

European Banking Authority
Tour Europlaza
20 avenue André Prothin
CS 30154
92927 Paris La Défense CEDEX
France

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Response from Finance Norway to the EBA consultation on guidelines on retail diversification

We refer to the [consultation of the European Banking Authority \(EBA\) on guidelines on proportionate retail diversification methods](#) and welcome the opportunity to contribute with Finance Norway's perspective. Finance Norway limits its input to remarks on the overall position.

The consultation paper puts forward two policy options to ensure satisfactory diversification of the regulatory retail portfolio. Finance Norway recommends option 2 (the one-step approach), i.e. the method without circular calculation (iterations). This method is simpler, more transparent and less bureaucratic than option 1 with circular calculation (the iterative approach). We would also emphasize that the Basel Committee recommended a limit of 0.2% without circular calculation in the [Basel III recommendation](#)¹:

"To avoid circular calculations, the granularity criterion will be verified only once."

In general, methods that involve almost continuous circular calculation (option 1) are unfortunate. First, circular calculation does not ensure diversification of the portfolio. In the worst case, a bank could end up circularly calculating the entire retail portfolio and that should not be the point. Second, option 1 is more complex due to the iterative process. Third, option 1 could hit the smallest banks in the smallest countries harder than other banks as small banks tend to have more concentrated retail portfolios than large banks. The smallest banks have more limited resources to conduct circular calculation, implying an additional burden for smaller banks from implementing option 1 (iterative approach). This runs counter to the EBA's objective of *"ensuring simple methods commensurate with the size of the institutions and their retail portfolios"*, see paragraph 3 in the consultation paper.

We would also emphasize that the distribution of the Norwegian banks' retail portfolios differs substantially from the assumptions made in the stylised example on pages 8 and 9 of the consultation

¹ See footnote 33 on page 18 of Basel Committee on Banking Supervision (BCBS) (2017): ["Basel III: Finalising post-crisis reforms"](#), 7 December 2017.

paper. However, even the simple example of circular calculation clearly highlights the complexity of option 1 (iterative approach).

Finally, we recommend an even simpler method than option 1 and 2. Finance Norway recommends EBA to remove the 5/10% threshold while setting the 0.2%-limit higher, e.g. at 0.25%.

Yours sincerely
Finance Norway

Sign.
Erik Johansen
Executive Director Bank and Capital Market

Sign.
Henrik Andersen
Special Advisor Bank and Capital Market