20/12/2019 European Commission

Implementing the final Basel III reforms in the EU

Standardised approach (SA-CR)

General issues

1) Views are sought on the relative costs and benefits of the ECRA provided by the final Basel III standards and the SCRA? In particular, how do the two approaches compare in terms of risk-sensitivity, impact on risk-weighted assets (RWAs) and operational burden? Please specify the relative costs and benefits of the two approaches for exposures to i) institutions, ii) covered bonds and iii) corporates. Please provide relevant evidence to substantiate your views.

From the perspective of Swedish banks, it is highly important to keep the risk-sensitivity in the capital requirements to the greatest extent possible. This means that banks should be incentivised to have more capital for high risk exposures and less capital for low risk exposures. The interaction between a standardised approach for credit risk without a sufficient risk-sensitivity and an output floor based on the standardised approach, will be counterproductive in this respect.

Since credit ratings has proved efficient and reliable for determining risk weights in the EU we believe that the ECRA should be maintained. However, as further described in our answer to question 14, since only relatively very few Swedish corporates have external ratings, many corporates will receive a high and flat risk weight using the ECRA as proposed by the Basel Committee.

Since bank lending will be the dominate means of financing in the EU, we believe that external rating will continue to have limited use for the foreseeable future. It is therefore critical that a more risk sensitive approach can be found for investment grade (equivalent) unrated corporates. In our view these companies should not be penalised simply due to that fact that they have a preference for bank funding over capital markets funding.

Besök (Visit):
Blasieholmsgatan 4B
Stockholm
Sverige (Sweden)

Post:
Box 7603
SE-103 94 Stockholm
Sverige (Sweden)

t: +46 (0)8 453 44 00

e: info@swedishbankers.se
www.swedishbankers.se

3) Views are sought on the costs and benefits of implementing the various clarifications and specifications provided by the Basel III standards (paragraph 4) in relation to the due diligence to be performed by institutions. Please provide specific answers on each of the clarifications/specifications and support your view with relevant evidence.

The due diligence requirements in the Basel III standards poses challenge for small and medium-sized banks. The due diligence requirements require institutions to conduct a separate review of the appropriateness of external ratings used to determine the risk weights for the counterparty. This requirement is expected to place excessive demands on small and medium-sized institutions. Paragraph 4 of the Basel III standard states that the sophistication of the due diligence should be appropriate to the size and complexity of the bank's activities. Nevertheless, the question arises as to the usefulness of a reduced review of external ratings. A proper analysis of the appropriateness of external ratings would require critical scrutiny of all the numerous factors that feed into the rating of borrower on an individual basis.

Exposures to institutions

6) Views are sought on the costs and benefits of implementing the definition of grades under the SCRA provided by the Basel III standards (paragraphs 22-29). Please provide relevant evidence to substantiate your views.

The revised standardised approach for exposures to banks prescribes the use of a combination of the ECRA and the SCRA for banks incorporated in jurisdictions that allow the use of external ratings for regulatory purposes. Accordingly, banks should apply the ECRA for their exposures to rated banks and the SCRA for their exposures to unrated banks. We welcome this combined application of approaches, since it enhances risk-sensitivity in avoiding a flat "all-inclusive" risk weight for unrated banks.

7) In your view, are the quantitative and qualitative criteria for the classification of counterparties into grades sufficiently clear or do you consider more specifications necessary to ensure a harmonised application of these criteria throughout the Union? Please elaborate and provide relevant evidence.

The Swedish Bankers' Association proposes that IRB banks are permitted to map their internal risk classification systems to the Grades A-C for the purpose of deriving risk-weights for unrated banks. To use internal PDs for the purpose of mapping counterparties to relevant credit quality steps under standardised methods is in line with current practice under CRR. See for example CRR article 336.2 (specific risk for debt instruments) and CRR article 384.1(a) (CVA).

10) In your view, what are the relative costs and benefits of using the original maturity as opposed to the residual maturity for identifying short-term interbank exposures? Please provide relevant arguments and evidence to substantiate your views.

Residual maturity captures the actual risk at all moments. Original maturity would gradually overstate risk, increasing reaching facility maturity. The cost for introducing original maturity would be transferred to the clients and would either limit the client's possibilities to sell their products or trigger alternative cheaper (riskier) products to the market. In our view introducing the original maturity would be counterproductive to reach the objectives set out for the European community.

Original maturity would though simplify treatment of some products and the capitalization would in this case be more like a "portfolio" model but at the same time re-distribute risk weights from higher risk to lower.

Exposures to corporates

12) What is the share of your institution's/(member) institutions' exposures to rated and unrated corporate SMEs and to non-SMEs? What is the share of exposures to unrated corporates whose parent companies are externally rated? Please provide relevant evidence (e.g. underlying calculations, studies etc.).

Based on data from the four largest banks in Sweden, 89 percent of the lending to non-SME corporates is to unrated counterparties. When it comes to corporate SMEs more or less all are unrated. Based on the banks regulatory approved internal ratings (PD) would 72 percent of unrated non-SME corporates qualify as investment grade. See figure 1 in the annex.

13) Views are sought on the definition of 'investment grade' provided by the Basel III standards (paragraph 42). In particular, would you deem further refinements or clarifications necessary in order to ensure a consistent application across the Union? Please elaborate.

One condition for a corporate to qualify as investment grade is that it must have securities outstanding on a recognised securities exchange. For most European corporates, banks rather than issuance of corporate bonds, are the primary source of funding. This fact will clearly restrict the scope of European corporates that could qualify as investment grade under SCRA and receive a risk weight of 65%. Whether or not a corporate has securities outstanding on a recognised securities exchange is not a determining factor when estimating its default risk. Swedish Bankers' Association is therefore of the opinion that the "listing criterion" should be removed

from the investment grade definition in SCRA. Otherwise, would a large part of European corporates receive a risk weight of 100%.

14) What other measures, if any, could be taken to increase the risk-sensitivity of the standardised RW treatment of corporate exposures which currently have no external rating? Please elaborate and provide relevant evidence.

The vast majority of corporates on the balance sheet of Swedish bank's do not have an external rating and would hence, with the exception of SME's, receive a flat risk weight of 100% under the ECRA. This high and flat risk weight is not aligned with banks more risk-sensitive internal view on risk, which is used to control and price the risk of individual customers. The high and flat risk weight for unrated corporates under the ECRA could lead to misallocation of risk, which would especially have a negative impact on the price of credits for low risk corporates and potentially take financing capacity out of the market. Further, it will not support comparability if most corporates are given the same risk weight.

Swedish Bankers' Association is of the opinion that it is of outmost importance that the treatment of unrated corporates become more risk-sensitive under the revised standardised approach for credit risk. As a guiding principle, we believe corporates of equivalent risk should incur the same capital charge.

Below we present two alternative solutions to accomplish this.

The first alternative would be to allow IRB banks to use their regulatory approved internal ratings to classify corporate exposures as investment grade in accordance with the SCRA and apply a risk weight of 65% to such corporate exposures.

Making a determination - with reasonable confidence - of whether a company is assessed as investment grade or non-investment grade should be something that is possible for all banks. In our view, Basel III provides reasonable guidance as to how such a determination should be made.

A prerequisite for this alternative is that the "listing criterion" discussed in question 13 is removed.

The second alternative would be to allow IRB banks to use their regulatory approved PDs to distribute corporates into the risk weight buckets of the ECRA. Under this alternative could external ratings be used where they are available, but our view is that normally the internal rating of a customer does not differ from its external one. In this context is it worth mentioning that the EBA "IRB repair programme" and the TRIM exercise of ECB will further increase the reliability of internal PDs. To use internal PDs for the purpose of mapping counterparties to relevant credit quality

steps under standardised methods is in line with current practice under CRR. See for example CRR article 336.2 (specific risk for debt instruments) and CRR article 384.1(a) (CVA).

Both alternatives would increase the risk-sensitivity of the standardised RW treatment of unrated corporate exposures. They would also take care of the fact that corporates in Europe use capital markets for funding purposes to a much lesser extent than for example corporates in the US. Meaning that European corporates have less need for an external rating and have less debt securities outstanding on recognised securities exchanges. Whether or not a corporate has an external rating or not is not a determining factor when estimating its default risk. This is evidenced by figure 2a and 2b of the annex.

