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THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

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PLEASE NOTE: THIS IS A TRANSLATION OF THE ORIGINAL LETTER IN NORWEGIAN.

OUR REFERENCE	YOUR REFERENCE		DATE
11/10112	14/4218mw		26 June 2015

Publication of Pillar 2 requirements

1. Background

Reference is made to the Ministry of Finance's letter of 17 September 2014 requesting Finanstilsynet to consider publication of Pillar 2 requirements. The letter states:

"Pillar II of the capital requirements framework is an integral part of Finanstilsynet's supervision of financial institutions, addressing both institution-specific risk and systemic risk and the risk that institutions pose to the financial system. Hitherto it has not been general practice in the EU or in Norway to publish the national supervisory authorities' Pillar II assessments and Pillar II requirements on banks. In the interest of openness and transparency with regard to capital requirements we request Finanstilsynet to consider the merits of publishing the Authority's Pillar II requirements on individual institutions in Norway, and of publishing parts of the assessments underlying those requirements. The Ministry also requests an assessment of practices internationally and in other EU countries. The assessments should be delivered by the end of June 2015."

In this letter Finanstilsynet gives an account of Norwegian and international practices regarding Pillar 2 and the question of publication. Section 2 describes the legal basis and practices in other countries. Section 3 covers Finanstilsynet's review of risk and capital needs (SREP), while section 4 describes the EBA's new recommendation for SREPs and how Finanstilsynet plans to put this recommendation into practice. Section 5 addresses the question of publication.

2. Legal basis and practices in other countries

The Norwegian capital adequacy framework is adapted to the EU's Capital Adequacy Directive and Regulation (CRD IV). The capital adequacy framework for credit institutions and investment firms comprises three pillars. Pillar 1 contains rules governing calculation of the general minimum requirement on capital and the composition of capital. Pillar 2 requires each institution to assess the risks posed by its business and to assess its need for capital in the short and medium term. Pillar 2 also requires the supervisory authorities to assess institutions' risks and capital needs, including their management and control. The supervisory authorities can order institutions to hold own funds in excess of the minimum statutory requirements, to reduce risk or make other changes to their business. Pillar 3 sets requirements for reporting to the supervisory authorities and for disclosure of information to the market.

CRD IV sets requirements for institutions' own assessment of risks and capital needs (ICAAP – Internal Capital Adequacy Assessment Process) and requirements on the supervisory authorities' review (SREP – Supervisory Review and Evaluation Process). It entitles supervisory authorities to require institutions to adjust their operations or to hold capital in excess of the minimum requirements ('Pillar 2 requirements'). The Directive requirements are implemented in the present Financial Institutions Act, whose provisions will as from 1 January 2016 be replaced by identically worded provisions in the *new* Financial Institutions Act. The Securities Trading Act contains similar provisions for investment firms.

In view of the considerable variations in European countries' practices regarding the SREP, the EBA published in December 2014 a recommendation aiming to harmonise practices. Finanstilsynet has informed the EBA of its intention to comply with that recommendation.

Under CRD IV, publication of Pillar 2 requirements by the supervisory authorities is a matter of national choice. Publication practices in various countries are described in an appendix to this letter. As is clear from the appendix, Finanstilsynet has not found examples of countries whose supervisory authorities' SREP review and evaluation, or their overall assessment of necessary capital under Pillar 2, are published.

Finansinspektionen (Sweden's FSA) publishes Pillar 2 requirements that are based on standardised calculations or requirements that are common to a group of banks, but not Pillar 2 requirements based on discretionary assessments or requirements regarding assessment of management and control. The UK Prudential Regulation Authority (PRA) emphasises the role of SREP feedback as a supervisory tool which is used in dialogue with institutions and which is not appropriate to publish. However, banks are not prevented from disclosing their Pillar 2 requirements themselves. Danish banks are required to disclose the results of their ICAAP, while the Danish Finanstilsynet's review and evaluation of capital needs is published only if a formal order to do so has been issued. The European Central Bank (ECB) recommends banks not to disclose their Pillar 2 add-on, but confirms that Italy's stock exchange authorities require stock exchange listed banks to do so.

