

Reciprocity of the macroprudential measure applied by the Finansinspektionen



Analysis

On 12 May 2023, the Finansinspektionen, as the Swedish macroprudential authority, responsible for applying Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (hereinafter “CRR”¹), submitted a request to the European Systemic Risk Board (ESRB), under the terms of Recommendation ESRB/2015/2, for reciprocation of a macroprudential measure it implemented. The measure, which entered into force on 30 September 2023, establishes, under Article 458(2)(d)(iv) of the CRR, a credit institution-specific minimum level of 35% for the exposure-weighted average of the risk weights applied to the portfolio of corporate exposures secured by mortgages on immovable commercial properties (properties physically located in Sweden owned for commercial purposes to generate rental income) and a specific minimum level of 25% for corporate exposures secured by immovable residential properties (properties located in Sweden and owned for commercial purposes to generate rental income, where the number of residences in the property exceeds three).² This floor applies to credit institutions authorised in Sweden using the internal ratings-based approach (IRB approach) for calculating minimum capital requirements. The minimum levels set in this measure were already mandatory under Pillar 2 and are now proposed under Article 458 of the CRR.

According to the Swedish macroprudential authority, the measure aims to strengthen the resilience of the Swedish banking sector, in a context of an accumulation and intensification of sources of systemic risk related to the residential real estate market in Sweden, including: (i) an increased exposure of Swedish banks to the residential real estate sector; (ii) rapid growth in commercial real estate market prices in Sweden, leading to increased levels of indebtedness in the sector; (iii) rising interest rates from mid-2021, leading to more expensive refinancing in the sector; and (iv) the risks related to structural changes, intensified by the COVID-19 pandemic and Russia’s invasion of Ukraine. Thus, by imposing this type of measure, the Swedish macroprudential authority further enhances the resilience of credit institutions in Sweden to the potential materialisation of systemic risk in the commercial real estate sector.

According to the Finansinspektionen, the request for reciprocation is justified by the high interconnectedness between the Swedish financial system and the financial systems of other countries, notably Nordic and Baltic countries. The aim is to ensure a level playing field, helping to safeguard financial stability in the Nordic and Baltic countries and consequently, the stability of a substantial part of the EU financial system. After analysing the request for reciprocation by the Swedish designated authority, the ESRB, under Recommendation ESRB/2015/2 (as amended by Recommendation ESRB/2023/4), decided to include the measure in question in the list of macroprudential policy measures subject to voluntary reciprocation by the other Member States, with a minimum threshold of SEK 5 billion exposure to firms, secured by commercial and residential properties located in Sweden.

Article 458(5) of the CRR provides for voluntary recognition by other Member States of measures taken pursuant to that Article, although this only applies to exposures through branches. Under Article 458(5) of the CRR in conjunction with Recommendation ESRB/2015/2, the reciprocity of the relevant measure allows both direct and indirect exposures (through branches) to be taken into account.

¹ Abbreviation for Capital Requirements Regulation.

² The exposure-weighted average of the risk weights consists of the average of the risk weights of the individual exposures, calculated in accordance with Article 153 of Regulation (EU) No 575/2013, weighted by the relevant exposure value.



After analysing the materiality of the exposures of each of the Portuguese credit institutions involved in the application of this measure for reciprocity purposes, it was concluded that, as at the reference date of 31 March 2023, these exposures stand considerably below the specific materiality threshold, considering the materiality threshold of SEK 5 billion set by the Swedish macroprudential authority and included in Recommendation ESRB/2023/4.³ Under the *de minimis* principle⁴ and in accordance with the threshold set by Sweden's designated authority, the Banco de Portugal decided to exempt Portuguese credit institutions from reciprocating this macroprudential measure.

This decision will remain valid for as long as the macroprudential measure established by the Finansinspektionen is in force, including any reviews thereof, provided that the exposures of each of the Portuguese credit institutions in question for purposes of the measure's reciprocity remain below the materiality threshold. The Banco de Portugal will regularly monitor the materiality of the exposures subject to this measure.

³ Assessment based on data as at 31 March 2023.

⁴ Competent authorities may exempt institutions with non-material exposure to the identified macroprudential risk in the activating Member State.