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Mr. Michel Barnier
Commissioner for Internal Market and Services
European Commission

Dear Mr. Barnier

Thank you for your reply of 25 November 2010 to our opinion of 15 September 2010. We are pleased that you are aware of the problems which the Basel Committee's proposals for new international regulation will pose for the Danish financial market. We are also very pleased with your statement that Basel Committee agreements are not binding in the European Union. You add that the implementation in the EU will take account of Denmark's particular circumstances.

We would like to inform you that, in the light of a reply from President Barroso to a question about Danish mortgage bonds from the Folketing's European Affairs Committee, we have asked for a meeting with Mr. Barroso in Brussels in the very near future.

You write that, when defining liquid assets, no one asset class should be given too much emphasis, irrespective of whether the assets are government bonds or mortgage bonds. You add that assets should be rated on the basis of their real capacity to provide private markets with flexible funding.

Denmark has a large and liquid market in mortgage bonds. These bonds have done well without government guarantees. Even during the credit crisis when European bond markets seized up, the Danish market in mortgage bonds remained fully liquid. Selling the bonds posed no problems. This applies both to long-term fixed rate mortgage bonds and variable rate short-term bonds in their role as funding instruments. We therefore reiterate our appeal, namely to ensure that bonds which meet particular quality requirements be allowed to count as fully liquid when the Basel proposals are incorporated in an EU directive.

We would like to emphasize that, precisely because Danish bonds are of a very high quality, they should count as fully liquid We would also like to emphasize that if the Basel proposals are realized in their current form, Denmark would be badly affected, importing financial instability as a result. Credit institutions would have to sell off part of their mortgage bond holdings, and there are not sufficient Danish government bonds to place the resulting funds in. The proposal can be expected to lead to interest rate increases.

Stable funding requirements

You mention that, in respect of the stable funding requirements, we have proposed to rate mortgage bonds as stable funding, irrespective of their maturity. Here, we would like to emphasize that mortgage bonds with less than 12 months to maturity should be considered stable funding provided they are subject to very strict requirements. This would for example require that the bonds have proved to be a stable source of funding and that the sale of bonds for the refinancing of mortgages is well distributed over the year.

You say that households cannot always fully manage the interest rate risks associated with this form of mortgage borrowing. Here, we would like to emphasize that consumers will have access to variable rate loans at any time. Some consumers prefer this type of loan, and liberalised capital markets make it impossible to stop them.

You further add that it would probably be better if banks were to increase the maturity of the bonds behind variable rate loans.

In our opinion, experience from the credit crisis proves the opposite to be the case. The crisis clearly proved that Danish mortgage bonds with short maturities sold without problems. On the other hand, the alternative in the form of 30 year variable rate bonds did not sell at all during the credit crisis, neither in Denmark nor in other EU countries.

If the Basel Committee's stable funding requirements are implemented unchanged, this will lead to a considerable increase in the cost of variable rate loans in Denmark. At the same time, short-maturity bonds would be replaced by bonds which are unsellable in times of crisis. This is not conducive to financial stability nor does it lessen households' interest risk.

There is more than 300 billion EUR's worth of mortgage bonds in circulation in Denmark, equivalent to 140% of GDP. 1.4 million Danes have a mortgage, nearly half of them a variable rate mortgage. In addition to house owners, many businesses would also be hit by higher interest rates and uncertainty over variable rate loans. This is not conducive to economic recovery after the financial crisis.

Yours Sincerely,

Anne-Marie Meldgaard
Chairman of the
European Affairs Committee

Helge Sander
Chairman of the
Business Affairs Committee