Regulations and guidelines 5/2019

Regulations and guidelines related to the Capital Requirements Regulation

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Further information
Banking Supervision/
Legal Issues in Banking
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Legal nature of regulations and guidelines

Regulations

Financial Supervisory Authority (FIN-FSA) regulations are presented under the heading ‘Regulation’ in the FIN-FSA’s regulations and guidelines. FIN-FSA regulations are binding legal requirements that must be complied with.

The FIN-FSA issues regulations only by virtue of and within the limits of legal provisions that entitle it to do so.

Guidelines

FIN-FSA interpretations of the contents of laws and other binding provisions are presented under the heading ‘Guideline’ in the FIN-FSA’s regulations and guidelines.

Under the heading 'Guideline' there are also recommendations and other non-binding operating guidelines. The guidelines also include FIN-FSA recommendations regarding compliance with international guidelines and recommendations.

The way how a guideline is written indicates whether it is an interpretation, a recommendation or other operating guideline. The way how guidelines are written and the legal nature of both regulations and guidelines are explained in greater detail on the FIN-FSA website.

fin-fsa.fi > Regulation > Legal framework of FIN-FSA regulations and guidelines

Contents

1 Scope of application and definitions

(1) These regulations and guidelines are applicable to the following supervised entities as referred to in section 4 of the Act on the Financial Supervisory Authority:

- credit institutions
- investment firms
- management companies
- alternative investment fund managers
- central bodies of amalgamations of deposit banks
- holding companies of credit institutions
- holding companies of investment firms.
- parent companies of financial and insurance conglomerates.

(Issued on 18.1.2022, valid from 21.1.2022)

(2) As regards credit institutions, these regulations and guidelines do not apply to credit institutions the supervision of which has been transferred to the European Central Bank in accordance with the SSM Regulation.[1]

Parent companies of financial and insurance conglomerates are only subject to section 12 of these regulations and guidelines. *(Issued on 7.9.2022, valid from 1.10.2022)*

(3) As regards investment firms and their holding companies as well management companies and alternative investment fund managers, these provisions and guidelines apply insofar as they relate to the articles of the Capital Requirements Regulation applicable to said supervised entities. *(Issued on 18.1.2022, valid from 21.1.2022)*

(4) These regulations and guidelines are applicable to the holding companies of credit institutions only on the basis of their consolidated situation.

1.2 Definitions

For the purposes of these regulations and guidelines, the following definitions shall apply:

(5) *Supervised entity* refers to all supervised entities that fall within the scope of section 1.1 of these regulations and guidelines and that are referred to in the Act on the Financial Supervisory Authority.

[1] *Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.*
The ECB maintains a regularly updated list of credit institutions under its supervision. The list is available on the ECB's website: https://www.bankingsupervision.europa.eu

2 Legal framework and international recommendations

2.1 Legislation

The following legal provisions relate to the matters addressed in these regulations and guidelines:

- Credit Institutions Act (610/2014)
- Investment Services Act (747/2012)
- Mutual Funds Act (213/2019)
- Act on Alternative Investment Fund Managers (162/2014)
- Act on the Amalgamation of Deposit Banks (599/2010)
- Act on the Supervision of Financial and Insurance Conglomerates (699/2004)
- Act on the Book Entry System and Clearing Operations (749/2012)
- Act on the State-Owned Specialised Financing Company (443/1998)
- Act on Credit, Guarantee and Capital Investment Operations of the State-Owned Specialised Financing Company (445/1998).
- Securities Markets Act (746/2012)
- Limited Liability Companies Act (624/2006)
- Co-operatives Act (421/2013)

  (Issued on 7.9.2022, valid from 1.10.2022)

2.2 European Union Regulations

The following directly applicable European Union Regulations are related to the matters addressed in these regulations and guidelines:

- Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (hereinafter the Capital Requirements Regulation, CRR)
- Regulation (EU) No 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 *(Issued on 18.1.2022, valid from 21.1.2022)*
- Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (hereinafter the SSM Regulation)
- Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking

Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC

- Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions

- Commission Delegated Regulation (EU) No 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due

- Commission Delegated Regulation (EU) 2022/439 of 20 October 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the specification of the assessment methodology competent authorities are to follow when assessing the compliance of credit institutions and investment firms with the requirements to use the Internal Ratings Based Approach *(Issued on xx 2022, valid from yy 2022)*

- Commission Delegated Regulation (EU) 2021/930 of 1 March 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the nature, severity and duration of an economic downturn referred to in Article 181(1), point (b), and Article 182(1), point (b), of that Regulation *(Issued on 7.9.2022, valid from 1.10.2022)*

- Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk

- Commission Delegated Regulation (EU) 1187/2014 of 2 October 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk

- Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

As regards the matters addressed in these regulations and guidelines, the European Commission has also provided many other Delegated Regulations and Decisions supplementing the Capital Requirements Regulation than those specifically referred to above implementing the regulatory technical standards prepared by the European Banking Authority. The Commission Regulations and Decisions are available on the Commission's website at ec.europa.eu (European Commission > Law > Banking prudential requirements > Regulation (EU) No 575/2013 > Amending and supplementary acts) and the FIN-FSA website. (*Issued on 7.9.2022, from 1.10.2022)*

2.3 European Union Directives

The following European Union Directive relates to the matters addressed in these regulations and guidelines:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereinafter the Credit Requirements Directive, CRD).
- Directive 2019/2034/EU of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU.

2.4 FIN-FSA's regulatory powers

The FIN-FSA's power to issue binding regulations on the subject is based on the following legal provisions:

- Chapter 11, section 16 of the Credit Institutions Act

2.5 International recommendations

In preparing these regulations and guidelines, consideration has been given to the following international guidelines and recommendations:

(1) As regards the standardised approach to credit risk (section 6), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07)
- Guidelines on specification of types of exposures to be associated with high risk (EBA/GL/2019/01)

(2) As regards the internal ratings based approach (section 7), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07)
- Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16).
- Guidelines for the estimation of LGD appropriate for an economic downturn (EBA/GL/2019/03)
- Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs (EBA/GL/2020/05) *(Issued on 25.8.2021, valid from 1.3.2021)*

(3) As regards market risk (section 9), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on Stressed Value at Risk (Stressed VaR) (EBA/GL/2012/2)
- Guidelines on the Incremental Default and Migration Risk Charge (IRC) (EBA/GL/2012/3)
- Guidelines on corrections to modified duration for debt instruments, as referred to in Article 340(3)(2) of Regulation (EU) No 575/2013 (EBA/GL/2016/09)
- Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation) (EBA/GL/2020/09) *(Issued on 21.10.2021, valid from 1.3.2021)*
- Guidelines on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (EBA/GL/2021/07) *(Issued on 7.9.2022, valid from 1.10.2022)*

(4) As regards securitisation (section 10), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on Significant Credit Risk Transfer relating to Articles 243 and 244 of Regulation (EU) No 575/2013 (EBA/GL/2014/05)
- Guidelines on implicit support for securitisation transactions, in accordance with Article 248 of Regulation (EU) No 575/2013 (EBA/GL/2016/08)
- Guidelines on the determination of the weighted average maturity of contractual payments due under the tranche of a securitisation transaction in accordance with point (a) of Article 257(1) of Regulation (EU) No 575/2013 (EBA/GL/2020/04) *(Issued on 25.8.2021, valid from 1.3.2021)*

(5) As regards large exposures (section 12), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013 (EBA/GL/2015/20)
- Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 (EBA/GL/2017/15)
- Guidelines specifying the conditions for the application of the alternative treatment of institutions' exposures related to 'tri-party repurchase agreements' set out in Article 403(3) of Regulation (EU) 575/2013 for large exposures purposes (EBA/GL/2021/01) *(Issued on 7.9.2022, valid from 1.10.2022)*
- Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits of Article 395(1) of Regulation (EU) No 575/2013 and the time and measures to return to compliance pursuant to Article 396(3) of Regulation (EU) No 575/2013 (EBA/GL/2021/09) *(Issued on 7.9.2022, valid from 1.10.2022)*

(6) As regards the disclosure of capital adequacy and liquidity risk information (section 14), the matters addressed in these regulations and guidelines are related to the following guidelines of the European Banking Authority (EBA):

- Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14)
- Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03)
- Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11)
- Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01)
- Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01)
- Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10)
- Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) *(Issued on 20.1.2021, valid from 1.3.2021)*
- Guidelines on supervisory reporting and disclosure requirements in compliance with CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/11) (*Issued on 20.1.2021, valid from 1.3.2021*)
- Guidelines on supervisory reporting and disclosure requirements in compliance with CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/11) (*Issued on 20.1.2021, valid from 1.3.2021*)
- Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/12) *(Issued on 20.1.2021, valid from 1.3.2021)*

The EBA Guidelines and Recommendations are available at www.finanssivalvonta.fi and on the EBA's website at www.eba.europa.eu (Regulation and policy).

