

22/08/2018

DECISION



Addresses, see Appendix 1.

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Notification no. 1

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Risk weight floor for Swedish mortgage exposures

Decision by Finansinspektionen

1. Finansinspektionen has decided to implement an average institution-specific risk weight floor of 25 per cent for exposures in Sweden collateralised by real estate in the exposure class “exposures to households” (Swedish mortgage exposures) for credit institution with authorisation to use a method based on an internal ratings-based approach to calculate risk-weighted exposure amounts for credit risk.
2. Pursuant to point 1, Finansinspektionen has decided that
 - 1) Nordea Bank AB, CIN 516406-0120, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
 - 2) Nordea Hypotek AB, CIN 556091-5448, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
 - 3) Swedbank AB, CIN 502017-7753, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
 - 4) Swedbank Hypotek AB, CIN 556003-3283, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
 - 5) Svenska Handelsbanken AB CIN 502007-7862, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
 - 6) Stadshypotek AB, CIN 556459-6715, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
 - 7) Skandinaviska Enskilda Banken AB, CIN 502032-9081, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,

- 8) SBAB Bank AB, CIN 556253-7513, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 9) AB Sveriges Säkerställda Obligationer, CIN 556645-9755, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 10) Länsförsäkringar Bank AB, CIN 516401-9878, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 11) Länsförsäkringar Hypotek AB, CIN 556244-1781, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 12) Skandiabanken AB, CIN 516401-9738, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 13) Landshypotek Bank AB, CIN 556500-2762 and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 14) Sparbanken Rekarne AB, CIN 516401-9928, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 15) Bergslagens Sparbank AB, CIN 516401-0109, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 16) Sparbanken Sjuhärad AB, CIN 516401-9852, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 17) Sparbanken Skåne AB, CIN 516401-0091, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 18) Vimmerby Sparbank AB, CIN 516401-0174, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 19) Ölands Bank AB, CIN 516401-0034, shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,
- 20) Danske Hypotek AB, CIN 559001-4154, and its consolidated situation shall have an average risk weight floor of 25 per cent for Swedish mortgage exposures,

3. The decisions apply from 31 December 2018 until 30 December 2020.

(Article 458 of 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)

For information on how to appeal, see the appendix.

Applicable provisions

Pursuant to Chapter 1, section 6, second paragraph of the Special Supervision of Credit Institutions and Investment Firms Act (2014:968) (the Supervision Act), Finansinspektionen is the competent authority to decide on special macroprudential measures in accordance with Article 458 of 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 (CRR).

Pursuant to Article 458(2) of the CRR, Finansinspektionen, if it identifies changes in the intensity of macroprudential or systemic risk in the financial system with the potential to have serious negative consequences to the financial system and the real economy, can decide on certain stricter national measures. One example of such measures could be higher risk weights to target asset bubbles in the residential property sector.

In order to apply the measures, Finansinspektionen must notify the European Parliament, the European Council (the Council), the European Commission (the Commission), the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA) about the measures and in accordance with Article 458(2)(a-f) of the CRR submit relevant quantitative or qualitative evidence for why the measures are necessary.

The Council may, at the suggestion of the Commission, by adopting an implementing act, reject the national measures. If this does not occur within given deadlines, Finansinspektionen may adopt and apply the macroprudential measures.

The case

Finansinspektionen published a consultation memorandum on 28 March 2018 entitled “Changed method for the application of the risk weight floor for Swedish mortgages”. The memorandum contained a proposal for a risk weight floor in Pillar 1 for Swedish mortgage exposures. Finansinspektionen submitted the memorandum to 15 consultation bodies.

Thereafter, on 24 May 2018, under Article 458 of the CRR, Finansinspektionen notified the European Parliament, the Council, the Commission, the ESRB and the EBA about the proposed measure.

The Commission decided on 17 July 2018 not to propose to the Council to adopt an implementing act to reject Finansinspektionen’s proposed measure.

Finansinspektionen’s final considerations regarding the implementation of a risk weight floor in Pillar 1 for Swedish mortgage exposures are presented in the decision memorandum entitled “Changed method for the application of the risk weight floor for Swedish mortgages” dated 22 August 2018 (decision memorandum), Appendix 2 to this decision.

Finansinspektionen's assessment

Macroprudential risks for Swedish mortgage exposures

Finansinspektionen, in accordance with section 2.3 of the decision memorandum, has identified changes in the intensity of macroprudential risks in the financial system linked to Swedish mortgages. As described in detail in the decision memorandum, these could potentially have serious negative consequences for the financial system and the real economy in Sweden. Furthermore, Finansinspektionen makes the assessment in accordance with that presented in the decision memorandum that these risks should be managed in the future via stricter national measures in the form of risk weights to counteract asset bubbles in the housing sector through a risk weight floor for Swedish mortgage exposures. "Swedish mortgage exposures" refers to exposures in Sweden collateralised by real estate in the exposure class "exposures to households".

Finansinspektionen implemented a risk weight floor for Swedish mortgages in 2014 as an additional capital requirement pursuant to Chapter 2, section 1 of the Supervision Act, i.e. a Pillar 2 requirement, for the same reason.

