Notification template for Article 131 of the Capital Requirements Directive (CRD) – Other Systemically Important Institutions (O-SIs)

Template for notifying the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) of the setting or resetting of an O-SII buffer under Article 131(7) CRD and of the identity of O-SIIs under Article 131(12) CRD

Please send/upload this template to:
- **macropru.notifications@ecb.europa.eu** when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation);
- **DARWIN/ASTRA** when notifying the ESRB.

The ESRB will forward this notification to the European Commission, to the European Banking Authority (EBA) and to the competent and designated authorities of the Member States concerned without delay and will publicly disclose the names of the O-SIIs on its website. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure.

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

<table>
<thead>
<tr>
<th>1. Notifying national authority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.1 Name of the notifying authority</strong></td>
</tr>
<tr>
<td><strong>1.2 Country of the notifying authority</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Description of the measure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.1a Institution or group of institutions concerned</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>LEI</th>
<th>Consolidation level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea Bank Abp</td>
<td>529900CDI0047E2LIV03</td>
<td>Highest level of consolidation</td>
</tr>
<tr>
<td>OP Cooperative</td>
<td>7437003BFBCIEFY714</td>
<td>Highest level of consolidation</td>
</tr>
<tr>
<td>Municipality Finance Plc</td>
<td>529900HEK0ENJHPNN480</td>
<td>Highest level of consolidation</td>
</tr>
</tbody>
</table>

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2. On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

Date of template version: 26-11-2021
2.1b Changes to the list of institutions concerned

There were no changes in the list of Finnish O-SIIs compared to the last notification.

2.2 Level of the buffer applied

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>New O-SII buffer</th>
<th>Previous O-SII buffer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea Bank Abp</td>
<td>2.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>OP Cooperative</td>
<td>1.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Municipality Finance Plc</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

2.3 Name of the ultimate EU parent institution

Please provide the name and LEI code of the ultimate EU parent institution of the group for each of the O-SIIs identified. If the ultimate EU parent institution is not the concerned institution itself.

*Not relevant since all the identified O-SIIs are ultimate EU parent institutions themselves.*

<table>
<thead>
<tr>
<th>Name of identified O-SII</th>
<th>Ultimate EU parent institution</th>
<th>LEI of ultimate parent institution</th>
</tr>
</thead>
</table>

2.4 Names of subsidiaries

If any of the O-SIIs identified is a parent institution and the buffer is applied at a (sub)consolidated level, please name the subsidiaries of the institution that are notified as O-SIIs (please give names and LEI codes).

*Not relevant, no subsidiaries have been identified as O-SIIs and O-SII buffers are applied only at the highest level of consolidation.*

<table>
<thead>
<tr>
<th>Name of parent O-SII identified</th>
<th>Name of O-SII subsidiary</th>
<th>LEI of O-SII subsidiary</th>
</tr>
</thead>
</table>

3. Timing for the measure

3.1 Timing for the decision

What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken.

27/06/2022
3.2 Timing for publication
What is the date of publication of the notified measure?
28/06/2022

3.3 Disclosure
Information about the strategy for if the communicating the notified measure to the market.

*The decision by the FIN-FSA Board as well as more detailed principles for determining O-SIIs and setting O-SII buffers will be published on the FIN-FSA website on 28 June 2022.*

*Prior to the final decision of the FIN-FSA Board, the Finnish O-SIIs will be provided an opportunity to express their opinions on the matter according to the Administrative Procedure Act.*

3.4 Timing for application
What is the intended date of application of the measure?
01/01/2023

3.5 Phasing in
What is the intended timeline for the phase-in of the measure?
*There will be no phase-in periods i.e. the buffers enter into force in full on 1 January 2023.*

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>Date1</th>
<th>Date2</th>
<th>Date3</th>
<th>Date4</th>
<th>Date5</th>
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</tr>
</tbody>
</table>

3.6 Review of the measure
When will the measure be reviewed (Article 131, paragraphs (6) and (12), specify that the buffer, the identification of O-SIIs and their allocation to subcategories must be reviewed at least annually)?

*The measure will be reviewed in 2023*

4. Reason for O-SII identification and activation of the O-SII buffer

4.1 Scores of institutions or group of institutions concerned, as per EBA guidelines on the assessment of O-SIIs (Article 131.3 CRD)

Please list here the names, overall scores and category scores of the O-SIIs identified based on

a. size;
b. importance for the economy of the relevant Member State or the Union, capturing substitutability/financial institution infrastructure;
c. complexity, including the additional complexities from cross-border activity;
d. interconnectedness of the institution or (sub-)group with the financial system.