In addition, the website www.eba.europa.eu (Single Rulebook Q&A) contains interpretations of the Commission and EBA on regulation.

In preparing these regulations and guidelines, consideration has also been given to guidance provided by the European Central Bank (ECB):

- ECB guide to internal models, October 2019 *(Issued on 25.8.2020, valid from 1.3.2021)*
- Guideline (EU) 2017/697 of the European Central Bank of 4 April 2017 on the exercise of options and discretions available in Union law by national competent authorities in relation to less significant institutions (ECB/2017/9)

- Guideline (EU) 2020/978 of the European Central Bank of 25 June 2020 on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council by national competent authorities in relation to less significant institutions with regard to the threshold for assessing the materiality of credit obligations past due (ECB/2020/32) *(Issued on 25.8.2020, valid from 1.3.2021)*
- Guideline (EU) 2022/508 of the European Central Bank of 25 March 2022 amending Guideline (EU) 2017/697 of the European Central Bank on the exercise of options and discretions available in Union law by national competent authorities in relation to less significant institutions (ECB/2017/9) (ECB/2022/12) *(Issued on 7.9.2022, valid from 1.10.2022)*

3 Objectives

(1) The objective of these regulations and guidelines is to provide supervised entities with instructions, within the limits allowed by EU regulation, on the capital adequacy and liquidity risk requirements, on large exposures and the disclosure of information.

(2) The instructions are related to the national application of the CRR as well as regulations and guidelines of the European Banking Authority and the European Central Bank (ECB).

(3) These regulations and guidelines include the FIN-FSA's regulations on options and matters left in the CRR within the discretion of the competent authority. The regulations are consistent with ECB Guidelines addressed at competent national authorities.

4 Own funds

4.1 Classification of new CET1 instruments into CET1 under the permission or notification procedure *(Issued on 7.9.2022, valid from 1.10.2022)*

(1) In accordance with Article 26(3) of the CRR, competent authorities shall evaluate whether issuances of capital instruments satisfy the criteria set out in Article 28 or, where applicable, Article 29. Institutions may classify capital instruments as Common Equity Tier 1 (CET1) instruments only after permission is granted by the competent authorities.

(2) Article 26(3)(2) of the CRR also allows the notification procedure in certain specific circumstances. Hence, if an institution has already been granted the abovementioned classification permission, it may also classify subsequently issued instruments as CET1 instruments, provided that

- the provisions governing those subsequent issuances are substantially the same as those governing issuances for which a permission has already been granted, and
- the institution has notified those subsequent issuances to the competent authorities sufficiently in advance of their classification as CET1 instruments.

(3) Competent authorities shall consult the EBA before granting permission for new forms of capital instruments to be classified as CET1 instruments. Competent authorities shall have due regard to the EBA's opinion.

(4) On the basis of information collected from competent authorities, the EBA shall maintain and publish a list of all forms of capital instruments in each Member State that qualify as Common Equity Tier 1 instruments. In Finland, instruments qualifying for the list comprise shares with classes carrying entitlement to different voting rights, cooperative shares (*osuus*), non-voting shares (*äänivallaton osuus*) and basic fund shares (*kantarahasto-osuus*). Even if a CET1 instrument has the same legal form as an instrument mentioned in the EBA's list, the inclusion of new instruments into CET1 must be based either on a classification permission or the notification procedure under paragraph (2). Where an entirely new category of CET1 instrument is concerned, institutions should be prepared for a permission procedure lasting for several months, since the processing of a permission requires that an opinion is requested from the EBA.

(5) The EBA has published a report on CET1 instruments issued by institutions authorised in the EU ("EBA report on the monitoring of CET1 instruments issued by EU institutions"). The report includes examples of recommended terms and conditions and those that should be avoided, identified in assessing the acceptability of CET1 instruments in different countries. The report is updated on a regular basis and it is available on the EBA website (eba.europa.eu – regulation and policy – own funds – reports).

GUIDELINE (paragraphs 6–7)

(6) According to the FIN-FSA's interpretation, when applying the notification procedure under Article 26(3)(2) of the CRR, the provisions applicable to the issues of instruments are similar in cases where no such changes have been made to the provisions that would have an impact on the

assessment of the preconditions of eligibility of the instruments as CET1 and on the granting of the permission.

(7) The FIN-FSA recommends that when an institution applies the notification procedure referred to in paragraph (2), it notifies the FIN-FSA[2] at least 20 calendar days before the intended classification of the instruments into CET1. The notification should include at least the following information:

- assurance that the terms and conditions of the instruments have not been changed in a way that the preconditions for CET1 instruments established in Articles 28 or 29 of the CRR and Commission Delegated Regulation (EU, N:o 241/2014)[3] would no longer be satisfied,
- assurance that the acquisition of ownership of the liabilities is not funded directly or indirectly by the institution (Article 28(1)(b),
- assurance that the instruments do not involve other arrangements with economic effects that are non-compliant with the prerequisites for CET1 instruments (Article 79 a),
- indication that the instruments are fully paid up (Article 28(1)(b)),
- description of changes in the provisions or conditions listed in the first indent above in comparison with the previous issuance,
- a self-evaluation of how the preconditions of the provisions referred to above in the first indent are satisfied.

[2] *Notification address: registry(at)fiva.fi*
[3] *Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (OJ L 74/8, 14.3.2014). The Regulation has already been amended several times, so it is advisable to check for any revisions at least in the consolidated regulation.*

4.2 Additional Tier 1 (AT1) and Tier 2 (T2) capital instruments *(Issued on 7.9. 2022, valid from 1.10.2022)*

(8) The classification of instruments as Additional Tier 1 or Tier 2 capital instruments is not subject to permission under the CRR, and it does not involve the requirement of an advance verification by a competent authority. However, competent authorities do also monitor the eligibility of these instruments.

GUIDELINE (paragraphs 9–10)

(9) The FIN-FSA recommends that supervised entities give a prior notice to the FIN-FSA of new capital instruments intended to be categorised as Additional Tier 1 (AT1) and Tier 2 (T2) capital and their key terms and conditions. In addition to the FIN-FSA, the quality of own funds instruments is supervised by the EBA. The FIN-FSA recommends that the supervised entities contact the FIN-FSA well in advance and submit to the FIN-FSA planned criteria and a comparison of them to the criteria set in the CRR and the Commission Delegated Regulation 241/2014, which criteria the capital instruments must meet. One may refer for example to the "Public Guidance on the review of the qualification of capital instruments as Additional Tier 1 and Tier 2 instruments" issued by the ECB's Banking Supervision. The Guidance is available on the website of the Single Supervisory Mechanism (bankingsupervision.europa.eu).

(10) The FIN-FSA recommends that, in drafting the terms and conditions for AT1 instruments, supervised entities comply with the recommendations of the EBA published in the "EBA report on the monitoring of Additional Tier 1 (AT1) instruments of European Union (EU) institutions") or the interpretations issued by it in the so-called Q&A process. The AT1 report is updated on a regular basis. On 10 October 2016, the EBA published the first model terms and conditions for AT1 instruments in connection with the update of the AT1 report (Final AT1 standard templates).

