MINISTRY OF BUSINESS AND GROWTH
DENMARK

Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel
Switzerland

MINISTER FOR BUSINESS AND GROWTH

MINISTRY OF BUSINESS AND GROWTH

Slotsholmsgade 10-12
1015 Copenhagen K
Denmark

Tlf. +45 33 92 33 50
Fax. +45 33 12 37 78
CVR-nr. 10092485
EAN nr. 5798000026001
evm@evm.dk

Dear chairman Stefan Ingves

The Danish government appreciates the opportunity to comment on the second consultative document on revisions to the standardised approach for credit risk.

In the attached annex the views of the Danish government are specified in more detail. For Denmark, the key issues are as follows.

First of all, we support the Basel Committee's overall objective of enhancing risk sensitivity and comparability between institutions while at the same time maintaining simplicity. However, this overall objective is difficult to achieve in practice. In order to ensure risk sensitivity and comparability in a way that reflects the underlying risks, differences between jurisdictions must be taken into account.

By way of example, the current Basel standard approach and the consultative document does not give covered bonds a specific treatment. Thereby the legal and economic characteristics of covered bonds are not taken into account. If this implies that covered bonds are bundled with other exposures to institutions, the risk embedded in covered bonds could be overstated. In Europe, covered bonds have a specific treatment reflecting the lower risk in these exposures. This specific treatment achieves a better risk sensitivity and ensures that the risk weights reflect the underlying risk of the exposures. It is in our view of utmost importance that we can keep this specific treatment and we therefore find that the Basel Committee should take this issue into account.

Secondly, the Danish government supports the Basel Committee's view that the objective of the revised standardised approach should be to ensure that the capital requirement reflects the underlying risks and not to increase the overall capital requirements as such. In this regard, however, the calibration should not only take the global level into account. In our view, it is equally important that the calibration does not impose an unwarranted capital requirement increase for certain jurisdictions or specific low risk portfolios where such an increase is not related to the underlying risks of the exposures.

Finally, we note that depending on the final standard, the revised standardised approach could end up as the basis for a capital floor for IRB institutions. It is in our view very important that a capital floor only serves as a back stop to risk-based requirements. Risk-based capital requirements – when properly regulated and supervised – provide appropriate incentives for credit institutions and they promote efficient capital allocation to the benefit of our economies. Such an approach could be followed by implementing the capital floor as a supplementary requirement that would only kick in if the risk-based minimum capital requirements and buffers are lower than the capital floor. This is consistent with the European implementation of the current Basel accord.

Overall, as you will understand, the Danish government has major concerns when it comes to the revised capital floors. We were therefore very pleased to see the statement in the Danish media on 18th March 2016 from Margaret Critchlow from the Basel Committee indicating that our concerns on the possible effects are “speculative and based on rumours”.

I would be very interested in a meeting with you Mr. Chairman in the nearest future in order to discuss the current work of the Basel Committee and especially the revised capital floors.

Please also find our elaborated comments in the annex. As always, we stand ready to answer any question you may have in relation to the above.

Yours sincerely,

Troels Lund Poulsen