FOLKETINGET

Opinion from the Folketing on priorities in relation to the Capital Requirements Directive

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The Danish Folketing supports the intention of the new rules to create a more robust and resilient financial sector. However, the current proposals contain elements which would be detrimental to the Danish mortgage credit system if implemented.

The new financial rules will apply to over 8,000 institutions in Europe and must accommodate a number of different business models which have proved themselves to be sound before, during and after the recent financial crisis. A good example of this is the Danish mortgage credit system; empirical studies have shown that mortgage credit bonds issued under this system remained as liquid as government bonds during the financial crisis.

We therefore call for the European implementation of the Basel III standards etc. to take the following into account:

1. It should be permissible for those mortgage credit bonds which continue to meet a set of strict liquidity requirements to be included in the liquidity buffer on a par with government bonds. The inclusion of assets should be determined by their liquidity characteristics rather than by the identity of the issuer. The method proposed for countries with low government debt therefore doesn't constitute a solution either.

2. It should be permissible for an institution to include its own bonds as fully liquid provided that they meet strict liquidity requirements and are

as liquid as government bonds. Institutions' own bonds support the current repayment system which has been praised by, inter alia, the European Commission as being transparent, efficient and cheap for consumers.

3. Account should be taken of the special Danish mortgage credit system (match funding) in designing the mechanics of the payment ceiling which would limit the liquidity inflow in relation to the liquidity outflow. The mechanism currently proposed would punish the Danish system unnecessarily given that the match funding requirement means the liquidity inflow of Danish mortgage credit institutions is close to matching the outflow.

4. It should be possible to include bonds with a residual maturity of less than one year in the longer term liquidity measure, subject to those bonds meeting strict liquidity requirements.

5. Mortgage credit bonds should be risk weighted based on their rating according to the standard method for financial institutions. Account should also be taken of a number of financial institutions continuing to issue guarantees in connection with change of ownership and pre-financing while counting these guarantees towards collateral. This would ensure the inclusion of extra collateral in the rating, reducing sensitivity to the actions of rating agencies without causing concentration problems in the Danish sector.

6. The final determination of the Liquidity Coverage Ratio (liquidity buffer and liquidity stress) should be the subject of a political decision following the normal decision procedure involving the Council and the European Parliament. That will ensure a democratic basis for this important set of rules given their potentially significant effect on the European economy.

Mortgage bonds play a central role throughout the EU as the basis for stable financing of loans to households and companies. The above changes would provide a marked strengthening of the implementation of the Basel III standards in Europe, while at the same time ensuring the continuation of a fundamentally sound Danish mortgage credit system within the present framework.