

# Memorandum of Understanding on Cooperation regarding Banks with Cross-Border Establishments between the Central Banks of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden

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## 1. Introduction

- 1.1 This Memorandum of Understanding on Cooperation regarding Banks with Cross-Border Establishments between the Central Banks of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden (the "**Memorandum**") is based on the following considerations:
- (a) The Parties are all central banks with mandates that include responsibility for contributing to financial stability and the role as lender of last resort in their respective countries.
  - (b) A key feature of the financial markets in the Nordic and Baltic countries is banks with significant cross-border establishments, i.e. cross-border subsidiaries and branches. Such integration provides benefits and enhances the efficiency of the financial system. Cross-border bank establishments, however, also increase the risk that challenges in one bank or banking group affect financial stability in more than one country. Financial instability in one country can also spread to another country through cross-border bank establishments. The decisions made by the authorities in one country in relation to a bank or banking group with significant cross-border establishments may affect other countries where the bank or banking group is active. The Parties to this Memorandum therefore recognise that they have common financial stability concerns stemming from cross-border bank establishments, justifying enhanced cooperation.
  - (c) This Memorandum aims to set out a framework for cooperation between the Parties regarding cross-border bank establishments while recognizing each Party's independence and the institutional and legal framework applicable to each Party.
  - (d) This Memorandum does not amend or affect the responsibilities specified in the 2018 Memorandum of Understanding on Cooperation and Coordination on cross-border financial stability between relevant Ministries, Central Banks, Financial Supervisory Authorities and Resolution Authorities of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden, and the 2008 Memorandum of Understanding on cross-border financial stability between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union.
- 1.2 This Memorandum replaces the 2016 Memorandum of Understanding on Cooperation regarding Banks with Cross-Border Establishments between the Central Banks of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden.

## 2. Definitions

2.1 For the purpose of this Memorandum, the following definitions are used:

**"Bank"** means a bank or a mortgage credit institution incorporated in a Nordic-Baltic country. A Bank is a separate legal entity, implying it can be a separate Bank, a parent Bank or a subsidiary Bank of a Cross-Border Banking Group.

**"Cooperation Group"** means the cooperation group defined in clause 6.1.

**"Cross-Border Banking Group"** refers to a group consisting of a Bank with at least one subsidiary Bank or branch in another Nordic-Baltic country.

**"Emergency Liquidity Assistance"** means dedicated extraordinary liquidity support to one specific bank made at the discretion of a central bank.

**"Home-Country Central Bank"** means the central bank of the country where a Bank is incorporated.

**"Host-Country Central Bank"** means the central bank of the country where a branch of a Bank is established.

**"Nordic-Baltic countries"** mean Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden.

**"Parties"** mean the signatories to this Memorandum, being the central banks of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden.

2.2 In this Memorandum (unless otherwise provided):

- (a) words importing the singular shall include the plural and vice versa; and
- (b) references to any provision or law include any amendment of that provision or law.

## 3. Objective and Nature of the Memorandum

3.1 The objective of this Memorandum is to introduce appropriate procedures and principles that facilitate cooperation between the Parties regarding Cross-Border Banking Groups, with the underlying aim of ensuring and contributing to financial stability in the individual Nordic-Baltic countries and the Nordic-Baltic region as a whole.

3.2 The Parties agree that a legally non-binding memorandum is an appropriate instrument for facilitating such cooperation. Accordingly, this Memorandum is a statement of intent and does not create any legal commitments for any of the Parties, and its provisions cannot give rise to any legal claim from any Party or third party in the course of its practical implementation. This Memorandum does not prejudice or assume that any particular decisions or remedies should or should not be taken.

- 3.3 The cooperation between the Parties will take place in accordance with, and without prejudice to, their responsibilities under national and Community legislation and ECB/ESCB rules and procedures. This Memorandum does not override the respective institutional responsibilities of the different Parties or restrict their capacity for independent and timely decision-making in their respective fields of competence, notably with regard to their responsibility to contribute to financial stability and to fulfil their role as lender of last resort.
- 3.4 The framework set out in this Memorandum may be supplemented by further and more detailed procedures and arrangements between the Parties or some of them. A supplementary procedure or arrangement between all the Parties pursuant to this Memorandum shall (if the Parties so agree) be considered an annex to and part of this Memorandum.