The revised standardised approach for exposures to banks has solved for a more risk-sensitive treatment of unrated banks, by means of a combination of the ECRA and the SCRA. Banks incorporated in jurisdictions that allow the use of external ratings for regulatory purposes are prescribes to apply the SCRA for their unrated bank exposures. Since there are far more unrated corporates than unrated banks within EU it is even more important to also put in place a more risk-sensitive treatment of unrated corporates under the revised standardised approach.

Real estate (RE) exposures

34) Views are sought on the relative costs and benefits of the LS approach and the WL approach provided by the final Basel III standard. In particular, how do the two approaches compare in terms of risk-sensitivity, impact on RWAs and operational burden? Please provide relevant evidence to substantiate your views.

The LS approach has many advantages compared to the WL approach. The LS approach is more risk sensitive (as it applies the RW of the counterparty to the unsecured part) and lacks the cliff effects that the WL approach entails. The operational burden using the LS approach would be minimal as banks already have processes in place for that approach, as it is implemented in the current framework in both standardised and IRB approaches. The WL approach, on the other hand, would create a significant burden to implement without any clear advantages. The two approaches doesn't differ much in RWA outcome (calculated on exposures with evenly distributed LTVs), but the WL approach creates a number of problems.

- It would be difficult to determine risk weights of exposures with general pledges using the WL approach. Example: A company has a €1 000 000 loan partly secured by real estate. The collateral is a general pledge of €300 000 and the value of the property is €500 000. What is the LTV ratio using the WL approach? Can the WL approach only be used when the whole loan is

secured by real estate? If the loan is split into two loans, €300 000 and €700 000, could the general pledge be used to determine the risk weight of the first loan without considering the total exposure the real estate is pledged for?

- If the WL approach only can be used if the whole exposure is secured by real estate does that mean that an exposure at 99% secured by real estate should have the same risk weight as an unsecured exposure?
- It would be complex to determine risk weights when several properties are pledged for the same exposures. Example: A bank has three loans secured by three properties. Two of the properties are pledged for all three loans and one property for two of the loans. How do we determine the LTV ratio for the three loans?
- The WL approach would create unnecessary cliff effects in risk weight for the entire exposure that the LS approach doesn't have.
- The thresholds in the WL approach would create incentives to split loans into loans in different banks, loans with low LTV in one bank and the loans exceeding LTV 50% in another bank, thereby lowering the total average risk weight without actually lowering the risk. Example: A loan secured by residential real estate with a 70% LTV ratio would get a risk weight of 30%. Splitting the loan into one loan with a 50% LTV ratio in one bank and a loan with junior lien in another bank would result in an average risk weight of 25% ((50*20%+20*30%*1,25)/70).

It is imperative that the LS approach also can be used when the repayment of the loan is materially dependent on the cash flow generated by the property. Many of the benefits of using the LS approach would disappear if it can't be used for all exposures secured by real estate.

35) Would you deem further refinements or clarifications necessary concerning the approach that you generally prefer, and if yes, what would those be and what would be their prudential rationale? Please elaborate and provide relevant evidence.

No further clarifications are necessary for the LS approach. The WL approach on the other hand would need substantial clarifications. Especially on how to handle exposures partially secured by real estate, how to determine LTV ratios when having multiple exposures secured by multiple properties and how to handle general pledges when determining LTV ratios.

36) What would justify implementing both approaches in parallel from a risk perspective? If both approaches were to be implemented and made available on discretionary basis, how would comparability across institutions be ensured and how would regulatory arbitrage as well as undue complexity be prevented in this case?

The important thing is that the LS approach is implemented for all exposures secured by real estate. If there are advantages to implementing the WL approach in

other EU member states, both approaches could be implemented in parallel without any significant risk of regulatory arbitrage.

37) Do you consider the assessment of the condition of "strong positive correlation" on a portfolio basis more appropriate than the assessment based on the individual RE exposure, and if yes, why? Please explain.

The condition set out in several parts of the proposal, that the value of the property must not depend materially on the performance of the borrower, is generally a condition that is difficult to operationally apply. There is inevitably almost always some degree of correlation between the risk of the borrower's default and the loss given default of a credit exposure. For instance, the business cycle and macroeconomic performance will create such a correlation. That problem is a general feature of all credit risk assessments and modelling, and it has impacted the way the whole credit risk measurement has been set up in the modelling of the Basel capital requirements.

The problem becomes much more significant when there is a professional landlord owning a single property, where any problems in getting paid for the rent is likely to impact both the default risk of the landlord and the value of the mortgaged property. However, if the landlord owns several properties, or have other sources of income apart from the one stemming from the property, the correlation will become less significant. To assess whether the correlation is "material" or not is essentially a judgement that is hard to make sufficiently objective or stringent to ensure that different cases are treated in a similar way. In footnote 46 in the Basel III standards an example is made where the criterion is believed to be fulfilled if more than 50 % of the income for the borrower comes from the mortgaged property. This is a good benchmark for where the "materially" condition could be perceived to be fulfilled, but the condition should not go beyond this level.

This reasoning implies that extending the materiality concerns to a portfolio perspective would be way too difficult, and it would essentially be impossible to come up with a sufficiently stringent assessment of the materiality concern for a portfolio of property loans. Moreover, the inherent concerns of property lending, where prudent collateral management on the one hand decreases the loss risk in property lending, but on the other hand the loss risks in the property sector tends to be correlated, is well known by the Basel Committee. This knowledge is taken into account when the risk weights have been determined for property lending. For instance, it is reflected in the differences between property lending to residential and commercial property respectively. It does not make sense to introduce additional levels of complexity in the standardised methods for credit risk, where more or less arbitrary assessments of correlation would need to be made. It is much more reasonable to use the conservative assessments of risk weights that is already decided by the Basel

Committee, and not increase additional levels of complication by extending the need for correlation assessments to portfolios of property loans.

In Sweden, large real estate companies' ownership of properties is commonly structured so that separate legal entities own each individual property. Loans to each of these separate companies could in theory be classified as having "strong positive correlation". It's common that loans to these entities, in addition to the real estate collateral, also are backed with guarantees from other companies in the group. The result of this setup is that the risk is the same as if the whole group was one single company, with cash flows from multiple properties supporting each loan. This means that the impact of mutual guarantees or other risk mitigation measures, must be taken into account when assessing whether the risk of the borrower's repayment capacity is correlated with the value of the mortgaged property or not.
Finally, it's important that the criteria for "strong positive correlation" (on an individual basis) is clear and not open for interpretation, so that the implementation will not differ between banks and jurisdictions.

38) If the assessment based on a portfolio basis were introduced, what are your views on whether it should be the only approach available in the Union or it should be an alternative approach to be applied at supervisory discretion on a case-by-case basis? Please explain.

According to the discussion above, it's hard to see neither the value nor the feasibility of a portfolio perspective on the correlation criteria. If it was to be introduced, it should only be available as an option for regulators that assess that there is a specific need for such an approach. A general regulation would be way to difficult develop and it would be impossible to construct it so that it sufficiently takes local market conditions into account.

41) Views are sought on the costs and benefits of the valuation criteria provided by the Basel III standards. In particular, how does this approach compare with the current approaches available under the CRR (MV and MLV) in terms of simplicity, comparability, risk-sensitivity, impact on RWAs and operational burden? Please provide relevant evidence to substantiate your views.

The CRR provides appropriate optionality based on legal definitions and recognised value bases. Both approaches are enshrined in European and international valuation standards and are transparent, consistent, and well established having been applied by the valuation profession and the credit industry across Europe for decades.

The Basel III standards state that the valuation must be appraised in a prudent and conservative manner, excluding expectations on price increases, and adjusted to

take into account the potential that the current market price is significantly above a sustainable value over the life of the loan. In our opinion, both the 'mortgage lending value' and 'market value' methodology fit with the Basel requirements in a broad sense. The 'market value' responds to the requirements of prudential, conservative and sustainable valuation by delivering an estimated amount for a which a property should exchange according to a knowledge-based non-compulsory arm's-length transaction between independent agents in the real estate market. It should be noted that the market value also allows valuers to detect market speculation by using historic market data and therefore to appropriately contextualise the market value in the market cycle. Furthermore, in many Member States national legislation complements the market value with certain conservative rules.