3. Finanstilsynet's Pillar 2 review – SREP

Finanstilsynet has conducted annual SREP reviews of banks' risk level and associated total capital needs since the introduction of a new capital adequacy framework in 2007. In 2008 all Norwegian banks were required to submit their ICAAP documents, and Finanstilsynet gave feedback in writing to all banks. As from 2009 Finanstilsynet has reviewed all of the 17 largest banking groups' ICAAPs annually. Each year, in addition, a selection of small banks is asked to submit their ICAAP assessments. The selection is based on risk assessments carried out with a basis in on-site inspections and submitted reports of risk and financial key figures. As from 2016 institutions will face a similar process to assess their liquidity risk and the need for a liquidity buffer (ILAAP – Internal Liquidity Assessment Process).

The ICAAP/SREP process is based on a dialogue between the institution's board of directors and management team and Finanstilsynet. Finanstilsynet's assessment is tailored to the institution's size and complexity.

The following are key areas:

- the institution's financial situation, business model and strategies
- risks to which the institution is or might be exposed
- the institution's systems and processes for internal control and risk management
- risk that the institution may pose to the financial system
- risk identified through stress testing.

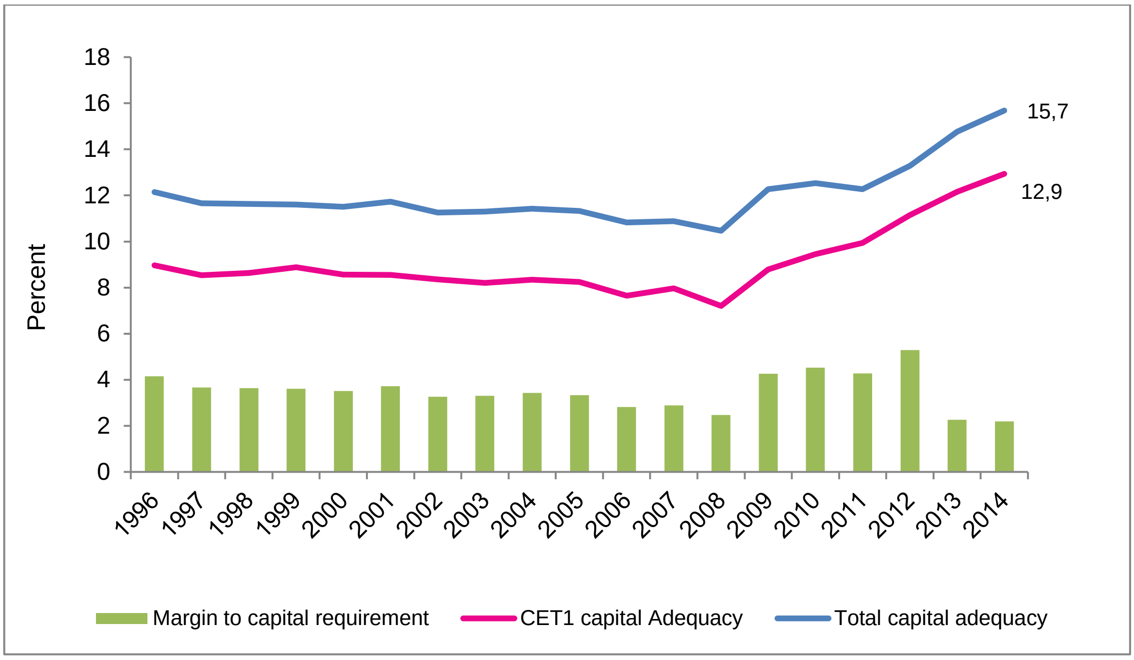
The institutions' ICAAPs are the basis for Finanstilsynet's assessments. Finanstilsynet employs a "Pillar 1 plus" approach in which Pillar 1 is viewed as setting a minimum need for capital for credit risk, market risk and operational risk respectively. The Pillar 2 assessments cover risks that are not covered, or are only partially covered, by Pillar 1. Risks that are additional to Pillar 1 risks will vary from one institution to the next, and may include concentration risk, various types of market risk (including interest rate risk), liquidity risk, funding risk, weaknesses in management and control, model risk, systemic risk and risk of excessive debt accumulation.

Finanstilsynet's overall evaluation will build on its own analyses, including stress tests, discretionary assessments, standardised calculations and comparisons between institutions.

