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**FINANCE  
DENMARK**

## **Memo**

July 14, 2021

Doc: FIDA-262783617-38-v1

To  
The European Banking Authority

# Response to Consultation Paper – Draft Regulatory Technical Standards specifying the types of factors to be considered for the assessment of appropriateness of risk weights under Article 124(4) of Regulation 575/2013 and the conditions to be taken into account for the assessment of appropriateness of minimum LGD values under Article 164(8) of Regulation 575/2013

Finance Denmark is a business association for banks, mortgage institutions, asset management, securities trading and investment funds in Denmark. We appreciate the consultation on this RTS specifying how to identify the appropriate risk weights and conditions when assessing minimum LGD values for exposures secured by immovable property.

Finance Denmark would like to highlight that it is important that there would not be any concerns regarding “double counting” when raising Risk weights and LGD values and there may be openness about the authorities’ assessment of the appropriateness of the Risk weights and LGD values. Please find below our remarks on these issues.

### **Openness and avoid “double counting”**

Systemic risk and financial stability are already taken into account by multiple tools set by authorities. We can mention the Systemic Risk Buffer which can be activated by local authorities in order to cover systemic and macroprudential risk. Some authorities have also introduced different kinds of floors in IRB approach for RW. It must be clearly stated that the same risk cannot be included in the different tools in order to increase Risk weights or LGD values.

Furthermore, with the different tools already in place, using the additional ones for Risk weights and LGD values should be carefully considered and duly and comprehensively justified to the institutions. There should be a requirement in the RTS that authorities would have to disclose the assessments of factors in Article 1 or the conditions in Article 2 that lead to a change in the risk weight or LGD values. These assessments should be made public together with the Risk weights and LGD Values.

In the draft RTS it is rightly stated that the authority must have regard to the other current macroprudential measures in force already to address the identified systemic risks. The wording in the RTS leaves from our point of view room for consideration and the wording should be more explicit to limit the discretion to the authority.

### **Specific questions in the consultation**

*Question 2: What is the respondents' view of the option of considering climate related risks in the determination of the loss expectation where the relevant authority was in a position to perform an appropriateness assessment to one or more parts of the territory of the Member State? What would for the respondent be the benefits and the challenges (costs) of such option?*

Finance Denmark finds it important to focus on risks related to "climate change".

However, it is too early to have this as a component to adjust Risk weights and LGD values, since at the moment sufficient data is not available. Considerations of climate related risks in the determination of the loss expectation should wait until there is more certainty and data in this area. We would suggest to wait for the report from the EBA on prudential treatment of exposure related to environmental and/or social objectives (CRR2 article 501c).

Kind regards,

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