The large majority of EU Member States apply a market value-based approach and European valuers are trained to carry out this kind of valuation. Any changes to current valuation principles in all markets across the Union would be extremely difficult and complex from an operational perspective, and certainly not achievable over a short timeframe, and could give rise to market disruption. Consequences for European real estate markets must be thoroughly analysed, an exercise which is complex and time-consuming and would require specific training of valuers. Thus, operational burden, legal uncertainty and market disruption would be disproportionate in relation to any aim of changing to a new, untested valuation criteria. Furthermore, valuation approaches must be consistent across the whole loan book and the value chain. Banks cannot apply different valuation criteria for the same asset depending on the purpose of the loan or the stage of the lending process.

It is very important to maintain the current option in CRR to apply market value or market lending value to value real estate in CRE or RRE in order to ensure that valuations are based on proven standards and implemented by qualified valuers based on a long-term data basis.

44) In your view, which other aspects, if any, should be considered in the context of revising the valuation criteria for RE property? Please explain.

It is important that it is clarified that statistical valuation models for RRE properties should be allowed similar to the MCD directive.

The Swedish Bankers' Association do consider that an appropriate statistical model can be allowed for valuation and revaluation of residential properties for consumer.

Institutions' internal policies and procedures should indicate criteria for accepting statistical model-based valuations. These policies and procedures should account for

statistical models' market experience, property-specific variables considered, use of minimum available and accurate information, and models' statistical precision.

Institutions should ensure that the statistical models used for the purposes of valuation of immovable property collateral are:
a. property-specific;
b. valid and accurate, and subject to robust back-testing;
c. based on a sufficiently large and representative sample; and
d. based on up-to-date data of high quality.

Institutions should have adequate IT processes, systems and capabilities in place and sufficient and accurate data for the purposes of any statistical model-based valuation of immovable property collateral.

45) Views are sought on the costs and benefits of capping the property value at loan origination. In particular, how does the approach provided by the final Basel III standards compare with the current approach of the CRR in terms of possible cyclical effects on RWs, risk-sensitivity, impact on RWAs and operational burden? Please provide relevant evidence to substantiate your views.

There is no compelling reason to change the current regulations regarding valuation of real estate. Using value at origination would be less risk sensitive and not correctly reflect the risk on exposures secured by real estate. The benefit of getting a less cyclical effect on RWs is by far outweighed by the negative effects listed below of using value at origination.

- Lack of good data would make it hard for banks to implement value at origination on existing loans. Banks would have to make assumptions based on available data and different implementation across banks would be unavoidable.
- It would be a significant operational burden to start using value at origination as it can be complex to determine origination date for valuation of a property, e.g. when a property is collateral for a large number of exposures.
- The complexity of determining origination date when having loans secured by real estate in form of general pledges. Example: A company has five loans secured by three properties (general pledges securing all exposures to the customer). The properties have risen in value significantly since purchase. The company takes another loan to finance the renovation of one of the properties, using the surplus value in the three properties with general pledges as collateral. Has "value at origination" changed to present value for all three properties?
- Risk of different interpretation of origination date, for example when refinancing an existing loan, between banks and jurisdictions.

- A bank with an old loan, with a low value at origination compared to current value, would have a competitive disadvantage compared to other banks for which value at origination would be much higher (i.e. current value would be at origination for them).
- Using value at origination in a market with a significant drop in real estate prices would cause a lock-in effect, where customers could find it difficult to change banks as other banks refinancing the loans would get higher capital requirements. Another possible lock-in effect is that an institution in need of restructuring its portfolio would have an incentive to keep old loans, with comparatively high market values, on its own books rather than selling them to other market participants, if these would have to use new, lower values and therefore get higher capital requirements. This could also be a complicating factor in the recovery and resolution plans of institutions.

Real estate companies often have a large number of real estate assets used as collateral for several loans. As a real estate is bought or sold the bank will make a new assessment of the whole portfolio and the aggregate LTV-ratio, which makes value at origination of an old loan irrelevant.

46) What other measures or safeguards could be provided to address possible cyclical effects of the re-valuation of real estate property? Please elaborate and provide relevant evidence.

We assume that the effect of potential pro-cyclicality of capital requirements that the authorities would like to mitigate is its effects on the real economy. Potential effects on the real economy come from the last stage in the chain: market value increase – lower capital requirement – more accessible capital – increased lending, or reversely: value decrease – higher capital requirement – less accessible capital – decreased lending. Given that it is this effect which is targeted, it would be more suitable to measure and adjust the cyclicality directly on the metric decreased/increased lending. Fortunately, this is also what has already been done through the implementation of the countercyclical capital buffer (CCyB). If the current implementation of CCyB is considered not to be sufficient it would be a better alternative to strengthen this, rather than to start tweaking input parameters, as market value, in a way which not is in line with the rest of the capital requirement framework.

Off-balance sheet (OBS) items

54) What is your view on the Basel III definition of commitments? Please provide relevant evidence to substantiate your views.

The definition of commitment should be harmonised and include footnote 53 of the Basel III agreement. However, in order to have a harmonised implementation this should not be subject to national discretion. Also, the implementation of footnote 53 should be valid for all counterparties and not restricted to corporates and SMEs.

55) What is your view on the national discretion to exempt certain arrangements for corporates and SMEs from the definition of commitments? In your view, which arrangements should be exempted from the definition of commitment, if any? Please provide relevant evidence to substantiate your views.

As mentioned above, our view is that this exemption should not be subject to national discretion and it should not be limited to corporates and SMEs.

57) What are the costs and benefits of the new CCF introduced by the Basel III standards? In particular, how does the Basel III treatment of OBS items compare to the current treatment in terms of risk-sensitivity and impact on RWAs. Please provide relevant evidence to substantiate your views.

The proposed levels of CCF will lead to increased RWA mainly driven by the increased CCF for unconditionally cancellable commitments that will be assigned a 10% CCF in comparison with the 0% in current legislation.

Regarding the CCF for technical guarantees, paragraph 81 of the BCBS document states that technical guarantees, including performance bonds, bid bonds, warranties and standby letters of credit related to transactions would receive a 50% CCF. In Europe, the current Capital Charge framework for Credit Institutions, defined by the CRR stipulates that these kinds of products receive a 20% CCF as per appendix 1, "Classification of off-balance sheet items".

Beyond the important RWA and leverage impact that would have such a change in the CCF applied to those products, historical figures from Global Credit Data show that a 20% CCF is highly conservative compared with the realized CCF (around 8%). Applying a 50% CCF as proposed by the Basel Committee therefore does not seem justified or appropriate.

It is important to highlight the fact that European regulators have chosen to apply a more appropriate CCF to this category of commitments when publishing regulation (EU) No 575/2013. We suggest therefore to maintain the same level of CCF (20%). Should the CCF be increased to 50%, European banks are likely to price technical guarantees at higher rates to clients. The effect will be to discourage these business activities and make it more costly to offer trade finance.

We suggest that The Commission maintain the CCF treatment introduced by CRR for transaction-related contingent items (20%), as it is sufficiently conservative.

Internal ratings based approaches (IRBA)

Reduction of the scoop of internal modelling

62) What are your views on the costs and benefits of reducing the scope of internal modelling as described above? In particular, how would this reform impact the robustness and levels of RWAs for the affected portfolios? Please provide relevant evidence to substantiate your views.

We would like to comment upon the disallowance to use AIRBA for exposures to corporates with consolidated annual revenues above 500 mEUR.
Starting out with the impact, REA will increase significantly for this segment. The estimated average aggregated increase for Swedish banks is 20%. The impact varies significantly within the segment. These large corporates represent a significant part of corporates both domestically and in the EU and they are important for the functioning and development of the economy. Significantly increasing the capital requirements for financing and servicing these corporates will have a negative impact on the EU economy.

Besides the REA impact, there are the more conceptual issues. The Basel III standards simply states that the AIRBA cannot be used for exposures to general corporates belonging to a group with total consolidated annual revenues greater than 500 mEUR, without any justification. In the consultative document "Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches" (March 2016), where the idea to disallow the use of AIRBA for large corporates was outlined, the Basel committee states that it is judged that there is typically insufficient data to estimate LGDs reliably for these corporates. The committee refers to results published in July 2013. In July 2013, the document "Regulatory Consistency Assessment Programme (RCAP) Analysis of risk-weighted assets for credit risk in the banking book" was published. The objective of the analysis presented in the document was to evaluate drivers of material differences in banking book RWAs calculated using IRB approaches. The analysis concludes that differences exists in the levels of estimated risk, as expressed in PD and LGD, that banks assign. Furthermore, it concludes that the low-default nature of the assessed portfolios may be one of the factors leading to differences across banks, especially for banks 'estimates of LGD in the sovereign and bank asset classes. A following caveat points out that the limited availability of suitable data for the analysis, simplifying assumptions together with other uncertainties a degree of caution should

be exercised when interpreting the results of the analysis. The analysis does not contain any support for the application of a revenue threshold (like the 500 mEUR threshold) over which LGD estimates cannot be considered reliable. It turns out that the threshold is arbitrarily selected and that the basis for this profound policy change is considerably vague.

