FINANSTILSYNET

The Basel Committee on Banking Supervision

DIRECTOR GENERAL

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Response by the Danish Financial Supervisory Authority (Finanstilsynet) on the Consultation on the Basel Committee's Consultative Document: Supervisory framework for measuring and controlling large exposures

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MINISTRY OF BUSINESS AND GROWTH

Finanstilsynet supports the aim of the Basel Committee's proposal to revise the supervisory framework for large exposures. In that regard we welcome the suggestion as to base the limit to large exposure on Common Equity Tier 1.

As to the Committee's proposal to limit Global Systemically important banks' exposures to other Global Systemically important banks we find this an appropriate and prudent proposal in order to reduce the risk of contagion occurring between banks with a global systemic impact. Further analysis might in that regard be needed as to whether this proposal should also be needed for exposures between Domestic Systemically Important banks and exposures from Domestic Systemically Important banks to the non-bank Systemically important institutions.

We are, however, concerned about the treatment of covered bonds in the proposed large exposure regime. The special features of covered bonds is specifically regulated under the capital requirement directive and regulation (CRD IV/CRR) implementing the Basel III-standards and which will enter into force on January 1 2014.

In CRDIV/CRR there is a specific option for Member States to exempt covered bonds from the limits to large exposures under the approval of the competent authority. This option is applied in several Member States in the European Union. The exemption is justified due to the fact that covered bonds in many Member States are subject to a very detailed regulation, e.g. in the form of a balance principle, Loan-to-Value limitations, asset quality, disclosure rules etc. which ensures a very high quality of the covered bond system which has been proven during the recent financial crisis where the assets underlying the covered bonds have had a very low default record.

In that regard, it is our assessment that the proposed treatment of covered bonds can entail harmful effects on the functioning of the Danish covered bond market and possibly covered bond markets in Europe.

We therefore believe that high quality covered bonds, under very strict prudential requirements, should be included in the scope of exemptions to large exposures limits as a Member State option as foreseen in the CRD IV/CRR.

Yours sincerely,

Ulrik Nødgaard