



FOLKETINGET

Commissioner for an Economy that Works for People  
Mr. Valdis Dombrovskis  
European Commission  
Rue de la Loi / Wetstraat 200  
1049 Brussels  
Belgium

## Implementation of the final Basel III reform and the output floor in the EU

Dear Commissioner Dombrovskis,

19. december 2019

The Committees on European Affairs and Business of the Danish Parliament truly welcome the European Commission's hearing about the implementation of the final set of Basel III reforms in the EU, which will feed into a formal Commission proposal expected in June 2020.

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EU Advisor

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The Committees are very concerned that the Basel Committee's proposed output floor could result in a decrease in the risk sensitivity in the capital requirements of financial institutions, whereby the credit institutions will have incentive to increase risk taking as they can take on more risky exposures without corresponding increases in capital requirements.

Parliament of Denmark  
European Affairs  
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The output floor introduced by the Basel III standards intends to ensure that institutions' risk-weighted assets do not fall below 72.5% of the risk-weighted assets derived under the standardised approaches.

The proposed output floor will affect the risk-based model for capital requirements for banks operating in low risk markets. The introduction of an output floor will increase capital requirement mainly in the corporate exposure classes and for exposures secured by real estate.

Regarding loans secured by real estate, we are generally concerned, that the risk weights of the standardised model do not reflect the actual risk on these loans in Denmark. As a consequence banks with an internal ratings-based model operating under well-functioning mortgage systems will be severely hit by the proposed capital floor.

The European Banking Authority (EBA) has estimated an increase in the current minimum capital requirement (MRC) by 23.6% on average equivalent to an aggregate shortfall in total capital of EUR 124.8 billion.



The largest Danish financial institutions will be subject to a rise in capital requirements of 34% amounting to EUR 10.5 billion according to a report by an expert group commissioned by the Danish Ministry of Industry, Business and Financial Affairs. Half of the rise in capital requirements can be attributed to loans secured by real estate. This may have negative consequences for the cost of housing for ordinary families.

The Committees in the Danish Parliament thus finds it essential that the EU implementation of the Basel III reform takes into account the diversity of the EU banking sector and European specificities.

Yours sincerely,

Eva Kjer Hansen  
Chair of the European Affairs Committee

Lars Christian Lilleholt  
Chair of the Business Committee