The Basel standard contains minimum requirements on availability of reliable default data in order for the IRBA approaches to be available. Furthermore, there are guidelines issued by EBA that further specifies the criteria that apply for IRBA approaches. If a bank can prove to the satisfaction of its competent authority that there is sufficient data to estimate LGD and CCF for a certain specific portfolio the AIRBA should be available. We are confident that the competent authorities are best suited for assessing the compliance with the criteria for using AIRBA in each specific case, regardless if the consolidated revenues exceed 500 mEUR or not. Disallowing the AIRBA and only allowing the FIRBA means that regulatory values are used for the CCFs and LGDs. The disallowance to use AIRBA also has the consequence that maturity will not impact the capital requirements as the FIRBA uses a fix maturity assumption. It is hard to justify why maturity should be less relevant to larger corporates (with revenues above 500 mEUR) compared to the smaller corporates.

Consequently, disallowing the use of the AIRBA will create less risk sensitive capital requirements in several dimensions. This must be seen as a significant disadvantage of the policy change.

63) What other measures could be put in place to improve the robustness of internal estimates for the relevant asset classes? Please elaborate and provide relevant evidence.

There are a number of other measures that can be taken to improve the robustness of internal modeling and strengthen the confidence in their reliability. All of them having the appealing property of not reducing the risk sensitivity in the capital requirements. One good example is the initiative taken by EBA to issue several guidelines aiming at harmonizing the definition of default and the practices for PD and LGD modeling and estimation. Other measures include removal of national discretions, clarifications to avoid different policy interpretations and extensive and uniform bank disclosures (Pillar 3).

LGD – input floor under AIRB

70) As regards the different types of exposures and collateral, to what extent do you consider that the LGD input floors maintain an adequate level of risk sensitivity with respect to the wide range of practices of EU institutions?

We argue for a lower LGD value under the foundation approach for Bank exposure linked to Letter of Credit activity under UCP 600. The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication No 600 ("UCP") are rules that apply to any documentary credit (including standby letters of credit) when the text of the credit expressly indicates that is subject to those rules (Art 1 of UCP 600). In the trade business under UCP 600, the risk scheme of letter of credit is: the exporter corporate (beneficiary) is in risk on his bank, the negotiating or confirming exporter bank is in risk on the issuing importer bank, the issuing importer bank is in risk on the importer corporate (applicant).

An issuing bank in default doesn't mean a stop of trade activity between importers and exporters. To avoid the exclusion of this activity under international rules, banks have an incentive to fulfil their commitments even in case of a default period, with the repayment of a trade transaction from the importer at the same time.

We therefore recommend that The Commission not mix this type of bank risk trade activity with other bank business in terms of recovery.

72) In your view, which other aspects, if any, should be considered in the context of revising the LGD input floor? Please provide relevant evidence to substantiate your views.

Commodity Finance covers the financing of the physical supply chains of three primary commodities sectors, namely, "Energy" (Oil & Gas and others), "Metals" (and Minerals), and "Agricultural Products" (Softs and others). It does not include the financing of manufactured products trade. Commodity Finance relates to short term self-liquidating facilities, (i.e. that can well proceed independently of the borrower) and that benefit from securities on the commodities financed and on receivables.

The IRB LGD input floors were not designed for self-liquidating exposures. It must be highlighted that Commodity Finance loss rates (0.12%, source: Global Credit Data) are lower than corporate exposures. This can be explained by:

The self-liquidating nature of such financings

- The liquidity of the underlying (inventories or receivables) that are financed
- The level of control that Banks can exercise over the collateral
- The quality of the security package related to such financings

The revised Basel framework as drafted unduly penalizes LGD input floors in IRB which denies the observed good recovery data, the comprehensive security package from which self-liquidating loans benefit, as well as the risk sensitivity proposed in the IRB-A approach where the LGD formula considers variations of the asset value.

Furthermore, in the calculation formula for this LGD floor, we also believe that the uniform 40% haircut level proposed by the Basel Committee, mirroring the level proposed in the IRB-F approach, is in fact a rejection of the IRB-A approach, as it does not allow IRB-A banks to reflect differences in the quality of collateral and transaction structures between various transactions. We believe internal models should be allowed in the calculation of the haircut level or, at the very least, that variations in the quality of the collateral should be reflected in the applicable haircut. Our members acknowledge the risk sensitivity proposed in the IRB-A approach, which considers potential price risk when considering the nature of the collateral and the structuring features of the transaction.

Summarising our view, we suggest aligning downwards from 15%/25% to 10% the LGD input floor for top-quality commodities transactions and removing any reference to a unique 40% supervisory haircut as well as any limitation to the modelling of collateral. Moreover, the use of LGD values should be extended to FI exposure in case of export LC discounting (corporate financing with no recourse, importer bank risk).

Maturity factor – clarifications on the calculation of effective maturity

86) In your view, which other aspects, if any, should be considered in the context of the treatment of the maturity parameter? Please provide relevant evidence to substantiate your views.

The Basel Committee allows a jurisdiction (at national discretion) to keep applying the effective maturity instead of the fixed maturity treatment of 2.5 years. We consider maturity to be a key risk driver for Trade Finance exposures and believe it is relevant to use it in the future IRB approach. For IRB Foundation approach, the effective maturity can be chosen by the National supervisor (paragraph 107). In paragraph 111, the effective maturity is mentioned for export, confirmation letters of credit i.e. bank risk (the exporter bank is in risk on the importer bank).

We strongly recommend maintaining the current IRB treatment of effective maturity for foundation and advanced methods.

Sovereign exposures – no substantive change

87) Views are sought on the treatment of sovereign exposures proposed in the BCBS consolidated framework referred to above. In your view, how would the exemption from the removal of the IRBA and from the input floors, on the one hand, and the implementation of the remaining reforms of the IRBA, on the other hand, impact the robustness and levels of RWAs for sovereign exposures treated under the IRBA?

The Basel committee generally argues that the low number of defaults observed in certain asset classes makes it impossible for banks to model the required risk parameters in a robust manner. The asset class where there is by far the least number of defaults is the sovereign asset class.

In the analysis published by the Basel committee in July 2013 "Regulatory Consistency Assessment Programme (RCAP) Analysis of risk-weighted assets for credit risk in the banking book", with the objective to evaluate drivers of material differences in banking book RWAs calculated using IRB approaches, the sovereign asset class shows the greatest variation in risk weights.

Consequently, sovereigns is the asset class where IRB modelling can be questioned the most. The non-intuitive consequence of the proposed policy change would however result in disallowing the use of the AIRBA for Banks and large corporates but not for sovereigns.

Unfortunately, the Basel committee has not finalized its work on revising the capital requirements for sovereigns. The committee has not reached consensus on the topic. It is however very unlikely, given their argumentation regarding availability of default data, that the committee will retain the IRB approach for this asset class. The most reasonable solution is to abandon the IRB approach for sovereigns in the EU.

Sovereign exposures – public sector entities (PSEs) and regional governments and local authorities (RGLAs)

88) What are your views on the costs and benefits of the proposed treatment of PSEs and RGLAs resulting from the changes applicable to exposures to central governments and exposures to institutions compared to the current framework? Please elaborate and provide relevant evidence.

With reference to answer on Q87. Consequently, regional governments treated as sovereigns should follow the same treatment (to abandon the IRB approach).

Operational Risk

123) How would exercising the discretion affect the link between capital incentives and management of operational risks? Please elaborate. How would exercising the discretion affect the link between capital incentives and management of operational risks? Please elaborate.

Giving the tool to supervisors to set ILM to 1 to all institutions in a country would most likely slow down the incentive for the banks to manage their operational risk. Reducing operational risk in almost all cases need pro-active actions to be implemented and that requires investments. Institutions with an ILM above 1 might then have a higher incentive to slow down investments and let the risk and operational losses live longer if there is also no gain in reduced capital costs for operational risk.

