SPEECH

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Finansinspektionen's role in a framework for financial stability

The topic for my speech today is "Finansinspektionen's role in a framework for financial stability". In the wake of the financial crisis, a discussion is currently being held both internationally and nationally about how governments and authorities – individually and together – can become better at identifying, analysing and preventing new financial crises. This is usually called, to use a new term, 'macroprudential supervision', but from a traditional supervision standpoint, there is nothing new about these issues. What the financial crisis has shown – and I will return to this in more detail – is that we need to be better at understanding how systemic risks build up in the financial system. The crisis has also shown that we must be more active, through regulation and supervision, about preventing the build-up of these systemic risks.

Today, I will present my viewpoint on several aspects of the debate about how macroprudential supervision should be designed in Sweden and on Finansinspektionen's role in this supervision. These are issues that were raised in the report the Financial Crisis Committee recently submitted to the Government and that we will be commenting on later in the spring. I will not completely pre-empt our consultation comments, but I would still like to take this opportunity to state my opinion on these issues.

However, I will use the first part of my speech to set the *background* for the work that is currently being carried out on these issues both internationally and in Sweden. It is a good idea to occasionally be reminded about what is meant by 'a stable financial system' and why it plays such a central role in ensuring that the economy functions efficiently. Given this context, I will also review several of the lessons we learned from the international financial crisis and the international measures that are now being taken to decrease the number and scope of future financial crises, and what we can learn from this given the risks that are present in the Swedish financial system.

My main message can be summarised into three points: (i) I believe that it is misleading to divide supervisory work into microprudential supervision and macroprudential supervision. What is most important is how to create a stable financial system. (ii) Macroprudential tools should not be distributed among several authorities. This can only lead to delineation problems and inefficiency. What we need to do, however, is to become better at discussing and working together on the risks we all see in the system. (iii) Finansinspektionen already has most of the tools that are considered to be a necessary part of the macroprudential supervision toolkit at its disposal, and it has also used several of them. Several of these tools can be used both to safeguard good consumer protection on the financial markets and to contribute to a stable financial system.

Importance of a stable financial system

The financial system has three fundamental functions. The first is to broker efficient and secure payments, e.g. the payment of salaries to employees' bank accounts and credit card payments. The second is to convert savings into financing, for example using household savings as financing for companies' investments. The third is to contribute to risk management, for example via the provision of life and pension insurance policies for individuals or financial instruments that enable export companies to protect themselves from fluctuations in the exchange rate. These are central functions for the financial system that I believe the average person on the street would not even reflect upon but would simply assume that they work.

The term 'financial stability' refers to the financial system being able to uphold these fundamental functions even when the system is exposed to different types of disruptions. In order for the system to be stable, it is crucial that all of the actors on the financial market – households, financial firms and non-financial firms – are confident that the system will function. The financial crisis shows very clearly the consequences a lack of confidence can have for the manner in which the financial system functions and for the economy as a whole.

Lessons learned from the financial crisis

During the financial crisis, central parts of the financial system more or less stopped functioning both in individual countries and at the global level. The system's fundamental functions were upheld, however, thanks to major support measures from governments and central banks. The financial crisis revealed large deficiencies in how banks and other financial firms conducted their operations.

The *first* important lesson that was learned was that the banks did not have enough equity or capital of good quality to be able to cover credit losses and falling market values of various assets (the latter primarily with regard to investment banks). As a result, taxpayers in many countries had to inject capital. The responsibility for ensuring that banks have sufficient capital to cover significant losses should primarily lie with the banks themselves, but the lesson learned from the crisis was that the capital rules that were in place were insufficient with regard to both how much capital a bank should have and the quality of this capital.

The *second* lesson learned was that the banks did not have sufficient liquidity. As confidence in the financial system plummeted, it became in particular very difficult for the banks to access market funding. The banks also stopped lending to one another. Part of the problem was a lack of transparency; financiers simply could not assess the counterparty risks.

The *third* lesson learned was that the inter-dependence between the actors in the financial system had been significantly underestimated. It became clear from the financial crisis that problems in larger *individual*, so-called systemically important, banks could quickly propagate through the entire financial system.