Changed method for the implementation of a risk weight floor

Structural changes on the Swedish banking market could lead to a situation where the participants on the Swedish mortgage market face different capital requirements for their Swedish mortgage exposures. Finansinspektionen has therefore evaluated how to retain the Swedish banking system's resilience while at the same time counteracting a distortion in the competition on the market and makes the assessment that the manner in which the risk weight floor is currently applied needs to change. This is necessary to safeguard financial stability, by retaining the current level of capital requirements for mortgage exposures in Sweden, and maintain a level playing field on the Swedish mortgage market. Both of these goals are achieved by replacing the current risk weight floor with a requirement under Article 458 of the CRR.

In addition, the current design of the capital requirements for Swedish banks will change in the future following the outcome of the ongoing review of the EU's regulations for capital adequacy and the new standards from the Basel Committee for Banking Supervision (the Basel Committee), which will subsequently be introduced into the EU regulatory framework.

Therefore, Finansinspektionen makes the assessment on these grounds that applying the current risk weight floor for Swedish mortgage exposures as an additional requirement under Pillar 2 is no longer appropriate for managing the identified macroprudential risks and must therefore be replaced with a corresponding requirement under Article 458 of the CRR. The new requirement will be included in the Pillar 1 requirements.

Scope of the risk weight floor

Because it is the same risk that was previously managed through a Pillar 2 requirement that will now be managed through a changed method, the scope of the risk weight floor will remain unchanged.

On the grounds set forth in section 2.3.2 of the decision memorandum, the risk weight floor will therefore amount to 25 per cent for Swedish mortgage exposures. This requirement will apply to credit institutions that have authorisation pursuant to Article 143 of the CRR to use a method based on an internal ratings-based approach (IRB approach) to calculate risk-weighted exposure amounts for credit risk. The risk weight floor entails that the risk weight that is calculated for the current exposures in accordance with Part Three, Title II of the CRR may not be less than 25 per cent.

Swedish institutions with authorisation to apply the IRB approach

Nordea Bank AB, Nordea Hypotek AB, Swedbank AB, Swedbank Hypotek AB, Svenska Handelsbanken AB, Stadshypotek AB, Skandinaviska Enskilda Banken AB, SBAB Bank AB, AB Sveriges Säkerställda Obligationer, Länsförsäkringar Bank Aktiefbolag, Länsförsäkringar Hypotek AB, Skandiabanken AB, Landshypotek Bank AB, Sparbanken Rekarne AB, Bergslagens Sparbank AB, Sparbanken Sjuhärad AB, Sparbanken Skåne AB, Vimmerby Sparbank AB, Ölands Bank AB and Danske Hypotek AB (the institutions) have authorisation to apply the IRB approach and shall therefore be subject to the risk weight floor for Swedish mortgage exposures.

According to the general principles set out in the CRR, the capital requirements apply at both the institution level and the group level. Therefore, the risk weight floor applies to individual institutions and, where relevant, their consolidated situation.

Period of application and entry into force

The risk weight floor shall apply for two years. The institutions shall therefore apply the risk weight floor for mortgage exposures in Pillar 1 from 31 December 2018 until 30 December 2020.

Other

Finansinspektionen will apply for reciprocity of the measure by affected Member States to ensure that other Member States apply it to nationally authorised branches located in Sweden in accordance with Article 458(5) of the CRR. Reciprocity by other Member States means that the measure will be applied to Swedish mortgage exposures in foreign credit institutions' branches in Sweden. The application for reciprocity will also be sent to the ESRB, which can issue a recommendation to the Member States to reciprocate the Swedish risk weight floor for mortgages in accordance with Article 458(8) of the CRR.

Finansinspektionen may withdraw this decision at a later point in time if it makes the assessment that the macroprudential risk has ceased to exist.

Before the expiration of the application period as set out in this decision, Finansinspektionen, in collaboration with the ESRB and the EBA, shall evaluate the intensity of macroprudential risks in the financial system linked to Swedish mortgage exposures. If the macroprudential risk is still present in Sweden, Finansinspektionen may adopt a new decision to extend the application period one additional year at a time in accordance with the procedure set out in Article 458(9) of the CRR.

If additional institutions receive authorisation to apply the IRB approach, they will also be subject to the risk weight floor for Swedish mortgages.

FINANSINSPEKTIONEN

Sven-Erik Österberg
Chairman of the Board of Directors

Matilda Gjirja
Senior Analyst

A decision in this matter was made by the Board of Directors of Finansinspektionen (Sven-Erik Österberg, Chair, Maria Bredberg Pettersson, Marianne Eliason, Hans Nyman, Mats Walberg, Peter Englund and Erik Thedén, Director General) following a presentation by Matilda Gjirja, Chief Legal Counsel Charlotte Rydin, Deputy Director General Martin Noréus, Deputy Executive Director Karin Lundberg, Senior Capital Requirement Expert Maria Blomberg and Senior Legal Counsellor Kajsa Larsberger also participated in the final preparation of this case.