# Reciprocity of the macroprudential measure applied by the Finansinspektionen

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## Analysis

On 24 May 2018, the Finansinspektionen, as the macroprudential authority in Sweden, responsible for applying Article 458 of Regulation (EU) No 575 of the European Parliament and of the Council of 26 June 2013 (hereinafter "CRR"),[1] notified the European Parliament, the European Council, the European Commission, the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA) of its intention to apply, from 31 December 2018, a macroprudential measure to credit institutions authorised in Sweden and using the Internal Ratings Based Approach for calculating regulatory capital requirements, under Article 458(2)(d)(vi) of the CRR.

The macroprudential measure under review corresponds to a credit institution-specific floor of 25% for the exposure-weighted average of the risk weights applied to the portfolio of retail exposures to obligors residing in Sweden secured by immovable property.[2] This measure only results in a change of applicable regulatory framework, i.e. the floor that has now been set was already mandatory under Pillar 2, and is now required under Article 458 of the CRR.

According to the Swedish authority, this amendment is mainly the result of structural changes to its banking system. In this respect, it should be noted that, on 15 March 2018, Nordea Bank AB decided to transfer its head office from Sweden to Finland with effect from 1 October 2018. At the date of notification of this measure, Nordea Bank AB held a 14% share of the Swedish mortgage market and, according to the Swedish authority, this institution's operations in Sweden were not expected to change considerably solely due to the fact that it had transferred its head office.

In view of the purpose of applying the same measure to all domestically authorised credit institutions in Sweden, the change in its regulatory framework was justified by the fact that the possibility of requesting reciprocity from other Member States is formally provided for in Article 458 of the CRR and Recommendation ESRB/2015/2, a possibility which does not exist to the same extent for measures applied under Pillar 2.

In addition, this measure is applied in a context where – according to the macroprudential authority – there is a build-up and intensification of systemic risk related to the residential real estate market in Sweden, most notably: (i) an increased exposure of Swedish banks to the residential real estate segment, in particular banks using the Internal Ratings Based Approach, (ii) growth in residential real estate prices in Sweden, which has been highlighted by international authorities such as the International Monetary Fund, the European Commission and the ESRB,[3] and which has been supported by an increase in housing loans in a low interest rate environment. Furthermore, according to the Swedish authority, at the time of notification of the measure, the risk weights applied by institutions using the Internal Ratings Based Approach are

[1] Abbreviation for Capital Requirements Regulation.

[2] The exposure-weighted average is the average of the risk weights of the individual exposures, calculated in accordance with Article 154 of the CRR, weighted by the relevant exposure value.

[3] See the warning issued by the ESRB, ESRB/2016/11, on the Swedish residential real estate market https://www.esrb.europa.eu/pub/pdf/warnings/161128_ESRB_SE_warning.en.pdf?69c69da5b6c7c621c95b5f8a13da1a7d

considered to be too low to absorb potential losses related to exposures to the residential real estate market under an adverse scenario, as they are calibrated on the basis of historical data, which does not comprise significant losses in this type of exposure.

Consequently, by imposing this type of measure, the Swedish authority further enhances the resilience of credit institutions residing in Sweden to the potential materialisation of systemic risk in the wake of a shock to residential real estate prices or interest rates.

Within the scope of the application of this macroprudential measure, the Finansinspektionen requested that the ESRB recommend voluntary reciprocity by other Member States under the terms of Recommendation ESRB/2015/2. After analysing the request for reciprocation by the Swedish designated authority, the ESRB recommended the reciprocation of the measure in question through Recommendation ESRB/2015/2 (amended by Recommendation ESRB/2019/1), i.e. its application by the other Member States to credit institutions using the Internal Ratings Based Approach and with retail exposures to obligors residing in Sweden secured by immovable property of more than SEK 5 billion.

Article 458(5) of the CRR provides for voluntary recognition by other Member States of measures taken pursuant to this Article, although this only applies to exposures through branches.

Pursuant to Article 458(5) of the CRR in conjunction with Recommendation ESRB/2015/2, the reciprocity of macroprudential measures must apply both to direct and indirect exposures (through branches).

After assessing the materiality of the exposures of each of the Portuguese credit institutions in question for purposes of reciprocity of this measure, Banco de Portugal concluded that these exposures are non-material, taking into account the threshold of SEK 5 billion.[4] Nevertheless, in accordance with point 15 of Recommendation ESRB/2015/2, Banco de Portugal has decided to reciprocate this macroprudential measure as a matter of principle.

This decision will remain in force for as long as the macroprudential measure applied by the Finansinspektionen is in place, including any reviews thereof. Given that this measure is provided for in the CRR, reciprocity will be operationalised through the same measure.

[4] Assessment based on data as at 30 September 2018.