

Ministry of Economic Affairs and the Interior, Denmark
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Authorities in the Nordic countries

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Nordic cooperation on Basel III/CRDIV

The Nordic Ministers of Finance agreed in November 2011 to appoint a high-level working group to assess various aspects of the forthcoming Basel III/CRD IV framework and the impending implementation into national legislation, including the possibilities for cooperation between the Nordic countries on the implementation. The working group was established in February 2012, and a report from the group was finalised 13 June 2012.¹ At our meeting in Oslo 2 July 2012, we discussed the report.

The working group's report consists of two parts. The first part describes the impending implementation of the Basel III/CRD IV framework into national legislation and the various challenges individual Nordic countries are facing. The second part discusses the possibilities for Nordic cooperation on the implementation of certain parts of the new (proposed) EU/EEA legislation.

The report highlights that the Nordic financial markets are highly integrated, and that it is both possible and desirable that a coordinated approach to the implementation of the new CRR/CRD IV capital and liquidity requirements in the Nordic countries is taken, while at the same time recognizing that different countries have different starting points and challenges as regards financial stability. The working group notes in particular the possibility of home-host cooperation in applying the new rules and that the possibility of reciprocity should be further explored.

The working group also points out that residential mortgage loan risk weights are comparatively low in large Nordic banks using internal ratings based models (IRB

¹ A hard copy of the report is enclosed. The report is also available online at the Norwegian Ministry of Finance's website (<http://www.regjeringen.no/nb/dep/fin/aktuelt/nyheter/2012/rapport-fra-den-nordiske-arbeidsgruppen-.html?id=696320>).

models) to calculate capital requirements. Financial stability considerations may call for higher risk weights and thus higher capital requirements for residential mortgage loans. In addition, the working group concludes that it is possible and also important, that supervisory authorities in the Nordic countries explore the potential scope of even further cooperation with a view to find a coordinated approach to IRB calibration and minimum requirements on residential mortgage exposure risk weights. A coordinated approach should aim at improving comparability among banks and thus facilitate transparency and market discipline.


We would like to underline that the Nordic countries should continue and strengthen the well-developed cooperation in the financial markets area, both at the ministerial and supervisory level. It is important to have the necessary tools to ensure financial stability. The working group's report provides a good basis for further strengthening of the Nordic cooperation, *inter alia* with respect to the implementation of the (proposed) new capital and liquidity requirements in CRR/CRD IV.

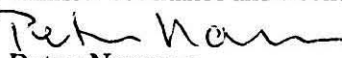
In line with the recommendations from the working group, we concluded at our meeting 2 July 2012 that we – within the framework of national and EU/EEA legislation – should evaluate the possibility for a common understanding of the forthcoming EU/EEA rules on liquidity requirements, for the establishment of a system of mutual recognition of capital requirements in the Nordic countries (so-called reciprocity and host country regulation), and for a continued and intensified cooperation on common criteria and similar practices when supervisory authorities approve the models banks use to calculate capital requirements (both the standardised and the IRB approach).

Therefore, we would like to invite the Nordic Financial Supervisory Authorities to prepare a joint evaluation of these issues, based on a finalised CRR/CRD IV framework. Further, we would like to invite the heads of the supervisory authorities to our next meeting, in October, in order to receive an update on the current supervisory activities and ongoing coordination in these fields, and for a discussion of their further work on the issues mentioned above.

Yours sincerely,


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