4.3 Capital injections into the non-restricted equity reserve *(Issued on 7.9.2022, valid from 1.10.2022)*

GUIDELINE (paragraph 11)

(11) The FIN-FSA recommends that supervised entities give a prior notice to FIN-FSA of capital injections to be made in the non-restricted equity reserve, their amount, and related terms and conditions.

4.4 Recognition of capital loans under Limited Liability Companies Act in own funds

(12) Capital instruments qualifying as own funds must satisfy the conditions provided in the CRR:

- The conditions for capital instruments qualifying as CET1 are provided in Article 28 of the CRR, in addition to which Article 29 contains more provisions on the conditions for CET1 capital instruments issued by institutions established in another form than a limited liability company
- The conditions for capital instruments to qualify as Additional Tier 1 (AT1) are provided in Article 52 of the CRR.

– The conditions for capital instruments to qualify as Tier 2 (T2) are provided in Article 63 of the CRR.

(13) Chapter 12 of the Limited Liability Companies Act also contains specific provisions on capital loans. In accordance with chapter 12, section 1, subsection 2, the principal of a capital loan may be repaid and interest paid only insofar as the sum total of the non-restricted equity and all of the capital loans of the company at the time of payment exceed the loss on the balance sheet to be adopted for the latest financial period or the loss on the balance sheet from more recent financial statements. In accordance with chapter 12, section 2, subsection 1, change in the terms of the loan shall be invalid, if it is contrary to section 1, subsection 1 of the same chapter.

GUIDELINE (paragraphs 14–15)

(14) Since in accordance with Article 28(1)(h) and Article 52(1)(l) of the CRR, the principal of CET1 and AT1 capital instruments may be paid only out of distributable items, a capital loan referred to in the Limited Liability Companies Act cannot, according to the FIN-FSA's interpretation, be classified as Common Equity Tier 1 (CET1) or Additional Tier 1 (AT1) capital.

(15) In order that capital instruments could qualify as own funds, the FIN-FSA recommends that supervised entities established as limited liability companies or a cooperative only issue such capital instruments meeting the conditions of the Limited Liability Companies Act and the Co-operatives Act that also meet the conditions provided in the CRR.

4.5 Transitional provisions

4.5.1 Applicable percentages of deduction for Tier 2 (T2) capital

(16) In accordance with chapter 11, section 16 of the Credit Institutions Act, the FIN-FSA shall provide more detailed provisions required by the implementation of the CRD and the CRR on the financial preconditions for credit institution activities referred to in chapters 9 and 10 of the Credit Institutions Act, and the regular disclosure obligation required by the supervision of these preconditions. (*Issued on 7.9.2022, valid from 1.10.2022*)

(17) In accordance with Article 478(3) of the CRR, competent authorities shall determine and publish applicable percentages of deductions for Tier 2 capital items referred to in Article 478(2).

REGULATION (paragraph 18)

(18) The FIN-FSA rules that a percentage of 100% shall be applied to the items referred to in Article 478(2) during the period from 1 January 2014 to 31 December 2023. *(Issued on 7.9.2022, valid from 1.10.2022)*

5 Prudential treatment of qualifying holdings outside the financial sector

(1) In accordance with chapter 11, section 16 of the Credit Institutions Act, the FIN-FSA shall provide more detailed provisions required by the implementation of the CRD and the CRR on the financial preconditions for credit institution activities referred to in chapters 9 and 10 of the Credit Institutions Act, and the regular disclosure obligation required by the supervision of these preconditions. (*Issued on 7.9.2022, valid from 1.10.2022*)

(2) In accordance with Article 89(3) of the CRR, competent authorities shall either prohibit institutions from having qualifying holdings referred to in paragraphs 1 and 2 of said Article the amount of which exceeds the percentages of eligible capital laid down in those paragraphs or require that institutions apply a certain risk weight to such holdings.

REGULATION (paragraphs 3–4)

(3) Supervised entities shall apply a risk weight of 1,250% to the greater of the following:

- Qualifying holdings, the amount of which exceeds 15% of the eligible capital of the supervised entity, in an undertaking referred to in Article 89(1) of the CRR; and
- Qualifying holdings, the amount of which exceeds 60% of the eligible capital of the supervised entity, in an undertaking referred to in Article 89(2) of the CRR. *(Issued on 7.9.2022, valid from 1.10.2022)*

(4) The provision in paragraph (3) does not affect the application of Article 90 of the CRR. (*Issued on 7.9.2022, valid from 1.10.2022)*

6 Capital requirements for credit risk in the standardised approach

6.1 Definitions

(1) In this section, assets refer to balance sheet items, investments and off-balance sheet items.

6.2 Exposure classes

6.2.1 Exposures to central governments or central banks; Article 114 of the CRR

GUIDELINE (paragraphs 2–4)

(2) According to the FIN-FSA's interpretation, in Finland assets referred to in Article 114 of the CRR mean exposures to:

- the Finnish government
- Finnish government enterprises
- the Social Insurance Institution.

(3) According to the FIN-FSA's interpretation, Finnish government enterprises referred to in paragraph (2) comprise Senate Properties and Metsähallitus (the Forest Board).

(4) According to the FIN-FSA's interpretation, exposures to unincorporated state enterprises do not fall within the scope of Article 114 of the CRR, but they are included in exposures to corporates.

6.2.2 Exposures to regional governments or local authorities; Article 115 of the CRR

GUIDELINE (paragraphs 5–6)

(5) According to the FIN-FSA's interpretation, under Article 115 of the CRR, the following exposures can be treated similarly to exposures to the central government:

- exposures to Finnish municipalities and municipal federations,
- exposures to the province of Åland,
- exposures to wellness services counties and joint wellness services county authorities. *(Issued on 18.1.2022, valid from 21.1.2022)*

(6) According to the FIN-FSA's interpretation, under Article 115 of the CRR, exposures to religious communities belonging to a church authorised to raise taxes in accordance with legislation conferring on them the right to do so, shall be treated as exposures to regional governments and local authorities.

6.2.3 Exposures to public sector entities; Article 116 of the CRR

GUIDELINE (paragraphs 7–9)

(7) According to the FIN-FSA's interpretation, exposures to the Employment Fund shall be treated as exposures to public sector entities referred to in Article 116 of the CRR.

(8) According to the FIN-FSA's interpretation, exposures to universities shall be treated as exposures to public sector entities referred to in Article 116 of the CRR.

(9) Under Article 116(4) of the CRR, exposures to public sector entities may in certain circumstances be treated as exposures to the central government. According to the FIN-FSA's interpretation, the Municipal Guarantee Board is a public sector entity whose exposures can be treated as exposures to the central government.

6.2.4 Exposures to credit institutions and investment firms; Article 119 of the CRR

GUIDELINE (paragraphs 10–11)

(10) According to the FIN-FSA's interpretation, the following items can also be included in exposures to credit institutions and investment firms as referred to in Article 119 of the CRR:

- exposures to the Deposit Guarantee Fund and the Investors' Compensation Fund,
- exposures to the registration fund of the central securities depository and the clearing fund referred to in chapter 2, section 9 of the Act on the Book-Entry System and Clearing Operations.
- exposures to fund management companies providing services referred to in chapter 2, section 5 of the Act on Common Funds (management companies engaged in asset management) and deemed comparable to investment firms,
- exposures to exchanges referred to in the Securities Markets Act, exposures to the central securities depository referred to in the Act on the Book-Entry System and Clearing Operations.

(11) According to the FIN-FSA's interpretation, exposures to Municipality Finance are included in exposures under Article 119 of the CRR to credit institutions and investment firms. The risk weights of bonds issued by Municipality Finance are determined on the basis of the risk weight of the Finnish government, since they are guaranteed by the Municipal Guarantee Board. However, this requires that the guarantee satisfies the conditions referred to in Articles 213 and 215 of the CRR.