The *fourth* lesson learned was that the negative effect on the real economy, in terms of, for example, lower employment and decreased investments, as a result of the problems in the financial sector had been underestimated. One dimension of this problem was that, during the boom in the economy that preceded the financial crisis, financial firms, in their efforts to chase steadily rising yields, increased the risks in both their lending to households and their corporate lending. This increase in leverage made it possible to make both larger investments and increase consumption, but it was also accompanied by rising prices on the assets that were serving as collateral for the loans. The increase in loans thus enhanced the upswing in the economy. The crisis then resulted in a contraction of loans, which contributed to falling asset prices, which in turn amplified the trend toward smaller investments and less consumption that had already been triggered by a fall in the income of households and companies. This so-called pro-cyclical relationship between the real economy and the financial sector contributed by amplifying first the upswing in the economy and then the downturn. Previous experience has also shown that downturns in the economy are often much deeper and more drawn out if households and companies are highly leveraged at the start of the downturn since they are forced to review their balance sheets once asset prices begin to fall. The deeper and more drawn out recession in turn contributes to lower employment and higher unemployment, which in turn also has a negative impact on public finances.

In general terms, this is why intensive efforts are currently underway at the international level to create a macroprudential framework that can contribute to a more stable global financial system. These efforts are tackling not only institutional issues, primarily who will be responsible for the macroprudential supervision, but also the issue of which tools should be used. The goal is clear. The developments we witnessed in recent years must not be repeated. An important part of this work is Basel 3, the international regulations that were developed by the Basel Committee on Banking Supervision. These regulations are now being implemented via a new Regulation and a new Directive (CRR/CRD 4) and will be a central part of macroprudential policy at both the national and global levels. The new regulations tighten the minimum requirements on all banks that are active internationally, wherever they are in the world, and requires banks in the future to both hold more capital of better quality to cover losses and have better liquidity. The stricter requirements will be implemented gradually over a number of years.

Finansinspektionen supports this framework, and there are also strong arguments for Sweden to implement stricter regulations and on a faster schedule than the Basel 3 minimum with regard to our large banks. Finansinspektionen has therefore already taken or announced such measures with support from and following consultation with both the Ministry of Finance and the Riksbank. I will return to this shortly.

I would like to emphasise that the increased regulation of the financial sector is not about removing every risk at any cost. This would, of course, contribute to a stable financial system, but it would also lead to a very ineffective system in which financial payments and services would be unjustifiably expensive. The new regulations instead aim to decrease the number and scope of future financial crises. Indirectly, the aim is also to decrease the economic costs of crises when they do occur – because there will be new financial crises. This applies in particular to costs such as unemployment and public financial costs.

Risks to financial stability in Sweden

Sweden has emerged relatively unscathed from the financial crisis compared to many other countries, even if unemployment increased to some extent and GDP suffered. Despite the major support measures aimed at the Swedish financial market at the beginning of the crisis from the Ministry of Finance, the Swedish National Debt Office and the Riksbank, taxpayers in Sweden have not had to carry the burden of the crisis, as was in the case in many other countries. One important explanation for this is that the support measures were based on the experiences from the banking crisis in the 1990s. But a number of risks still remain and these risks should not be underestimated. They are the reason why, in Sweden, we have chosen in certain areas to implement stricter regulations on a faster timetable than the minimum requirements set out in the international regulations.

First, there are *risks associated with the structure of the financial system*. Sweden’s four major banks (Nordea, Handelsbanken, Swedbank and SEB) represent approximately three-fourths of all lending to the general public in Sweden. We also have a relatively large banking sector in relation to our GDP. Furthermore, the major Swedish banks have extensive operations in a number of other countries, which is fundamentally a positive characteristic, but it also makes it more difficult to handle a bank that is in trouble and increases the risk that costs related to resolving such an issue will rise.

Second, there are *liquidity and funding-related risks*. These risks are to some extent a natural consequence of the differences between the maturities on the banks’ assets (lending) and liabilities (deposits and market funding). One specific risk here is that Swedish banks are largely dependent on market funding, in particular in foreign currency. This means that the Swedish banks are vulnerable to uncertainty on the financial market.

Third, there are *risks associated with granting loans and indebtedness*. Housing prices in Sweden increased sharply (145 per cent) between 1995 and 2010. At the same time, household indebtedness also increased significantly. From a historical perspective, we currently have very high average indebtedness among households in relation to their disposable income (more than 170 per cent). Indebtedness has increased as higher loan-to-value ratios became more acceptable and more unamortised loans were granted. The average loan-to-value ratio for new loans increased from around 60 per cent to 70 per cent between 2003 and 2010. The average loan-to-value ratio in the mortgage stock today is 65 per cent and the actual repayment period for loan-to-value ratios under 75 per cent is 140 years.[1] Even if households' interest rate expenses in relation to their disposable income is at a relatively low level and several studies show that we are not experiencing a housing bubble, this high indebtedness represents a potential risk for the future.

