



Assessment Team on national macroprudential measures

Assessment of a measure taken in Norway pursuant to Article 131 of the Capital Requirements Directive which is cumulative with an existing measure pursuant to Article 133 of that Directive

Introduction

On 27 June 2023 the Secretariat of the European Systemic Risk Board (ESRB) received formal notification from the Norwegian Ministry of Finance of its intention to require certain institutions to maintain a buffer relating to other systemically important institutions (O-SIIs) in accordance with Article 131 of the Capital Requirements Directive (CRD)¹ (the “proposed measure”). More specifically, the proposed measure aims to impose an O-SII buffer of 2% on one bank and 1% on three banks. The change from the previous setting is that one institution will be added to the list as a fourth O-SII, with an imposed O-SII buffer rate of 1%. The buffer rates required from the other institutions on the list will stay unchanged.

As the sum of the existing systemic risk buffer (SyRB) of 4.5% and the respective O-SII buffers results in a combined rate of above 5% for each of the four banks, the ESRB is required to provide the EFTA Standing Committee with an opinion in accordance with Article 131(5a) and (15) CRD read in conjunction with Annex IX of the Agreement on the European Economic Area.² Following the issuance of the ESRB Opinion, the EFTA Standing Committee shall adopt a decision authorising the setting or resetting of the O-SII buffer rates if it is satisfied that the buffer does not entail disproportionate adverse effects on the whole or parts of the financial system of other European Economic Area (EEA) Contracting Parties, or of the EEA as a whole, forming or creating an obstacle to the proper functioning of the internal market.

On 4 December 2020 the ESRB issued a recommendation stating that the setting of the SyRB rate applicable in Norway was justified, suitable, proportionate, effective and efficient.³ The SyRB rate of 4.5% is applied to all domestic exposures in Norway. Following a notification received from the Norwegian Ministry of Finance asking for reciprocation of the SyRB, the ESRB recommended reciprocation of the measure within 18 months of the publication

¹ 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 (OJ L 176, 27.6.2013, p. 338).

² Agreement on the European Economic Area (OJ L 1, 3.1.1994, p. 3).

³ See the ESRB Recommendation and assessment note of 4 December 2020.

of the recommendation on 30 April 2021, with a materiality threshold corresponding to about 1% of credit institutions' total risk-weighted exposures in Norway.⁴ The materiality threshold was later lowered to 0.16%.⁵

The ESRB's Opinion of 15 November 2022 assessed that the application by the Norwegian Ministry of Finance of an O-SII buffer to three credit institutions, which is cumulative with the existing SyRB to which these credit institutions are already subject, appropriately addresses the identified risks.⁶ In last year's assessment, the three O-SIIs subject to the cumulative buffers were DNB Bank ASA (2%), Kommunalbanken AS (1%) and Nordea Eiendomsrett AS (1%). SpareBank 1 SR-Bank ASA will now be added to the list as a fourth O-SII, with an imposed O-SII buffer rate of 1%. The buffer rates required from the other institutions on the list will stay unchanged.

The role of the Assessment Team is to prepare a draft opinion on the appropriateness of the macroprudential policy measure of which the ESRB has been notified, with regard to relevant requirements under the CRD, from a financial stability perspective. Pursuant to Article 131(5a) CRD in conjunction with Article 131(15) CRD, considering that the O-SII buffers are cumulative with the existing SyRB, the O-SII buffer rate should not entail disproportionate adverse effects on financial stability in other EEA Contracting Parties, or the EEA as a whole, forming or creating an obstacle to the proper functioning of the internal market.

Description of the proposed measure

The proposed measure concerns the setting of O-SII buffer rates in Norway. It applies to four domestically established Norwegian banks, one of which is a subsidiary of an entity domiciled in Finland. Financial institutions in Norway are identified as O-SIIs when their assets exceed 10% of Norway's GDP and/or their total loans exceed 5% of total loans to the private non-financial sector in Norway. This is complemented by assessing whether further relevant entities could be designated as O-SIIs on a discretionary basis, based on scores calculated under the EBA Guidelines⁷. This approach to assessing O-SIIs partially complies with the Guidelines.⁸

In a change from the previous setting of O-SII buffers as notified on 4 October 2022, one institution will be added to the list of O-SIIs, with its buffer rate set at 1%. The buffer rates required from the other institutions mentioned above will stay unchanged. All four banks subject to O-SII buffers are also subject to the SyRB, which is applicable to all domestic exposures in Norway.

⁴ See the ESRB Recommendation of 30 April 2021 ([ESRB/2021/3](#)).

⁵ See the ESRB Recommendation of 6 March 2023 ([ESRB/2023/1](#)).

⁶ See the ESRB [Opinion](#) and [assessment note](#) of 15 November 2022.

⁷ [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 \(O-SIIs\) \(EBA/GL/2014/10\)](#), EBA, December 2014.

⁸ According to the accompanying [compliance table](#) of the EBA Guidelines, "The Norwegian Ministry of Finance adopted a regulation on the identification of systemically important financial institutions in Norway in May 2014... As a general rule, an institution shall be designated as systemically important if it has total assets corresponding to at least 10 per cent of Mainland Norway's GDP, or a share of the Norwegian lending market of at least 5 per cent... In addition to the two main criteria, the Regulation says that the FSA's advice also shall be based on an assessment of the institution's size, the institution's importance in Norway and other countries, the institution's complexity, the institution's role in the financial system infrastructure and to which degree the institution is interconnected with the rest of the financial system. To enlighten these criteria, the FSA will use the methodology in the EBA Guidelines".