6.2.5 Retail exposures; Article 123 of the CRR

GUIDELINE (paragraphs 12–14)

(12) According to the FIN-FSA's interpretation, the reasonable steps referred to in Article 123 of the CRR in the calculation of the EUR 1 million threshold entail that supervised entities should take into account the complexity of the exposures, expenses related to the implementation of the steps and the extent of the impact of the matter on the capital requirement.

(13) The FIN-FSA recommends that supervised entities determine items calculated as retail exposures as follows:

- the conditions for retail exposures set out in Article 123 of the CRR are satisfied
- the total exposures to one counterparty, referring both to an individual inhabitant and a group of connected clients, do not exceed 0.2% of the total retail exposures, and the supervised entity has ascertained that the retail exposure portfolio does not include sectoral or similar risk exposures.

(14) When a supervised entity is determining exposures belonging to the retail exposures in accordance with paragraph (13) applying the 0.2% threshold in line with the Basel recommendation, it can be considered sufficient that the supervised entity conducts the calculation on an annual basis based on the information of the last day of December. This entails that the supervised entity determines the total amount of exposures belonging to retail exposures taking into account Article 123, paragraphs a) and c) of the CRR and subsequently removes from this pool any exposures exceeding 0,2% of the total value of the portfolio and finds out any sectoral or similar exposures related to the portfolio. Any exposures qualifying for the portfolio after this shall be treated as retail exposures for the purposes of capital requirements calculation.

6.2.6 Exposures secured by mortgages on residential property; Article 125 of the CRR

GUIDELINE (paragraphs 15–18)

(15) According to the FIN-FSA's interpretation, Article 125 of the CRR may be applied to the following exposures:

- exposures secured by shares carrying entitlement to a right to control an apartment
- exposures to a housing corporation or mutual real estate companies secured by a pledged apartment owned and controlled by the housing corporation itself
- exposures secured by a property suitable for year-round use or shares carrying entitlement to a right to control it
- an exposure or part of an exposure secured by a part related to residential housing belonging to a confirmed pledge on an agricultural property. This requires that the part of an agricultural property intended for residential purposes has been assessed separately.

(16) According to the FIN-FSA's interpretation, exposures to housing corporations or mutual real estate companies secured by confirmed pledges on residential properties owned by the corporation qualify for the application of Article 125 of the CRR. However, the following conditions should be satisfied:

- it is not a corporation yet to be established
- it is not a corporation with less than 5 shareholders
- the building is complete and indirectly held by the residents through the housing corporation
- the supervised entity must ascertain according to its best ability, e.g. through internal guidelines and control that the collateral is not accounted for twice
- the residential property collateral for exposures to a housing corporation or mutual real estate company satisfies the minimum conditions for residential property collateral and the valuation rules provided on the measurement of residential property collateral.

(17) The FIN-FSA recommends that where the loan of a housing corporation is significant, the supervised entity also assesses the impact of this corporate loan as a factor impairing the value of the share. In determining the value of an individual apartment, the proportion of corporate loan related to the apartment should be deducted from the value of the shares accepted as collateral. The supervised entity should also pay specific attention to the repayment capacity of the owner of an individual apartment, if a corporate loan amounts to a considerable proportion of the collateral (more than 50% of debt-free value).

(18) In accordance with FIN-FSA's interpretation, exposures secured by a pledged right-of-occupation payment as referred to in the Right-of-Occupancy Housing Act do not satisfy the conditions set out in Article 125 of the CRR.

6.2.7 Exposures in default; Article 127 of the CRR

(19) On 28 September 2016, under Article 16 of Regulation (EU) No 1093/2010, the EBA has issued "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" (EBA/GL/2016/07).

GUIDELINE (paragraph 20)

(20) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines entering into force on 1 January 2021 referred to above in paragraph (19). By that date, supervised entities should incorporate the requirements of the Guidelines in their internal procedures and IT systems. The Guidelines are available at Finanssivalvonta.fi.

(21) In accordance chapter 11, section 16 of the Credit Institutions Act, the FIN-FSA shall provide more detailed provisions required by the implementation of the CRD and the CRR on the financial preconditions for credit institution activities referred to in chapters 9 and 10 of the Credit Institutions Act, and the regular disclosure obligation required by the supervision of these preconditions. (*Issued on 7.9.2.2022, valid from 1.10.2022*)

(22) Article 178(2)(d) of the CRR requires that the competent authority defines thresholds for material credit obligations past due.

REGULATION (23)

(23) The threshold referred to in paragraph (20) is the same regardless of whether the supervised entity applies the standardised approach or internal ratings-based approach in the calculation of

capital requirements for credit risk. Supervised entities must comply with the provisions on the definition of default in section 7.5. *(Issued on 7.9.2022, valid from 1.10.2022)*

6.2.8 Items associated with particular high risk, Article 128 of the CRR

(24) On 17 January 2019, the EBA has issued Guidelines on specification of types of exposures to be associated with high risk (EBA/GL/2019/01).

GUIDELINE (paragraph 25)

(25) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraph (24), available at Finanssivalvonta.fi. *(Issued on 7.9.2022, valid from 1.10. 2022)*

7 Capital requirements for credit risk in the internal ratings based approach

7.1 IRBA-related abbreviations

(1) The following abbreviations are used in this section:

- IRBA Internal Ratings Based Approach
- FIRB Foundation Internal Ratings Based Approach
- AIRB Advanced Internal Ratings Based Approach

7.2 Regulatory framework

(2) On 21 July 2016, the EBA has published and submitted a draft regulatory technical standard for adoption by the Commission on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach.[4] Commission Delegated Regulation (EU) 2022/439[5] on the abovementioned draft standard including amendments made by the Commission was published in the EU Official Journal on 18 March 2022. *(Issued on 7.9.2022, valid from 1.10.2022)*

(3) On 16 November 2018, the EBA has published and submitted a draft regulatory technical standard for adoption by the Commission on the specification of the nature, severity and duration of an economic downturn.[6] Commission Delegated Regulation (EU) 2021/930[7] on the abovementioned draft standard including amendments made by the Commission was published in the EU Official Journal on 10 March 2021. *(Issued on 7.9.2022, valid from 1.10.2022)*

(4) On 28 September 2016, the EBA has issued guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).

(5) On 20 November 2017, the EBA has issued guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16). *(Issued on 25.8. 2020, valid from 1.3.2021)*

(6) On 6 March 2019, the EBA has issued guidelines for the estimation of LGD appropriate for an economic downturn (EBA/GL/2019/03).

(7) On 6 May 2020, the EBA has issued guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs (EBA/GL/2020/05). *(Issued on 25.8.2020, valid from 1.3.2021)*

[4] *The Final draft RTS on assessment methodology for IRB approach (EBA/RTS/2016/03)*
[5] *Commission Delegated Regulation (EU) 2022/439 of 20 October 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the specification of the assessment methodology competent authorities are to follow when assessing the compliance of credit institutions and investment firms with the requirements to use the Internal Ratings Based Approach*
[6] *The Final draft RTS on the specification of the nature, severity and duration of an economic downturn (EBA/RTS/2018/04)*
[7] *Commission Delegated Regulation (EU) 2021/930 of 1 March 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the nature, severity and duration of an economic downturn referred to in Article 181(1), point (b), and Article 182(1), point (b), of that Regulation.*

GUIDELINE (paragraph 8)

(8) The FIN-FSA recommends that supervised entities comply with the Guidelines referred to in paragraphs (4), (5), (6) and (7). The Guidelines are available at Finanssivalvonta.fi. *(Issued on 7.9. 2022, valid from 1.10.2022)*

(9) In preparing the guidelines on internal models for significant credit institutions under its supervision, the European Central Bank (ECB) has relied on the EBA draft standards referred to paragraphs (2) and (3) as well as the EBA guidelines referred to in paragraphs (4) to (7). On 1 October 2019, the ECB published the first consolidated version of its guide to internal models, which includes chapters on general topics and chapters on specific risks. The FIN-FSA recommends that less significant institutions take the abovementioned ECB guide into account as applicable. The Financial Supervisory Authority takes into account, where applicable, the aforementioned ECB guide in its supervision related to the internal models of less significant financial institutions. *(Issued on 7.9.2022, valid from 1.10.2022)*

7.3 Implementation of IRBA

(10) In accordance with chapter 11, section 16 of the Credit Institutions Act, the FIN-FSA shall provide more detailed provisions required by the implementation of the CRD and the CRR on the financial preconditions for credit institution activities referred to in chapters 9 and 10 of the Credit Institutions Act, and the regular disclosure obligation required by the supervision of these preconditions. (*Issued on 7.9.2022, valid from 1.10.2022*)

(11) In accordance with Article 148(2) of the CRR, competent authorities shall determine the implementation period over which a supervised entity shall be required to implement the IRB Approach for all exposures, excluding items permanently excluded from the IRBA.

