six of the CRR shall not be applied to investment firms.
- (3) In accordance with Article 11, paragraph 3 of the CRR, pending the report from the Commission in accordance with Article 508(3), competent authorities may exempt investment firms from compliance on a consolidated basis with the obligations laid down in Part Six taking into account the nature, scale and complexity of the investment firms' activities.

REGULATION (paragraph 4)

- (4) By virtue of Article 11, paragraph 3 of the CRR, FIN-FSA rules that Part Six of the CRR shall not be applied to investment firms on a consolidated basis.

14.2 Additional liquidity outflows for other products and services

- (5) In accordance with Article 23, paragraph 2 of the Commission Delegated Regulation No 2015/61⁹ concerning the liquidity coverage ratio, competent authorities may apply an outflow rate of up to 5% for trade finance off-balance sheet related products as referred to in Article 429 and Annex I of Regulation (EU) No 575/2013.

REGULATION (paragraph 6)

- (6) Supervised entities must apply an 5% outflow rate to the assessment of liquidity outflows regarding trade finance off-balance sheet related products. The FIN-FSA does not have statistical evidence to support a lower outflow rate than 5% for trade finance off-balance sheet related products.

⁹ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the liquidity coverage requirement for credit institutions.

15 Disclosure of capital adequacy and liquidity risk information

15.1 EBA Guidelines

- (1) On 23 December 2014, the EBA has issued Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14).
- (2) On 27 July 2014, the EBA has issued Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).
- (3) On 14 December 2016, the EBA has issued Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11).
- (4) On 21 June 2017, the EBA has issued Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01).
- (5) On 16 January 2018, the EBA has issued Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01).
- (6) On 17 December 2018, the EBA has issued Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10). The Guidelines apply as of 31 December 2019.
- (7) On 11 August 2020, the EBA has issued Guidelines on supervisory reporting and disclosure requirements in compliance with CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/11). *(Issued on 20.1.2021, valid from 1.3.2021)*
- (8) On 11 August 2020, the EBA has issued Guidelines amending Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/12). *(Issued on 20.1.2021, valid from 1.3.2021)*

GUIDELINE (paragraph 9)

- (9) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraphs (1)–(6), available at Finanssivalvonta.fi. *(Issued on 20.1.2021, valid from 1.3.2021)*
- (10) In accordance with paragraph 9 of EBA/GL/2016/11, competent authorities may require institutions that are neither G-SIIs nor O-SIIs to apply some or all guidance in these guidelines when complying with the requirements in Part Eight of the CRR.

GUIDELINE (paragraph 11)

- (11) The FIN-FSA recommends that supervised entities referred to above in paragraph (10) comply with paragraph (8) of the EBA Guidelines as such and other advice provided in the Guidelines as best practices, as applicable.
- (12) On 2 June 2020, the EBA has issued Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). On these Guidelines, the FIN-FSA has issued separate Regulations and guidelines 3/2020: Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (*Issued on 20.1.2021, valid from 1.3.2021*)

15.2 Disclosure requirements pertaining to significant subsidiaries of credit institutions or investment firms

- (13) In accordance with Article 13, paragraph 1 of the CRR, EU parent institutions shall comply with the obligations laid down in Part Eight of the CRR on the basis of their consolidated situation.
- (14) In accordance with Article 13, paragraph 2 of the CRR, institutions controlled by an EU parent financial holding company or EU parent mixed financial holding company shall comply with the obligations laid down in Part Eight of the CRR on the basis of the consolidated situation of that financial holding company or mixed financial holding company.
- (15) In accordance with Article 13, paragraphs 1 and 2 of the CRR, significant subsidiaries of EU parent institutions and those subsidiaries which are of material significance for their local market shall disclose the information specified in Articles 437, 438, 440, 442, 450, 451 and 453, on an individual or sub-consolidated basis.
- (16) A competent authority shall provide information on the criteria it applies to assess the significance of a subsidiary. Provisions on the criteria have been given in Annex 1, Part 5 of the following regulation: Commission Implementing Regulation (EU) No 650/2014 laying down implementing technical standards with regard to the format, structure, contents list and annual publication date of the information to be disclosed by competent authorities in accordance with Directive 2013/36/EU of the European Parliament and of the Council.

REGULATION (paragraphs 14–15)

- (17) A subsidiary credit institution or investment firm shall be considered significant, if the share of its balance sheet total or, if the information is disclosed on the basis of consolidated capital adequacy, the share of the subsidiary credit institution's or investment firm's consolidated balance sheet total forms at least 10% of the parent company's consolidated balance sheet total.
- (18) Requirements pertaining to significant subsidiaries do not apply to a Finnish sub-consolidation group's parent company whose Finnish parent company shall disclose consolidated capital adequacy information.

16 Repealed regulations and guidelines

Upon entry into force, these regulations and guidelines shall repeal the following FIN-FSA regulations and guidelines:

- Regulations and guidelines 25/2013: Capital requirements calculation and large exposures
- Regulations and guidelines 10/2014: Disclosure of encumbered and unencumbered assets
- Regulations and guidelines 4/2013: Calculation of Stressed VaR and Incremental Risk Charge

These regulations and guidelines also repeal the FIN-FSA's statement issued on 31 December 2013 on the regulatory options left in the CRR within the discretion of the competent authority.

17 Revision history

These regulations and guidelines have been amended after their entry into force as follows:

Issued on 25.8.2020, 21.10.2020 and 20.1.2021, valid from 1.3.2021

- added to paragraph (2) of section 2.5 Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs, to paragraph (3) Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation), to paragraph (4) Guidelines on the determination of the weighted average maturity of contractual payments due under the tranche of a securitisation transaction, to paragraph (5) ECB guide to internal models and ECB Guidelines (EU) 2020/978 and to paragraph (6) three EBA Guidelines on measures applied in response to the COVID-19 pandemic.
- corrected reference to another paragraph in paragraph (22) of section 6
- amended section 7 as follows:
 - moved paragraph (4) to paragraph (10), to which updated Consolidated version of the ECB's internal models guide and added a mention that the FIN-FSA takes into account, where applicable, the ECB guide in its supervision of the internal models of less significant financial institutions.
 - corrected in paragraph (6) date of issue of Guidelines [previously paragraph (7)]
 - added to paragraph (8) EBA's CRM Guidelines and to paragraph (9) recommendation to comply with the Guidelines
 - added subsection 7.4 and paragraph (14) on the submission to the FIN-FSA of applications and notifications related to the IRBA
 - added paragraph 18, mentioning Guideline 2020/978 issued by the European Central Bank
 - revised paragraph (21), date when default is deemed to have occurred [previously paragraph (19)]
 - deleted paragraphs related to date of introduction of new deficit of default as well as notification of date of introduction, and threshold values of old definition of default, as new definition has been introduced as of 1 January 2021 [previously paragraphs (14) end part, (15) – (16) and (20 – 23)]
- added to section 10.1 paragraph (4) EBA Guidelines and to paragraph (5) recommendation to comply with Guidelines
- added to section 11 paragraph (3) EBA Guidelines and to paragraph (4) FIN-FSA's recommendation to comply with Guidelines
- amended section 15 as follows:

- added to paragraphs (7) - (9) EBA Guidelines, as a result of subsequent paragraphs were renumbered
- added to paragraph (12) mention of FIN-FSA Regulations and guidelines 3/2020