The level of the O-SII buffer is decided according to the following rule. The buffer is set at 2% for institutions with total assets corresponding to at least 20% of Norway's GDP or with a share of total loans to the private non-financial sector of at least 10%. This was the case for DNB ASA, with total assets equivalent to 90.7% of Norway's GDP and a 26.1% share of total loans to the private non-financial sector. The buffer is set at 1% for institutions with total assets corresponding to at least 10% of Norway's GDP or with a share of total loans to the private non-financial sector of at least 5%. This was the case for Kommunalbanken AS and Nordea Eiendoms kreditt AS, with total assets-to-GDP ratios of 13.8% and 9.2% respectively and shares of total loans to the private non-financial sector of 5.3% and 5.4% respectively. In addition, given that SpareBank 1 SR-Bank ASA's total assets as a share of Norway's GDP are close to the qualification requirement (9.7%) and the bank's overall EBA score of 414 is higher than the suggested limit for automatic identification as a systemically important institution in the EBA Guidelines, the bank is considered to be systemically important, with its buffer set at 1%. SpareBank 1 SR-Bank ASA also has a higher overall EBA score than Nordea, which already features on the O-SII list.

Risks addressed through the proposed measure

The risks leading to the resetting of the O-SII buffers stem from the particularly important role played by systemically important institutions in the Norwegian economy. The aim of the O-SII buffer is to increase the loss-absorbing capacity of the most systemically important institutions in Norway, thereby reducing any financial stability risks stemming from such institutions running into difficulties. According to the Norwegian authorities, the financial stability outlook has not changed substantially since the last O-SII assessment.

According to Article 133(8) CRD, the SyRB is not to be used to address risks that are covered by the O-SII buffers, as detailed in Articles 130 and 131 CRD. Hence, the justifications for the use of the SyRB should differ from those for the use of O-SII buffers. The risks leading to the activation of the SyRB were detailed in the corresponding notification received from the Norwegian authorities. The main indicators used to activate the SyRB were the funding structure of credit institutions, credit institutions' outstanding bond funding by currency, the ownership of bonds issued by mortgage companies, the composition of credit institutions' lending, Norwegian households' debt burden, the share of Norwegian households with floating mortgage rates, the concentration of credit institutions' lending to the corporate sector (broken down by sector), sector concentration in Norway's GDP, the banking sector's share of domestic credit to the non-financial sector and total banking sector assets as a share of GDP. Norwegian credit institutions have similar and concentrated exposures, in particular towards Norwegian real estate markets with high real estate prices and high household debt. Credit institutions are also closely interconnected through, for example, cross-holdings of covered bonds. While some of the criteria for setting the two buffer requirements are similar, the Assessment Team did not conclude that this could lead to disproportionate adverse effects on the whole or parts of the financial system of other EEA Contracting Parties, or the EEA as a whole, forming or creating an obstacle to the proper functioning of the internal market. In addition, the Norwegian authorities stressed that the way the SyRB was calibrated took into account the overlap in the methodologies used to set O-SII buffers and the SyRB.

Effectiveness and proportionality

The Assessment Team considers the combination of the SyRB and the respective O-SII buffers to be effective in addressing systemic risk, although it notes that a greater differentiation of O-SII buffer rates might improve

proportionality. The aim of the O-SII buffers is to increase the loss-absorbing capacity of the most systemically important institutions in Norway, thereby reducing the financial stability risks stemming from such institutions running into difficulties. OSIIs are particularly important in the Norwegian financial system, given their relative size in the Norwegian economy and their shares of loans to the private non-financial sector. Differentiating buffer requirements on the basis of the degree of systemic importance of O-SIIs contributes to the proportionality of the measure. The Assessment Team is of the view that it could be worth considering greater differentiation of buffer rates in a way that is commensurate with the systemic importance of institutions, given that the largest institution is almost six times bigger and almost eight times more systemically important than the second largest, according to overall EBA scores. Furthermore, the smallest institution's EBA score is below the reference threshold in the EBA Guidelines and this institution is identified via a supervisory assessment, but it has the same buffer rate as two other institutions. In addition, the differences in buffer rates between institutions become relatively smaller when considering the combination of both buffers. However, the Assessment Team also recognises that the differentiation of rates cannot fully replicate all the specificities in the measurement of systemic importance of credit institutions and considers that the level of combination of the O-SII buffer with the SyRB is sufficient for mitigating the risks posed by the systemic importance of the largest institution.

Conclusions

The ESRB is of the view that the proposed measure appropriately addresses the identified risks. It does not entail disproportionate adverse effects on financial stability in Norway or the EU and is not expected to form or create an obstacle to the proper functioning of the internal market. Nonetheless, the Assessment Team has observed differences between Norway and other jurisdictions in applying the EBA Guidelines on the criteria for assessing O-SIIs and suggests that the O-SII methodology could have a higher level of granularity.