REGULATION (paragraphs 12–13)

(12) The FIN-FSA rules that the duration of the implementation period shall not exceed five years. *(Issued on 7.9.2022, valid from 1.10.2022)*

(13) A supervised entity may apply an implementation period of up to five years in migrating from the FIRB to the AIRB.

7.4 IRBA-related applications and notifications

(14) The FIN-FSA's guidelines on the submission to the FIN-FSA of applications and notifications related to the internal rating based approach have been published on the FIN-FSA's online service in connection with these regulations and guidelines. *(Issued on 25.8.2020, valid from 1.3.2021)*

GUIDELINE (paragraph 15)

(15) The FIN-FSA recommends that supervised entities follow the guidelines referred to in paragraph (14) when submitting IRBA-related applications and notifications to the FIN-FSA. The guidelines are available at Finanssivalvonta.fi.

7.5 Definition of default

(16) In accordance with chapter 11, section 16 of the Credit Institutions Act, the FIN-FSA shall provide more detailed provisions required by the implementation of the CRD and the CRR on the financial preconditions for credit institution activities referred to in chapters 9 and 10 of the Credit Institutions Act, and the regular disclosure obligation required by the supervision of these preconditions. (*Issued on 7.9.2022, valid from 1.10.2022*)

(17) Article 178(2)(d) of the CRR requires that the competent authority defines a threshold for the materiality of a credit obligation past due.

(18) In accordance with Articles 1 and 2 of Commission Delegated Regulation (EU) No 2018/171[8], a competent authority shall set for all institutions in its jurisdiction a single materiality threshold for retail exposures and a single materiality threshold for exposures other than retail exposures.

(19) The European Central Bank has issued Guideline (EU) 2020/978[9] on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 by national competent authorities in relation to less significant institutions with regard to the threshold for assessing the materiality of credit obligations past due, irrespective of the method used for the calculation of their risk-weighted exposure amounts. *(Issued on 25.8.2020, valid from 1.3.2021)*

REGULATION (paragraphs 20–22)

(20) In applying Article 178(2)(d) of the CRR as supplemented by Articles 1 and 2 of Commission Delegated Regulation No 2018/171, credit institutions shall assess the materiality of the credit obligation past due relative to the following threshold consisting of two components:

a) a limit (absolute threshold) in terms of the sum of all amounts past due owed by an obligor to the credit institution, the parent undertaking of that credit institution or any of its subsidiaries (hereinafter “credit obligation past due”) and corresponding to:

i) EUR 100 for retail exposures;

ii) EUR 500 for exposures other than retail exposures;

and

b) a limit (relative threshold) in terms of the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor for the credit institution, the parent undertaking of that institution or any of its subsidiaries – excluding equity exposures – and corresponding to 1%.

(21) Credit institutions applying the definition of default provided in Article 178, paragraph 1, subparagraphs (a) and (b) to retail exposures at the level of an individual credit facility are subject to the threshold provided in paragraph (20) at the level of a credit facility granted to an obligor by the credit institution, parent company or any subsidiary thereof. *(Issued on 7.92022, valid from 1.10.2022)*

[8] *Commission Delegated Regulation (EU) No 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due;*
[9] *Guideline (EU) 2020/978 of the European Central Bank of 25 June 2020 on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council by national competent authorities in relation to less significant institutions with regard to the threshold for assessing the materiality of credit obligations past due (ECB/2020/32)*

(22) Default shall be deemed to have occurred when both limits determined in subparagraphs a) and b) of paragraph (20) are exceeded for more than 90 consecutive days. *(Issued on 7.9.2022, valid from 1.10.2022)*

8 Credit risk mitigation techniques

8.1 Sovereign and other public sector counter-guarantees

(1) In accordance with Article 214(2) of the CRR, the treatment established in paragraph 1 of the same Article shall apply to exposures protected by a guarantee which is counter-guaranteed by central government or central bank (subparagraph a).

(2) Finnvera Plc is a specialised financial institution whose activities are governed by the Act on the State-Owned Specialised Financing Company and the Act on Credit, Guarantee and Capital Investment Operations Provided by the State-Owned Specialised Financing Company. These Acts provide that the responsibility of the state for Finnvera Plc's commitments is a direct commitment comparable to an absolute guarantee.

(3) In accordance with the further requirements set out in Article 215, paragraphs 1 and 2 of the CRR, guarantees and counter-guarantees by entities listed in Article 214 qualify as eligible unfunded credit protection, where the relieved requirements referred to in Article 214(2)(a) and (b) are satisfied.

GUIDELINE (paragraphs 4–6)

(4) According to the FIN-FSA's interpretation, the Finnish government shall be deemed a central government referred to in Article 214(2)(a) of the CRR.

(5) According to the FIN-FSA's interpretation, a guarantee provided by Finnvera Plc qualifies as an eligible unfunded credit protection as referred to in Article 197 of the CRR and similar to a guarantee provided by the Finnish government insofar as the guarantee provided by Finnvera Plc satisfies the other conditions set out in Articles 213 and 215 of the CRR.

(6) According to the FIN-FSA's interpretation, supplementary guarantees provided by the Finnish government and municipalities qualify as mitigating credit risk in capital requirements calculation insofar as they, in addition to the general provisions of Article 213 of the CRR, satisfy the specific conditions set out in Article 214(2)(a) and (b).

9 Capital requirements for market risk

9.1 EBA Guidelines

(1) On 16 May 2012, the EBA has issued Guidelines on the Incremental Default and Migration Risk Charge (IRC) (EBA/GL/2012/3)

(2) On 16 May 2012, the EBA has issued Guidelines on Stressed Value at Risk (Stressed VaR) (EBA/GL/2012/2)

(3) On 11 October 2016, the EBA has issued Guidelines on corrections to modified duration for debt instruments, in accordance with Article 340(3)(2) of Regulation (EU) No 575/2013.

(4) On 1 July 2020, the EBA has issued Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation) (EBA/GL/2020/09) *(Issued on 21.10.2020, valid from 1.3.2021)*

(5) On 13 July 2021, the EBA issued Guidelines on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (EBA/GL/2021/07) *(Issued on 7.9.2022, valid from 1.10.2022)*

GUIDELINE (paragraph 6)

(6) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraphs (1)–(5), available at Finanssivalvonta.fi. (*Issued on 7.9.2022, valid from 1.10.2022)*)

9.2 Maturity-based calculation of commodity risk

GUIDELINE (paragraph 7)

(7) An example of calculation of the own funds requirement for commodity risk in accordance with Article 359 of the CRR using the maturity-based approach for a single commodity:

Maturity band	Positions		Calculation	Own funds requirement		Explanation
	Long	Short				
1	50	150	50 x 3.0%= 1 x 50 x 0.6% = 3 x 50 x 0.6% =	1.5 0.3 0.9		Netting within band 1 Transfer from band 1 to band 2 Transfer from band 1 to band 4
2	50	0	50 x 3.0% =	1.5		Netting between bands 1 and 2

3	0	40	1 x 40 x 0.6% =	0.24		Transfer from band 3 to band 4
4	100		50 x 3.0% = 40 x 3.0% = 10 x 15% =	1.5 1.2 1.5		Netting between bands 1 and 4 Netting between bands 3 and 4 Final open position
5						
6						
7						
	Total own funds requirement			8.64		

10 Capital requirements for securitisation

10.1 EBA Guidelines

(1) On 7 July 2014, the EBA has issued guidelines on assessment of significant credit risk transfer in securitisation transactions (EBA/GL/2014/05).

