Finance Norway

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Cc: Alessandro Calza, Market Operations Frameworks
European Central Bank

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Collateral eligibility for Norwegian Senior Preferred Bank Bonds

Dear Ms Rahmouni-Rousseau,

We refer to Finance Norway's letter of 21 February 2023 concerning the collateral eligibility of Norwegian senior preferred bank bonds. As we have not received a response, we would like to follow up on the matter and respectfully ask the ECB to reconsider the treatment of these instruments under the Eurosystem collateral framework.

The issue was first raised by Finance Norway in 2018, following amendments that rendered unsecured bank bonds issued by banks in Norway and other EEA/EFTA countries ineligible as collateral. In its response, the ECB stated that the amendments were not based on any specific concerns regarding Norwegian unsecured bank bonds and that our views would be considered in connection with future amendments to the collateral framework. Since then, sufficient time has passed to assess the implications of the change, and the relevant Norwegian regulatory framework has developed materially.

In particular, Norway has implemented the BRRD rules on creditor hierarchy. The legal distinction between senior preferred and senior non-preferred unsecured bank bonds is therefore clear, including the respective position of creditors in the hierarchy. We fully acknowledge that senior non-preferred instruments are generally not eligible as collateral. Our request concerns senior preferred bonds issued by Norwegian banks.

We would also recall that, through the EEA Agreement, Norway, Iceland and Liechtenstein implement relevant EU legislation and participate fully in the European single market. The current framework already permits eligible instruments issued by banks in EU Member States outside the Eurosystem. In our view, an assessment based on credit quality and the applicable legal framework would demonstrate the strength of Norwegian banks and of the senior preferred instruments concerned.

Developments in the treatment of Norwegian covered bonds may also be relevant. As we understand it, certain Norwegian covered bonds that were previously included only in a broader international Eurex collateral basket have subsequently become eligible for inclusion in a Eurex collateral basket linked to ECB eligibility. This example indicates that high-quality Norwegian instruments may, where the relevant criteria are met, receive treatment comparable to that of similar instruments issued in the EU.

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The market has also changed considerably since 2018. At that time, only a limited number of Norwegian banks regularly accessed the euro-denominated senior unsecured market. Continued consolidation in the Norwegian banking sector, particularly among savings banks, has created larger institutions with broader market access. At least five Norwegian banks now issue euro-denominated senior preferred bonds in benchmark size on a regular basis. These instruments represent a growing segment of high-quality bonds issued by well-capitalised institutions.

Against this background, ECB eligibility remains an important issue for Finance Norway's member banks. We respectfully invite the ECB to review the collateral framework as it applies to senior preferred bonds issued by banks established in the EEA/EFTA countries. We would appreciate a response to the points raised and would be pleased to discuss the matter in a meeting at your convenience.

Yours sincerely
Finance Norway

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