NORGES BANK

DET KONGELIGE FINANSDEPARTEMENT

Royal Ministry of Finance

FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

European Commssion

DG Financial Stability, Financial Services
and Capital Markets Union

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Response to the European Commission's Consultation on the Review of the EU Macro-Prudential Policy Framework

The Norwegian Ministry of Finance, Finanstilsynet and Norges Bank welcome the opportunity to provide a common feedback on the EU macroprudential policy framework.

Norwegian authorities have deployed several of the macroprudential tools provided in the CRR and the CRD IV. The capital buffers of the CRD IV were introduced at an early stage in Norway. The countercyclical capital buffer in Norway was set at 1 percent in 2013 and is today 1.5 percent. The systemic risk buffer is 3 percent and applies to all banks. Three banks are also subject to an additional 2 percent buffer requirement for systemically important banks. Norwegian authorities have deployed Article 124 and Article 164 to increase risk weights for loans to commercial real estate and housing. Moreover, lending practice guidelines for residential mortgage loans in Norway containing requirements relating to loan-to-value ratios and debt servicing ability have been in place since 2010, and since 2015 in the form of a regulation.

In general, we expect the EU macroprudential policy framework to ensure that national authorities have appropriate tools to be able to deal with financial imbalances and systemic risk. The framework should not be too prescriptive or constraining. Macroprudential measures should be assessed dependent on the particular circumstances. Furthermore, the macroprudential policy framework should require that macroprudential tools aimed at national exposures and national markets also include all foreign financial institutions that are active in the country where the tools are deployed (host country treatment (reciprocity)). Otherwise, the foreign financial institutions may get an unwarranted competitive advantage and the macroprudential tools will be less

Postal address	Office address	Financial Markets Department
P.O Box 8008 Dep	Akersg. 40	Telephone +47 22 24 45 21/22 24 90 90*
NO-0030 Oslo, Norway	Org. no 972 417 807	Telefax +47 22 24 45 35
postmottak@fin.dep.no		

effective – i.e. not a level playing field on the actual national market. This is an issue which is very important in general, an even more important for systemic important branches (branches which would have been systemic important if they had been subsidiaries).

We want to highlight the importance of balancing the benefits of harmonization with the need to address risks on a national level. The global financial crisis has clearly demonstrated the importance of mitigating system risk and promoting financial stability. However, the experience from the last crisis and the growing body of academic literature propose that maximum harmonization can be sub-optimal and damaging from a macro-economic perspective and financial stability objectives. The importance of the financial sector and capital markets with respect to the national economies and size in of the GDPs across Europe varies quite significantly. The macro-economic situation differs, and will presumably continue to differ between the various Member States. It is therefore in our view important to retain the possibility to address specific national circumstances with adequate macroprudential regulation. The global financial crisis also demonstrated the extremely high costs that can rise from crises in the financial and capital markets. Because the ultimate fiscal responsibility is borne by each individual country, it is very important that a country has flexibility to set out own and stricter rules if necessary. Further, in order to ensure a level playing field in the local financial markets and to prevent the national regulatory and supervisory framework from being diluted, mandatory reciprocity requirements (of macroprudential measures) play an important role for the functioning and competitiveness of the national financial market.

Our specific comments to the consultation document are provided in the online survey form.

Yours sincerely,

Geir Åvitsland
Director General

Mirella Elisa Wassiluk
Deputy Director General

This document has been signed electronically and it is therefore not signed by hand.

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BANKING AND FINANCE

Review of the EU Macro-prudential Policy Framework

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Introduction

The European Commission is launching a public consultation to gather feedback and evidence on whether the existing EU macro-prudential framework is functioning optimally.

The goal of macro-prudential policy is to ensure the stability of the financial system as a whole, which is distinct from the safety and soundness of individual institutions. To this end, whilst the prudential requirements of credit institutions are set at the EU level, a macro-prudential framework is necessary to allow additional flexibility in the setting of these prudential requirements in each Member State. This allows national authorities to address the specific financial stability risks they face, which can be caused by various factors including local imbalances, national laws, and divergent economic cycles.

The EU macro-prudential framework has been developed incrementally over recent years. From establishing the European Systemic Risk Board "ESRB", to designing a toolset of instruments (capital buffers, which are enshrined in CRDIV/CRR), and agreeing a system for coordinated action. This framework has been established by different regulations and directives over time. As such, it lacks the coherence that we would expect, were it established by a single legislative text. Increasingly, a number of issues can be raised in the way the various components of this framework interact. These include, among others:

- The way the different macro-prudential tools overlap (it is not always clear which risks are being addressed when a macro-prudential buffer is used).
- The activation mechanisms required to use these tools (Member States tend to use the tool that requires the least amount of coordination with other Member States).
- The complex co-ordination needed to manage the cross border impacts of some of these measures (a largely voluntary framework, agreed within the ESRB framework).
- The role of the ESRB in the framework (it is perceived by some to be too close to the ECB, and too reliant on its resources to provide fully independent analysis).
- The role of the SSM in using the macro-prudential buffers on the banks under its supervision.

Based on our shared experiences of the application of macro-prudential policy, and in line with the relevant review obligations provided in CRD IV/CRR, the ESRB Regulation, and the Single Supervisory Mechanism Regulation (SSMR), we now have the opportunity for a comprehensive review of the component parts of this framework. This review will deliver a more effective, efficient and flexible framework for the EU.

The ECB has recently (under the SSM) acquired macro-prudential responsibilities, in the form of powers to 'top up' the capital buffers that national authorities impose on their banks, if the ECB sees additional risks. These powers have not yet been tested, but their review would most logically be dealt with alongside all the other macro-prudential elements of the EU framework.

Because the component parts of this framework are so closely interlinked (the bodies providing oversight, the instruments used, and the rules governing their activation/co-ordination), it makes most sense to address all of these elements in one comprehensive review, since amending one element has knock on effects on the others.

Through this consultation, Commission services are actively seeking the opinions of interested and affected groups on the functioning of the macro-prudential framework. This consultation will be of most relevance to public authorities who use these policies (finance ministries, central banks, regulatory authorities, ECB, the EBA, etc). However we also expect significant interest from industry, banks, trade bodies, interested academics, as well as consumer organisations.

The consultation asks a broad range of question, to assess views on the different options available for reforming the existing framework. These include questions on narrowing the scope of macro-prudential instruments (reducing the number of different buffers available under EU legislation), refining the scope of existing instruments (clearer definition of the intended use of each buffer), amending the rules for activating certain instruments (to make these more consistent with one another), as well as the role and organisational structure of the ESRB and its relationship with the ECB.

Once received, these responses will be used to assess the depth of feeling towards different options for reform, consider any challenges the proposals might raise, and to consider alternative options for reform, where relevant.

The public consultation runs **from 01 August 2016 until 24 October 2016**.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-macroprudential-framework@ec.europa.eu.

More information:

- on this consultation
- consultation document
- on the protection of personal data regime for this consultation

1. Information about you

*Are you replying as:
- ○ a private individual
- ○ an organisation or a company
- ● a public authority or an international organisation

*Name of the public authority:

Norwegian Ministry of Finance, Norges Bank and Finanstilsynet

Contact email address:

The information you provide here is for administrative purposes only and will not be published

mw@fin.dep.no

*Type of public authority
- ○ International or European organisation
- ○ Regional or local authority
- ● Government or Ministry
- ○ Regulatory authority, Supervisory authority or Central bank
- ○ Other public authority

*Where are you based and/or where do you carry out your activity?

Norway