Based on its analysis of the overall risk level and need for capital, and dialogue with the institutions, Finanstilsynet provides feedback to the institutions. Feedback may include setting requirements for improvements to ICAAP documentation, risk analysis and processes, and improvements to liquidity buffers and funding. In a number of cases institutions are asked to increase their capital targets and to improve their actual capital situation by for example restricting dividend payouts or bringing in fresh capital. In addition to judging the need the capital, feedback will also evaluate the quality of the institution's management and control systems. In some cases Finanstilsynet will ask the board of directors to revise internal risk limits and policies or to see to improvements to management and control systems in order to curb risk. In some cases (for example in the case of weaknesses in management and control) capital add-ons may be necessary until the required improvements are in place.

Finanstilsynet's Pillar 2 assessments and associated dialogue with the banks have, together with the Norwegian Basel 1 floor, contributed to expanding institutions' capital base and capital adequacy in a period in which the introduction of IRB models has lowered risk weights. Chart 1 shows the trend in banks' capital adequacy in the period 1996 to 2014. The chart shows that the margin to the minimum requirements widened in the period 2008 to 2010, only to narrow slightly in 2011 and thereafter increase again in 2012. As from 2013 new buffer requirements were introduced, narrowing the margin to the overall requirements. Institutions are now in the process of building up capital in the run-up to full phase-in of buffer requirements as from 2016.

*Chart 1: Total capital adequacy and CET1 capital adequacy (in per cent of risk weighted assets) and margin to the minimum requirements 1996-2014**



*minimum requirement 2013 and 2014 incl. buffer requirements

As mentioned, Finanstilsynet will – as part of the ICAAP/SREP process and its dialogue with the institutions – communicate in writing its assessment of each institution's need for capital relative to its risk profile and associated capital target. In its SREP feedback Finanstilsynet expresses a clear expectation that the institution will adjust to the assessed need for capital by building capital through operations or by issuing capital. Institutions have thus far complied with Finanstilsynet's assessments and expectations as to accumulation of capital. Thus far there has been no need to issue a formal order to increase capital. Finanstilsynet's SREP evaluations are barred from the public domain pursuant to the Public Administration Act section 13 first subsection no. 2 (the justification being that this is a matter of *"operational or business matters which for competition reasons it is important to keep secret in the interests of the party whom the information concerns"*)

4. The EBA's recommendation of December 2014 regarding the SREP, and Finanstilsynet's compliance

Considerable variations are seen in European countries' practices as regards the SREP. The EBA published in December 2014 a recommendation with the view to harmonising practices. Finanstilsynet has communicated its intention to comply.

Finanstilsynet has in its SREP feedbacks in 2014 indicated a capital target that the banks should aim for in 2016. Finanstilsynet's expectations should be viewed in the context of the gradual escalation of requirements on banks' capital adequacy in the period to 2016.

As from 2016 Finanstilsynet's SREP will, in keeping with the EBA's recommendation, contain an assessment of how much capital an institution must at all times hold in excess of the minimum needed to support risks not covered under Pillar 1. Further, the SREP will assess the need for a "planning buffer" to withstand a stressed situation in the 3 to 5 years ahead that is not covered by the capital conservation buffer.

For systemically important institutions an annual detailed SREP feedback will apply. Other institutions will, depending on size, normally receive a detailed SREP feedback every second or third year; see table 1.

Table 1: Frequency of the SREP

Group	**Risk monitoring**	**Detailed SREP assessment**	**Simplified and overall SREP assessment**	**Extent of contact with the institution**
1	Quarterly	Annual	Annual	Regular contact with board of directors and management
2	Quarterly	Every second year	Annual	Regular contact with board of directors and management
3	Quarterly	Every third year	Annual	Contact with board of directors and management as and when required based on risk, at least every third year
4	Quarterly	Every third year	Annual	Contact with board of directors and management as and when required based on risk, at least every third year
5	Quarterly	Depending on risk assessment	Annual	Contact with board of directors and management as and when required based on risk assessment

1 = Systemically important institutions

2 = 15 large and medium-sized banks

3 = small and medium-sized institutions operating in a limited number of business areas, TA> NOK 3bn

4 = small institutions operating in a local geographical area, TA<NOK 3bn

5 = independent investment firms, asset management companies etc

According to the EBA's recommendation an overall SREP capital requirement must be communicated along with an overall capital requirement that also includes buffer requirements under Pillar 1 and Pillar 2. This requirement may be communicated by various means. Norwegian tradition has been to issue a binding order only in cases where an institution fails to comply with Finanstilsynet's expectations or in cases where serious flaws are brought to light in the business. Finanstilsynet will continue this practice for Pillar 2 ahead. The SREP feedback will accordingly communicate clear expectations regarding institutions' capitalisation, but without issue of an order.

