

FINANSSIVALVONTA
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The Nordic-Baltic Cross-Border Collaboration Model and the EU Model

Conference on Nordic-Baltic Financial Linkages and Challenges

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Main banking characteristics in the Nordic-Baltic region



- **The Nordic-Baltic banking sector is dominated by a small number of cross-border banks**
 - Each of the six large Nordic banking groups is nationally very significant
 - But, their business operations are typically regional
 - Major banks are quite reliant on market-based funding
 - *Extensive cross-border cooperation essential for both home and host authorities*
- **Local banking groups add heterogeneity to the Nordic banking sector**
 - OP-Pohjola Group focuses its operations on the domestic market and is one of the two largest banks in Finland
 - Additionally, national networks of local cooperative and savings banks

Nordic-Baltic cooperation: Pioneering work in the EU context



- **Long-standing supervisory colleges for Nordic banking groups**
 - Coordination of supervisory plans
 - Regular exchange of information on risks, liquidity and capital adequacy
 - Joint inspections
 - Joint risk assessment and decision making process
 - *Input to EBA guidelines and work on colleges in the EU*
 - *Input to the work of Joint Supervisory Teams (JST) in the SSM*

- **Early crises management arrangements**
 - Plans of supervisory colleges for emergency situations
 - Nordic-Baltic Cross-Border Stability Group: Cross-border MoU on crisis coordination
 - Crises management exercises
 - Early exchange of information in emergencies

Challenges in cross-border supervision



- **Groups are managed by business lines, not by legal units**
 - Legal entities do not necessarily cover all banking and administrative functions, or have full stand-alone governance arrangements
 - Significant amount of risk transfers
 - *Difficult to get a full picture of the risks in each entity*
 - *Colleges need to play a crucial role*
- **Centralized liquidity management in cross-border groups**
 - Subsidiaries (and branches) typically deliver surplus-liquidity to the parent
 - Liquidity portfolios are managed centrally, while subsidiaries have capacity to tap funding markets independently
 - *Centralized liquidity management brings about synergies, but also substantial intra-group exposures*
 - *Local liquidity buffers will be demanded by host authorities*
- **While capital can be managed centrally, all legal entities need to meet risk-based capital adequacy requirements (Pillar 2 assessment)**
 - *Nordic agreement on the allocation of Pillar 2 requirements*

Still many open issues for effective cross-border crisis management



- **No binding resolution framework for cross-border groups**
 - E.g. no compulsory coordination of crisis management and resolution measures
- **Possibilities for ring-fencing are embedded in the current framework**
 - Both home and host authorities can exercise ring-fencing
 - No guarantee for adequate and timely coordination and information exchange
 - Supervisory colleges and the *Nordic-Baltic Stability Group* are working further on effective arrangements
- **In the EU, the draft BRRD requires that national resolution authorities cooperate with each other and that resolution colleges are established**
 - *Need for a binding requirement for ex ante coordination of crisis management and resolution actions (joint decisions as far as possible)*
 - *SSM and SRM will overcome the disparity between international banking and national powers*
 - *Well-structured cooperation needed between countries participating and not participating in the Banking Union*

Timeline for the Single Supervisory Mechanism (SSM)



November 2013

- SSM Regulation adopted

Transitory period

- ECB publishes main elements of the supervisory model
- Implementation of the SSM supervisory model (“parallel run” with national supervision)
- Comprehensive Assessment: RAS, AQT and ST

November 2014

(12 months after SSM Regulation entry into force)

