2014-11-06

European Banking Authority
Per email: notifications@eba.europa.eu

FI Dnr 14-12190

Finansinspektionen
Box 7821
SE-103 97 Stockholm
[Brunnsgatan 3]
Tel +46 8 787 80 00
Fax +46 8 24 13 35
finansinspektionen@fi.se
www.fi.se

Notification of measures in accordance with Article 133.11 of Directive 2013/36/EU

According to Article 133.11, before setting a systemic buffer rate of up to 3 %, the competent authority shall notify the European Commission, the ESRB, EBA and the competent authorities and designated authorities of the Member States and third countries concerned.

Finansinspektionen hereby notifies that a decision will be taken to set a systemic buffer rate of 3 per cent. The buffer rate will apply to the total risk-weighted exposure amount at the consolidated level for the four major banking groups in Sweden, namely Nordea, SEB, Svenska Handelsbanken and Swedbank. Since the buffer rate applies to the banking groups' total risk-weighted exposure amount, the buffer rate will apply to the groups' exposures in both Sweden, other EU member states and third countries. This is the reason why this notification is sent not only to the European agencies but also to national competent authorities.

Please note that the buffer rate only applies to the four mentioned Swedish banks, at the consolidated level. No other institution is affected and therefore Finansinspektionen does *not* request that the systemic buffer rate shall be formally recognized by other Member States.

The details of the measure, as well as its justification, is described in the attached annex.

Best regards,

FINANSINSPEKTIONEN

Uldis Cerps
Executive Director, Banks

Template for Article 133 CRD

Template for notifying the EBA on the intended use of the SRB

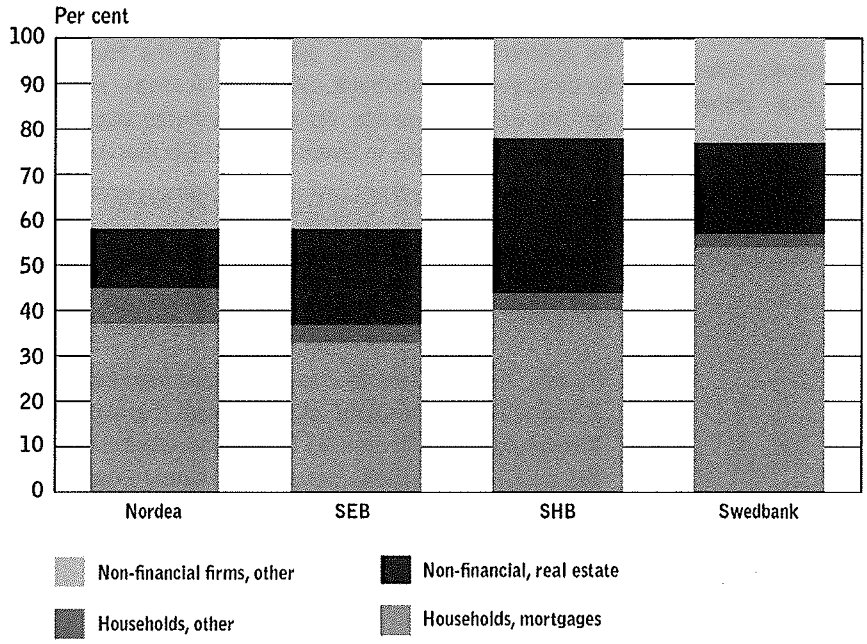
1. Notifying national authority (If several designated authorities, please mention all of them)	
1.1 Name of the notifying authority	**Finansinspektionen**
2. Buffer levels and the institutions to which they apply	
2.1 Categorisation of measures (also reviews)	The notification concerns the introduction of a new SRB
2.2 Notification of the level of the SRB	The notification is in accordance with article 133.11, which concerns setting a systemic risk buffer of up to 3%. The level that will be set is 3%. The level of 3 % in Pillar 1 will be complemented by an additional capital charge of 2 % of CET in Pillar 2, so that the combined total additional capital requirement for systemic risk is 5 %.
2.3 Scope affected by the intended SRB	The systemic risk buffer is applicable to the four major banking groups in Sweden – Svenska Handelsbanken, Swedbank, SEB and Nordea – and will be applied at group level for the groups' total risk-weighted assets. As such the buffer applies to the four banking groups' total exposures and thus to exposures in Sweden, other EU member states and third countries.
3. Rationale for the intended SRB	
3.1 Description of structural systemic risk **(Article 133.1)**	The reasons for applying the systemic risk buffer and the way the buffer is applied are the following. Today, Sweden has four predominant banking groups – Handelsbanken, Nordea, SEB and Swedbank (known as the major banks). If any of the four major Swedish banks were to default, this would currently be hard to manage without major risks to the economy. A situation of one of the major banks risking default may cause Swedish taxpayers being exposed to risks and may risk disruptions in the functions performed by the major banks that are value creating and crucial to society. The default of one major bank could also directly have tremendous effects on the other major banks. The capital adequacy of banks is intended to bear (absorb) unexpected losses. FI therefore finds that the four major banks need to have greater loss-bearing capacity in the form of common equity Tier 1 capital of a further 5 percentage points at consolidated level to cover systemic risk. This requirement for common equity Tier 1 capital of 5 percentage points entails, as a comparison, the major banks, in addition to the other requirements of the capital rules, securing further resilience equalling a drop in value of their total assets of approximately 1 per cent. The systemic risk buffer could provide scope to fully reach the extra common equity Tier 1 capital of 5 percentage points that Finansinspektionen (FI) currently considers necessary and sufficient for systemic risk related reasons. However, a decision regarding a systemic risk buffer in excess of 3 per cent requires the approval of the EU Commission according to Article 133.14. Because FI takes account of systemic risk in Pillar 2, FI finds it appropriate not to decide on a systemic risk buffer in excess of the level within FI's own legal decision-making power. Addressing the additional 2% systemic risks in Pillar 2 instead is therefore more appropriate. A

