



Commissioner for Financial Stability,
Financial Services and Capital Market Union
Jonathan Hill
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**Parliament of Denmark
European Affairs Committee**

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Dear Commissioner Hill,

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As chair of the European Affairs Committee of the Danish Parliament, allow me to express my warmest welcome when you visit our Committee this coming Friday. We look forward to an interesting exchange of views on a number of items. I would like to stress one in particular, namely the new permanent capital floor. As you know, the Basel Committee is considering setting a new permanent capital floor based on a revised standardised approach. This new permanent capital floor will apply evenly to all exposures including high quality loans with low risk.

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This will affect among other things the Danish mortgage credit system, which over decades has proven to be a stable and successful framework for providing mortgage loans to Danes. Historically the Danish mortgage credit system has experienced very low losses and its covered bonds have never led to credit losses for investors – not even during the recent financial crisis.

The European Affairs Committee of the Danish Parliament (Folketinget) is concerned that the Basel Committee's expected proposal of setting a permanent capital floor may jeopardize low risk banking models such as the Danish mortgage credit system by imposing considerable and unjustified financial burdens on these financial institutions.

Let me therefore on behalf of the European Affairs Committee urge you to maintain the European Union's risk sensitive approach to capital requirements, when implementing the Basel Committee's recommendations into EU legislation. I believe risk sensitivity is well suited for our many different local business models in the European Union. Otherwise, I fear that we risk creating unnecessary obstacles for our financial institutions' ability to finance economic growth in the real economy of Europe.

Finally, I would like to thank the European Commission for having initiated a broad consultation on the future of covered bonds in the European Union. I believe that a European covered bonds system based on core elements of the Danish mortgage credit system could facilitate an increased use of covered

bonds across the European Union. However, let me at the same time stress the importance of leaving room for existing well-functioning national covered bond markets when developing a European covered bond framework for the future.

Looking forward to continuing the discussion with you when you visit Copenhagen on 4 March.

Yours sincerely,



Mette Gjerskov

Chair of the European Affairs Committee of the Danish Parliament