

Kredittilsynet Norway

Circular 26/2007

15 October 2007

Commercial banks No. 7
Savings banks No. 8
Finance and mortgage companies No. 7
Holding companies No. 6

Pillar 2 of new capital adequacy framework – guidelines for reporting to the Financial Supervisory Authority of Norway (Kredittilsynet) for 2008

1. Introduction

Beginning 1 January 2007, a new capital adequacy framework went into effect in Norway in a manner corresponding to legislation in other EU/EEA countries. The new framework and associated regulations apply to credit institutions, investment firms and trusts for securities funds with authorisation to conduct active administration. The purpose is to create greater correlation between risk and capital requirements in the institutions. The new capital adequacy framework contains requirements that are more extensive than the prior minimum requirements for capital adequacy. The Norwegian Capital Adequacy Regulations, section 49-2, first subsection, allow the transition to the new framework to be postponed to 2008. This enables institutions to be able to use Basel I to compute their minimum capital requirements for 2007. At the same time, the institutions would be able to use 2007 to prepare themselves to fulfil the requirements in Basel II, Pillar 2, in other words to establish their own procedure for evaluating their own risk profile and associated capital requirements. Many small and medium-sized institutions have made use of the transition rules for 2007.

2. New capital adequacy framework applies to all institutions beginning on 1 January 2008

Beginning on 1 January 2008, the new capital adequacy framework will apply to all commercial banks, savings banks, finance and mortgage companies, holding companies, investment firms and trusts for securities funds. All institutions must have their own procedure for evaluating their own risk profile and associated capital requirements. The procedure and the results of this procedure must be documented in writing and submitted by the institution's board to Kredittilsynet for individual evaluation.

Kredittilsynet's [Circular 21/2006](#) entitled "Pillar 2 in new capital adequacy framework – guidelines for evaluation of risk level and computation of capital requirements for institutions" deals with the legal basis and purpose of Pillar 2 in the new framework. In addition, it contains an appendix with an example of a format the institutions can use to document their risk profiles and requisite capital adequacy needs (ICAAP) (appendix 1), as well as a second appendix that describes the guidelines for the supervisory process. The circular is available at the Kredittilsynet's Web site. The present circular provides more detailed guidelines for reporting for commercial banks, savings banks, finance and mortgage companies and holding companies in financial groups for 2008 and supplements circular 21/2006. A separate circular with corresponding guidelines is being sent to investment firms and trusts for securities funds with authorisation to conduct active administration.

3. Guidelines for reporting of Internal Capital Adequacy Assessment Process (ICAAP)

Deadline

For 2008, the deadline is **15 March** for submission of reporting to Kredittilsynet of the Internal Capital Adequacy Assessment Process (ICAAP).

The deadline for submission of ICAAP in 2008 also applies for the institutions who submitted an ICAAP for 2007.

Requirements for documentation

The principle of proportionality plays an important role in the new capital adequacy framework. The institutions thus should adjust the scope and organise the assessment of their risks and capital requirements in accordance with the scope and complexity of the activities of the institution. Kredittilsynet will be open to the use of different approaches for fulfilling the requirements and guidelines of the authorities.

Kredittilsynet's [Circular 21/2006](#) provides guidelines for the content and a proposal for how documentation of the risk profile and capital requirements can be formulated. As a point of departure, the content is intended to be adequate for large and complex institutions. The subject areas in the circular are however relevant for all types of institutions.

Kredittilsynet thus recommends that all institutions take a point of departure in the guidelines in circular 21/2006 with appendixes, but adapt the content and scope in relation to their own activities and degree of complexity.

Sven-Henning Kjelsrud

Per Jostein Brekke

Contact persons financial institutions:

Senior Supervisory Adviser Erik Lind Iversen

Tel. (+47) 22 93 99 21, E-mail: erik.lind.iversen@kredittilsynet.no

Head of Section Per Jostein Brekke

Tel. (+47) 22 93 98 90, E-mail: per.jostein.brekke@kredittilsynet.no

Senior Adviser Aimée Staude

Tel. (+47) 22 93 97 06, E-mail: aimee.staude@kredittilsynet.no