Now that I have provided the background, allow me to transition into the second part of my speech and state my viewpoint on several of the aspects in the current debate on how to design macroprudential supervision in Sweden.

Tools for macroprudential supervision

The debate sometimes gives the impression that we have not progressed very far in terms of either the institutional design for macroprudential supervision or the tools that can be used within the framework of this supervision. I think that this is to some extent a misrepresentation. Finansinspektionen already has at its disposal most of the tools that are considered necessary for the macroprudential toolkit and the institutional framework that is in place today gives Finansinspektionen relatively broad possibilities for influencing the behaviour of financial firms. Allow me therefore to list several of the measures we have already taken or announced that we will take with regard to consumer protection and financial stability. It is my position that all of these measures overlap with most of the tools that are considered to be a necessary part of the macroprudential toolkit.

Mortgage cap

In light of the sharp increase in households' debt ratios and loan-to-value ratios, Finansinspektionen introduced a mortgage cap in 2010, which limits the loans collateralised by a home to 85 per cent of the home's market value at the time the loan is granted. If indebtedness and loan-to-value ratios are too high, borrowers become vulnerable to drops in housing prices since the sale of the

[1] See The Swedish Mortgage Market 2013, Finansinspektionen.

home will not cover the outstanding loan. The cap aims to neutralise an unhealthy trend on the lending market where credit institutions are using increasingly higher loan-to-value ratios as a means of competition when granting mortgages, and thereby increasing the total indebtedness of consumers. Such a development could expose consumers to unacceptable risks. A limit on the loan-to-value ratio of mortgages creates incentives for borrowers to limit their indebtedness.

In the new mortgage survey we presented two weeks ago, we can see that the mortgage cap is having a positive effect.[2] The trend of rising loan-to-value ratios has been broken and since the cap was introduced only a small share of new borrowers has a loan-to-value ratio that exceeds 85 per cent. The growth rate in lending to households in 2012 was 4.7 per cent, which is a reduction of more than 50 per cent compared to the average for the years 2003-2010. All households with a loan-to-value ratio exceeding 85 per cent amortise. We are also seeing that nine out of ten households with a loan-to-value ratio of more than 75 per cent amortise their loans. The Swedish Bankers' Association's recommendation that loans with loan-to-value ratios exceeding 75 per cent should be amortised has probably also played a major role here. I am very encouraged by these changes. As I mentioned earlier, however, the actual repayment periods for the bottom loans are very long. We will look at this issue more closely in cooperation with the Riksbank in the joint analysis group appointed by the Council for Cooperation on Macroprudential Policy.

Even if the mortgage cap, when it was introduced, was primarily justified from a consumer protection perspective, I think that it is important to also highlight that the mortgage cap is an important tool in the macroprudential toolkit. It mitigates the risks for individual borrowers while at the same time suppressing indebtedness and loan-to-value ratios.

Higher capital requirements

In collaboration with the Ministry of Finance and the Riksbank, we also made the assessment that there is a need for higher capital requirements for the four major Swedish banks, Handelsbanken, Nordea, SEB and Swedbank, than what is required by Basel 3. As a result, these banks must have at least 10 per cent in real equity (common equity Tier 1 capital) as of 2013 and 12 per cent as of 2015. The purpose of this measure is quite simply to create more stable and more resilient banks.

The international Basel 3 rules set the *minimum* level for common equity Tier 1 capital at 7 per cent of the so-called *risk-weighted* assets. This requirement will be phased in up to 2019. The following somewhat simplified example illustrates what this means. Assume that a bank loans out SEK 1 million. Furthermore, assume that the risk weight is 50 per cent. The risk weight attempts to measure the portion of the loaned capital that can be considered to

[2] Ibid.

be exposed to risk in the form of *unexpected* loan losses for the bank. With a risk weight of 50 per cent, the risk-weighted asset (the loan) for the bank is SEK 500,000. The minimum requirement in the Basel 3 regulations currently says that the bank, due to this credit risk, must have common equity Tier 1 capital of 7 per cent of the risk-weighted assets. In this example, this means that the bank must have common equity Tier 1 capital of SEK 35,000 to issue a loan of SEK 1 million.[3] The new national Swedish requirement that common equity Tier 1 capital for the four major banks instead will be at least 10 per cent of the risk-weighted assets as of 2013 and 12 per cent as of 2015 means, in my example, that the lender must instead set aside SEK 50,000 and SEK 60,000, respectively, of its common equity Tier 1 capital.[4]