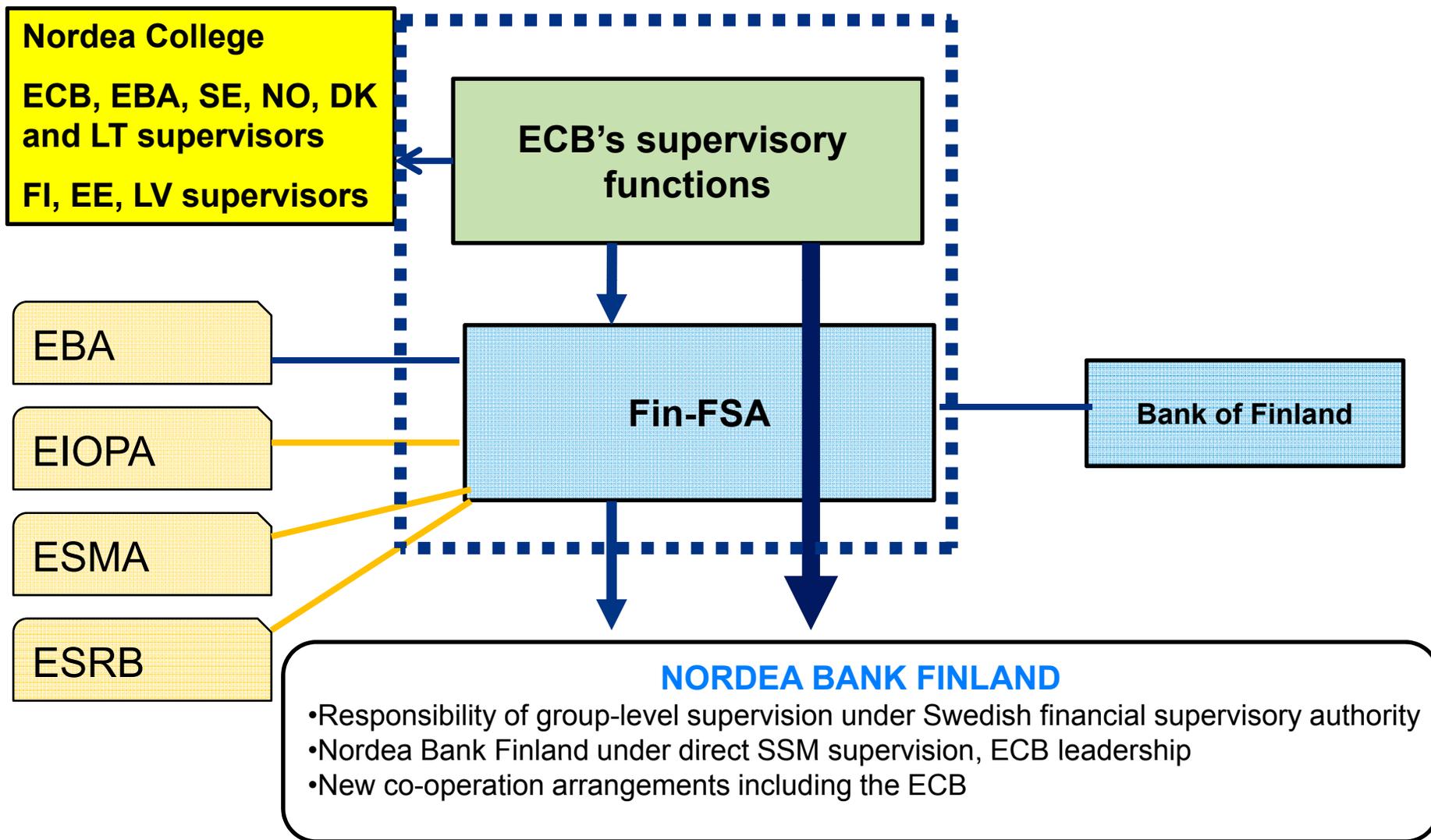
- SSM supervision begins
- Supervisory duties conducted in cooperation between ECB and national authorities

Impacts of the SSM on the supervision of Nordic banking groups



- **Asset quality review and stress test**
 - Intra-Euro Area subsidiaries of Nordic Groups assessed according to SSM methodology
 - Group-level assessment might be based on the similar methodology depending on the choices of the home authorities
 - *Need for active cooperation between SSM and non-SSM authorities*
- **Implementation of common supervisory standards in the SSM**
 - *Need for collaboration between the SSM supervisory manual and EBA guidelines*
- **Integration of ECB into supervisory colleges between SSM and non-SSM countries**
- **Non-euro members states could participate in the SSM**
 - Even within such a closely integrated region as the Nordic, there are still differences in the supervisory practices

Example: Supervision of Nordea in the SSM



Legal possibilities and implementation of macro-prudential instruments varies across countries



