Finance Norway

The European Central Bank
Directorate General Market Operations
ATT: Ms. Imène RAHMOUNI-ROUSSEAU

Date: 21.02.2023

Collateral eligibility for Norwegian senior preferred bank bonds

Dear Ms. Rahmouni-Rousseau,

We hope this letter finds you well.

In 2018, Finance Norway sent a letter[1] to the ECB regarding changes in the collateral eligibility criteria for unsecured bank bonds. In the letter we expressed our concern on the amendments leading to such bonds issued by Norwegian and other EEA/EFTA-countries no longer being eligible as collateral.

In the response from the ECB it was stated that the amendments were not based on specific views with regards to Norwegian unsecured bank bonds and that you would consider our views on future amendments of the collateral framework. Finance Norway believes that the duration since the amendment proposal in 2018 has been sufficient in terms of observing the consequences of the changes made. Furthermore, there have been key changes to the regulatory framework in Norway since 2018, particularly the implementation of regulation on the creditor hierarchy under the BRRD. This ensures no doubt concerning creditor's position and provides the legal basis for the difference between senior preferred and senior non-preferred unsecured bank bonds issued by Norwegian banks. We fully acknowledge that the latter will not be accepted as collateral with the ECB in general.

We would like to recall that through the EEA-agreement, the EEA/EFTA countries Norway, Liechtenstein and Iceland implement EU law and are considered as fully integrated members of the European single market. We also note that the current eligibility framework comprises of banks in EU-countries not being part of the Eurosystem. Additionally, we are confident that the relative strength of Norwegian banks and the concerned senior preferred unsecured bank bonds would be clear in an assessment.

ECB eligibility is still a key topic for Finance Norway's member banks. As outlined above the current situation is unfortunate from our perspective and we hope that the ECB is willing to consider its collateral framework concerning eligibility for banks located in the EEA/EFTA countries. We would be happy to elaborate our views in a meeting at your convenience.

Yours sincerely
Finance Norway

Erik Johansen
Executive Director

Michael H. Cook
Chief Analyst

[1] For your convenience, please see the attachment for the letter sent from Finance Norway 14.03.2018

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ATTACHMENT: Letter from Finance Norway to the ECB 14.03.2018

European Central Bank
Directorate General Market Operations

Date: 14.03.2018
Our reference: 18-503

ECB's collateral eligibility criteria and EEA/EFTA UBBs

Dear Madam/Sir,

Finance Norway[1] would like to draw your attention to a, possibly unforeseen, consequence of the ECB decision to change the collateral eligibility criteria for unsecured bank bonds (UBBs). Our concern is your decision that UBBs issued by institutions established outside the EU will not be eligible as collateral.

The criteria are formally established through "Guideline ECB/2018/3" article 70 and particularly article 81a (4): *"For unsecured debt instruments issued by credit institutions or investment firms, or by their closely linked entities as referred to in Article 141(3), other than unsecured debt instruments issued by multilateral development banks or international organisations as referred to in Article 70(4), the issuer shall be established in the Union."*

Through the EEA-agreement, the EEA/EFTA countries Norway, Liechtenstein and Iceland are obliged to implement EU law and are fully integrated members of the European single market. Based on the EEA agreement we have reason to expect that rules and regulations that are applicable throughout the single market, apply per default to our markets. The EEA agreement is meant to ensure market access on equal terms in the whole of EEA. The current decision on the eligibility of UBBs discriminates against full members of the single market and as such, implies a serious deviation from practices developed through the last 25 years with regards to the EEA agreement.

[1] Finance Norway is the industry organization for the financial industry in Norway. We represent about 240 financial companies with around 50,000 employees. Through dialogue and analysis, Finance Norway works to ascertain the best prerequisites for the functioning of the financial sector. We work to increase confidence in the industry and contribute to the safe and efficient operation. Our member companies are savings banks, commercial banks, life insurance companies, general insurance companies and financial groups.

Finance Norway

The scope of the ECB guidelines in question is not limited to the euro area, even though the guidelines themselves are linked to the monetary policy framework. Thus, the arguments for not distinguishing between the EEA/EFTA states and the EEA/EU states are valid.

A tightening of eligibility criteria as interpreted above will affect approximately EUR 17 bn. of Norwegian UBBs in a negative manner. We have not observed any changes in the quality or market conditions with regards to Norwegian UBBs that could justify the exclusion as eligible collateral. Indeed, we are generally confident that an assessment on UBBs from EEA-countries such as Norway would show the relative strength of these instruments and the issuing institutions.

Against this background we encourage the ECB to reconsider the decision to exclude EEA/EFTA UBBs. If this is not deemed possible, we would appreciate if you would share the reasoning behind this decision with the interested parties.

Yours sincerely,

Finance Norway

Per Erik Stokstad
Director

Michael H. Cook
Senior Analyst

CC: Liechtenstein Bankers Association
Icelandic Financial Services Association