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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Implementation of Basel III - Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU - Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor, and amending Regulation (EU) No 806/2014 - Statement by Denmark

Delegations will find enclosed a statement from the Danish delegation regarding the Output Floor and transitional arrangements (CRR Article 465).

Statement from Denmark regarding the Output Floor and transitional arrangements (CRR Article 465)

Denmark supports the purpose of the Output Floor to enhance comparability of credit institutions' capital ratios. This will supplement work to improve and strengthen credibility of credit institutions internal models to calculate their risk-based capital requirements.

However, we reiterate our strong concern that the Output Floor could reduce risk sensitivity of capital requirements and harm low risk and well-functioning business models such as the specialized Danish mortgage credit institutions with proven low risk exposures.

We also reiterate our strong preference for permanent preferential arrangements for the Output Floor regarding real estate exposures and unrated corporate exposures conditional on low risk and regular review. This would best take into account key features of the European credit sector, preserve risk sensitivity, support sound risk management in credit institutions and efficient capital allocation in our economies.

The transitional arrangements will according to the compromise text expire by the end of 2032. The EBA shall report on the transitional arrangements by 31 December 2028 and the Commission shall, where appropriate, submit to the Council and the European Parliament a legislative proposal by 31 December 2031.

We stress the need for a balanced and thorough review of these arrangements based on dialogue with Member States and taking into account all relevant factors, including loss rates at national and EU level, and the need to preserve low risk and well-functioning business models in the European credit sector. We regret that this is not specified in the compromise text.

If the next ten years of data further document low loss rates for the Danish mortgage credit institutions and limited uptake of external credit ratings of European businesses, it is our view that the preferential arrangements should be made permanent conditional on low risk.