Realkreditrådet
ASSOCIATION OF
DANISH MORTGAGE BANKS

Copenhagen, 11 September 2015

To: The Secretariat of the Basel Committee
on Banking Supervision

by e-mail: baselcommittee@bis.org

Response to the BCBS consultation on interest rate risk in the banking book

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The Association of Danish Mortgage Banks welcomes the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) consultative document on Interest rate risk in the banking book (IRRBB).

Sound measurement and management of the interest rate risk is pivotal to banks and we support the proposed overhaul of the regulatory capital treatment and supervision of the IRRBB which were originally set out in 2004.

We endorse the reliance on economic value of equity (EVE). In this respect, products and/or business models, with matching offsetting assets and liabilities due to changes in the interest rate (zero EVE), should be exempted from the proposal[1].

By design Danish covered bonds and cover assets held by the mortgage bank will not expose the issuing mortgage bank to interest rate risk in an EVE-context and hence should be exempted from the proposed requirements on supervisory reporting regarding IRRBB.

In Denmark statutory caps on payment imbalances on cover assets and covered bonds (matching principle) apply. Payments from cover assets therefore balance payments of interest and principal on covered bonds, i.e. principal amounts of assets and liabilities are the same[2]. In addition, the interdependency of cover assets and covered bonds is further supported by the application of a pass-through principle effectively eliminating payment imbalances on cover assets and covered bonds, i.e. the bank is acting solely as a pass-through unit.

As a consequence, cover assets and covered bonds held/issued by Danish mortgage banks will be exposed to zero or negligible levels of changes in EVE for changes in interest rates.

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[1] In example interest bearing assets and liabilities which, by national supervisors, would be acknowledged as "Interdependent asset and liabilities" in BCBS' Standards on the Net Stable Funding Ratio, would yield a zero EVE with respect to interest rate risk.
[2] The issuing institution also is required to segregate cover assets and covered bonds from other assets and liabilities, such that the assets and liabilities are clearly identifiable.

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Therefore, we strongly believe that cover assets and covered bonds held/issued by Danish mortgage banks and/or other assets and liabilities with the same characteristics as mentioned above should be exempted from the proposed requirements on supervisory reporting regarding IRR on the banking book.

Thank you for soliciting our comments as part of your Consultation. We remain at your disposal for any questions or requests for additional information regarding any of the commints set out in our response.

Kind regards,

Peter Jayaswal

Association of Danish Mortgage Banks