

To  
The European Banking Authority



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FINANCE  
DENMARK

## Response to Discussion paper on proportionality assessment methodology

We welcome that EBA is placing greater emphasis on "proportionality in regulation" with the discussion paper as this will also provide guidance for more proportionality in future regulations.

### 1) Do you agree with the two steps that proportionality assessment addresses?

We consider the step-by-step approach to be suitable in principle. However, the procedure in step 2 is not clear. In our view, the proposals for the metrics are not yet fully developed. It is not sufficiently clear how on this basis - without concrete benchmarks - the decisions of a political expert can be better supported.

### 2) Do you agree with Classification I to be used for proportionality assessment? Given that quantitative thresholds are also being used for the classification of credit institutions, the EBA would welcome suggestions for the regular recalibration of these thresholds, in view to maintain the sample size and composition relatively stable over time.

We agree that Classification I gives the authorities a good basis for deciding on proportionality. However, we prefer point 10 Nesting where Group 1 and Group 2 categories are broken down according to litra a) and b). We think that the diversity between credit institutions best is reflected using that method compared to point 11 - 13.

The criteria in point 11 – 13 are all covered by 10 and should **not** be a criterion in itself. Point 11 will imply that institutions with Tier 1 capital > EUR 3 billion will be classified in same group as the largest global (G-SII) which does not seem right. In point 12 only systemic importance is used as classification which seems to be too simple and having large non-SII in the same group as small institutions. Point 13 is only dividing after international activities so smaller institutions with customers in a nearby country could be in the same group as the largest global banks.

## Memo

October 13, 2021

Doc: FIDA-1344658213-687857-v1

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Thus, a sufficiently fine granularity is not created in Classification 1 (and the other classifications) and the discussion paper lacks concrete proposals in this regard. Furthermore, it is not sufficiently clear how the interplay of the various (quantitative and qualitative) classifications can be implemented in practice.

**3) Do you agree with Classification II to be used for proportionality assessment? Do you consider the broad business model categories as adequately representative for proportionality assessment?**

We agree with the method of taking business model into account, however, it needs to be refined further. It is a problem if cross-border universal banks and local universal banks, are in the same category. In our view Classification II should be adjusted considering local universal banks being treated as savings banks due to a simple business model and lack of systemic importance.

We would suggest that local universal banks are moved from diversified/universal banks to retail oriented banks if the balance sheet is below EUR 5 billion. This way Classification II will to a larger extent take proportionality into account.

**4) Do you agree with Classification III that integrates CRR2 classification of credit institutions?**

Classification III is in our view not suited as a Proportionality Assessment Methodology as it is not sufficiently granular compared to Classification I and II (inclusive proposed adjustment). Classification III is not leading to proportionality in a Danish context because of the Danish mortgage model which causes large liquidity reserves at the commercial banks in the trading book. In Denmark most real estate lending is financed by issuing mortgage bonds where the institutions play an important role in buying and selling these bonds.

As a result, the trading book in smaller Danish institutions will in general exceed the 5 percent threshold in CRR2, article 4, paragraph 1, point 145 litra d) and small Danish institutions will in general not qualify for the definition of a small and non-complex institution.

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Doc. no. FIDA-1344658213-687857-  
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