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>Size</th>
<th>Substitutability</th>
<th>Complexity</th>
<th>Interconnectedness</th>
<th>Overall Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea Bank Abp</td>
<td>58.41%</td>
<td>46.78%</td>
<td>88.66%</td>
<td>62.69%</td>
<td>64.11%</td>
</tr>
<tr>
<td>OP Cooperative</td>
<td>17.51%</td>
<td>16.54%</td>
<td>2.99%</td>
<td>9.94%</td>
<td>11.75%</td>
</tr>
<tr>
<td>Municipality Finance Plc</td>
<td>5.33%</td>
<td>1.12%</td>
<td>1.73%</td>
<td>8.17%</td>
<td>4.99%</td>
</tr>
</tbody>
</table>

Please provide other relevant information (indicator values, methodology, calculations and formulas, data sources, information set used for denominators) in a separate Excel file.
Please see the Excel file attached.

FIN-FSA O-SII
information Q4 2021

### 4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)

Please provide information on:

- **a.** whether you followed the EBA guidelines on the assessment of O-SIIs;
  
  Yes, we have applied the EBA guidelines in the identification of O-SIIs.

- **b.** which threshold score has been set to identify O-SIIs;
  
  A 2.75% threshold score has been applied. An institution is automatically identified as an O-SII institution if the total scores as per EBA GL exceed the threshold of 2.75%.

- **c.** whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process;
  
  No, all entities are included.

- **d.** the names and scores of all relevant entities not excluded from the identification process (could be sent in a separate Excel file, see 4.1);
  
  Please see the Excel file attached in 4.1 (all credit institutions included in the assessment process listed, branches of foreign banking groups operating in Finland have been included in calculation of denominators but not listed in the file as they cannot be identified as O-SIIs).

- **e.** whether non-bank institutions have been included in the calculations.
  
  No, all Finnish credit institutions and branches of foreign banking groups operating in Finland are included in the calculations.

### 4.3 Supervisory judgement

Have any of the institutions listed in 2.1 been identified by applying supervisory judgement as laid down in EBA guidelines on the assessment of O-SIIs? If yes, please list the respective institutions and provide information on:

- **a.** which of the optional indicators have been used to justify the supervisory assessment decisions, if any, and what the scores were;
  
  NA

- **b.** why these optional indicators are relevant for the Member State;
  
  NA

- **c.** why the bank is systemically important in terms of those particular optional indicators.
  
  NA

### 4.4 Calibrating the O-SII buffer

Please provide information on the criteria and indicators used to calibrate the level of the O-SII buffer requirement and the mapping to institution-specific buffer requirements.

According to the national implementation of the CRD V revisions concerning macroprudential buffers (Act on Credit Institutions, Chapter 10), the FIN-FSA shall divide the credit institutions into seven classes with capital add-ons ranging from 0% (Class 1, non-O-SIIs) to 3% (Class 7) and increasing with increments of 0.5% of the total risk exposure amount. In practice, the calibration of the O-SII buffers is based on the assessment of the systemic importance of the identified
O-SII institutions. The systemic importance is assessed using the O-SII scores as per EBA GL.

The FIN-FSA assesses the appropriate level of O-SII buffers by using two different versions of the bucketing approach in which the identified O-SII institutions are divided into seven buckets based on their systemic importance. In both methodologies the systemic importance is measured by the O-SII score calculated according to the EBA guidelines. Pursuant to the first methodology (linear scale), equal bucket range increments are applied, consistent with the systemic importance threshold (2.75%).

According to the second methodology, bucket ranges are calibrated in line with the Equal Expected Impact (EEI) approach. The EEI approach has been applied e.g. in calibrating the additional capital requirements for global systemically important institutions (G-SIIs). Under the EEI approach, the additional capital requirements of systemically important institutions (SIIs) are calibrated so that the expected social costs from the default of an SII equal those from the default of a non-SII. The parameters of the EEI approach applied by the FIN-FSA are based on ECB analyses.

The table below illustrates the bucket ranges according to both the linear and the EEI methodologies and the buffer guidance applied to each individual bucket.

<table>
<thead>
<tr>
<th>Bucket</th>
<th>O-SII score, % (linear scale)</th>
<th>O-SII score, % (EEU scale)</th>
<th>Buffer guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0–2.75</td>
<td>0–2.75</td>
<td>0.0%</td>
</tr>
<tr>
<td>2</td>
<td>2.75–5.50</td>
<td>2.75–6.00</td>
<td>0.5%</td>
</tr>
<tr>
<td>3</td>
<td>5.50–8.25</td>
<td>6.00–10.00</td>
<td>1.0%</td>
</tr>
<tr>
<td>4</td>
<td>8.25–11.00</td>
<td>10.00–17.00</td>
<td>1.5%</td>
</tr>
<tr>
<td>5</td>
<td>11.00–13.75</td>
<td>17.00–28.00</td>
<td>2.0%</td>
</tr>
<tr>
<td>6</td>
<td>13.75–16.50</td>
<td>28.00–48.00</td>
<td>2.5%</td>
</tr>
<tr>
<td>7</td>
<td>16.50–</td>
<td>48.00–</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