separate notification has been sent to the EBA as regards the systemic risk in Pillar 2, under article 97.

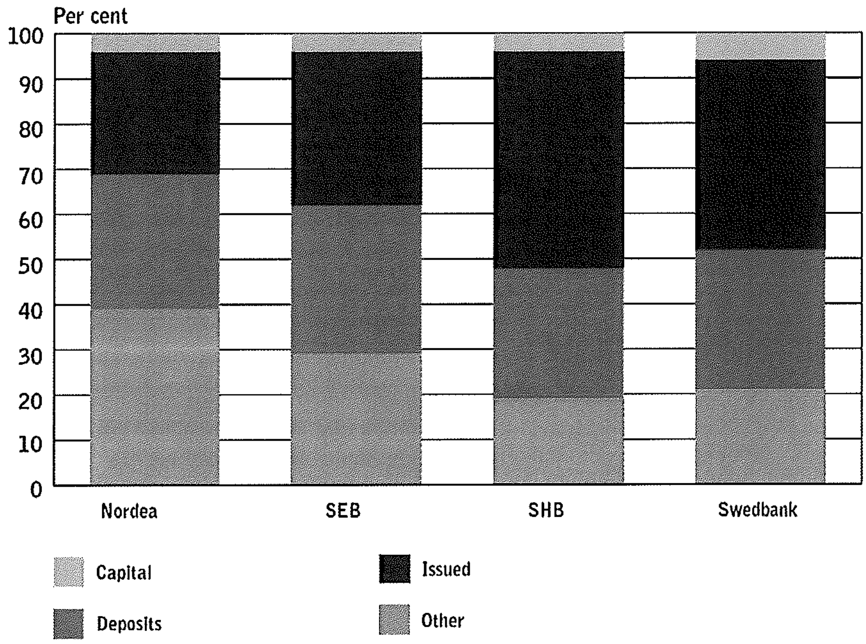
The financial system, and ultimately the economy too, is exposed to structural risks due to the most systemically important Swedish banks operating on a concentrated market, with similar exposures, and being closely interlinked. In the event of uncertainty surrounding the resilience of the banking system, demands from the funding market tend to increase and access to liquidity and funding is made more difficult and expensive for the banks. This occurred, for example, in the autumn of 2008, showing how financial problems for any of the most systemically important banks risk spreading to the rest of the financial system, and ultimately risk sharply weakening the economy.