What is also a problem with this tool is that all large banks that also are international will have a competitive advantage regarding capital costs. The plain level playing field will be severely damaged.

124) Would you deem it necessary to mitigate possible cliff effects that might derive from the introduction of an institution-specific ILM? If so, which measures should be considered, for how long should they be applicable, and what would be the prudential rationale to implement them? Please elaborate.

If cliff effects are to be avoided the tools should be specific and always be approved on an individual basis by the supervisor. Specific in the way that only specific large losses can be singled out for exclusion. This in order not to reduce the risk management of low and medium risks. Approval by supervisor should only be possible if the institute has managed to reduce the risk that the risk level is acceptable.

All approved exclusions should also be described in the Pillar 3 publication by the bank as long as it is in effect during a 10-year dataset for calculation.

125) What are your views on how a loss data threshold that is increased for some institutions may affect the soundness and risk-sensitivity of the operational risk framework, the volatility of the ILM, its comparability between institutions, and the incentive to carefully manage small to medium-sized losses? Please specify your views.

The Swedish Bankers' Association is of the opinion that the threshold EUR 20,000 should be applied for all institutions. Supervisors should not be allowed to increase the threshold to EUR 100,000 for individual institutions.

The EUR 20,000 is an existing threshold in the industry, for example in ORX. With a EUR 20,000 threshold, incentives are given to keep a good data quality of small and medium-size losses for institutions. The calculation of Expected losses requires a threshold not higher than EUR 20,000 for most institutions. One single threshold of EUR 20,000 ensures a level playing field for institutions

127) Which threshold (EUR 20,000 or EUR 100,000) would better reflect the current threshold used for your loss data collection? Please elaborate and provide relevant evidence.

The Swedish Bankers' Association is of the opinion that the threshold EUR 20,000 should be applied for all institutions. Supervisors should not be allowed to increase the threshold to EUR 100,000 for individual institutions.

128) What are your views on how this discretion might affect the overall level of own funds for operational risk of bucket 1 institutions and the comparability within bucket 1? Please elaborate your views.

We do not have any objections to allow institutions in bucket 1 to apply to use their institution-specific ILM. It is similar to today's regulation where any institution can apply for the Standardised Approach or the Advanced Measurement Approach assuming they fulfil certain criteria as stipulated in Article 312 CRR.

129) If the discretion was retained, which conditions and criteria should be introduced in order to ensure a level playing field in its application by supervisors? Please elaborate.

Similar conditions and criteria as used today when an institution apply for the Standardised Approach or the Advanced Measurement Approach, i.e. to comply with Articles 320 or 321 CRR or similar new requirements.

130) If the discretion was retained, do you consider this could help smoothing the transitioning of institutions from Bucket 1 to Bucket 2? Please elaborate.

If an institution has identified that it probably will move from bucket 1 to bucket 2 it will help the transition if it has the possibility to use its institution-specific ILM before the actual change in bucket.

131) What are your views on the discretion for supervisory authorities to request the institutions to use less than 5 years of loss data (when the ILM >1)? In which circumstances would such a request be justified? Please elaborate and provide relevant evidence.

It is the view of the Swedish Bankers' Association that allowing for such a discretion would reduce the framework's ability to maintain a level playing field between the institutions as it would create a situation where institutions could have widely differing time windows used for the calculation of the ILM. As such, allowing for reducing the time period even further than five years would only increase the incomparability between institutions employing the ILM and is not advisable.
If such a discretion was to be exercised it should only be applicable for newly formed institutions or institutions that have recently had significant organizational changes (such as mergers or acquisitions), or other structural changes that impacts the loss data set, so that the exposure to operational risk losses has changed.

132) What would you consider to be the appropriate thresholds for allowing a request for exclusion of loss events from loss data history, for current and divested activities? Please explain and provide relevant evidence to substantiate your views.

The Swedish Bankers' Association deems that the threshold for allowing a request for exclusion of loss events from loss data history, for current and divested activities, should be equal to the threshold for inclusion of loss events. A threshold such as the one proposed in the Basel standard could affect the incentives to manage small to medium-sized losses since these would not, even though certain qualitative conditions could be met, be subject for a request for exclusion in order to reduce the capital charge. This could particularly be true when considering smaller institutions for whom such losses are larger on a relative basis. To ensure a level playing field the SBA further deems that each jurisdiction should not be allowed to individually determine a materiality threshold for exclusion of loss events. To ensure a level playing field the SBA also deems that it is necessary that the qualitative conditions, that must be met in order to be allowed to request for exclusion, are clarified.

133) What would be in your view an appropriate minimum retention period for the losses that will be excluded from the loss dataset? What would be an appropriate starting point of this period? Please explain and provide relevant evidence to substantiate your views.

The Swedish Bankers' Association deems that institutions should be allowed to make a request for exclusion of loss events as soon as they can provide an analysis with evidence that justifies that the loss event is not representative of the current operational risk profile. A minimum retention period may affect the incentives to manage operational risks in the way that risk mitigating activities might be postponed since the institute would not benefit from a reduction in the capital charge within the retention period.

134) What are your views on retaining the aforementioned CRR provisions and adapting the corresponding CDR provisions with a view to maintain their binding status?

Our view is that the provisions shall be similar to today's regulation as stipulated in Article 312 CRR. I.e. institutions using the Standardised Approach shall comply with Article 320 and institutions using the Advanced Measurement Approach shall comply with Article 321.

In-line with this our view is that institutions using institution-specific ILM, either by own choice or by requirement, shall comply with Article 320. Complying with Article 321 will cause additional administrative burden for many smaller institutions, why these requirements shall only be applied for institutions in bucket 3 and/or institutions in SREP category 1.

135) Does your institution already comply with the relevant requirements? Please list the requirements that are not currently applicable to your institution and whether there is any additional operational burden associated with achieving compliance.

Institutions using the Basic Indicator Approach does not need to comply with these requirements.

Institutions using the Standardised Approach needs to comply with Article 320. Institutions using the Advanced Measurement Approach needs to comply with all the requirements.

For smaller institutions that currently often uses the Basic Indicator Approach, i.e. that does not need to comply with these requirements, it will be a significant operational burden associated with achieving compliance. This will cause smaller institutions to be less competitive and increase the hurdles for new actors in the market.

136) Are there any concerns in terms of proportionality that you would consider important to raise? Which threshold would you consider appropriate for the applicability of the governance and organisational requirements? Please elaborate.

As stated in our answer to question 134 our view is that the proportionality used today (Article 312 CRR) is appropriate. Therefore, our proposed thresholds are: Institutions using institution-specific ILM shall comply with Article 320 or similar new provisions.

Only large institutions, bucket 3 and/or SREP category 1, shall comply with Article 321 or similar new provisions.

137) What are your views on requiring the inclusion of the abovementioned elements (internal loss data, scenarios, external loss data and key risk indicators) in the ICAAP for operational risk? Please explain your reasoning in case of disagreement (separately for each element).

Our view is that there is no need to require inclusion of these elements in the ICAAP. Competent authorities already have the powers needed to apply higher capital requirements when needed, e.g. as stipulated in Article 104 CRD.

138) Would you deem further refinements or clarifications necessary concerning the ICAAP for operational risk, and if yes, what would those be and what would be their prudential rationale? Please elaborate and provide relevant evidence.

The Swedish Bankers' Association would appreciate further clarifications to what is expected of an institution in terms of ICAAP for operational risk (with the expectations proportionate to the size of said institution), however such clarifications should be positioned as guidelines rather than requirements as not all banks will have the capacity to do e.g. modelling for ICAAP.

139) What threshold would you consider appropriate for the applicability of the aforementioned ICAAP requirements for Pillar 2? Please elaborate.

As stated in our answer to question 137 we do not see any need for new ICAAP requirements for Pillar 2. If, however, such requirements will be implemented they shall only apply to institutions in SREP category 1.

140) What are your views on the costs and benefits of using FINREP templates as a reference for a harmonised identification of BIC items in the EU? Please substantiate your views with relevant evidence.

Swedish Bankers' Association would welcome a FINREP-based mapping. It would make the requirements clearer and reduce interpretation issues. It would also allow for more consistency across institutions and better comparability for the supervisors thereby promoting a level playing field.

141) What are your views on introducing a mapping table via Level 2 measures to allow for timely updates in case the corresponding FINREP standards change? Please elaborate.

Swedish Bankers' Association would welcome such a mapping table to allow for timely updates in line with question 140.

