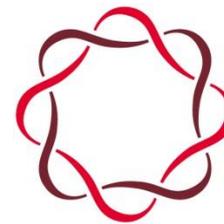


Secretariat of the Basel Committee Banking Supervision

Bank for International Settlements

**Baselcommittee@bis.org**



---

**FINANCE  
DENMARK**

September 26, 2017  
Doc. no. 573539-v1

## The simplified alternative to the standardised approach to market risk capital requirements

*Finance Denmark is an interest organisation for banks and mortgage institutions in Denmark. Our members are mortgage institutions, banks, savings banks, cooperative savings banks and Danish branches of foreign banks.*

Finance Denmark appreciates the opportunity to comment on the Basel Committee's consultation paper on a simplified alternative to the new standardised approach to market risk capital requirements in the revised market risk framework that was introduced with the Fundamental Review of the Trading Book (FRTB). In Denmark, we have over 70 banks and mortgage credit institutions. The great majority of these would be in scope for using a simplified alternative to the new standardised approach.

The Committee has asked for views on whether the proposed Reduced Sensitivity based Method (R-SbM) represents a sufficient level of simplification to achieve the goal of harmonisation of prudential rules across all jurisdictions. Or whether instead retaining the Basel II standardised approach, subject to a high-level recalibration to ensure a suitable conservativeness relative to that of the revised market risk framework, would serve as a better alternative.

Finance Denmark strongly supports the option of retaining the Basel II standardised approach (subject to appropriate high-level recalibration) as the simpler alternative for smaller credit institutions with limited trading book activity. R-SbM still relies on credit institutions performing complex sensitivity calculations on an ongoing basis. That would be challenging for smaller credit institutions to operate and involve very high implementation costs. We do not consider that to be justified.

As opposed to the new FRTB standardised approach for market risk, the simpler alternative neither has to function as a fall back method at trading desk level for the internal model based approach (IMA), nor as a fall back method for the new FRTB standardised approach (SbM). Therefore, there is no compelling reason for seeking methodological consistency between the simple alternative approach and the SbM and IMA. Furthermore, in some important areas the R-SbM severely compromises risk sensitivity, without significant computational relief – e.g. regarding the lack of granularity of risk “buckets” for maturities for general Interest rate risk (GIRR) and the grouping of covered bonds together with “other Financials” for credit spread risk (CSR).

For these reasons, we recommend the Basel Committee to adopt a pragmatic approach and refrain from imposing a new method for market risk calculations for credit institutions with limited trading book activity. Considering the limited importance of their trading book activity, the implementation and operational costs would be disproportionate.

The Committee proposed six criteria that banks must fulfil to be eligible for the simplified alternative to the FRTB standardised approach. We are concerned that some of these criteria are unduly restrictive.

While we understand that large international active banks should not apply a simple alternative method, domestically orientated credit institutions with limited trading book activity can have systemic importance in the local market and thus be designated as D-SIBs. We are concerned that excluding D-SIBs from the use of simpler method may inadvertently force some relatively small credit institutions with limited trading book activity to apply the complex FRTB standardised approach with large implementation and operational costs without any real benefits.

Furthermore, we are concerned that a total ban on writing options for credit institutions using the simpler method may unduly limit the business model of smaller credit institutions. The proposed possibility for supervisors to mandate banks with fairly complex or sizable risks to use the FRTB standardised approach should be sufficient to ensure that banks that are active in option writing will apply an approach suitable for their activity.

By the same token, the proposed possibility for supervisors to mandate banks with fairly complex or sizable risks to use the FRTB standardised approach should in our view allow for substantial increases in the proposed thresholds of the absolute and relative size of the trading book of credit institutions that should be eligible



for the simpler alternative approach, without concerns that the simple alternative approach will be used inappropriately.

Kind regards,

**Michael Friis**

Direct: +45 3370 1120

Mail: [mfr@fida.dk](mailto:mfr@fida.dk)

