



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

PUBLIC CONSULTATION

Draft ECB Regulation on the exercise of options and discretions available in Union law

Draft ECB Guide on options and discretions available in Union law

Template for comments

Institution/Company

The Federation of Finnish Financial Services

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Please tick here if you do not wish your personal data to be published.

Please make sure that each comment only deals with a single issue.

In each comment, please indicate:

- the document to which the comment refers (Regulation and/or Guide)
- the relevant article/chapter/paragraph, where appropriate
- whether your comment is a proposed amendment, clarification or deletion.

If you require more space for your comments, please copy page 2.

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Template for comments

Name of Institution/Company The Federation of Finnish Financial Services

Country Finland

Comments

Regulation	Guide	Issue	Article	Comment	Concise statement why your comment should be taken on board
<input checked="" type="checkbox"/>	<input type="checkbox"/>	large exposure exemptions, covered bonds	9	Amendment	<p>The ECB suggests that the exemption to be applied to covered bonds in the large exposure calculation should be capped at 80% of the nominal value (Art. 9.4). This deviates from the stance of the FIN-FSA, which has exempted 90% of the nominal value of the covered bonds. This change would make the covered bond market less attractive and would most probably have adverse impact on the currently smooth functioning of this crucially important market.</p> <p>We urge the ECB to acknowledge the implications of the proposal</p>



on the competitive arena of the comparable Finnish and Swedish covered bonds markets by imposing a cap of 90% rather than the proposed 80% thus ensuring well-functioning markets also going forward..

We strongly oppose the criterion laid down in Chapter 2 paragraph 8 indent (iii) point (a) of the proposed Guide as well as the last sentence of paragraph 8, which would allow the ECB to prevent the redemption of co-operative shares also on grounds not related to compliance with capital requirements. As the redemption right is a fundamental characteristic of co-operative capital it should be limited only on heavy, clear, objective and predictable grounds.

The principle that co-operative capital cannot be redeemed if it would result in non-compliance of the capital requirements is well established in the Finnish legislation and the market participants are familiar with, and used to, this limitation. It has also proved to sufficiently safeguard the stability of the financial position of the Finnish co-operative banks.

We are concerned that the lack of certainty for the shareholders resulting from the proposed extension of the grounds on which the redemption of co-operative capital can be prohibited could have the unintended effect of jeopardizing the access of co-operative banks to new CET I capital. Such an unintended effect would, in our opinion, outweigh the merits of the proposed new limitations and thus run counter to the overall objectives of the prudential framework.

<input type="checkbox"/>	<input checked="" type="checkbox"/>	reduction of own funds in co-operatives	28	Amendment
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EUROPEAN CENTRAL BANK

BANKING SUPERVISION

European Central Bank

Consultation on the Draft ECB Regulation on the exercise of options and discretions

HARMONIZATION OF SUPERVISORY PRACTICES IS WELCOMED

The Federation of Finnish Financial Services supports the aim of the ECB to harmonize the supervisory practices across the Banking Union.

However, a level playing between the Banking Union and the Member States outside the Banking Union as well as the free flow of capital and liquidity, including at the intra-group level, must be ensured.

It must also be ensured that the attractiveness of the well-functioning covered bond market nor the access by co-operative banks to new CET1 capital is not jeopardized by an unduly strict application of options and discretion.

1. General remarks

We broadly support the draft Regulation and Guide. In particular, we welcome the proposed treatment of insurance holdings within financial conglomerates (CRR Art 49), intra-group large-exposures (CRR Art. 400) and waivers for credit institutions permanently affiliated to a central institution (CRR Art. 10).

We share, however, the concerns expressed by the European Banking Federation in its response and fully support their comments. In addition to the points made by the EBF, we would like to make the following points.

2. Specific issues

2.1 *Treatment of covered bonds in the calculation of large exposures*

The ECB suggests that the exemption to be applied to covered bonds in the large exposure calculation should be capped at 80% of the nominal value. This deviates from the stance of the FIN-FSA, which has exempted 90% of the nominal value of the covered bonds. This change would make the covered bond market less attractive and would most probably have adverse impact on the currently smooth functioning of this crucially important market.

The proposed approach puts banks under the direct supervision of the ECB in a less favourable position compared to other banks, in particular those headquartered outside the Banking Union. This is particularly true in the Nordic countries where the benefits and safety of the covered bond market has been acknowledged by the competent authorities. The cap currently set by the Swedish and Finnish competent authorities is 90 %, whereas covered bonds are fully exempt in Denmark due to the specific features of that specific market.



We urge the ECB to acknowledge the implications of the proposal on the competitive arena of the comparable Finnish and Swedish covered bonds markets by imposing a cap of 90% rather than the proposed 80% thus ensuring well-functioning markets also going forward. We are, on the other hand, content that the ECB is not imposing additional requirement related to the exemption of covered bonds than what is outlined in the CRR (Article 400.3), thus maintaining level playing field in this regard.

2.2 Liquidity

We urge the ECB, and the competent authorities in the other Member States, to agree on converging treatment in respect of the waivers, thus ensuring level playing field.

Firstly, while we understand that the additional requirements imposed by the ECB regarding the approval of waivers under Articles 8, 422 and 425 of the CRR contributes to harmonised treatment across Banking Union, we are worried that the proposed approach rather puts banks under the direct supervision of the ECB in a less favourable position compared to other banks, particularly those headquartered outside the Banking Union.

Secondly, the possibility to approve the waiver either fully or only partially, while simultaneously imposing additional requirements, also results in diverging application across different jurisdictions. The same approach should be applied to all banks.

Similarly, we are concerned that the ECB suggests additional diversification requirements on the composition of liquid assets. The requirements outlined in the Regulation should be sufficient. Moreover, the additional diversification requirements, as outlined in the proposal, would have a detrimental impact on the covered bond market as banks would have to withdraw from current positions.

We welcome the suggestion on calibrating the outflow rates for Article 422 in CRR based on the STE and the L-SREP as this is in line with the above called for measured taken to improve level playing field.

2.3 Reduction of own funds in co-operatives

We strongly oppose the criterion laid down in paragraph 8 indent (iii) point (a) of the proposed Guide as well as the last sentence of paragraph 8, which would allow the ECB to prevent the redemption of co-operative shares also on grounds not related to compliance with capital requirements. As the redemption right is a fundamental characteristic of co-operative capital it should be limited only on heavy, clear, objective and predictable grounds.

The principle that co-operative capital cannot be redeemed if it would result in non-compliance of the capital requirements is well established in the Finnish legislation and the market participants are familiar with, and used to, this limitation. It has also proved to sufficiently safeguard the stability of the financial position of the Finnish co-operative banks.

We are concerned that the lack of certainty for the shareholders resulting from the proposed extension of the grounds on which the redemption of co-operative capital can be



prohibited could have the unintended effect of jeopardizing the access of co-operative banks to new CET I capital. Such an unintended effect would, in our opinion, outweigh the merits of the proposed new limitations and thus run counter to the overall objectives of the prudential framework.

THE FEDERATION OF FINNISH FINANCIAL SERVICES

Erkki Sarsa
Director