

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
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Capital Floors: The design of a framework based on standardised approaches

The Danish Bankers Association, the Association of Danish Mortgage Banks and the Danish Mortgage Banks' Federation appreciates the opportunity to comment on the consultation paper on Capital Floors based on revised standardised approaches at this early stage in the Committee's development of the proposal.

As a supplement to the responses from the European Banking Federation and the European Mortgage Federation, we would like to emphasize some of the points that we find particularly important.

First and foremost, we find that the adoption of a permanent floor based on a new standardised approach floor is superfluous. The stated objectives of the floor are captured by existing and future proposed regulation, including the leverage ratio, buffer requirements and recent initiatives from the Basel Committee itself and the European Banking Authority to contain undue variations in modeled risk weights that do not reflect differences in inherent risks.

Moreover Pillar 2 is intended to ensure that the capital of an institution is adequate, i.e. it does not fall under a minimum level, and it addresses this objective by using the right incentives. The supervisory review process is designed to ensure that the institution has appropriate risk controls in place and that it assesses other types of risk that the institution might be exposed to including model risk. A binding floor would override the valuable contributions to the risk based system through the internal capital assessments process and supervisory review of risk and capital requirements under Pillar 2.

Furthermore, a capital base calculated on the basis of global "one size fits all" standardised risk weights would not reflect the true risk of banks operating in different economic conditions, social security systems, bankruptcy legislation and legal frameworks for mortgages. For instance, creditor protection is extremely strong in Scandinavia and foreclosure processes are very efficient which is reflected in low risk loss rates on mortgage lending – this continued to be the case during the two financial crises experienced since the 1990's. Therefore such a floor would not in our view enhance true comparability of the capital base as a prudential measure between banks operating in different jurisdictions.

27 March 2015

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File No 413/16
Doc. No 536238-v1

In conclusion, the proposal for a framework based on floors is not only superfluous in view of the host of new regulation introduced since IRB models were originally introduced in 2007 and the further initiatives underway. It would actually represent a setback in the ambition to safeguard the right incentives in risk management and prudential supervision. We are concerned that these negative effects of the proposed floor could particularly affect Nordic IRB banks that operate in a comparably safe banking environment. We therefore urge the Basel Committee to reconsider the proposal.

File No 413/16

Doc. No 536238-v1

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