



Regulatory and supervisory challenges in the Nordic-Baltic region

Kristian Vie Madsen
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CRR/CRD-IV and the “Single Rule Book”

- The new Directive and Regulation create a common platform
- The “Single Rule Book” is becoming a reality
 - Ensures uniform application of CRD/CRR
 - But can also makes it harder to reach the “right” outcome
 - And getting the rulebook finished is of cause of great importance
- Foundation for cooperation strengthened with CRR/CRD-IV
 - New requirement on cooperation
 - New possibilities and set-up for increased cooperation
- And cooperation between supervisors is a prerequisite for effective prudential supervision of multinational banks

Cooperation within the legal framework

Liquidity and funding – and example on new requirements on cooperation in the colleges

- Joint decision on liquidity between the consolidated supervisor and the supervisors responsible for supervision of subsidiaries
 - Liquidity risk
 - Funding risk
 - Liquidity and funding risk management
 - Liquidity SREP score
 - Concrete supervisory measures
- Waiver of LCR on solo level
 - Some solo banks are domestic SIFI's



Cooperation within the legal framework

New possibilities and set-up for increased cooperation –
Comparability of RWA as an example

- EBA has done a lot of work already
- Yearly benchmarking will continue under CRR/CRD
- In the Nordic region we have already done benchmarking on RWA for some time.



Example of the results of cooperation on RWA

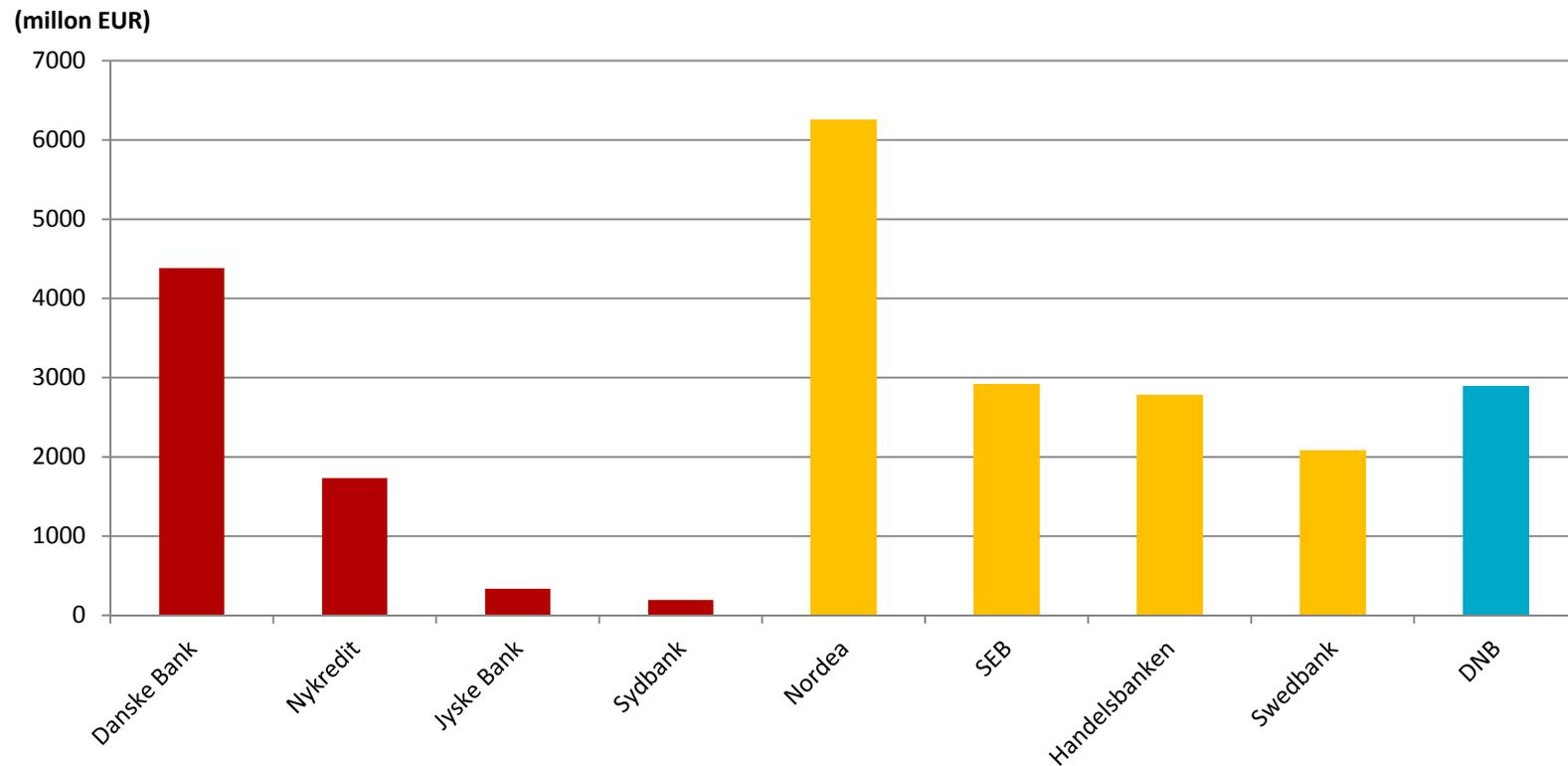
- Finanstilsynet has given Danske Bank the following orders concerning IRB
 - For the corporate portfolio excluding items with counterparty risk the bank shall analyse issues regarding low TTC PD values in the best rating categories, defaulted exposures with individual impairment charges, and the LGD models. Taking these issues into account the bank shall increase the risk weights by at least 10 percentage points
 - For items with counterparty risk the bank shall adjust the TTC PD values in the same manner as for the rest of the corporate portfolio
 - For institutional exposures the bank shall add a capital add-on in Pillar II at least until the Danish FSA has assessed the bank's new model for bank exposures
 - The bank shall cease reducing Pillar II with any positive difference between the allowance account and expected losses
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Danske Bank – Background