Regulations of 22 August 2014 on capital requirements and national adaptation of CRR/CRD IV (the CRR/CRD IV Regulations) section 6 state that where a company fails to fulfil the combined buffer requirements, automatic restrictions on the application of profit, including payment of dividend and of interest on other Tier 1 capital, come into play. Failure to achieve the expected capitalisation as expressed in the SREP will not *automatically* entail restrictions. If an institution has reason to expect capital adequacy to fall below, or it has already fallen below, the overall capital need as communicated in the SREP, the institution is expected to explain in writing the reason for the development and to present an action plan to increase its capital adequacy or reduce the level of risk. Finanstilsynet will assess the situation, including the action plan and measures the institution intends to put in place. If Finanstilsynet considers the measures proposed by the institution itself to be inadequate, consideration will be given pursuant to the new Financial Institutions Act section 10-6(4) to ordering restrictions on dividend payments. Finanstilsynet will also, depending on what steps are taken by the institution, consider setting an elevated minimum requirement pursuant to the new Financial Institutions Act section 14-6(3)(b) or the Securities Trading Act section 9-18(1) no. 2 and in that connection will also, pursuant to section 14-6(3)(f) and (g), consider ordering restrictions on payment of dividend, of interest on tier 1 capital and of performance-related remuneration.

Finanstilsynet is in the process of developing more standardised methods to support its assessment of Pillar 2 add-ons for certain types of risk, but also emphasises the importance of retaining substantial room for judgement in its assessment of capital needs. The justification for so far not including Pillar 2 risks in Pillar 1 is precisely that these risks are difficult to quantify and that standardised measures of such risk have not proved possible to establish. Hence measuring methods used in risk assessments must necessarily be supplemented with supervisory judgements.

Requirements on the quality of capital

The Pillar 1 requirement of 8 per cent must be met by a minimum of 4.5 per cent CET1 capital and 6 per cent Tier 1 capital. The EBA's recommendation entails that a minimum of 56 per cent [4.5 / 8] of the Pillar 2 requirement must be met by CET1 capital. Finanstilsynet will continue its practice of requiring Pillar 2 to be met by CET1 capital to ensure that this capital remains loss absorbing throughout.

5. Publication of Finanstilsynet's assessment of capital needs

The Ministry of Finance requests Finanstilsynet *in the interest of transparency and openness on capital requirements* to consider the merits of publishing the Authority's Pillar 2 requirements on individual institutions in Norway, and of publishing parts of the assessments underlying those requirements.

Finanstilsynet accepts that increased transparency with regard to Pillar 2 may have its advantages both as regards the possibility for comparison between institutions (national and international) and as regards market discipline. From a supervisory vantage point, however, publication may weaken Pillar 2 as a supervisory tool. Hence two important considerations need to be weighed against each other.

To Finanstilsynet's knowledge no supervisory authority currently publishes the capital assessments resulting from its SREPs. Swedish supervisory authorities appear to have gone furthest in publishing parts of the Pillar 2 requirement. This is due to their decision to assign to Pillar 2 elements that Norwegian (and other countries') authorities have assigned to Pillar 1. For the largest Swedish banks the Pillar 2 add-on entails a 5-10 per cent higher capital requirement. The capital requirements for the 10 banks that have been published include those parts of Finansinspektionen's Pillar 2 add-on that are common to all the banks[1] and a schematically determined percentage for Pillar 2 risks (2 per cent) which is identical for all banks[2]. That part of Pillar 2 which reflects individual factors in a bank (e.g. risks not covered under Pillar 1 and inadequate management and control) is not published. Finansinspektionen points out that breaches of Pillar 2 requirements in the first instance trigger a dialogue with the supervisory authorities. In Denmark the banks are as mentioned required to disclose their individual solvency needs based on their own assessments. The Danish Finanstilsynet's assessment is published only where a formal order has been issued, which is rarely the case.