Market risk

147) What considerations should be taken into account in implementing any other revised elements of the FRTB framework, finalised by the BCBS in 2019? Please specify and provide relevant evidence to substantiate your views

<u>Probability of Default (PD) floor within the Market Risk internal model approach (IMA) default risk charge (DRC)</u>
The 3bps PD floor applies to sovereigns, covered bonds and other issuers like corporates. In our view the floor is overly conservative and will significantly increase the capital requirements for holding highly rated (AAA/AA) rated Sovereign debt and covered bonds, while not impacting lower rated Sovereign debt and covered bond issuers, where the estimated PDs are likely to be above the PD floor.

This could challenge the economics of market making activities in Sovereign debt and covered bonds. This can in turn have a spill over effect for the economy and financial stability. Further, by impacting only the highest rated bonds it would incentivize holdings in more risky assets, rather than a large volume of highly rated bonds.

With respect to sovereigns, an application of a PD floor is inconsistent with the banking book treatment, including the Basel III revisions. Under the final Basel III agreement sovereigns can be exempted from the PD floor (setting a zero risk-weight, even for lower rated bonds), however, in the earlier negotiated FRTB this exemption was only included in the standardised approach and not the internal model approach, which we highlight as an obvious inconsistency in the framework. The European Union is naturally comprised of many sovereign issuers, a number of which are highly rated (AAA/AA) and could therefore be impacted by the floor. This includes, Belgium (AA), Denmark (AAA), Finland (AA+), France (AA), Germany

(AAA), Luxemborg (AAA), Netherlands (AAA), Sweden (AAA), United Kingdom (AA), (ratings from S&P).

Furthermore, there are products that in BCBS FRTB and the EUs CRR that are treated as a distinct exposure class when calibrating credit spreads and LGDs for the purpose of the standardised approach, and therefore to ensure consistency there should be a distinct exposure class treatment when calibrating the PD parameter (and any associated floor) in the IMA DRC calculation. Covered bonds are one notable example that falls under this category, reflecting their distinct characteristics and risk profile. We would note that many of the largest covered bond issuers in the Nordics are either AAA or AA rated.

The calibration of the 3bps PD floor appears to originate from a floor for corporate PDs and appears somewhat arbitrary in a sovereign and covered bond context. To our knowledge there has been no stated objective or mandate, or any other obvious reasons for banks needing to hold significantly more capital (than present) against highly rated government and covered bonds. As already mentioned, at the conclusion of Basel III it was explicitly decided not to change the exemption available for sovereigns within the credit risk framework. More broadly we understand the debate regarding sovereign risk has focused on concentrations banks may have to specific (often home) sovereign issuers and lower rated issuers, and the possible development of an EU safe asset, however this has not resulted in any concrete regulatory measures with regards to sovereign assets. We would also point to the new covered bond framework under the Capital Markets Union (CMU) which includes new measures to harmonise and further strengthen risk elements of the EU covered bond markets.

Sovereign exposures and covered bonds are held by banks for several different purposes that are primarily linked to the management of their liquidity and to their business with clients. In addition, where a bank is a primary dealer or a market maker in sovereign debt, inventories are held in accordance with anticipated near-term client demand. The floor will result in increased capital requirements for sovereign exposures which will considerably impact the liquidity of trading of sovereign debt and negatively impact funding costs.

In summary, the broader market, economic and systemic risk considerations

- Negative impact on liquidity -> impacting costs for EU governments and mortgage holders
- Broader consequences to the market and for financial stability, given that these high-quality liquid assets (HQLAs) are used as liquidity buffers, financial collateral, etc.

Proposal:

- Remove the 3 basis-point floor for Sovereigns. This will ensure consistency between the Trading Book and the Banking Book.

- For Covered Bonds we suggest (i) as a separate risk exposure class under IMA DRC just like under SA (for LGDs and Credit Spreads), and (ii) the 3 bp floor is not appropriate and should be calibrated downwards.

Domestic currencies

As the Level 1 rules state under the IMA, interest rate risk in a bank's domestic currency is considered to belong to the most liquid (10 day) bucket. The standardised approach has similar favourable treatment. On the basis that domestic currency is the same as reporting currency, then in our view this approach will inadvertently penalise banks operating with a significant presence in several countries and (home) currencies and in doing so create a barrier for banks from other jurisdictions to have significant participation (in the case of Europe) in non-Euro European interest rate markets.

For example, a bank whose domestic currency is DKK would be able to put DKK interest rate risk in the 10 day liquidity horizon bucket under IMA, while a non-DKK domestic currency bank - even those with significant presences in the DKK market - would have to consider DKK risk in the 20 day bucket, even though the risk is the same. We believe the rules create a competitive distortion in parts of the EU market, that may directly lead to a reduction in liquidity in these markets.

Industry Recommendation

We recommend that changes are made to CRR to permit the relevant national competent authority to classify a local currency as "domestic" for specific banks domiciled elsewhere. Criteria for this determination could include access to the local central bank as well as a large presence in the local market.

We note that in practice this could be solved via a clarification of the definition of the word "domestic" (in contrast to reporting currency) either in the final EBA RTS on liquidity horizons or alternatively directly in the level 1 text.
appropriate for the application of the FRTB framework as a binding own fund requirements in the Union?

Timeline

The date of application of the new own funds requirement for market risk (FRTB) cannot be earlier than the later of the two envisaged start dates for the FRTB reporting requirements - expected in 2021 for SA and not before Q3 2023 at the earliest for IMA. This will also ensure that there is one (aligned) date for the binding capital requirement for all EU institutions.

It will be necessary to set a reasonable implementation period for banks once the legislative process is finalised, that will take into account a reasonable timeframe for model development and approval processes, ahead of a binding requirement coming into force. We also understand that IMA reporting data should be based on the outputs of approved models.

Finally, given that a number of issues were still outstanding at the conclusion of the BCBSs FRTB revisions, which would have significant capital impact for banks markets activities, we would also recommend on-going monitoring of the capital impact. We would also suggest EU policy makers maintain a degree of flexibility to make any clarifications or adjustments needed to reach more appropriate level of capitalisation and to monitor implementation developments in other jurisdictions that could affect the level of capitalisation for institutions in these jurisdictions.

Credit Valuation adjustment (CVA) Risk

161) One of the main objectives of the final Basel III standards was to enhance the risk-sensitivity of the CVA framework. Are there in your view elements of the approaches of the revised CVA framework that do not achieve these objectives? If yes, which ones and what are the potential solutions to address them prudentially? Please provide relevant evidence to substantiate your views.

Trades executed for the purpose of hedging accounting CVA (ACVA), hence reducing the bank's risk, should not add own fund requirements for market risk. However, currently there are three specific cases where reducing the bank's risk in ACVA would lead to increased capital requirements as the regulations are written today. This is contra-productive for the management of ACVA risks and leads to either higher risks in the banks that avoid the higher capital requirements or to higher capital requirement for banks that lower their ACVA risk. The three cases are as follows:

- Hedging of ACVA market risks not related to credit spreads (e.g. interest rates or FX) under BA-CVA;
- Hedging of ACVA market risks for counterparties that are exempted from regulatory CVA, relevant for both BA-CVA and SA-CVA;
- Hedging of ACVA market risks that reduce the risks in ACVA but give rise to regulatory CVA due to the risk sensitivities belonging to different risk buckets.

165) What would you consider to be the potential impacts on RWAs and in terms of operational burden stemming from removing the existing exemptions under the CRR would have? Please provide relevant evidence to substantiate your views.

When the CRR package was implemented, European policymakers decided to exclude CVA capital charges for derivative transactions with "end-users", i.e. non-financial counterparties, sovereigns and pension funds, which use derivatives to hedge against potential adverse moves in currencies, interest rates and other financial risks. EU policymakers believed "end-users" of derivatives should not have to incur higher costs to hedge risks because they were unable to collateralize their derivatives transactions due to significant infrastructure costs or lack of access to liquid assets. This was also recognized in the European Market Infrastructure Regulation (EMIR) that exempts corporates below a threshold from the clearing obligation for derivative contracts.

The potential impacts on CVA REA for European banks is shown in the report "Basel III Reforms: Impact Study and Key Recommendations" from EBA to the European Commission. If the EU retains the exemptions, the average impact of the revised CVA framework is a 132% change in CVA REA compared to the existing framework. This can be compared to a 558% change in CVA REA when applying the revised CVA framework without exemptions.