The recommended buffer rates under the different calibration approaches suggest that the current O-SII buffer of 0.5% for Municipality Finance is proportionate to the systemic importance of the institution. However, the recommended rates support an increase in the O-SII buffer of OP Group from 1.0% to 1.5% or 2.0%. Raising the O-SII buffer rate for OP Group would also be justified by the fact the systemic importance of OP Group has remained broadly unchanged during recent years. The O-SII buffer of OP Group was decreased from 2.0% to 1.0% in spring 2020 in connection with the other macroprudential decisions taken to alleviate the effects of the COVID-19 pandemic.

In the case of Nordea, the buffer requirements under the bucketing approaches suggest that it is justified to increase the O-SII buffer of Nordea from 2.0% to the allowed regulatory upper limit of 3.0%. Setting the highest possible O-SII buffer for Nordea would also be supported by the fact that Nordea is the most significant O-SII in the whole euro area both as measured by the O-SII score and relative to the national financial system. Raising the O-SII buffer rate for Nordea would also be justified by the fact that the systemic importance of Nordea has remained broadly unchanged during recent years. Risks related to the systemic importance of Nordea were partially covered by a higher systemic risk buffer requirement of 3% prior to the COVID-19 pandemic. In spring 2020, the systemic risk buffer requirements for all Finnish credit institutions were removed to alleviate the
effects of the pandemic. Following the changes in the Act on Credit Institutions reflecting the new Capital Requirements Directive (CRD V), O-SII and systemic risk buffers are now applied cumulatively, as they must cover different systemic risks. As the O-SII buffer should exclusively address risks related to the systemic footprint of individual institutions, it is justified that O-SII buffer rates reflect the differences in the individual systemic importance of Finnish credit institutions.

Raising the O-SII buffer rate for Nordea and OP Group by 0.5 of a percentage point instead of 1.0 percentage point is justified based on a holistic assessment of buffer requirements. More moderate increases in the O-SII buffer requirements would leave more space within the assessed sufficient aggregate level of macroprudential buffers to increase buffer requirements that are meant to be released in times of crisis (e.g. the countercyclical capital buffer). Increasing the share of releasable buffers would, in turn, improve the ability to support financial intermediation via macroprudential policy in the event of severe systemic shocks to the real economy or disruptions to the financial system.

The establishment of the first and second pillars of the European Banking Union, namely the Single Supervisory Mechanism and Single Resolution Mechanism, has reduced the probability and the associated social costs of the default or distress of systemically important institutions headquartered within the Banking Union. This also supports the application of more moderate O-SII buffer requirements.

Moreover, in the calibration of O-SII buffers, the FIN-FSA has considered the current economic situation and the potential impact of an increase in buffer rates on the lending capacity of credit institutions. The prevailing degree of uncertainty surrounding the macroeconomic outlook as well as the estimated effects of increasing capital requirements on credit institutions’ lending capacity speak in favour of moderate increases in macroprudential buffer requirements at this point.

Based on the analysis above, the FIN-FSA perceives that, in the current situation, it is justified to increase the O-SII buffer from 2.0% to 2.5% for Nordea and from 1.0% to 1.5% for OP Group. The O-SII buffer for Municipality Finance will remain unchanged at 0.5%.

4.5 Effectiveness and proportionality of measure

Please provide a justification for why the O-SII buffer is considered likely to be effective and proportionate to mitigate the risk.

The levels of the O-SII buffers are benchmarked against the different versions of the ECB floor methodology to ensure the level playing field and sufficient mitigation of systemic risks within the Banking Union. The applicable O-SII buffer rates for the Finnish O-SII institutions exceed the minimum requirements given by the ECB floor methodologies as well as average level of O-SII buffers in EU, which is supported by the higher-than-average level of concentration of the Finnish banking sector and the large size of the most significant institutions relative to the economy.

The war in Ukraine and the related economic sanctions have weakened the economic outlook both globally and in Finland, heightening uncertainty in financial markets. The consequences of the war for Finnish banks’ loan loss risks still remain unclear in many respects and are above all dependent on the duration and extent of the war and on the speed at which the economies adjust to changes in e.g. foreign trade and use of energy following in the wake of the war. The banks’ lending capacity could weaken substantially if the economic shock induced by the war would result in major loan losses and if banks’ capital requirements were tightened considerably at the same time. Hence, the heightened uncertainty surrounding the current cyclical conditions supports a
## 5. Sufficiency, consistency and non-overlap of the policy response

### 5.1 Sufficiency of the policy response

For a macroprudential policy to be ‘sufficient’, the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy.