- To some extent based on cooperation among supervisors on analysis of RWA
 - Top-down analysis of RW and IRB parameters across Danish institutions
 - A Nordic analysis of RWs across Nordic IRB institutions
 - EBA exercise concerning large corporate customers
 - But also:
 - The bank's latest validation of the institution portfolio
 - Findings at credit risk inspections
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Total assets for sample of Scandinavian, 2013 Q3



Data on a consolidated level

Other Scandinavian banks are a natural peer group

Cooperation on benchmarking

- Data sharing – peer studies etc.
- The Nordic supervisors are working on setting-up a data sharing agreement in cooperation with EBA
 - Key Risk Indicators
 - Selected large Nordic banks
- Should make it easier to do benchmarking of banks with true peers

Cooperation with the SSM

- The SSM will be part in the supervision of Nordic-Baltic banks
- Necessity of close cooperation between SSM and supervisors outside the SSM.
- There has been a tradition of a good and open cooperation in the colleges in this region.

Example: the AQR exercise

- The EBA AQR exercise requires cooperation among the supervisors in the college
- Danske Bank subsidiary 3rd largest bank in Finland
 - Under direct supervision of ECB
- We fully understand the necessity for the SSM to do this exercise in very stringent way
- But it is also important for us to understand the SSM approach to the AQR as consolidated supervisor

Macroprudential policy and reciprocity

- A lesson from the crisis have been the importance of macroprudential tools
- Positive that a degree of flexibility is maintained in the CRR/CRD
 - For example to address real estate bubbles through higher capital requirements or other measures
- Important with reciprocity to make such tools work in practice
- The institutional for using the tools are different in the region:
 - Differences in the roles of ministers, systemic risk councils, central banks and supervisors
 - The tools are also somewhat different (LTV tool as an example)
- We will have to be sufficient flexible in our cooperation.

Focal points going forward

Cooperation in the region:

- Important to continue with and further develop benchmarking and information sharing
- Early inclusion and information sharing regarding SSM-decisions – preferably before decisions are final
- Reciprocity should be practiced