Such dramatic increases in capital requirements would most likely make it significantly more expensive for European companies and other "end-users" to manage their financial risks. This would impact the European economy negatively. The Swedish Bankers' Association has the strong opinion that the exemptions should be retained.

171) In your view, what considerations should be taken into account in the supervisory permission process set up to approve internal CVA under the SA-CVA?

One of the requirements to be approved to use the SA-CVA is that wrong-way risk should be accounted for if there is a significant level of dependence between exposure and the counterparty's credit quality. We deem this requirement to be very difficult to assess for the supervisory authorities and also difficult for banks to comply with. There is currently no clear market practice of how to account for this relationship. A number of approaches have been proposed by academia but so far, we have not found one approach that is deemed good enough. Thus, banks have to rely on very crude and inaccurate methods to capture this relationship.
The threshold between significant and non-significant relationship is also arbitrary. We recommend that the distinction between specific and general wrong-way risk in

the internal models method is applied also in this context such that the requirement for SA-CCR only concerns specific wrong-way risk.

172) What are your views regarding the inclusion of fair-valued SFTs in the scope of the revised CVA framework in terms of impacts on RWA and operational burden? Please provide relevant evidence to substantiate your views.

The requirement in CRR that SFTs should be included, in the calculation of own funds requirements for CVA risk, only if the competent authority determines that the institutions' CVA risk exposures arising from those transactions are material, is highly reasonable and should remain in future regulations. It would be an unproportional operational burden making it obligatory to include fair valued SFTs in the CVA risk calculation considering how insignificant this risk is in most banks.

Output Floor (OF)

177)What are your views on the relative costs and benefits of including in the calculation of the OF more own funds requirements than those explicitly mentioned in the Basel III standards? In particular, how would such broader material scope compare to the scope required by the Basel III standards in terms of impact on RWAs, risk-sensitivity, comparability, complexity and operational burden? Please provide relevant evidence to substantiate your views.

A major concern is that capital requirements based on standardised approaches lack risk sensitivity compared to IRB based capital requirements. For banking sectors with low historical losses, REA calculated based on standardized approaches (calculated as 72.5 % of SA risk weights) is typically significantly higher than the REA calculated with internal models on historical loss data, meaning that the floored capital requirements will not be risk-based for these banks. Banks in the Member States with the lowest ratio of NPLs (see Chart 4 on page 11 of the ESRB report "Resolving non-performing loans in Europe" of July 2017) are also the most impacted according to the EBA impact study (see Figure 4 on page 41 in the EBA Report).
For most Swedish banks using IRB models, the output floor will be the binding restriction. This means that they will have to:

- face weakened incentives to lend to low-risk clients - on the contrary, banks will be oriented towards higher risk;
- review which assets will, from a capital perspective, be efficient to hold on the balance sheet and which assets can instead be funded by capital markets;
- review the capital impact across all portfolios in order to establish whether assets should be repriced, a change in profitability should be accepted or exposures should be reduced;

- decide whether the overriding principle for capital allocation, steering and pricing should be risk based or based on regulatory capital consumption. The risk of choosing the first principle is low returns while the second principle can build up excessive risks on the balance sheet. Some combination of the two principles may be possible.

As a consequence, bank's capacity to finance the real economy will deteriorate. Due to higher capital requirements, the interest rates will be higher for a majority of customers, and the effect will be most significant for the clients in the best risk categories. Many customers will have to use alternative sources of funding. Non-risk based capital requirements will thus have a negative impact on the financing of the Swedish economy, and the financial stability will be negatively affected, contrary to the objective of the revised Basel framework.

The capital impact of the output floor depends on the how the floor is implemented. If implemented without careful consideration, it will become a binding constraint for many low-risk banks. The capital requirements will in that case increase significantly compared to the IRB approaches, especially for the banks with the lowest risks in their lending portfolio.

The Basel III standard states that the output floor requirement should consist of 72.5%*RWA-SA (minimum requirement + capital conservation buffer + countercyclical capital buffer + GSIB buffer). No other buffers for systemic risk or Pillar 2 (both hard P2R and soft P2G) requirements need to be included in the calculation of the floor amount. Such an approach, where those buffers and requirements are not included, would ensure that the output floor becomes a true backstop measure instead of becoming a binding restriction for banks with low risk assets and would at the same time ensure comparability across Europe, because it would only entail those requirements that are fully comparable. In order to main risk-sensitivity in the capital requirements to as great extent as possible, it is therefore important that no EU specific buffers or requirements are added on top of the requirements laid down in the revised Basel III standard.

178) Would you deem further refinements or clarifications necessary concerning the material scope of the OF, and if yes, what would be their prudential rationale? Please elaborate and provide relevant evidence.

As described under Question 177, to keep the risk-sensitivity in the capital requirements to as great extent as possible, it is important that no EU specific buffers or requirements are included in the calculation of the floored requirements which are laid down in the revised Basel III standard.

The systemic risk buffer is an EU-specific measure designed to ensure higher levels of capital for macro-prudential purposes in certain EU Member States. It is not related to excessive variability of risk weights estimated by internal models. Similarly, Pillar 2 Requirements and Pillar 2 Guidance are also stipulated in the EU capital adequacy framework and are thus not necessarily relevant from a global level playing field perspective, where other supervisory layers are used to complement Pillar 1 requirements (e.g. CCAR in the US).

It should also be noted that capital requirements in the United States are usually lower; they do not include Pillar 2 (at least not according to the EU approach). Hence, when harmonising REA, this should also be taken into account.

In the example attached, see figure 3 of the annex, the fully risk sensitive requirement remains the binding restriction for the bank, provided that the Pillar 2 Requirement is set at a level so that the total requirement based on IRB REA remains higher than the sum of the globally agreed floored requirements.

For most Swedish banks using internal models, the output floor would become a binding constraint. The corporate exposure class and the commercial real estate exposure class would in our view be most heavily affected. Floored risk weights based on the revised standardised approach will be significantly higher than those that currently apply for IRB banks and those under the revised IRB approaches. The major reason for the negative impact of the output floor on unrated corporates is the non-risk sensitive approach for such exposures, which are all placed in one and the same risk weight bucket of 100%.

Similarly, for commercial real estate, only two buckets are provided in the standardized approach, depending on if the collateral provided by the counterparty has a loan-to-value of above or below 60%.

Swedish banks' IRB risk weights for mortgages are also impacted severely, but the current application of a national pillar 1 mortgage risk weight floor for loans to households overrides the impact of the output floor for this part of the banks' lending.

For a detailed description, of the impact of revised standardised approach, see our response under section SA-CR.

179) Views are sought on the relative costs and benefits of applying the OF at all levels of the banking group (i.e. individual, sub-consolidated and consolidated) or solely at the highest level of consolidation in the EU. In particular, how do the two approaches compare in terms of impact on RWAs, comparability, complexity and operational burden? Please provide relevant evidence to substantiate your views.

Application of the output floor on sub-consolidated level would for Swedish banks further accentuate the negative affect on internal risk allocation due to the decreased risk sensitivity in capital requirements following the introduction of the output floor, which for banks for whom the output floor will be the binding restriction may necessitate re-assessments of which assets should be held on the balance sheet and which should instead be funded by capital markets. Any such changes would effectively be based on regulatory capital consumption rather than on risk assessments based on historical losses, making a risk-sensitive internal risk allocation more difficult to retain.

Since categories of exposures with the lowest historical losses will be disproportionally affected compared to exposures that have higher initial risk weights, this is especially the case as regards lending in markets with low historical losses;

E.g. the risk weights of Swedish banking groups mortgage companies would increase substantially.

For Swedish banking groups with business in other markets where historical losses are higher, the netting effect between geographical markets would also be lost, meaning that the REA increase in the Swedish mother banks, as a consequence of the output floor, would be substantially higher than that estimated for Swedish banking groups in general.

This would further accentuate the incentive to Swedish banks to change the risk profile (increasing the risk appetite) or to push clients to other funding sources.

180) In your view, how would the two approaches affect the internal risk allocation across banking groups, in particular those with specific group structures or business models at subsidiary level? Please elaborate and provide relevant evidence.

Application of the output floor on sub-consolidated level would for Swedish banks further accentuate the negative affect on internal risk allocation due to the decreased risk sensitivity in capital requirements following the introduction of the output floor, which for banks for whom the output floor will be the binding restriction may necessitate re-assessments of which assets should be held on the balance sheet and which should instead be funded by capital markets. Any such changes would effectively be based on regulatory capital consumption rather than on risk assessments based on historical losses, making a risk-sensitive internal risk allocation more difficult to retain.

