MINISTRY OF INDUSTRY, BUSINESS AND FINANCIAL AFFAIRS

Basel Committee
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MINISTER FOR INDUSTRY, BUSINESS AND FINANCIAL AFFAIRS

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Danish comments to the simplified alternative to the standardised approach to market risk capital requirements

Thank you for the opportunity to comment on the consultative document "Simplified alternative to the standardised approach to market risk capital requirements".

We support the suggestion by the Committee to retain a recalibrated version of the Basel II standardised approach for institutions with simpler or smaller trading books. We believe that such an approach will achieve the goal of introducing a less complex method and at the same time be proportionate to the relative trading book risks of these institutions.

On the other hand, we believe that the reduced sensitivities based method (R-SbM) poses challenges and costs that are disproportionate to the relative materiality of simpler or smaller trading books. While we acknowledge that the proposed method is less complex than the sensitivities based method (SbM) we continue to find the overall technical setup under the R-SbM too complex for many institutions.

Furthermore, we are very concerned about several of the proposed risk weights in the R-SbM and believe they significantly overestimate actual risk. This is the case for covered bonds, where the proposed risk weight for credit spread risk are 1500 bps compared to 400 bps in SbM. A risk weight of 1500 bps is significantly higher than the historical observations, also during times of crisis.

Overall, we therefore support a recalibrated version of the Basel II standardised approach instead of the R-SbM.

Finally, we believe that the scope of institutions which are allowed to use a less complex method instead of the SbM should be increased in order to achieve proportionality to the relative materiality of trading book risks. We therefore suggest increasing the 5 per cent market risk threshold.

Yours sincerely,

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