There are several strong reasons for raising the requirements on the four major Swedish banks. As I previously mentioned, these four banks are very large in relation to the Swedish economy. If one or more of the major Swedish banks must be saved, this could result in extremely large costs for society and taxpayers. There is also a risk that the markets will assume that the government, in the event of a serious crisis, will intervene to save major banks. This implicit guarantee from the state means that the major banks can both fund themselves more cheaply than if they were not backed by this guarantee and take larger risks. Stricter requirements on these banks will mean that Sweden will suffer fewer and milder financial crises in the future. We also made the assessment together with the Ministry of Finance and the Riksbank that the profit for society clearly outweighs the potential costs of the higher requirements for the banks and/or bank customers.

In order for this proposal to be implemented, legislation is required. This legislation will be drafted by the Ministry of Finance and adapted to the windows for national regulation in future EU Directives and EU Regulations. We can see that all of the major banks already fulfil the new capital requirements for 2013, and that all of the banks with the exception of one fulfil the requirements for 2015.

Higher risk weights

Finansinspektionen is now planning to further tighten the capital requirements by implementing a so-called risk weight floor of 15 per cent for Swedish mortgages. We have presented the measure in a memorandum and received feedback. In 2007, under the Basel 2 agreement, the possibility of calculating risk weights using internal models that were based on historic loan losses was introduced. All of the major Swedish lenders currently have authorisation from Finansinspektionen to use internal models to calculate risk weights for their credit exposures. The result of the introduction of these models was that the risk weights for Swedish mortgages plummeted since, historically, mortgages have been associated with low loan losses. Several of the largest mortgage

[3] 1,000,000x0.5x0.07=35,000.
[4] 1,000,000x0.5x0.1=50,000 and 1,000,000x0.5x0.12=60,000, respectively.

issuers in Sweden currently have average model-based risk weights of around 5 per cent. Finansinspektionen believes that these risk weights are too low, even taking into consideration the higher capital requirements that will be implemented for the major banks. Risk weights calculated with the internal models are based on historic loan losses in the bank during a period when the total mortgage debt and average loan-to-value ratios were significantly lower and amortisation schedules were significantly shorter. Today's high indebtedness among households, the high average loan-to-value ratio and the long actual repayment period for the mortgage stock naturally increase the risks. In addition, high indebtedness coupled with a fall in housing prices could lead to a decline in private consumption and an increase the banks' loan losses from non-financial firms. Furthermore, a larger portion of loans with variable interest rates has made households more sensitive to changes in the interest rate. It is absolutely crucial for the stability of the Swedish financial sector as well as for individual financial firms that the financial firms on aggregate have a capital base that covers the risks in the Swedish mortgage portfolio.

A low risk weight of 5 per cent on mortgages would mean that the banks, somewhat simplified, would only need to have common equity Tier 1 capital totalling SEK 5,000 and SEK 6,000, respectively, in order to grant a SEK 1 million loan under the capital requirements that apply as of 2013 and 2015, respectively. With a risk weight floor of 15 per cent, the corresponding amounts are instead SEK 15,000 and SEK 18,000.[5]

The risk weight floor increases the capital requirements on banks but at the same time can be compared to the risk weights of 50 per cent from the framework up to 2007 (Basel 1). It can also be compared to the risk weight of 35 per cent in today's standardised approach that applies to financial firms that do not use internal models to calculate risk weights for mortgages. It is also Finansinspektionen's assessment that the banks to a large extent have already taken the higher capital requirements that this floor would entail into consideration in their capital planning. We want to use the measure to ensure that a reasonable amount of capital is also maintained in the future.

We are currently compiling the comments from the consultation and we will then submit this proposal to our Board of Directors for resolution. In general the parties commenting on the consultation have expressed support or understanding for the measures. None of the parties opposed the measures.

Higher liquidity requirements

The higher capital requirements will strengthen confidence in banks. To some extent they will also decrease liquidity risk, but it is still important for banks to ensure that they have enough liquid funds to withstand a period of difficulty obtaining market funding. During the financial crisis, when confidence in the banks fell, the Riksbank was forced to inject significant liquidity in both SEK

[5] 1,000,000x0.15x0.1=15,000 and 1,000,000x0.15x0.12=18,000, respectively.

and USD. The Government also introduced a guarantee program totalling SEK 1,500 billion to support banks and mortgage institutions with medium-term funding. In accordance with the Basel agreement, quantitative liquidity requirements must be implemented at the national level no later than 2015 to decrease the need for similar support measures.

