



Valdis Dombrovskis
Vice-President of the European Commission
in charge of the Euro and Social Dialogue,
Financial Stability,
Financial Services and Capital Markets Union
European Commission
Rue de la Loi 200
B – 1049 Bruxelles
Belgium

**Parliament of Denmark
The International Secretariat**

Christiansborg
DK-1240 Copenhagen K
Tel. +45 33 37 55 00
Fax +45 33 32 85 36
www.ft.dk
ft@ft.dk

Basel Committee's proposal on setting a permanent capital floor

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Dear Mr. Dombrovskis

Ref.

Contact
Morten Knudsen
Principal EU-Advisor
Dir. tel. +45 3337 3695
Morten.Knudsen@ft.dk

In February 2016, the Danish Parliament's European Affairs Committee sent a letter to your predecessor Commissioner Hill expressing concern regarding the work that is still taking place in the Basel Committee on Banking Supervision on the so-called Basel IV standards. On behalf of the European Affairs Committee which represents all political parties within the Danish Parliament I would like to share this concern regarding the Basel IV standards with you before the Basel Committee is concluding this work – possibly already in the course of the next two months.

In particular, the Basel Committee's ambition of setting a new standardised minimum level of capital requirements for financial institutions is causing concern in the Danish Parliament. The Committee has suggested introducing a permanent capital floor based on standardised approaches.

This will include among other things the Danish mortgage credit system, which over decades has proven to be a stable and successful framework for providing mortgage loans with a very low risk. 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 is concerned that the Basel Committee's proposal on setting a permanent capital floor may jeopardize low risk banking business 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 Committees final 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 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 you for meeting with the European Affairs Committee in the Danish Parliament on 2 February. We are looking forward to continuing discussions with you on these very important issues during your visit.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Erik Christensen', with a long horizontal flourish extending to the right.

Erik Christensen,
Chairman of the European Affairs Committee of the Danish Parliament