Whereas Pillar 1 is based on clear calculation rules whereby the requirement is automatically adjusted to changed exposure, the Pillar 2 assessment of capital needs is, as mentioned in point 4, is based largely on judgement. Benchmarks used to assess certain types of risk (e.g. concentration risk and market risk) will only give an indication of the supervisory authority's assessment of capital needs. The SREP feedback is a part of Finanstilsynet's dialogue with the institution in which capitalisation is only one of the themes touched on, and is based on the situation at a given point in time. As show in Table 1, the frequency of SREP feedbacks will vary with institutions' size and significance. Some institutions will receive SREP feedback annually, most only every second or third year.

Finanstilsynet's SREP can result in a variety of feedbacks to the bank. They may include expectations of an adjustment of strategy, change in organisation, improved management and control, reduced exposure/risk, increased liquidity buffers or change in remuneration systems etc. Expectations of capitalisation must be viewed in conjunction with the overall feedback.

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[1] This applies to the risk-weight floor on mortgages and parts of the systemic risk buffer for the largest banks; see http://www.fi.se/upload/43_Utredningar/40_Skrivelser/2015/PM_Q1_2015.pdf

[2] Finansinspektionen has announced its intention to publish as from the third quarter of 2015 institution-specific values for three risk types under Pillar 2: concentration risk, interest rate risk and pension risk.

Publication of the capital assessments in a SREP may be difficult to accommodate to an ongoing dialogue with an institution where assessment of capitalisation may change due to isolated factors which cannot themselves be published. A Pillar 2 requirement released in the public domain will reduce the scope for flexibility and exercise of judgement in a situation in which an institution's capitalisation is about to fall to a level below Finanstilsynet's expectation, potentially creating unnecessary turbulence in the market until the situation and relevant measures have been clarified. Finanstilsynet's assessment is that publication could weaken Pillar 2 as a supervisory tool.

Stock exchange listed companies are subject to an information requirement under the Securities Trading Act. According to section 5-2 (1) of this Act, *An issuer shall without delay and on his own initiative publicly disclose inside information which concerns the issuer directly*. Moreover, it follows from sections 3-2 (1) that *Inside information means any information of a precise nature relating to financial instruments, the issuers thereof or other circumstances which has not been made public and is not commonly known in the market and which is likely to have a significant effect on the price of those financial instruments or of related financial instruments.* A similar requirement follows from the Capital Requirements Regulations section 45-1 stating that *the institution shall disclose information that is deemed likely to influence the decision of users of the information in connection with financial matters.* In practice a concrete assessment needs to be made in each case, and it is primarily the institution itself that must assess whether Finanstilsynet's observations, including the content of Finanstilsynet's SREP feedback is of such a nature that it must be disclosed.

Finanstilsynet will not oppose disclosures by institutions; indeed, some major UK banks have opted to disclose the supervisory authority's Pillar 2 requirements. However, Finanstilsynet would point out that institutions should in such cases state that the Pillar 2 requirement is the supervisory authorities' assessment of many factors at a given point in time and may be revised on an ongoing basis, in contrast to Pillar 1 requirements where the market knows the rules governing how changing exposure affects the capital requirement.

Finanstilsynet aims to publish information on methodologies for Pillar 2, including on benchmarks for certain risk types. This will promote insight into the basis for the Pillar 2 assessments. Finanstilsynet will also, once new SREP methodologies have been taken into use (2016/2017), consider the merits of publishing aggregated figures for the supervisory authorities' assessment of capital needs under Pillar 2.

Finanstilsynet notes a growing focus on international harmonisation and a stronger desire from the market for publication/disclosure of Pillar 2 requirements. In light of this, Finanstilsynet is prepared for possible changes ahead in the content of, and process for, Pillar 2. Finanstilsynet recommends that Norway should keep abreast of the process in the EU and consider adjusting the Pillar 2 framework in light of international developments. The ECB's application of Pillar 2 in its supervision of euro zone banks will likely have a significant bearing on the development of the EU's Pillar 2 framework.

For Finanstilsynet

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APPENDIX

Other countries' practices regarding publication/disclosure of Pillar 2 requirements

The Basel Committee's framework for banks does not deal with the issue of Pillar 2 disclosure. Under CRD IV rules it is up to the individual country to decide whether to require disclosure of Pillar 2 requirements or to have the supervisory authorities publish such requirements.

To Finanstilsynet's knowledge, few countries publish the national supervisory authorities' Pillar 2 assessments and Pillar 2 requirements on their banks. In those countries that do so, only certain elements of either requirements or methodologies are published. Finansinspektionen (Sweden's FSA) appears to have gone furthest in publishing parts of its Pillar 2 assessments.

