Dear chairman Stefan Ingves

Thank you for the opportunity to comment on the consultative document “Revisions to the Basel III leverage ratio framework”.

Overall, we support the Basel Committee’s objective to introduce a non-risk-based leverage ratio provided that it only works as a backstop measure to restrict the build-up of excessive leverage. Thus, the risk-based capital requirements should be the primary binding requirement, as it ensures appropriate incentives for credit institutions as well as efficient capital allocation.

We are able to support the Basel Committee’s proposal of a harmonised minimum level of 3 pct. on consolidated level. However, we understand that a higher leverage ratio requirement of e.g. 4 per cent is discussed in different forums.

We are very concerned that a higher leverage ratio will negatively affect the Danish mortgage credit institutions due to their low risk business model and will overrule the risk-based capital requirement as the primary binding capital requirement. Thus, building on the principle that risk-based capital requirements should be the binding requirement we cannot support a leverage ratio requirement higher than 3 pct.

The capital requirements of Danish mortgage credit institutions generally correspond to a leverage ratio requirement of approximately 3 pct. and the leverage ratio requirement will therefore be the binding capital requirement for the majority of the Danish mortgage credit institutions if the leverage ratio requirement is introduced on institution level. This is the rationale behind the Danish support for a level of 3 pct. on consolidated level only.

Regarding the question of an additional leverage ratio requirement to G-SIBs we cannot evaluate this before after an impact assessment of the proposal in the quantitative impact study (QIS) exercise.
Finally, as also mentioned in our comments on the consultative document “Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches” it is in our view very important that interaction between a leverage ratio, output floors and input floors will be considered carefully, as they to a large extend serve the same purpose as backstop to the risk-based capital requirement.

Yours sincerely,

Troels Lund Poulsen