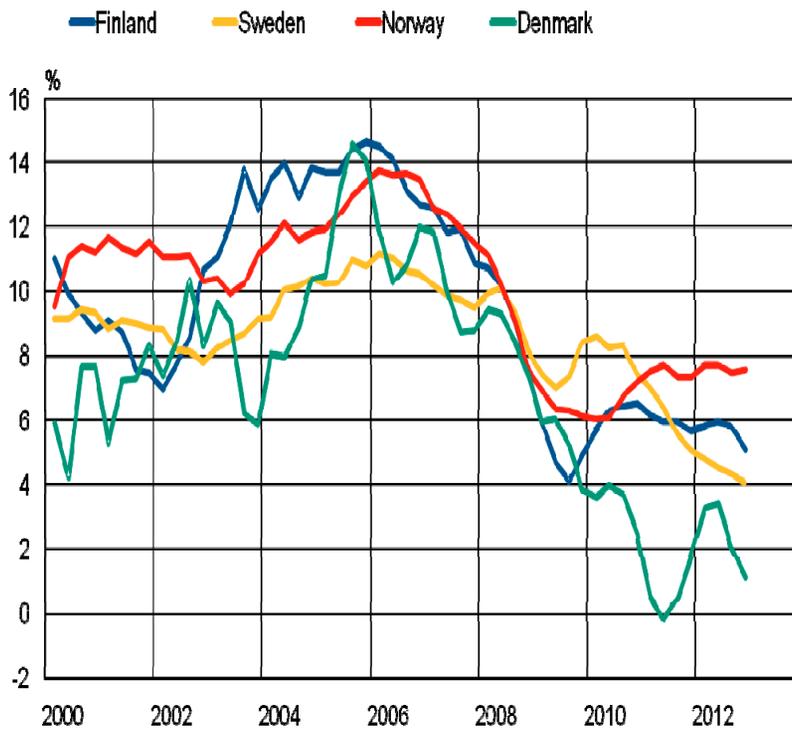
	Sweden	Denmark	Finland	Norway	Estonia	Latvia	Lithuania
<i>Loan-to-value restrictions</i>	YES Implemented	NO	YES Implemented (non-binding)	YES Implemented	NO	YES Implemented	YES Implemented
<i>RWA restrictions on mortgages</i>	YES Implemented	YES Not implemented	YES Not implemented	YES Being implemented	YES Not implemented	YES Not implemented	YES Not implemented
<i>Early implementation of counter-cyclical capital buffers</i>	YES (2014)	YES (2015)	YES (2015)	YES (2013) Not implemented	N.A.	NO (2016)	YES (2014)
<i>Early implementation of additional capital requirements for SIIIs</i>	YES (2015)	YES (2015)	NO (2016)	YES Implemented	YES (2014)	YES (2014)	N.A.

BASED ON INFORMATION AVAILABLE FROM NATIONAL SUPERVISORS AS INTERPRETED BY THE FIN-FSA

On the other hand: Housing prices and lending are not following the same pace

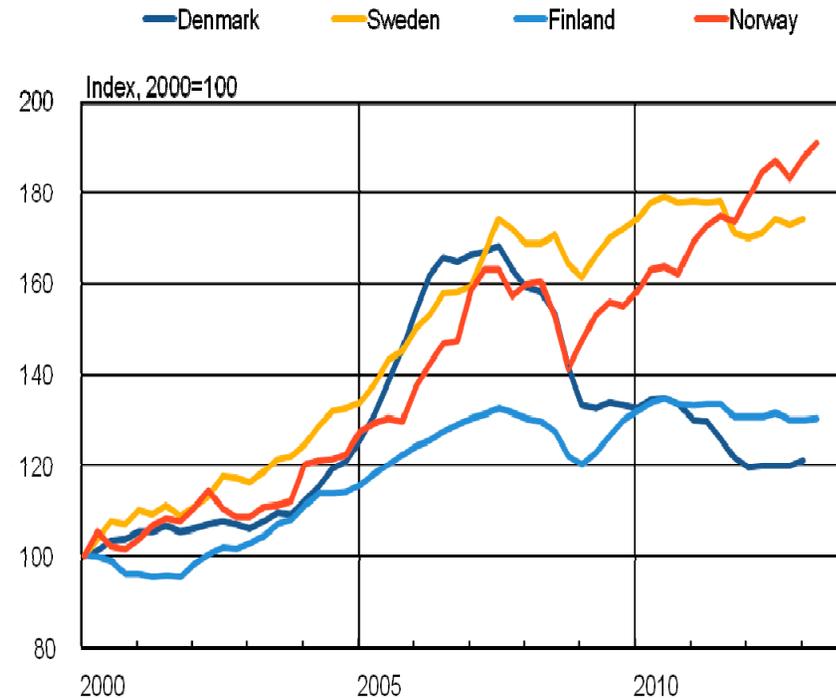


The annual change of household lending stock



Sources: national central banks, statistical authorities and calculations by Bank of Finland