GUIDELINE (paragraph 2)

(2) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to in paragraph (1) insofar as they apply to a supervised entity as the originator of a security transaction. The Guidelines are available at Finanssivalvonta.fi.

(3) On 4 May 2020, the EBA has issued Guidelines on the determination of the weighted average maturity of contractual payments due under the tranche of a securitisation transaction (EBA/GL/2020/04) *(Issued on 25.8.2020, valid from 1.3.2021)*

GUIDELINE (paragraph 4)

(4) The FIN-FSA recommends that supervised entities follow the Guidelines mentioned in paragraph (3) when calculating the maturity of contractual payments due under the tranche of a securitisation transaction, under Article 257(1)(a) of Regulation EU No 575/2013. The Guidelines are available at Finanssivalvonta.fi. *(Issued on 25.8.2020, valid from 1.3.2021)*

(5) On 24 November 2016, the EBA has issued Guidelines on implicit support for securitisation transactions (EBA/GL/2016/08).

GUIDELINE (paragraph 6)

(6) The FIN-FSA recommends that sponsor institutions and originator institutions comply with the EBA Guidelines referred to in paragraph (5) on support provided to securitisations beyond their contractual obligations. The Guidelines are available at Finanssivalvonta.fi.

11 Capital requirements for operational risk

11.1 Permission to adopt different calculation approaches

(1) Article 312 of the CRR provides the general preconditions for adopting different calculation methods.

(2) The use of different calculation approaches as a combination is provided for in Article 314 of the CRR.

(3) If a supervised entity adopts the standardised approach, an alternative standardised approach or an advanced approach, it may revert to the method with less accurate measurement of operational risk only when the conditions listed in Article 313 of the CRR are satisfied.

(4) The capital requirements for operational risk under this section is not applicable to investment firms referred to in Articles 95 and 96 of the CRR. The own funds requirements for these investment firms is partly based on the fixed overheads referred to in Article 97 of the CRR.

(5) In addition to these regulations and guidelines, regulations and guidelines related operational risk management are provided in FIN-FSA regulations and guidelines 8/2014: Management of operational risk in supervised entities of the financial sector

11.1.1 Basic Indicator Approach

GUIDELINE (paragraph 6)

(6) For a supervised entity applying the basic indicator approach, the capital requirement for operational risk is calculated in accordance with Articles 315 and 316 of the CRR.

11.1.2 Standardised Approach

GUIDELINE (paragraphs 7–8)

(7) In accordance with Article 312(1) of the CRR, a supervised entity may apply the standardised approach, if it in addition to the risk management provisions of chapter 9, section 16 of the Credit Institutions Act satisfies the criteria set out in Article 320 of the CRR and has, prior to the implementation of the standardised approach, submitted a related notification to the FIN-FSA.

(8) For a supervised entity applying the standardised approach, the capital requirement for operational risk is calculated in accordance with Articles 317 and 318 of the CRR. The relevant risk indicator is defined in Article 316.

11.1.3 Alternative standardised approach

GUIDELINE (paragraphs 9–11)

(9) In accordance with Article 312(1) of the CRR, the FIN-FSA may permit a supervised entity to use an alternative relevant indicator for the business lines of retail banking and commercial banking where the conditions set out in Articles 319(2) and 320 are met.

(10) The FIN-FSA recommends that a supervised entity planning to adopt an alternative standardised approach notifies its plans to the FIN-FSA in order to have more detailed instructions for filing an application.

(11) For a supervised entity applying an alternative standardised approach, the capital requirement for operational risk is calculated in accordance with Article 319 of the CRR. The relevant risk indicator is defined in Article 316.

11.1.4 Advanced approach

GUIDELINE (paragraphs 12–14)

(12) In accordance with Article 312(2) of the CRR, a supervised entity may adopt an advanced approach in the calculation of capital requirements for operational risk if it has been permitted by FIN-FSA to apply this approach. The FIN-FSA may grant the permission where all the qualitative and quantitative standards set out in Articles 321 and 322 of the CRR and in Commission Delegated Regulation No 2018/959[10] respectively are met and where the supervised entity meets the general risk management standards set out in chapter 9, section 16 of the Credit Institutions Act.

(13) The impact of insurance and other risk transfer mechanisms on the capital requirements is provided for in Article 323 of the CRR. According to the FIN-FSA's interpretation, the outsourcing of activities to an external party cannot be considered a risk transfer mechanism in this context.

(14) In accordance with Article 312(2) of the CRR, supervised entities shall apply for permission from the FIN-FSA for any material extensions and changes to advanced measurement approaches. In accordance with Article 312(3) of the CRR, supervised entities shall notify the FIN-FSA of all changes to their advanced measurement approaches.

[10] *Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk*

12 Large exposures

12.1 EBA Guidelines

(1) On 14 November 2017, the EBA has issued Guidelines on connected clients (EBA/GL/2017/15).

(2) On 15 December 2015, the EBA has issued Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework (EBA/GL/2015/20).

(3) On 15 September 2021, the EBA has issued Guidelines specifying the conditions for the application of the alternative treatment of institutions' exposures related to 'tri-party repurchase agreements' set out in Article 403(3) of Regulation (EU) 575/2013 for large exposures purposes (EBA/GL/2021/01). (*Issued on 7.9. 2022, valid from 1.10.2022*)

(4) On 15 September 2021, the EBA has issued Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits of Article 395(1) of Regulation (EU) No 575/2013 and the time and measures to return to compliance pursuant to Article 396(3) of Regulation (EU) No 575/2013 (EBA/GL/2021/09) *(Issued on 7.9.2022, valid from 1.10.2022)*

GUIDELINE (paragraph 5)

(5) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraphs (1)–(4), available at Finanssivalvonta.fi. *(Issued on 7.9.2022, valid from 1.10. 2022)*

12.2 Application of the regulations to financial and insurance conglomerates

(6) In accordance with Article 389 of the CRR, client risk refers to any assets or off-balance sheet commitments referred to in Part Three, Title II, Chapter 2 of the Regulation.

GUIDELINE (paragraphs 7 - 8)

(7) According to the FIN-FSA's interpretation, credit and guarantee insurance is comparable to off-balance sheet commitments.

(8) According to the FIN-FSA's interpretation, the approach to unknown clients referred to in Commission Delegated Regulation No 1187/2014[11] does not need to be applied to the calculation of customer exposures due to insurance companies' investments at the level of the financial and insurance conglomerate.

[11] *Commission Delegated Regulation (EU) No 1187/2014 of 2 October 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets*

12.3 Limits to large exposures

(9) In accordance with Article 395(3) of the CRR, competent authorities may set a lower limit than EUR 150 million.

(10) The FIN-FSA has not set a lower limit.