In the following, a description is given of Pillar 2 practices and publication/disclosure in selected countries.

SSM (Single Supervisory Mechanism)

The largest banks in the euro zone have since November 2014 been under supervision by the SSM, the banking supervisory authority within the European Central Bank (ECB). As a new major supervisory actor involving all countries in the euro zone, the SSM can be expected to have a very large bearing on the development of supervisory practices in Europe.

The SSM's Guide to banking supervision[3] describes a common methodology for the SREP. The guide does not however describe in what form the SREP outcome should be communicated to the banks or whether requirements on the banks should be published. The current practice is to communicate the Pillar 2 requirement to each individual bank with a recommendation that it not be disclosed unless required by law. Italian stock exchange listed banks are required under an order from the financial market regulator (Consob) to disclose the Pillar 2 requirement. The SSM has signalled that it is in the process of giving closer consideration to the issue of transparency[4].

United Kingdom

The Prudential Regulation Authority (PRA) pointed out to a letter to its institutions in 2014 that its Pillar 2 feedback is designed for regulatory purposes and that the content might be misunderstood or misinterpreted if it were published outside the context in which it is drawn up. It was pointed out that the Pillar 2 feedback is deemed to be confidential, and that only in cases where the institution is statutorily obliged to do so, or where the PRA so authorises, can it be disclosed.

[3] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmguidebankingsupervision201411.en.pdf?404fd6cb61dbde0095c8722d5aff29cd

[4] https://www.bankingsupervision.europa.eu/press/speeches/date/2015/html/se150127.en.html

In January 2015 the PRA presented a consultation document dealing with the supervisory authorities' Pillar 2 methodology: *Assessing capital adequacy under Pillar 2*[5]. This document states that the supervisory authorities' Pillar 2 assessment comprises the following elements:

**Pillar 2A* which shows the need for Tier 2 capital to support risk not supported under Pillar 1 such as concentration risk, interest rate risk in the bank book and any weaknesses in the bank's management and control
**Pillar 2B - Capital planning buffer (CPB)* which reflects the need for capital to cope with stressed situations over a period of 3 to 5 years.

In its consultation document the PRA signals a somewhat changed stance on the question of disclosure entailing that institutions themselves can decide whether or not to publish Pillar 2A. However, the PRA emphasises that Pillar 2A and the capital planning buffer are based on confidential information and that it expects institutions to inform the PRA prior to disclosure. The PRA concurrently states its intention to contribute to increased transparency by publishing methodologies for Pillar 2 and by publishing aggregated figures at the level of the Pillar 2A requirement for the sector as a whole in the *Bank of England's Financial Stability Report*.

According to a report from the rating agency Fitch, six UK banks have disclosed their Pillar 2A requirement in 2015.[6]

Sweden
In November 2014 and May 2015 Finansinspektionen published the capital requirements set for the 10 largest Swedish banks[7]. The requirements included elements of Pillar 2.

As in the UK, Pillar 2 for Swedish banks comprises
- A *basis requirement* to cover risks not covered under Pillar 1 (similar to 2A in the UK)
- A *requirement on a capital planning buffer* to cover losses that may arise in the event of serious, but not unlikely, financial stress.

As is clear from Finansinspektionen's publication, the Pillar 2 add-on constitutes a substantial portion of the overall capital requirement. This should be viewed in conjunction with Finansinspektionen's decision to assign to Pillar 2 elements which Norwegian (and other countries') authorities have assigned to Pillar 1. For the largest Swedish banks the Pillar 2 add-on brings a 5-10 percentage point higher capital requirement. The capital requirements for the 10 banks that have been published include those parts of Finansinspektionen's Pillar 2 add-on that are common to all the banks[8]. That part of Pillar 2 which reflects individual factors at a bank and where no standardised approaches have been developed (e.g. Pillar 2 requirements for special risks not covered by Pillar 1 and weak management and control) is not published.

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[5] http://www.bankofengland.co.uk/pra/Documents/publications/cp/2015/pillar2/cp115.pdf
[6] https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/More-Bank-Pillar?pr_id=980864
[7] http://www.fi.se/upload/43_Utredningar/40_Skrivelser/2014/kapitalkrav-svenska-banker-kv3-2014ny.pdf
[8] This applies to the risk-weight floor on mortgages and parts of the systemic risk buffer for systemically important banks.