Real Housing Prices (adjusted for inflation) 2000 - 2013

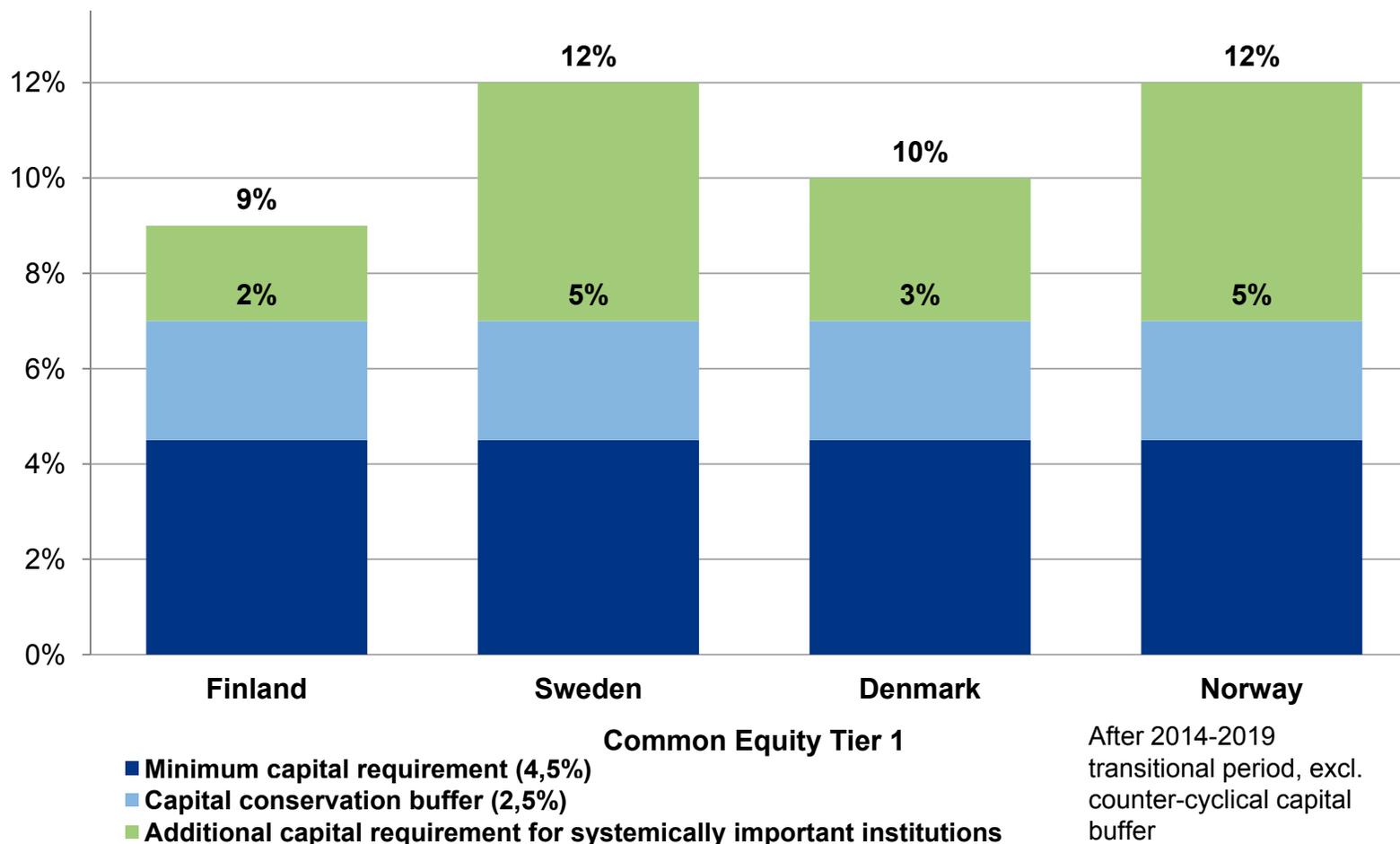


Source: SDW.

All Nordic countries will apply capital add-ons to systemically important banks – but of different sizes



Additional structural capital buffers POSSIBLY BASED ON DRAFT LEGISLATIVE PROVISIONS



Macro-prudential policies in the Nordic-Baltic context



- **Authorities should have the same legal possibilities to activate macro-prudential instruments**
 - Binding LTV ceilings could be an especially effective tool
 - Differences in the ability to set structural capital requirements for SIs could lead to unhealthy capital transfers within cross-border groups

- **Common policy frameworks would be very useful, but the actual use of the tools needs to take into account differences across countries**
 - Macro-financial environments and cycles differ considerably even in the Nordic-Baltic area
 - Macro-prudential policies will be partly ECB responsibility in the SSM (can take measures exceeding national decisions)

- **Full reciprocity in the use of macro-prudential instruments would be very important given the high degree of banking integration in the Nordic-Baltic region**

Conclusion



- **The need for close Nordic-Baltic supervisory cooperation will remain in place, while smooth cooperation with the SSM needs to be established**
 - Nordic and Baltic supervisory authorities should have an active role together with the ECB in the college work
 - Implementation of high level EU supervisory standards is a common objective of Nordic and Baltic supervisors
 - SSM will bring about a consistent supervisory approach that could help foster consistency also in the Nordic-Baltic area

- **Nordic and Baltic cooperation arrangements in crisis management and resolution will still be needed**
 - Cooperation will need to be established also with the SRM

- **The use of macro-prudential tools is still a new area for all authorities**
 - Need for exchange of information and cooperation in Nordic – Baltic countries



Thank You!

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