12.4 Reporting of exceeded limits

(11) A report on exceeded customer exposure limits must provide the information determined in the Guidelines referred to in paragraph (4). *(Issued on 7.9.2022, valid from 1.10.2022)*

GUIDELINE (paragraph 12)

(12) A supervised entity may submit a report on exceeded limits to the FIN-FSA in a free-format letter or the FIN-FSA's standardised reporting template available on the FIN-FSA website (FIN-FSA regulations and guidelines – Capital adequacy Regulations and Guidelines related to the Capital Requirements Regulation – Ylitysilmoituslomake suurten asiakasriskien ylitysraportointiin (in Finnish). *(Issued on 7.9.2022, valid from 1.10.2022)*

13 Liquidity risk requirements

13.1 FIN-FSA's regulatory powers *(Issued on 7.9.2022, valid from 1.10.2022)*

(1) In this section, by virtue of chapter 11, section 16 of the Credit Institutions Act, the FIN-FSA provides the regulations referred to in EU Regulations.

13.2 Liquidity Coverage Ratio (LCR) *(Issued on 7.9.2022, valid from 1.10.2022)*

13.2.1 Major stock market indices

(2) In accordance with Article 12(1)(c)(i) of Commission Delegated Regulation (EU) 2015/61 on liquidity coverage requirement for credit institutions, competent authority of a member state or the relevant public authority in a third country may decide which major stock indexes' constituent shares are eligible as level 2B assets in calculating the liquidity coverage ratio.

REGULATION (paragraph 3)

(3) The following indexes shall be considered major stock indexes as referred to in paragraph (2):

- indexes listed in Annex I of Commission Implementing Regulation (EU) 2016/1646 on main indices and recognised exchanges;
- stock indexes other than those referred to above, which have been defined as major indexes for this purpose by the competent authority of a member state or a public authority of a third country;
- major indexes other than those specified in the paragraphs above, which include the most important companies of the jurisdiction concerned.

13.2.2 Level 2B assets

(4) Article 12(3) of Commission Delegated Regulation (EU) 2015/61 on liquidity coverage requirement for credit institutions provides that, as regards credit institutions which in accordance with their statutes of incorporation are unable for reasons of religious observance to hold interest bearing assets, the competent authority may allow to derogate from points (ii) and (iii) of paragraph 1(b) of this Article, provided there is evidence of insufficient availability of non-interest bearing assets meeting these requirements and the non-interest bearing assets in question are adequately liquid in private markets.

REGULATION (paragraph 5)

(5) Supervised entities which in accordance with their statutes of incorporation are unable for reasons of religious observance to hold interest bearing assets, may include corporate debt securities as Level 2B liquid assets in subject to the preconditions specified in Article 12(1)(b) of Delegated Regulation (EU) N:o 2015/61.

13.3 Net Stable Funding Requirement *(NSFR) (Issued on 7.9.2022, valid from 1.10.2022)*

13.3.1 Required stable funding factors for off-balance sheet items

(6) In accordance with Article 428p(10) of the CRR, competent authorities may determine the required stable funding factors to be applied to off-balance-sheet exposures that are not referred to in this Chapter[12] to ensure that institutions hold an appropriate amount of available stable funding for the portion of those exposures that are expected to require funding over the one-year horizon of the net stable funding ratio. To determine those factors, competent authorities shall, in particular, take into account the material reputational damage to the institution that could result from not providing that funding.

REGULATION (paragraph 7)

(7) The FIN-FSA rules that, as regards off-balance sheet items referred to in paragraph (6), supervised entities shall apply required stable funding factors consistent with the outflow rates they apply to corresponding products and services in the calculation of the liquidity coverage ratio.

13.3.2 Determination of the term of encumbrance of segregated assets

(8) In accordance with Article 428q(2) of the CRR, institutions shall treat assets that have been segregated in accordance with Article 11(3) of Regulation (EU) No 648/2012 in accordance with the underlying exposure of those asset. Institutions shall, however, subject those assets to higher required stable funding factors, depending on the term of encumbrance to be determined by the competent authorities, who shall consider whether the institution is able to freely dispose of or exchange such assets and shall consider the term of the liabilities to the institutions' customers to whom that segregation requirement relates.

REGULATION (paragraph 9)

(9) The FIN-FSA rules that the term of encumbrance for assets referred to in paragraph (8) shall be a period corresponding to the term of the credit subject to the segregation requirement granted to the supervised entity's customers.

13.3.3 Required stable funding factors for off-balance sheet items in simplified calculation

(10) In accordance with Article 428aq(10) of the CRR, competent authorities may determine the required stable funding factors to be applied to off-balance-sheet exposures that are not referred to in this Chapter[13] to ensure that institutions hold an appropriate amount of available stable funding for the portion of those exposures that are expected to require funding over the one-year horizon of the net stable funding ratio. To determine those factors, competent authorities shall, in particular, take into account the material reputational damage to the institution that could result from not providing that funding.

[12] *Refers to Chapter 4 on Required stable funding in Title IV (Stable funding requirement) of Part Six (Liquidity) of the CRR.*
[13] *Refers to Chapter 4 on Required stable funding in Title IV (Stable funding requirement) of Part Six (Liquidity) of the CRR.*

REGULATION (paragraph 11)

(11) The FIN-FSA rules that supervised entities which have been granted permission to apply simplified calculation of the stable funding requirement shall apply the factors referred to above in paragraph (7).

13.3.4 Determination of the term of encumbrance of segregated assets in simplified calculation

(12) In accordance with Article 428ar(2) of the CRR, institutions shall treat assets that have been segregated in accordance with Article 11(3) of Regulation (EU) No 648/2012 in accordance with the underlying exposure of those asset. Institutions shall, however, subject those assets to higher required stable funding factors, depending on the term of encumbrance to be determined by the competent authorities, who shall consider whether the institution is able to freely dispose of or exchange such assets and shall consider the term of the liabilities to the institutions' customers to whom that segregation requirement relates.

REGULATION (paragraph 13)

(13) The FIN-FSA rules that supervised entities which have been granted permission to apply simplified calculation of the stable funding requirement shall apply the procedure referred to above in paragraph (9).

14 Disclosure of capital adequacy and liquidity risk information

14.1 EBA Guidelines

(1) On 23 December 2014, the EBA has issued Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14).

(2) On 27 July 2014, the EBA has issued Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).

(3) On 14 December 2016, the EBA has issued Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11).

(4) On 21 June 2017, the EBA has issued Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01).

(5) On 16 January 2018, the EBA has issued Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01).

(6) On 17 December 2018, the EBA has issued Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10). The Guidelines apply as of 31 December 2019.

(7) On 11 August 2020, the EBA has issued Guidelines on supervisory reporting and disclosure requirements in compliance with CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/11*). (Issued on 21.10.2020, valid from 1.3.2021)*

(8) On 11 August 2020, the EBA has issued Guidelines amending Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR “quick fix” in response to the COVID-19 pandemic (EBA/GL/2020/12). *(Issued on 21.10.2020, valid from 1.3.2021)*

GUIDELINE (paragraph 9)

(9) The FIN-FSA recommends that supervised entities comply with the EBA Guidelines referred to above in paragraphs (1)–(6), available at Finanssivalvonta.fi. *(Issued on 20.1.2021, valid from 1.3.2021)*

(10) In accordance with paragraph 9 of EBA/GL/2016/11, competent authorities may require institutions that are neither G-SIIs nor O-SIIs to apply some or all guidance in these guidelines when complying with the requirements in Part Eight of the CRR.

GUIDELINE (paragraph 11)

(11) The FIN-FSA recommends that supervised entities referred to above in paragraph (10) comply with paragraph (8) of the EBA Guidelines as such and other advice provided in the Guidelines as best practices, as applicable.

(12) On 2 June 2020, the EBA has issued Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). On these Guidelines, the FIN-FSA has issued separate Regulations and guidelines 3/2020: Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis *(Issued on 20.1.2021, valid from 1.3.2021)*

14.2 Disclosure requirements pertaining to significant subsidiaries of credit institutions or investment firms

(13) In accordance with Article 13(1) of the CRR, EU parent institutions shall comply with the obligations laid down in Part Eight of the CRR on the basis of their consolidated situation.

(14) In accordance with Article 13(2) 2 of the CRR, institutions controlled by an EU parent financial holding company or EU parent mixed financial holding company shall comply with the obligations laid down in Part Eight of the CRR on the basis of the consolidated situation of that financial holding company or mixed financial holding company.