Note that the ESRB will use the assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State.

Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response.

In the light of the analysis presented in 4.4 and 4.5, the updated O-SII buffers are assessed to sufficiently mitigate risks related to the systemic footprint of the largest Finnish credit institutions (while providing incentives for all O-SIIs to avoid an increase in their systemic importance). The measure is not expected to have any material unintended consequences for the general economy.

### 5.2 Consistency of application of the policy response

For a macroprudential policy to be ‘consistent’, the policy instruments meet their respective objectives, as outlined in ESRB/2013/1\(^3\), and must be implemented in accordance with the common principles set out in the relevant legal texts.

Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time.

Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response.

The application of O-SII buffers is consistent with the changes in the Act on Credit Institutions following the new Capital Requirements Directive (CRD V). The applied O-SII buffer rates reflect the differences in the systemic importance of Finnish credit institutions as O-SII buffers should exclusively address the risks related to the systemic footprint of individual institutions.

### 5.3 Non-overlap of the policy response

For a policy instrument to be ‘non-overlapping’, it should aim to address a systemic risk that either differs from a risk addressed by other active tools in the same Member State, or be complementary to another tool in that Member State which addresses the same systemic risk.

- Are other policy instruments used to address the same systemic risk?
  
  No. As per the changes in Act on Credit Institutions (and corresponding provisions in CRD V), all macroprudential buffer requirements must address different systemic risks.

- If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other.
  
  NA

## 6. Cross-border and cross-sector impact of the measure

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\(^3\) Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1)
6.1 Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2⁴)

Assessment of the cross-border effects of implementation of the measure.

a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector⁵ and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used.

b. Assessment of the:
   - cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers);
   - cross-border effects on other Member States and on the Single Market of the measure (outward spillovers);
   - overall impact on the Single Market of implementation of the measure.

The cross-border effects as well as the impact on the internal market are estimated to be limited. The buffer rates applicable for Finnish banks are increased to the levels that are more commensurate with buffer requirements of other EU O-SIIs with similar systemic footprints. Moreover, many other Member States have recently started to increase / activate capital measures to build resilience.

6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State

Referring to your Member State’s specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? The scope for leakages and regulatory arbitrage in the Finnish financial sector and in other jurisdictions is considered limited.

7. Combinations and interactions with other measures

7.1 Combinations between G-SII and O-SII buffers (Article 131.14)

If both G-SII and O-SII criteria apply to the same institution at consolidated level, which of the two buffers is the highest?

No G-SII buffers applied to Finnish credit institutions.

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>O-SII buffer</th>
<th>G-SII buffer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
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</table>

7.2 Combinations with systemic risk buffers (SyRBs) (Article 131.15 CRD)

Are any of the institutions identified as O-SIIs subject to a systemic risk buffer?

If yes, please provide the following information:

a. What is/are the systemic risk buffer rate(s)?
   
   NA

b. At what level is/are the systemic risk buffer rate(s) applied (i.e. consolidation level and/or individual)?
   
   NA

c. Is the sum of the systemic risk buffer rate(s) and the O-SII buffer rate (or the higher of the G-SII and O-SII buffer rates, if a group is subject to a G-SII buffer and to an O-SII buffer at consolidated level) to which the same institution is subject over 5%?

NA

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>SyRB rate</th>
<th>SyRB application level</th>
<th>Sum of G-SII/O-SII and SyRB rates</th>
</tr>
</thead>
<tbody>
<tr>
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</table>

7.3 O-SII requirement for a subsidiary (Article 131.8 CRD)

If the O-SII is a subsidiary of an EU parent institution subject to a G-SII or O-SII buffer on a consolidated basis, what is the G-SII or O-SII buffer rate on a consolidated basis of the parent institution?

NA

Does the cap for the subsidiary prevent the implementation of a higher O-SII buffer based on the domestic buffer setting methodology?

NA

<table>
<thead>
<tr>
<th>Name of O-SII subsidiary</th>
<th>Name of the EU parent of the O-SII subsidiary</th>
<th>Buffer applicable to O-SII EU parent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>%</td>
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</tbody>
</table>

8. Miscellaneous

8.1 Contact person(s)/mailbox at notifying authority

Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries.
Arttu Kiviniemi +358 9 183 5237, arttu.kiviniemi@fiva.fi

8.2 Any other relevant information

The preliminary decision by the FIN-FSA Board will be made on 6 June 2022. The final decision will be made on 27 June 2022. The FIN-FSA will notify the ECB ten working days prior to the final decision as per the Article 5 of the SSM Regulation.

8.3 Date of the notification

Please provide the date on which this notification was uploaded/sent.
27/05/2022