In light of this, Finansinspektionen issued regulations that contain a requirement on the Liquidity Coverage Ratio (LCR), which entails that firms must have a buffer of liquid assets that can withstand actual and simulated cash outflows during a stressed 30-day period. I think that this is both an obvious and a reasonable requirement. Firms must also report their liquidity risk to Finansinspektionen. The regulations apply to credit institutions, investment firms and financial groups with a balance sheet total as of 30 September of the previous year exceeding SEK 100 billion. The requirement on holding a liquidity buffer is supplemented by rules about when the buffer may be used. Firms may use the buffer during periods of stress that impair the firm's liquidity and thus do not need to fulfil the requirements during these periods.

The purpose of these new rules, which already entered into force this year, is to contribute to a stable and well functioning financial system in which firms have sufficient liquid assets to withstand shorter periods without access to market funding.

Additional tools

My review of the measures that Finansinspektionen has taken and announced that it will take shows that we already have at our disposal most of the tools for macroprudential supervision and that we have also used them. Allow me to also briefly describe other tools within the Basel agreement that Finansinspektionen might also use in the macroprudential framework.

Basel 3 plans to implement a requirement that a specific minimum gross leverage ratio must be implemented by 2019. This basically means that a non-risk-weighted capital requirement is being imposed on banks. In principle, a bank that applies low risk weights can, at least if there is no risk weight floor for the assets, leverage itself quite high. The requirement of a specific minimum gross leverage ratio therefore aims to avoid situations where leverage is too high in relation to the banks' capital. This supplemental capital requirement becomes binding only when the risk-weighted capital requirements fall below a certain level. The requirement sets an upper limit in practice for how much a bank's balance sheet can expand given a certain amount of capital.

In accordance with the Basel agreement an additional requirement will be implemented that the long-term assets (lending) must be funded by a minimum Net Stable Funding Ratio (NSFR). This requirement should be viewed against the background of the risk that arises due to differing maturities between the banks' lending and deposits/borrowing, as I mentioned earlier. Exactly how it will be formulated and applied, however, is not yet finalised.

In addition to Basel 3, several other tools are being discussed. One of these tools is the loan-to-value cap (LTV cap), which is similar to the mortgage cap that Finansinspektionen has already implemented. Another is the loan-to-income cap (LTI cap), which means that households are limited in how much they can loan based on their collective disposable income. A third tool that is being discussed is mandatory amortisation.

Basel 3 also introduces a tool that is called a countercyclical capital buffer. To date it has not yet been decided which authority should be responsible for this tool, which will require banks to build up capital buffers in good times that can then be used during more difficult times. This measure decreases the banks vulnerability to periods of uncertainty. To some extent this tool can also prevent the pro-cyclical influence the financial system tends to have on the real economy that I mentioned earlier, since the price of lending increases in good times when the capital buffer is being accumulated and decreases in difficult times when the buffer is being used.

In order to be able to handle other problems, it is important for the supervisory authorities' toolkit to also include the annual supervisory review and evaluation process that is conducted as part of supervisory work related to Pillar 2. CRD 4 allows the supervisory authority clearer possibilities within Pillar 2 to make similar assessments for firms whose risk profiles are similar to one another in terms of systemic risk.

Institutional design of macroprudential supervision

In conclusion, allow me to present my opinion of the debate that has been underway about the *institutional* design of macroprudential supervision in Sweden.

Finansinspektionen already has a mandate to contribute to a stable financial system through its instructions and letter of appropriation. The Riksbank has in turn received an assignment from Parliament to safeguard a safe and efficient payment system.

The Financial Crisis Committee proposes in its report that not only Finansinspektionen but also the Riksbank should have an explicit responsibility for a stable and well functioning financial system, even if the authorities' tasks to achieve this differ. In addition, the Committee recommends that a specific *macroprudential policy council* should be established where Finansinspektionen, the Riksbank and independent experts collaborate to prevent serious disruptions to the financial system. The Committee proposes that the Ministry of Finance should only be an observer in this council since, as the Committee points out, the Ministry does not carry out any preventive work but is still responsible for legislation in the area. In contrast to the *Council for Cooperation on Macroprudential Policy*, which Finansinspektionen and the Riksbank already jointly established on our own initiative, the Committee proposes that the macroprudential policy council be established by law so that Finansinspektionen and the Riksbank are obligated to collaborate on macroprudential issues.[6]