The four major Swedish banks largely have **similar business models**, which can lead to problems for the financial system being amplified in a crisis. The banks partially have the same type of structure in terms of both assets and funding. The types of assets, and exposure at geographic level, exposure classes and counterparties are largely of the same nature and sometimes overlap. The funding structure is also largely similar, in terms of e.g. a structural deposit deficit, a large share of covered bonds and extensive borrowings in foreign currency.

3.1 Distribution of lending (Data at Q4 2013 at consolidated level)



3.2 Distribution of funding (Data at Q4 2013 at consolidated level)



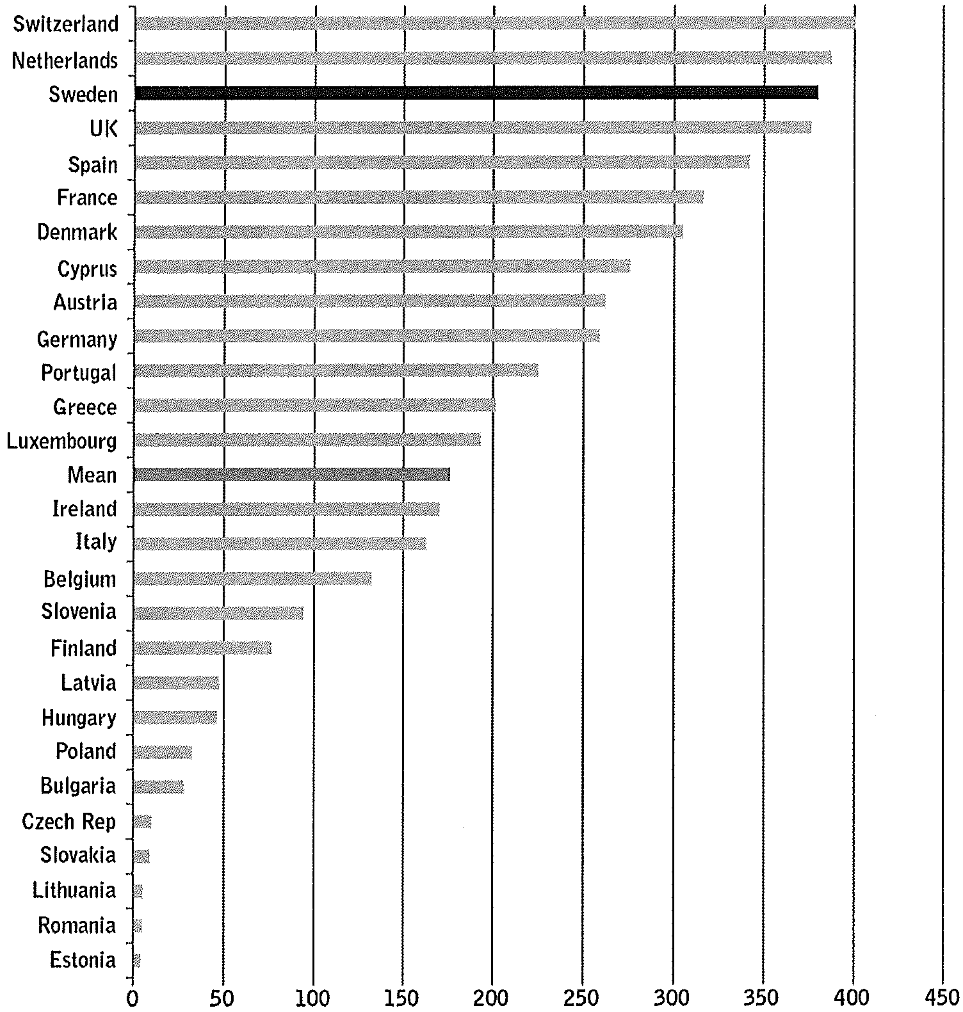
The domestic markets of the major Swedish banks are **highly concentrated**. This is particularly the case in Sweden, where the four major Swedish banks overall have a completely dominant market share in most business segments. A high degree of concentration is an indicator that the losses of an individual bank risk increasing at the same time as problems arise for the financial system as a whole.

