

To: The European Banking Authority
by email: EBA-CP-2013-17@eba.europa.eu

18 July 2013

Comments on EBA's consultation on Technical Standards for Own funds - Part III

The Danish Bankers Association (Finansrådet), The Danish Mortgage Banks' Federation (Realkreditforeningen) and the association of Danish Mortgage Banks (Realkreditrådet) are pleased to have the opportunity to comment on the regulatory technical standards related to indirect and synthetic holdings, broad market indices and minority interests.

In general, we welcome the efforts ensuring a harmonized application of the capital requirements. Well aware of the consultation responses of pan-European banking associations (i.e. European Banking Federation) we limit our comment to the proposed criteria concerning broad market indices.

Definition of broad market indices

If the definition of broad market indices that are eligible as reference indices for Additional Tier 1 and Tier 2 capital instruments were to be based on a single criterion regarding the required number of contributors, existing indices in smaller currency areas could be in jeopardy of losing the position as an eligible reference rate index because the number of suitable contributors is limited. This could have a severe impact on the banking sector as it would prevent credit institutions in the jurisdiction in question from issuing Additional Tier 1 and Tier 2 instruments with a floating-interest rate, and, even more disruptive, force existing debt to be refinanced. We therefore welcome that the EBA in the draft RTS allows for flexibility by including an additional eligibility criterion for a broad market index based on the market share of the contributors for a reduced number of contributors.

We are aware of the problem of potential correlation between a broad market index based on comparatively few contributors and the credit standing of the individual contributors. This question of correlation is important, but should be addressed on a case-by-case basis by the supervisor. This notwithstanding; a smaller number of contributors does not necessarily imply a high level of correlation between the credit standing of the individual contributors and the index. Indices based on a small number of contributors may be constructed in order to reduce such correlation, e.g. by basing the index on the average interest rate quoted by the contributors on loans extended by the contributor to a representative contributor or prime bank of the index, instead of quoting interest rates paid on deposits.

Please find our answers to the specific questions for consultation regarding the definition of broad market indices attached.

Yours sincerely,

Finansrådet



Klaus Willerslev-Olsen
Deputy Chief Executive

Realkreditrådet



Jan Knøsgaard
Deputy Director General

Realkreditforeningen



Karsten Beltoft
Director General

Appendix - Answers to specific questions for consultation:

Q08: Are the provisions of Article 24b sufficiently clear? Are there issues which need to be elaborated further?

Yes. Further elaboration is not needed.

Q09: What in your view is the best means for ensuring that the benchmark rate is not materially affected by the credit standing of an individual participating institution? The criterion of minimum number of contributors or that of minimum representativeness of the market or both?

A smaller number of contributors does not necessarily imply a high level of correlation between the credit standing of the individual contributors and the index as described in the general comments to this consultation. The same logic applies to the relationship between representativeness of the market and the level of correlation between the credit standing of the individual contributors and the index.

Therefore the question of correlation should be addressed on a case-by-case basis by the supervisor.

Q10: What would be the minimum number of contributors to ensure this absence of correlation? If a minimum representativeness of the market was chosen as an alternative route, how to ensure and calculate this representativeness? Would the percentage of 60% be sufficient?

Apart from our comments concerning the lack of a general link between the number of contributor, or the representativeness of the market and the level of correlation between the credit standing of the individual contributors and the index, we find, that - as a back-stop measure - the proposed minimum number of contributors of 4 together with a minimum representativeness of 60 pct. could be appropriate.