DANISH MORTGAGE BANKS' FEDERATION

FINANSRÅDET
DANISH BANKERS ASSOCIATION

Realkreditrådet
ASSOCIATION OF DANISH MORTGAGE BANKS

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
baselcommitee@bis.org

Revision to the Standardised Approach for credit risk

27 March 2015

Finanssektorens Hus
Amaliegade 7
DK-1256 Copenhagen K

Phone +45 3370 1000

mail@finansraadet.dk
www.finansraadet.dk

File No 413/16
Doc. No 536246-v1

The Danish Bankers Association, the Association of Danish Mortgage Banks and the Danish Mortgage Banks' Federation appreciate the opportunity to comment on the consultation paper on a revised standardised approach for credit risk.

As a supplement to responses from the European Banking Federation and the European Mortgage Federation we would like to emphasize some points that we find particularly important.

We acknowledge that the current standardised approach for credit risk may need improvement in specific areas, but we question the need for the comprehensive revision as proposed, especially the removal of any reliance on external ratings regarding institutions and corporates. External ratings have been questioned, but that has primarily been in relation to ratings on securitisations and sovereigns, not on corporates and institutions. In general external rating represent a sound source of information for the risk appraisal of banks and corporates taking far more factors into consideration than the proposed risk drivers underlying the new proposal. Using risk drivers based on individual counterparty information for assigning risk weights for institution and corporate exposures respectively would entail very substantial cost for banks. At the same time, we are concerned that the proposed risk factors would often severely misrepresent the true risks of exposures to the counterparty. This is especially a concern for corporates and SMEs.

Although the Basel Committee states that the objective is not to increase overall capital requirements, the parameters and factors proposed clearly indicates a significant increase in capital. We fail to see the justifications for such an increase.

Covered bonds play a very significant role in the European financial system. Notwithstanding that covered bonds are not included as a special risk category in the proposed framework, it is very important that covered bonds issued by a credit institution in jurisdictions with specific covered bond legislation that fulfills certain strictly defined criteria may continue to have a preferential risk weight treatment.

We support a more risk sensitive treatment of loans secured by residential real estate under the standardised approach. The introduction of LTV buck-

File No 413/16
Doc. No 536246-v1

ets as a risk driver could contribute to this though we are opposed to the requirement to rely on original LTVs at origination of the loans. It should be possible, but not necessarily mandatory, to calculate the risk weighs based on current LTVs. Furthermore, risk sensitivity could be improved by allowing banks to tranche their exposures across different LTV buckets. We are, however, concerned that the Debt Servicing Capacity will be too complicated to include as a risk driver in a meaningful way. Significant differences in national taxation and social benefit such as education and health care makes it unsuitable as a global risk driver.

We therefore strongly believe that there should be scope for local calibration of risk weights associated with the different risk buckets by national authorities based on documented loss rates over time. Housing markets function very differently even in countries otherwise similar in many ways. Differences in social security systems, pension systems, property valuation systems and the legal framework for mortgages can have a profound effect on loss rates. It is of paramount importance to have a system that acknowledges such differences in loss rates, also in order to have more consistency between the risk weight under the IRB approach and standardised approach for credit risk.

For questions, please contact Michael Friis, Danish Bankers Association, mfr@finansraadet.dk, Telephone: +45 33701120.

Yours sincerely,

Karsten Beltoft	Søren Gade	Peter Jayaswal
Danish Mortgage Banks' Federation	**Danish Bankers Association**	**Association of Danish Mortgage Banks**