Finance Norway

European Banking Authority

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EBA consultation on RTS on conditions for capital requirements for mortgage exposures

Please find below our comments to the EBA consultation on RTS on conditions for capital requirements for mortgage exposures.

General comments:
A strengthening of the Single Market is important to Finance Norway. Being an integrated part of the European internal market for financial services is important to the Norwegian financial industry, as Norway being an integrated part of the internal market is important to European financial institutions working cross border into Norway. Against this background, Finance Norway emphasizes the need for a consistent regulatory framework across the Single Market, with harmonized cross-border prudential requirements for similar risk. Risk based financial regulation ascertains this objective, which serves as a premise for our elaborating comments below.

In our opinion, new rules should contribute to predictable capital requirements, improved transparency and a single rulebook. There is a great risk that increased use of supervisory discretion will lead to less harmonization and transparency. In light of this, we believe that the draft RTS should include less flexibility for supervisory discretions. Ideally, to avoid differences in supervisory practices across borders, there should be an empiric and logic relation between the loss experience, the LGD and the loss reduction in market values.

Lastly, we want to emphasize that Level 1 regulations should not be overruled in Level 2 regulations.

Finance Norway
Hansteens gt. 2, Oslo • P.O.Box 2473 Solli, N-0202 Oslo, Norway • Phone +47 23 28 42 00 • Fax +47 23 28 42 01 • Org.no 994 970 925 • www.fno.no

Q1. Do you agree with the three main categories of conditions specified for the setting of higher risk weights and the setting of higher minimum LGD values?
We believe that the third criterion (other conditions) should be more specific. In the draft RTS this criterion puts too much weight on supervisory judgments. This collides with the aim of harmonized rules and dilutes the significance of the single rule book, because an identical situation can be measured differently by competent authorities (CAs) in different geographical areas.

Q2. Do you agree with the conditions for specification of the loss experience and the loss expectations? Do you agree with the adjustments allowed to be made to the loss experience on the basis of the forward-looking immovable property market developments?
The forward-looking component should be further specified, e.g. with regard to time horizon, segments, indicators etc. Furthermore, assumptions should be standardized and quantified when it comes to add-ons for future and external uncertainties. Article 458 (10) has already set a rule for the maximum increase in the risk weights. This should not be overruled in a RTS. One solution is to develop a common matrix for add-ons. This would lead to increased consistency.

In order to obtain more consistency in applying higher risk weights, article 2.2 e) should include some terms and definitions regarding structural and cyclical characteristics and also, as guidance, some thresholds related to volatility and cyclicality. In article 2.3, different levels of loss expectation in combination with RW/LGD should be developed.

Q3. Do you agree with the indicative benchmarks for the assessment of the appropriateness of the risk weights and to guide the setting of higher risk weights across immovable property markets in different member states as specified in Article 4(3) and 4(4)? What levels of these indicative benchmarks would be most appropriate and why?
In the example in the first paragraph in the explanatory box, one CA sets the risk weight for exposures fully and completely secured by residential property to 50 % for a given level of loss expectations, whereas another competent authority would set that risk weight to 150 % for the same level of loss expectation. In our view, this is a good example of the highly diverging supervisory practice in Europe and illustrates the need for benchmarks.

Q5. Do you agree with the other conditions for the setting of higher risk weights? (Please provide your feedback related to the indicative benchmarks (in Article 3(3) and 3(4)) in your response to Question 3 above.)
Non-quantifiable assessments of risk should not be used to change risk weights or LGD, as this would result in less consistency in risk weights across borders.

There is a threat that too much discretion on behalf of the national CAs in setting risk weighs and LGD values will gradually undermine the banks reliance of internal models and risk management incentives. CAs discretionary assessment of systemic and cyclical risk should instead be addressed through use of systemic risk buffers and the countercyclical capital buffer.

Q6. Do you agree with the conditions for specification of the exposure weighted average LGD and the LGD expectation? Do you agree with the adjustments allowed to be made to the average exposure weighted LGD on the basis of the forward-looking immovable property market developments? Do you agree that it is not appropriate to set indicative benchmarks for the setting of higher minimum LGD values because of the specificities of national immovable property markets and because of the relationship of the LGD parameter with the other internal model parameters?
Firstly, we believe that these RTS should establish a maximum LGD value. If not, the LGD parameter may indicate unrealistic loss rates.

Secondly, the national CAs mandate to change LGD values should be much more limited. External cyclical characteristics, national taxation systems and regulatory provisions for buying, holding or letting immovable property are directly and indirectly taken into account in the internal models. Such factors should not give CAs mandate to change LGD values.

Q7. Do you agree with the other conditions for the setting of higher minimum LGD values?
In our view, no other conditions should be taken into account.

Yours sincerely

Finance Norway

Erik Johansen

Director