In their evaluation of the Riksbank's monetary policy and work with financial stability, Goodhart and Rochet presented two alternatives for future macroprudential supervision.[7] The first entails that the responsibility for macroprudential supervision be divided between four institutions: the Riksbank, Finansinspektionen, the Swedish National Debt Office and the Ministry of Finance, and that a "systemic risk board' be established to coordinate the work of these authorities. The second entails that the Riksbank be responsible for macroprudential supervision and be given the tools to achieve this while Finansinspektionen continues to be responsible for the supervision of individual institutions, which usually is called microprudential supervision.

In terms of how macroprudential supervision should be organised, I would like to emphasise that I am very sceptical about the argument that macroprudential supervision and microprudential supervision are fundamentally different. The difference is more that their focus is different - macroprudential supervision focuses on the entire system and microprudential supervision focuses on individual firms. But effective supervision must include both. A good analysis of systemic risk requires knowledge about what is happening among individual firms, and analysis of the risks in individual firms cannot be separated from macroprudential or systemic risks. In the end, systemic risks can only be handled via supervision and regulation of individual firms, at which point the line that separates microprudential and macroprudential supervision becomes irrelevant. In terms of the tools that may become relevant for macroprudential supervision, the arguments I just presented indicate that they to a large extent already fall under Finansinspektionen's mandate. The considerations that will need to be made in the future with regard the macroprudential supervision are similar to those that Finansinspektionen already makes as part of its mandate to promote a stable financial system. Firms that will be regulated can in the end only fulfil one requirement when it comes to the same tool, and therefore microprudential and macroprudential supervision must be kept together. I am therefore very hesitant about splitting up the macroprudential tools between different authorities. What we need to do, however, is to become better at discussing and working together on the risks we all see in the system.

I am also worried that a situation where macroprudential supervision is completely separated from microprudential supervision will create a risk that

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[6] See Preventing and managing financial crises, SOU 2013:6.
[7] See Evaluation of the Riksbank's monetary policy and work with financial stability 2005-2010, Reports from the Riksdag, 2010/11:RFR5.

the macroprudential supervision will be rendered ineffective and, in a worst case scenario, contradictory. Effective macroprudential supervision requires competence, resources and a clear mandate to take action. For example, both the Riksbank and Finansinspektionen highlighted the problems with the extensive credit growth in the Baltics in external reports, but it is a big step to go from identifying imbalances to taking action before concrete problems are realised. Basically, all of the authorities and participants on the market underestimated the significant liquidity risks that built up before the crisis in 2008. This type of problem will be an important focus for the future macroprudential supervision.

Finansinspektionen has historically supported the establishment of a macroprudential policy council where the authorities with responsibility for different issues related to financial stability can meet and collaborate. That is also why we established the Council for Cooperation on Macroprudential Policy together with the Riksbank. The macroprudential policy council should, in principle, be able to issue in the future public *recommendations* to different authorities, which would then need to explain their reasoning if they should choose not to follow the recommendations. This would mean that we could avoid debates about what was said or done by various authorities, and instead increase the incentive to being proactive. Until a macroprudential policy council is established, in the event a decision is made to create such a council, Finansinspektionen looks forward to developing the cooperation that is already in place with the Riksbank via the Council for Cooperation on Macroprudential Policy.

It is natural for the Ministry of Finance to take a leading role in crisis management since there is a risk that the state finances will be significantly affected by a financial crisis. However, in terms of crisis prevention activities, there are arguments for keeping these politically independent. There are also arguments for the Government having good insight into the crisis prevention activities and therefore being part of the macroprudential policy council. During the financial crisis, we had excellent cooperation and dialogue with both the Ministry of Finance and other authorities. Regardless of how the council is organised, this cooperation and dialogue will need to continue.

Three summarising points

Let me conclude with the same three points I started with:

• I believe that it is misleading to divide supervisory work into microprudential and macroprudential. What is most important is how to create a stable financial system.

• Macroprudential tools should not be distributed among several authorities. This can only lead to delineation problems and inefficiency. What we need to do, however, is to become better at discussing and working together on the risks we all see in the system.

• Finansinspektionen already has at its disposal most of the tools that are considered to be a necessary part of the macroprudential supervision toolkit and it has also used several of them. Several of these tools can be used both to safeguard good consumer protection on the financial markets and to contribute to a stable financial system.