The similarities in terms of business model and structure, combined with the high degree of market concentration, have also led to a clear **interlinkage** between the four major Swedish banks. The banks are interlinked through direct exposures to each other, and indirectly, in that a bank's actions can affect both the value of assets of and funding terms for the other banks. The interlinkage can thus have negative consequences in times of crisis that risk being amplified by market uncertainty or deficient information giving rise to reputational risks.

The interlinkage between the four major Swedish banks constitutes a source of systemic risk, particularly in combination with **the size** of the banking system in relation to the Swedish economy. Major shocks in the financial system thus risk leading to serious and negative consequences for the real economy. The importance of the major banks also makes it difficult in Sweden to deflect or soften a crisis for a major, cross-border systemically important bank without major costs for society.

3.3 The banks' assets in relation to GDP

December 2013



Note: Chart shows assets by domestic banks (at group level) in relation to GDP. The data for Switzerland is from December 2012.

Source: The Riksbank

Structural factors in the Swedish financial system thus indicate that disruptions in one of the four major banks risk being amplified and having a major negative impact on the economy. The risk of a financial crisis is thus not necessarily greater in Sweden, but there is a risk that the consequences of a banking crisis – if it were to occur – would be major.

In the event of a financial systemic crisis, weakened market confidence in the Swedish banks also risks damaging confidence in the creditworthiness of the Swedish Government. There is a risk of more expensive borrowing costs for the Government. This hence risks coinciding with a situation of funding on decent terms probably being of great importance to enable flexibility for managing the effects of a crisis on the real economy. The structure of the Swedish banking market thus leads to high costs for society if the stability of the banks is called into question, and mutually positive effects for both the Government and the financial system if the banks have a high level of resilience to shocks and financial crises.

As described above, the Swedish banking system has certain structural features that distinguish it from the European banking system as a whole. FI finds that the Swedish financial system, and ultimately the real economy, is exposed to

	greater risks than the minimum level accounted for by the Capital Requirements Regulation. Such higher structural risks arise due to the high systemic importance of Nordea, SEB, Handelsbanken and Swedbank. In order to increase resilience to shocks, these banks thus need a high level of loss-bearing capacity.
3.2 Analysis of the potential to have serious negative consequences to the financial system and the real economy in your Member State	The interlinkage between the four major Swedish banks, as described under 3.1, constitutes a source of systemic risk, particularly in combination with the size of the banking system in relation to the Swedish economy. Major shocks in the financial system thus risk leading to serious and negative consequences for the real economy. The importance of the major banks also makes it difficult in Sweden to deflect or soften a crisis for a major, cross-border systemically important bank without major costs for society. The risk of a financial crisis is not necessarily greater in Sweden than in the average European country, but there is a risk that the consequences of a banking crisis – if it were to occur – would be major.
3.3 Indicators used for activation of the measure	The decision to use the buffer is rather made based on a number of different indicators relating to the size of the four major Swedish banking groups in relation to the Swedish economy as well as their interlinkages as described under 3.1. Determining a necessary or sufficient size for the systemic risk buffer will, by necessity, largely be a qualitative assessment.
3.4 Justification of the scope of the SRB	The systemic risk buffer is considered likely to be effective and proportionate to mitigate the risk since it will increase the resilience of the four major banks and thereby significantly decrease the risk that they will need to be resolved. A scenario where one of these banks would enter into resolution – possibly also bringing the others down with it due to their strong interlinkages - would have serious consequences for the Swedish economy due to the size of these banks' assets, both separately and aggregated. The general capital requirements of the Capital Requirements Regulation do not cover the risk posed by the structural vulnerability of the Swedish banking system. This risk could lead to major costs for society in the event of a financial crisis. The basis in the Capital Requirements Directive for establishing the scope of the need for buffer capital for systemic risk, is that each Member State is obliged to protect the banking system and the real economy from systemic risks that can arise due to structural factors or specific exposures. The specific reasons why other measures will not be sufficient to adress the identified systemic risk: a. SII buffers o These buffers cannot be applied until 2016 o The O-SII buffer cannot be set as high as the systemic risk buffer (it is capped at 2 %) b. Capital conservation buffer o The purpose of the capital conservation buffer is for all institutions to hold a sufficient capital base to be able to absorb losses in stressed periods. Even though it increases the resilience of the institutions, just as the systemic risk buffer does, it does not cover the heightened systemic risk that the four major Swedish banking groups constitute to the Swedish economy due to their size and interlinkages. c. Countercyclical capital buffer o The systemic risk to be covered is structural, not cyclical
3.5 Suitability, effectiveness and proportionality of measure	The purpose of the measure is not to change the behaviour of banks or other market participants but to ensure that the banks hold more capital and thereby are more resilient towards stress events. Any real test of that the measure is effective will therefore not be possible until the banks face an actual distressed situation. We do not expect the banks or markets to act differently due to the measure taken. If anything, more resilient banks should help to maintain the credibility that Swedish banks' have earned