#### **4. General Provisions**

- 4.1 The Parties will strive to achieve open, full, constructive and timely cooperation in good faith and to the best of their ability with respect to the objective of this Memorandum. In particular, the Parties will ensure that information exchanged under the provisions of this Memorandum is used with due consideration and respect to the interest of all Parties.
- 4.2 The Parties will endeavour to share available information and assessments necessary to fulfil their respective roles in relation to this Memorandum.
- 4.3 Accordingly, the Parties will establish:
- (a) joint and secure procedures for the timely and adequate exchange of information on Cross-Border Banking Groups between the Parties; and
  - (b) procedures for cooperation between the Parties in case it becomes relevant to consider granting Emergency Liquidity Assistance to a Bank within a Cross-Border Banking Group.
- 4.4 Any information exchanged and received by virtue of this Memorandum is subject to the conditions of confidentiality and professional secrecy as far as provided in national and Community legislation and ECB/ESCB rules and procedures. Each Party shall ensure that all persons dealing with, or having access to, such information are bound by the obligation of professional secrecy.
- 4.5 The Parties are expected to maintain, vis-à-vis third parties, the confidentiality of any request for information made under this Memorandum, the contents of such requests, the information received, and the matters arising in the course of cooperation, subject always to applicable national and Community legislation and ECB/ESCB rules and procedures.
- 4.6 The Parties will inform each other, as early and fully as possible, before issuing any public statements related to this Memorandum.

## 5. Liquidity

- 5.1 Responsibility for managing liquidity and complying with liquidity requirements in a Cross-Border Banking Group rests with the Cross-Border Banking Group itself. Liquidity needs can be handled through funding in the market or by making use (against the relevant collateral) of the general facilities made available by the Cross-Border Banking Group's Home- and Host-Country Central Banks.
- 5.2 If a Cross-Border Banking Group encounters temporary liquidity problems, these may be solved by implementing the appropriate recovery measures in the Cross-Border Banking Group's recovery plan.
- 5.3 If a Cross-Border Banking Group is otherwise, cf. clause 5.1, not able to solve its temporary liquidity problems, one or more Banks within the Cross-Border Banking Group may choose to request Emergency Liquidity Assistance from one or more central banks.
- 5.4 Each Party assesses and decides independently and at their own discretion whether to grant or reject Emergency Liquidity Assistance, cf. also clause 3.2 and 3.3 in this Memorandum.
  - (a) A request for Emergency Liquidity Assistance from a Bank within a Cross-Border Banking Group would be dealt with by the Bank's Home-Country Central Bank.
  - (b) If a Bank that is requesting Emergency Liquidity Assistance has a branch in another Nordic-Baltic country, the branch's Host-Country Central Bank will strive to assist.
- 5.5 The Parties have the following common minimum requirements for granting Emergency Liquidity Assistance:
  - (a) The requesting Bank is solvent.
  - (b) The requesting Bank's liquidity needs are temporary.
  - (c) The requesting Bank is able to post adequate collateral.
  - (d) Any provision of Emergency Liquidity Assistance has to take into account financial stability concerns.
- 5.6 If a Cross-Border Banking Group has not been able to restore its liquidity situation, resolution may be initiated. The resolution plans for a Cross-Border Banking Group shall not assume the provision of any Emergency Liquidity Assistance or any central bank liquidity assistance provided under non-standard collateralisation, tenor and interest rate terms.

## **6. Governance and Follow-Up**

- 6.1 A cooperation group (the "**Cooperation Group**") consisting of directors of financial stability (or equivalent) from each Party shall monitor and evaluate the usage and effectiveness of this Memorandum on a yearly basis, e.g. by written procedure. The Cooperation Group's findings may include proposals for revisions to the Memorandum. Individual Cooperation Group members, or groups of members, may also present such proposals.
- 6.2 The Cooperation Group may decide to set up expert working groups or initiate a broader review process of the Memorandum. Such a review could i.a. consider the need to include other financial entities with cross-border establishments (other than Cross-Border Banking Groups) in the Nordic-Baltic region as relevant.
- 6.3 The Parties shall undertake a general review of the Memorandum every five years.

## **7. Entry into Effect**

- 7.1 This Memorandum shall enter into effect on 15 May 2022.

## **Signatories**

Danmarks Nationalbank (Denmark)

Eesti Pank (Estonia)

Latvijas Banka (Latvia)

Lietuvos bankas (Lithuania)

Norges Bank (Norway)

Seðlabanki Íslands (Iceland)

Suomen Pankki (Finland)

Sveriges Riksbank (Sweden)