



Nordic-Baltic Financial Linkages and Challenges

December 13, 2013, Tallinn, Estonia

Overview of Sessions and Panel Discussions

Session I: Nordic-Baltic financial integration

In this session, speakers will set out the key characteristics of the Nordic-Baltic financial landscape. By looking at historical and recent developments, the details presented will provide inputs to the discussions in the later sessions on regulation and supervision.

1. Financial linkages and economic integration across the Nordic-Baltic region.

▪ Size and structure:

- What is the structure of the Nordic-Baltic financial sector (integration, concentration and size)?
- How have financial linkages in the region developed?
- Are there similarities/differences in terms of funding sources (wholesale, parent funding) and what do these imply about vulnerabilities and possible spillovers?
- What other features do these banking systems share (sovereign-bank links)?

▪ Importance of regional coordination:

- What does the degree of regional integration mean for the transmission of shocks within and across the region?
- In the case of an adverse shock, how could capital flows (safe haven or otherwise) alter and feedback to the rest of the economy?
- How can strong national financial sector and macroprudential policies reinforce regional coordination and a common approach to supervision?

▪ Issues arising from regional integration:

- What issues can we expect the region to face given the structure of the financial sector and the forthcoming regulatory changes, as well as the advent of the banking union?

2. The sovereign-bank nexus and macroeconomic policy.

▪ Sovereign exposures of banks:

- Are there implications from preferential regulatory treatment of sovereign exposures in the current and incoming regulatory frameworks?

- And if so, does private sector deleveraging have additional implications for policy?

- **The importance of a common approach:**

- What policies can break the link between bank balance sheets and the solvency of sovereigns at the national level?
- And how do these policies transmute in the case of a monetary union (banking union vs. national approach) and a highly integrated banking sector that extends beyond it?

- **Fiscal implications of crisis management and resolution:**

- What could be the fiscal consequences of bank failures on sovereign balance sheets, as well as the impact on the real economy?
- How feasible is ex ante agreement on burden-sharing?

3. Managing capital flows in a financially integrated area.

- **Lessons from the 2008 Icelandic financial crisis:**

- What lessons can we draw from Iceland's experience with crisis about risks that can arise from large banking systems?
- What policies can help with the management and resolution of a large interconnected banking sector in crisis (e.g., in comparison to Ireland's experiences and policy response)?

- **Cross-border flows:**

- How did the global financial crisis impact cross-border financial flows in the region? Was there private sector deleveraging of external financial exposures?
- Did the composition of financial flows alter (from equity to debt, etc.)?

- **Financial and exchange rate stability:**

- What lessons have been learned about managing capital flows?
- How have capital controls helped to preserve the exchange rate and ensure financial stability?

Session II: Regulatory and supervisory challenges in the Nordic-Baltic region

This session will set out the paradigms for regulation and supervision across the Nordic-Baltic region and discuss the broader European agenda. In addition, speakers will explore the implications of European Union (EU) and euro area (EA) financial regulatory reforms for Nordic-Baltic home-host supervisory arrangements, including crisis management and resolution.

1. Banking supervision: Nordic-Baltic cross-border collaboration model.

- **Defining the Nordic-Baltic approach:**
 - What factors have contributed to the overall resilience of the Nordic-Baltic banks (supervisory or otherwise)?
- **Existing Nordic-Baltic regional supervisory arrangements:**
 - How has the Nordic-Baltic memorandum of understanding on crisis management and resolution altered the operation and development of the regional banking sector, if at all?
 - What are the range of powers and efficacy of the Nordic-Baltic Macroprudential Forum and the Nordic-Baltic Stability Group?
 - How effective are the supervisory colleges in monitoring the largest regional banks? In turn, how is the current economic environment shaping regulatory oversight and supervision in the Nordic-Baltic region?
- **Improvements and the scope for ex-ante burden-sharing:**
 - How can the Nordic-Baltic region strengthen and improve cross-border cooperation in regulation, supervision, and crisis management?

2. The new European reforms and their impact.

- **EU regulations:**
 - What are the latest developments on the implementation timeline for Basel III/CRD IV)? What are the choices facing the region's authorities from various forthcoming European financial regulatory and supervisory plans, if any?
- **Euro area reforms:**
 - What are the latest developments on the design of the banking union for dealing with the issue of non-euro area members joining the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM)?
 - How has the Bank Resolution and Recovery Directive (BRRD) sought to accommodate differing views on bank resolution approaches across Europe?
- **Initiatives to ascertain bank balance sheet quality:**

- How would the results of the 2014 EA-wide Asset Quality Review (AQR) affect the structure of the Nordic-Baltic banking sector?

3. Complementarity between EU banking reforms, the euro area banking union and the Nordic-Baltic supervisory arrangements (NBSA).

▪ **Interaction of arrangements given home-host issues:**

- How will the region's supervisors manage the changes and tensions given the different levels of interaction that countries have with the EU and EA ('ins' vs. 'outs' for the banking union)?

▪ **The future role for the NBSA:**

- What are the prospects for the NBSA as membership of the region to the EA increases?
- How do you assess a likely future with some countries in the region being part of the banking union, while others may choose to remain outside?

▪ **Crisis management and resolution:**

- Will the BRRD and the SRM make crisis management in the region more efficient?
- Which are the key parameters for efficient crisis management in the future?
- How will bail-in affect the funding structure of banks in the region (e.g., given the preponderance of covered bonds)?

Session III: Market Perspectives on challenges and opportunities for the financial sector in the Nordic-Baltic region

Speakers will provide market perspectives on the recent developments in the Nordic-Baltic financial sector, as well as discuss the expected impact of EU and EA regulations on the banks and capital markets in the region.

1. Impact of the EU and EA regulatory reforms on the Nordic-Baltic financial sector.

▪ Outlook for the Nordic-Baltic financial sector:

- How is the business model of financial institutions changing?
- What are the future trends in the Nordic-Baltic financial sector? Is a dominant financing model emerging?
- How would regulation affect credit and lending, if at all? What are trends in corporate bond issuance?

▪ EU and EA reforms:

- Will the implementation of the new EU regulation strengthen the Nordic-Baltic banking sector and augment its resilience?
- How important are exercises such as the AQR from the market's perspective?
- How will the banking sector respond to the possibility of different supervisory arrangements between the 'ins' and the 'outs' of the EA banking union?
- Could activity in the Nordic-Baltic financial sector be reorganized should the concentration of powers in the ECB alter operational parameters for banks in host countries (vs. existing arrangements)?

▪ The benefits of regional coordination:

- Is there sufficient regional coordination on the implementation of European initiatives to ensure a level playing field?
- If the home countries of Baltic banks remain outside the banking union, can the benefits of the banking union in terms of internalizing coordination problems be realised?

2. Experiences and challenges within the Nordic-Baltic financial sector: the case of Swedbank.

- **Experiences:**

- What were Swedbank's experiences in the previous and recent financial crises?

- **Challenges:**

- In light of the previous discussions, how is Swedbank preparing and planning its group activities given regulatory developments in both the EU and EA?