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## C O N S U L T A T I O N   M E M O R A N D U M

FI Ref. 15-11526

### **Stress test methodology for assessment of the capital planning buffer**

#### **Summary**

In September 2014, Finansinspektionen (FI) published a memorandum entitled *Capital Requirements for Swedish Banks* (the capital requirements memorandum). In this memorandum, FI states its position on several of the capital requirement provisions that have been introduced into Swedish law as a result of the implementation of the Capital Requirements Directive<sup>1</sup>. It also describes how the size of a firm's capital planning buffer shall be assessed using a stress test of the firm's capital situation and earning capacity. The stress test shall reflect how the firm is affected by a severe but plausible financial stress.

In this memorandum, FI accounts for the stress test methodology that it intends to use to assess the size of the capital planning buffer for the largest firms. FI currently intends to use this methodology for the ten largest firms<sup>2</sup>.

The stress test methodology that FI has selected can be broken down into two parts, an overarching methodology and a more detailed methodology for individual types of risk. The overarching methodology is submitted here for consultation and will subsequently be adopted. The detailed methodology is not part of this consultation memorandum. A description of which detailed methodology FI may employ is attached to this memorandum as background information.

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<sup>1</sup> 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 and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

<sup>2</sup> These firms currently include Nordea, Svenska Handelsbanken, Swedbank, Skandinaviska Enskilda Banken, SBAB, SEK, Kommuninvest, Länsförsäkringar Bank, Landshypotek and Skandiabanken.

As part of the overarching methodology:

- The stress test will be conducted as a scenario analysis that includes changes to a number of operational risk parameters, such as credit losses and changes in risk weights and market rates. An underlying macroeconomic scenario will not be used.
- FI will calculate the outcome of the stress test based on underlying data that firms report to FI for risk types where there is good access to this kind of data. For risk types where it does not have access to sufficiently descriptive data, FI may request additional information or allow firms to calculate the outcome of the stress test themselves.
- FI will implement a limitation on the stress test's degree of severity by establishing that an event that probably will occur at least three times per century but not more than ten times per century shall be considered to constitute part of a severe but plausible stress scenario.
- The stress test will assume that the balance sheet is static.

FI will carry out the stress test as part of its Supervisory Review and Evaluation Process (SREP). The test will normally be carried out on an annual basis. FI intends to publish its assessment of the size of the capital planning buffer as part of its quarterly publication of the firms' capital needs. FI also intends to publish post-ex the detailed methodology that was employed. It is FI's current assessment that the size of the capital planning buffers for the four largest firms (the major banks) as they are assessed in SREP 2016 using the overarching and detailed methodologies will be less than 2.5 per cent of the risk-weighted assets. This means that the capital planning buffer will be less than the capital conservation buffer and thus will not affect the major banks' total capital requirement in SREP 2016.