	among debt investors and thereby support the banks' access to market funding also in more severe times. The announcement of the measure did not lead to any significant market movements. The measure was awaited by the markets ever since the Swedish authorities' first announcement of the intention to set higher capital requirements for Swedish banks, which was made in November 2011. The banks that the measure applies to already meet the systemic buffer requirement. When it is decided by FI's board, it is also made sure that the existing capital is locked up in the banks and therefore not available for distributions. FI continuously follow how the changes in regulation affect the banks' credit pricing and access to market funding as well as their business models in general. Overall, we can see that since the intention to raise the capital requirement for the four major banks was made in 2011, the banks have continued to increase their lending to the public, they have stayed highly profitable and they have had access to financing under favourable conditions. No changes in these respects have been seen after the more detailed announcement was made in May 2014 that the implementation of the higher capital requirements shall be done partly through the systemic risk buffer. Regular analyses of the developments are published in FI's half-yearly Stability reports.
3.6 Assessment of likely impact on the internal market	FI does not expect the measure to have any negative consequences on the functioning of the internal market. The systemic risk buffer is placed on the four major banks' total exposures, thus no difference is made based on the domicile of the exposures. The measure is motivated by the specific features of the Swedish banking system with four dominant banks that both separate and aggregated hold assets that are considerable, especially in relation to the country's GDP. Strengthening the resilience of these banks has a positive effect on the financial stability of Sweden and with that the internal market One explanation why banks in general finance their assets with equity to such a low extent is that that they take advantage of the State's implicit and explicit guarantees. That makes deposit holders and other debt investors less sensitive to the risk level of the company, which brings down the cost of banks' lending. This phenomenon is especially apparent for banking groups which are judged to be systemically important, and the State therefore are expected to support, and whose parent companies are domiciled in a Country where the State finances are relatively strong. That gives the four major banks in Sweden a competitive advantage over other banks. FI's assessment is therefore that raised capital requirements for these four banks could mean that these banks' competitive advantage towards other banks are somewhat reduced. All else equal, this too should be positive for the competition within the internal market.
4. Accumulation and timing of the SRB notified	
1.1 Combination with G-SII Buffer (Articles 133.4/5)	The systemic risk buffer will be higher than any potential G-SII buffer. There will be no possibility of accumulation.
1.2 Combinations with O-SII buffers (Article 133.4/5)	The systemic risk buffer will be higher than any potential O-SII buffer. There will be no possibility of accumulation.
4.3 Combined buffer requirement (Article 133-6 and Article 133-7)	The combined buffer requirements of Article 133.6 and 133.7 do not apply because the systemic risk buffer is only applied at the group level.

4.4 Timing of the measure	1 January 2015.
4.5 Review of the measure	The measure will be reviewed at least every second year, as the Directive requires. However, since the basis for the measure is the systemic risks caused by the structure of the Swedish banking system, these are not factors that move quickly. Therefore, it is not our current expectation that the measure will be changed during the upcoming years.
2. Miscellaneous	
5.1 Disclosure **(Article 133)**	The intention to set a systemic risk buffer has already been disclosed in a memo on FI's web-site fi.se (http://www.fi.se/Folder-EN/Startpage/Press/Press-releases/Listan/New-capital-requirements-decided) The memo also includes the justification for the measure. Once the formal decisions have been taken, these will also be disclosed on FI's web-site. We expect the formal decisions to be taken by FI's board in December 2014.
5.2 Contact person(s) at notifying authority	Karin Lundberg, Senior Advisor, Banks Karin.lundberg@fi.se +46 8 787 8033
5.3 Any other relevant information	