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**Comments submitted by the Danish FSA on the third consultative document on the New Basel Capital Accord issued by the Basel Committee on Banking Supervision (the Committee)**

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The Committee has published its third consultative document relating to the review of the new capital accord for internationally active banks (the New Accord).

In Denmark the document has been discussed in a forum comprising representatives of the Danish Bankers Association, the Association of Danish Mortgage Banks, the Association of Danish Securities and Broking Companies, Danmarks Nationalbank and the Danish Financial Supervisory Authority (Danish FSA).

The positions that have been agreed upon by the representative associations participating in the discussions are listed below. Danmarks Nationalbank and the Danish FSA can concur with these common positions.

1. <u>Scope of Application</u>

It follows from paragraphs 1-4 that the New Accord will apply to all internationally active banks at every tier within a banking group, also on a fully consolidated basis. The illustration provided in CP 3 also indicates that the new capital requirements will apply at consolidated and sub-consolidated level. However, it is not stated that the capital requirements will have to be fulfilled individually by every bank within the banking group.

It is important that the capital requirements are applied consistently on both consolidated and solo level. On a sub-consolidated level the application of capital requirements can be more flexible.

2. <u>Risk rating system design - Rating dimensions</u>

Among Danish banks the credit risk management is typically obligor-orientated where the credit assessment of the individual obligor is the most important element irrespective of the product in question. This practice also covers retail exposures.

It would be inappropriate for institutions that pursue an obligor-orientated risk management practice to develop alternative systems in order to estimate different PD's of an obligor dependent on the different products the obligor holds.

Therefore, it is essential that the minimum requirements explicitly include a possibility of using a bottom-up approach under the IRB Retail asset class in line with the PD/LGD approach under the Advanced IRB Corporate asset class.

3. National discretions

The tendency towards increasing numbers of national discretions in the New Accord should be checked. It impedes the possibility of harmonized capital adequacy regulation across jurisdictions and is thus in conflict with the principle of level playing field.

4. Asset Classes - Qualifying Revolving Exposures in IRB retail

The eligibility criteria for exposures to be categorised as Qualifying Revolving Exposures under the IRB Retail Approach are inexpedient in relation to Danish practice where consumer credits to a great extent are provided as a credit facility in connection with the customer's wage account. Furthermore it is not uncommon that the credit facility is collateralized to some extent. The risk profiles of such exposures do not in general deviate from the risk profiles of consumer credits granted through credit cards which have formed the basis of the proposal. Therefore, it should not be required that qualifying revolving exposures are unsecured.

If the qualifying criteria are not modified the New Accord would have a significant impact on current practises on consumer credits which do not seem to be well-founded, i.e. the banks will have an incentive to move from secured credit facilities to unsecured credit facilities.

5. Treatment of mortgages

Based on the Danish experience the purposed use of a property is a more essential explanatory risk factor to the lender than the ownership of the property. Therefore residential rental real estate should in accordance with other types of residential premises be categorised as residential under the Revised Standardised Approach and as Retail under the IRB Approach irrespective of the number of rental units.

The proposed LGD figures under the Foundation IRB Approach for exposures fully secured by mortgages are substantially higher than Danish experiences would imply.