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Nordea will cease using a scale to summarise credit quality in credit research

The European Securities and Markets Authority, ESMA, has strongly indicated that the use of a scale to summarise credit quality is reserved for registered credit rating agencies. Nordea has therefore decided to discontinue the use of a scale to summarise credit quality in investment research.

Credit research in the Nordics has developed over several decades as an important tool enabling unrated corporates, often non-investment grade, to gain access to funding in the capital markets. We believe our practice of assessing the credit quality by reference to an established scale has provided a valuable basis for investors to compare issued bonds and take a view on the appropriate issue risk premium.

In the aftermath of the financial crisis, the Credit Rating Agency Regulation ("CRAR") was conceived with the fundamental purpose of regulating hitherto unregulated credit rating agencies and their activities, but not to force other already regulated activities into another regulatory regime. Specifically, we believe there is an explicit exemption for investment research in Article 3(2) of CRAR III.

Nordea, as several other major Nordic banks, has therefore in good faith continued to use a scale to summarise credit quality in investment research after CRAR III entered into effect. This was based on our understanding that our research was regulated as investment research under MiFID and MAR and exempt from CRAR III. However, we now have strong indications that ESMA's interpretation is that even the use of a scale to summarise credit quality captured within investment research should be treated as a credit rating activity and subject to the CRA Regulation, despite the exemption under Article 3(2).

We have a different interpretation of the legislative package covering investment research activities. We believe that the legislators put the exemption into the CRA Regulation to ensure that investment research would be able to continue to support a well-functioning market and did this with comfort since investment research is already covered by MiFID and MAR. However, Nordea is unwilling to bear this regulatory risk and as a result we will continue with our market leading Nordic credit research but without an explicit rating scale.

For further information:

Martin A Persson, Co-Head of Markets Equities, +46 10 1565877
Magnus Nelin, Chief Press Officer, Sweden, +46 721452640