

Basel Committee on Banking Supervision  
c/o Kredittilsynet  
Postboks 100 Bryn  
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## **Comments on Consultative Document on the New Capital Accord (CP 3)**

The Norwegian Financial Services Association appreciates the opportunity to comment on the Committee's third consultative document released in April 2003.

We welcome the New Accord in general. Recognising that the Committee is about to conclude on the New Accord, after working on it for a number of years, our comments are focused on a limited number of issues related to the first two pillars of the New Accord.

### **1. FIRST PILLAR**

#### Use of national discretions

The Norwegian Financial Services Association continues to be concerned with the number of areas in the Consultative Document, which either prescribes or opens up for relatively wide national discretions. In many instances such discretion may be used to apply more lenient rules, and thus have the potential to create serious differences in the competitive positions of national banking systems in the international market place. The result may well be increased regulatory arbitrage. Comparisons of the level of capital adequacy of international banks from different jurisdictions will be made difficult by the sheer number of national discretions. This impacts also on the potential benefits of the Third Pillar of the New Accord, which deals with market discipline.

In addition to reducing national discretions under pillar 1, we find that it is important to establish an obligation for regulatory authorities to make public which national discretions they have made use of in their regulations and why. A list of different regulatory authorities' national discretions and the reasons for their choice should be kept and made public by the Secretariat of the Basel Committee.

#### Standardised Approach: Claims on banks and on non-central government public sector entities

The Norwegian Financial Services Association is still of the opinion that the proposed approach with two options available for such claims is unfortunate. The choice of method

can have very important consequences for banks' and for local public authorities' access to bank funding. Option 2, based on the direct rating of the counterparty by an external credit assessment institution will, if applied, produce cliff effects in the Norwegian market place since only few banks and local public authorities are rated by an external credit assessment institution. Such claims will therefore be treated as unrated, i.e. 50% risk weight. The increase from the 20 % weight of the current Accord is not warranted in light of the default and loss history of such claims in Norway. We urge the Committee to consider only applying option 1 for claims on banks and on non-central government public sector entities in the New Accord.

#### Standardised Approach: Claims secured by residential property

The Norwegian Financial Services Association welcomes the lowering of the risk weight for claims fully secured by mortgages on residential property that will be occupied by the borrower, or that is rented, to 35 %. The loss experience of Norwegian banks supports a low risk weight for such loans.

Paragraph 51 opens up for national discretions with respect to lowering the risk weight for claims secured by residential property that are past due for more than 90 days, net of specific provisions, provided that the specific provisions constitute no less than 50 % of the outstanding exposure. We would like to see the Committee close this new area of national discretion, preferably by applying a 50 % weight in general for past due exposures of this character and with such high levels of specific provisions.

#### IRB Approach: Transitional LGD-floor for residential retail exposures

The Norwegian Financial Services Association finds that introduction of a transitional LGD-floor at 10 % for residential retail exposures in paragraph 235, is unwarranted from point of view of the Norwegian residential real estate market. More fundamentally, introduction of this new transitional rule breaks with the principle of making the provisions in the New Accord risk sensitive.

## **2. SECOND PILLAR**

The Norwegian Financial Services Association shares the concern of the European Banking Federation that the increased level of prescription in the Second Pillar has the potential to blur the boundary between the First and the Second Pillar. It is important that Section C on specific issues to be taken into account under the supervisory review process does not lead to the automatic addition of regulatory capital requirements beyond those in Pillar 1. The Accord has been calibrated on the basis that Pillar 1 requirements should, on average, be adequate.

Furthermore, we find it important that supervisors in regard to the Second Pillar can recognise that First Pillar minimum requirements may overestimate the risk associated

with certain exposures, and that this may be taken into account in the overall risk assessment in Pillar 2.

The Norwegian Financial Services Association looks forward to the completion of the New Accord later this year. We ask that no further delays be allowed in the passing of the New Accord.

Yours faithfully,  
NORWEGIAN FINANCIAL SERVICES ASSOCIATION



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