(15) In accordance with Article 13(1) and (2) of the CRR, significant subsidiaries of EU parent institutions and those subsidiaries which are of material significance for their local market shall disclose the information specified in Articles 437, 438, 440, 442, 450, 451 and 453, on an individual or sub-consolidated basis.

(16) A competent authority shall provide information on the criteria it applies to assess the significance of a subsidiary. Provisions on the criteria have been given in Annex 1, Part 5 of Commission Implementing Regulation (EU) No 650/2014 laying down implementing technical standards with regard to the format, structure, contents list and annual publication date of the information to be disclosed by competent authorities in accordance with Directive 2013/36/EU of the European Parliament and of the Council.

REGULATION (paragraphs 17–18)

(17) A subsidiary credit institution or investment firm shall be considered significant, if the share of its balance sheet total or, if the information is disclosed on the basis of consolidated capital adequacy, the share of the subsidiary credit institution’s or investment firm’s consolidated balance sheet total forms at least 10% of the parent company’s consolidated balance sheet total.

(18) Requirements pertaining to significant subsidiaries do not apply to a Finnish sub-consolidation group’s parent company whose Finnish parent company shall disclose consolidated capital adequacy information.

15 Repealed regulations and guidelines

Upon entry into force, these regulations and guidelines shall repeal the following FIN-FSA regulations and guidelines:

- Regulations and guidelines 25/2013: Capital requirements calculation and large exposures
- Regulations and guidelines 10/2014: Disclosure of encumbered and unencumbered assets
- Regulations and guidelines 4/2013: Calculation of Stressed VaR and Incremental Risk Charge

These regulations and guidelines also repeal the FIN-FSA's statement issued on 31 December 2013 on the regulatory options left in the CRR within the discretion of the competent authority.

16 Revision history

These regulations and guidelines have been amended after their entry into force as follows:

Issued on 25.8.2020, 21.10.2020 and 20.1.2021, valid from 1.3.2021:

- added to paragraph (2) in section 2.5 Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs, to paragraph (3) Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation), to paragraph (4) Guidelines on the determination of the weighted average maturity of contractual payments due under the tranche of a securitisation transaction, to paragraph (5) ECB guide to internal models and ECB Guidelines (EU) 2020/978 and to paragraph (6) three EBA Guidelines on measures applied in response to the COVID-19 pandemic.
- corrected reference to another paragraph in paragraph (22) in section 6
- section 7 revised as follows:

– moved paragraph (4) to paragraph (10), to which updated Consolidated version of the ECB's internal models guide and added a mention that the FIN-FSA takes into account, where applicable, the ECB guide in its supervision of the internal models of less significant financial institutions.
– corrected in paragraph (6) date of issue of Guidelines [previously paragraph (7)]
– added to paragraph (8) EBA's CRM Guidelines and to paragraph (9) recommendation to comply with the Guidelines
– added subsection 7.4 and paragraph (14) on the submission to the FIN-FSA of applications and notifications related to the IRBA
– added paragraph 18, mentioning Guideline 2020/978 issued by the European Central Bank
– revised paragraph (21), date when default is deemed to have occurred [previously paragraph (19)]
– deleted paragraphs related to date of introduction of new deficit of default as well as notification of date of introduction, and threshold values of old definition of default, as new definition has been introduced as of 1 January 2021 [previously paragraphs (14) end part, (15)–(16) and (20–23)]

- added to section 10.1 paragraph (4) EBA Guidelines and to paragraph (5) recommendation to comply with Guidelines
- added to section 11 paragraph (3) EBA Guidelines and to paragraph (4) FIN-FSA's recommendation to comply with Guidelines
- amended section 15 as follows:

– added to paragraphs (7)−(9) EBA Guidelines, as a result of subsequent paragraphs were renumbered
– added to paragraph (12) a reference to FIN-FSA Regulations and guidelines 3/2020

Issued on 18 January 2022, valid from 21 January 2022:

- amended section 1, scope of application of regulations and guidelines, to take into account the Act on Alternative Investment Fund Managers as well as amended legislation related to investment firms and management companies
- added to section 2.1 necessary statutes and otherwise amended the names of certain statutes in section 2
- added to section 6 paragraph (5) new category of exposures
- annulled section 14.1 (Application of Part Six of the CRR to investment firms), in which case the previous section 14.2 “Additional liquidity outflows for other products and services” has become the new section 14.1.

The amendments relate mainly to the national implementation of Regulation (EU) 2019/2033 of the European Parliament and of the Council as well as Directive (EU) 2019/2034 of the European Parliament and of the Council. At the same time, an addition required by the Act on Wellness Services Counties (611/2021) has been made to the regulations and guidelines.

Issued on 7.9.2022, valid from 1.10.2022:

- Section 2 Legal framework and international recommendations amended as follows:
  - listing of legislation in section 2.1 updated (Acts not mentioned in the regulations and guidelines have been removed).
  - two new Commission Delegated Regulations added to section 2.2 European Union Regulations
  - a section of the Investment Services Act updated in section 2.4 FIN-FSA’s power to issue regulations
  - three EBA Guidelines, ECB Guidelines and ECB Recommendations added to section 2.5 International recommendations

- Section 4 amended as follows:
  - heading abbreviated into “Own funds” since the regulations and guidelines no longer include provisions on the minimum amount of own funds after the transitional periods have lapsed
  - section 4.1 Approval of terms and conditions of new capital instruments qualifying as own funds and their submission to FIN-FSA repealed
  - Guidance on CET1 as well as AT1 and T2 instruments carved out from section 4.1 into separate sections (4.1 and 4.2).
  - Guidance on Capital injections to into the non-restricted equity reserve, previously part of section 4.1, moved into a separate section: 4.3 Capital injections into the non-restricted equity reserve.
  - due to the above changes, section 4.3 on transitional provisions was turned into section 4.5.
  - section on Grandfathering of old capital instruments and items removed (previously section 4.3.1). Transitional periods concerning the application of new regulations have ended on 31 December 2021.

– paragraph on the FIN-FSA's regulatory powers added to section 4.5.1.
– paragraph on the FIN-FSA's regulatory powers added to section 5 and the text in the section updated accordingly.

- Section 7 Capital requirements for credit risk in the internal ratings based approach amended as follows:

– Commission Delegated Regulation (EU) 2022/439, issued on the basis of a draft EBA regulatory standard, added to paragraph (2)
– Commission Delegated Regulation (EU) 2021/930, issued on the basis of a draft EBA regulatory standard, added to paragraph (3)
– paragraph (4) recommending that the draft regulatory standards referred to in paragraphs (2) and (3) in developing classification systems removed
– dates from which the application of recommendations in paragraphs (4), (5) and (6) is recommended removed since the entry into force dates of each Guideline has already passed [previous paragraph (9) referring to previous paragraphs (5), (6), (7) and (8)]
– paragraph on the FIN-FSA's regulatory powers added to sections 7.3 and 7.5, and the text updated accordingly.

- Provisions concerning capital requirements for counterparty risk removed from the regulations and guidelines reflecting the ECB Guidelines, as a result of which, previous headings change from section 9 onwards.

- Capital requirements for market risk added to section 9 (previously section 10), EBA Guidelines.

- Section 12 Large exposures (previously section 13) amended as follows:

– two EBA Guidelines added to section 12.1 EBA Guidelines
– section 12.4 Reporting of exceeded limits amended to correspond to EBA Guidelines EBA/GL/2021/09

- Section 13 Liquidity risk requirements (previously section 14) amended as follows:

– section Additional liquidity outflows for other products and services (previous section 14.1) removed in accordance with the ECB Guidelines
– section 13.1 FIN-FSA’s regulatory powers added
– section 13.2 Liquidity Coverage Requirement (LCR) and subsections added
– section 13.3. Net stable funding requirement (NSFR) and subsections added