Finansinspektionen aims to standardise calculation methodologies for some risk types included in the basis requirement and to publish the results of these calculations. In May 2015 Finansinspektionen presented calculation methodologies for three risk types included in the Pillar 2 add-on: concentration risk, interest rate risk in the banking book and pension risk.[9] The capital requirements related to these three risk types will be published quarterly. The calculation will normally be done once per year. The amount, calculated on an annual basis, will accordingly be stated as a percentage of risk weighted assets each quarter. In the first instance the 10 largest banking groups will be covered by publication. The institutions will publish the results of the internal calculation of capital needs four times per year.

Finansinspektionen will in normal cases not adopt a formal decision regarding Pillar 2 requirements for individual institutions. So long as a formal Pillar 2 requirement is not adopted, the Pillar 2 add-on will not automatically affect the level at which dividend payout restrictions etc., come into play[10]. Since the publication of the Pillar 2 add-on does not reflect the entire Pillar 2 requirements on a bank (because some Pillar 2 add-ons may not be in the public domain), the overall capital requirement to which a bank is subject will inevitably be a matter of some uncertainty.

Denmark

The Danish Finanstilsynet has published the methodologies underlying its assessment of an institution's need for capital. The document *Bekendtgørelse om kapitaldækning med tilhørende veiledning*[11] presents benchmarks and calculation methodologies used to assess risk in six areas: income relative to loans and guarantees, lending growth, credit risk including concentration risk, market risk, liquidity risk and operational risk. For IRB banks model risk is also included. Banks have a free hand as regards their choice of approach in the ICAAP process, but they must compare their own calculations with those produced using Finanstilsynet's approach. Finanstilsynet applies a "Pillar 1 plus approach", i.e. capital needs for the various risks under Pillar 2 are added to those calculated under Pillar 1.

Under Danish law both the need for capital assessed by the institution itself (ICAAP) and an add-on, if any, imposed by the supervisory authority are to be regarded as a formal capital requirement. The Act refers to this as the "individual solvency need", and rules apply for consequences of breaches of the individual solvency need. The Act distinguishes between breach of an individual solvency need and breach of the minimum requirement on own funds. In the event of breach of the minimum own funds requirement, Finanstilsynet is required to revoke the licence if the institution is unable to procure capital by a given deadline. In the event of a breach of the individual solvency requirements, "necessary measures shall be taken" by the institution. There is a wider degree of flexibility, and the institution has more time available to restore solvency.

Stock exchange listed banks and large and medium-sized banks must disclose their individual solvency need each quarter, while small unlisted banks must disclose their calculations at least

[9] http://www.fi.se/upload/43_Utredningar/40_Skrivelser/2015/pelare2-metoddokument-2015-05-08.pdf
[10] See rules applying to breaches of capital requirements + buffer requirements
[11] http://www.finansraadet.dk/Politik/Documents/9-7-10%20H_Bek.%20om%20kapitald%C3%A6kning.pdf

twice yearly. Finanstilsynet has stated[12] that in the event of a breach of the individual solvency need, the Authority may, depending on the capital plan submitted, impose restrictions on dividend payouts.

Finanstilsynet may set an individual capital requirement for each bank that is higher than the requirement resulting from the bank's own assessments. Such an order will be in the public domain. Only in a few cases has Finanstilsynet set individual requirements in excess of those resulting from the banks' internal assessments. Finanstilsynet points out that in many cases it influences the bank's own assessment of its capital needs through dialogue.

In December 2014 Finanstilsynet adopted rules requiring financial institutions to disclose comments from the supervisory authorities, for example after an on-site inspection.[13]

[12] https://www.finanstilsynet.dk/~/media/Regler-og-praksis/2014/Afgoerelser-mm/20141216%20-%20Notat%20om%20bufferbekendtg%C3%B8relsens%20bestemmelser%20til%20hjemmesiden.ashx

[13] "Bekendtgørelse om finansielle virksomheders m.v. pligt til at offentliggøre Finanstilsynets vurdering af virksomheden m.v." [Executive Order on the duty of financial institutions etc. to publish the Danish FSA's assessment of the institution etc.]. See: https://www.retsinformation.dk/Forms/R0710.aspx?id=166730 [in Danish only]