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This would further accentuate the incentive to Swedish banks to change the risk profile (increasing the risk appetite) or to push clients to other funding sources.

182) In your view, should both of the transitional measures provided by the Basel III standards be implemented in the EU, and if not why?

The transitional period and the calibration phase-in arrangement are of utmost importance considering the effects of the output floor and particularly the fact that the largest effects will be in the Member States with the most well-managed banks with the highest levels of capital in Europe (see Figure 4 on page 41 in the EBA Impact Study). The phase-in can therefore help to mitigate negative transitional effects on financial stability and the financing of the economy.

183) Would you deem further refinements or clarifications necessary concerning the transitional measures, and if yes, what would be their prudential rationale? Please elaborate and provide relevant evidence.

Should the legislative process take more time to finalise, there should in any case be a transitional period of the same length and with the same calculation phase-in arrangement as in the Basel standards. The phase-in is important in order to mitigate negative transitional effects on financial stability and the financing of the economy, as the largest effects of the Basel reform and the output floor will be in the Member States with the most well-managed banks with the highest levels of capital in Europe (see Figure 4 on page 41 of the EBA Impact Study).

184) In your view, what measures, if any, should be taken to ensure a smooth implementation of the OF? Please elaborate and provide relevant evidence.

A strict implementation of the output floor requires that overlaps between the output floor and other measures are eliminated. The output floor would, if applied to all components in the capital stack, lead to a full harmonisation of risk weights (due to the high level of the floor). In such a scenario, the EU should also harmonise the setting of the systemic risk buffer and of pillar 2 requirements fully and avoid any national options and discretions in this regard.

185) In your view, which other aspects, if any, should be considered in the context of implementing the OF? Please elaborate and rank your answers from the most important to the least important aspect.

The harmonisation of the systemic risk buffer and the limitation of national flexibility regarding the possibility to set other macroprudential measure, such as article 458, must be harmonised fully, in order to avoid that supervisors, intentionally or unintentionally, cover the same risk with several different measures, i.e. to avoid double counting of risks.

186) Which elements of the OF, if any, would you deem particularly challenging to be implemented? Please elaborate and rank your answers from the most challenging to the least challenging revision. Please provide relevant evidence on the expected one-off costs to substantiate your views.

Based on the Basel standards (see page 137 in the BCBS document "Basel III – finalising post-crisis reforms), the conclusion to be drawn is that banks will be expected to calculate all risk weights also in accordance with the standardised approach, meaning that banks using internal models will have to carry out both Internal ratings-based and standardised approach-based calculations. This implies major challenges and costs in terms of IT systems. The actual costs are difficult to specify at this stage and will ultimately depend on institutions' level of preparedness and their system development thus far.

187) Which elements of the OF, if any, would in your view cause additional administrative burden? Please elaborate and provide relevant evidence on the expected recurring costs.

The IT challenge following the need for IRB banks to calculate both on the basis of IRB and SA, described under Question 186 above, would seem to be the greatest challenge by far. The actual costs related to IT systems are difficult to specify at this stage and will ultimately depend on institutions' level of preparedness and their system development thus far.

Sustainable Finance

191) In your view, which further measures, if any, could be taken to incorporate ESG risks into prudential regulation without pre-empting ongoing work as set out above? Please elaborate and provide relevant evidence to substantiate your view.

We support the important international sustainability initiatives and guidelines such as Principles for responsible banking, the EU-commission Action Plan on Sustainable Finance, the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Environment Programme Finance Initiative, the recommendations of the Task Force on Climate-related Financial Disclosures, the UN Principles for Responsible Investment, the UN Guiding Principles on Business and Human Rights, the International Labour Organisation's core conventions and the Children's Rights and Business Principles. These guidelines and initiatives are the base for the Swedish banks' ongoing sustainability work. Before any further measures are taken to incorporate ESG-risk into the prudential regulation we think it would be preferable to see the outcome of ongoing initiatives.

Regarding the implementation of the Basel III reforms we believe that the introduction of the output floor might inhibit the positive development that the international initiatives have on sustainable finance. IRB-banks have the possibility to consider ESG-risk in their IRB-models and their risk assessment. Since the standardised approach is applicable for IRB-banks with the output floor as the binding restriction this this opportunity is lost.

Fit and Proper

192) What would be the benefits and drawbacks of including the requirement for competent authorities to perform a fit and proper assessment of at least some key function holders in the CRD?

The Swedish Bankers´ Association (SBA) is of the strongest opinion that that the scope of the fit and proper assessment should not be expanded. EBA/GL/2017/11 (GL 11) regulates what sort of qualities and qualifications a head of a control function needs to have. The institute in question must always be able to show how these regulations are fulfilled. We can´t see that the added administrative burden and the costs an expansion of the fit and proper assessment by the competent authority would entail – both for CRD institutions and for competent authorities – would be balanced by a better risk management. Especially not since the KFH:s are not in the position to set the risk appetite in the institute.

It should be noted that while discussing the CRD IV Directive, Member States (MS) were not able to agree on a definition of the concept "senior management", nor were there any agreement during the discussions of the definition of "key function holders)" for the purposes of the EBA/GL/2017/12 (GL 12) guidelines on the assessment of suitability. There is therefore a risk that the concept KFH will be interpreted differently in different MS and thus create further difficulties for institutions that cross border.

The persons who holds the KFH-positions usually change more often than the persons on the Board or the CEO. That means that fit and proper assessment must be performed more often, both by the institute itself and by the competent authority. There is a risk that the competent authority will be a bottleneck if the number of applications increase. It will also increase administration and costs.

The EC itself comments in the consultation document that when MS do apply GL 12 and assess suitability of KFH, the criteria on which the assessment is made vary widely and thus create an unlevel playing field. If the scope if fit and proper assessment is broadened in CRD, there is a risk that the disparity will be even greater, unless the definitions both of the KFH and of the criteria by which they will be assessed are defined very clearly and in detail that leaves no room for national interpretation.

If fit and proper assessments were to be introduced for KFH in CRD institutions, this must harmonise with corresponding regulations in Solvency II. Otherwise a very complicated situation will occur for financial groups that contain both types of institutes.

193) In your view, would it be useful to identify key function holders in a descriptive manner, and/or to specify certain roles as belonging, by default, to the set of key function holders? Please consider the practical implications of each option and the need for clarity and consistent application across institutions and competent authorities. Please elaborate and provide evidence.

No, please consider our response to Q 192.

As we stated in response to Q 192, we are is of the strongest opinion that that the scope of the fit and proper assessment should not be expanded.

However, and for the purposes of the assessment by credit institutions, we believe that only heads of internal control functions should be covered by the definition of KFH. Moreover, if introduced, the assessment of KFHs should be accurate, more flexible and less time consuming than the current assessment for Board Members. The criterion that could be accurate when assessing the KFH is the persons repute when it comes to education, previous relevant documented working experience and also whether conflicts of interests have been identified and managed. We seriously

question that a competent authority has the ability to judge factors like a person's honesty, knowledge, skills, integrity etc.

194) Were the CRD to specify a number of roles that would be considered, by their very nature, to be occupied by key function holders, which specific roles should, in your view, be included in this list?

As we stated in response to Q 192, we are is of the strongest opinion that that the scope of the fit and proper assessment should not be expanded.
However, if CRD were to specify KFH, only the heads of the control functions should be included.

195) Views are also sought as to whether the scope of key function holders subject to fit and proper assessment should be limited to those holding these positions at group level or whether it should also include key function holders at the level of each institution? Please elaborate and provide evidence.

If the scope of fit and proper assessments is the be broadened to KFH – which we argue against – the reason must be because it is supposed to result in a better risk management in CRD institutions. It should then not matter where in the group the CRD institution is placed.

196) Should the key function holders be subject to fit and proper assessments by competent authorities, on what criteria could this assessment be performed?

As indicated in our response to Q 192, we consider that expanding the scope of the fit and proper assessment to KFHs is undesirable for many reasons. However, if introduced, the assessment of KFHs should be accurate, more flexible and less time consuming than the current assessment for Board Members. The criterion that could be accurate when assessing the KFH is the persons repute when it comes to education, previous relevant documented working experience and also whether conflicts of interests have been identified and managed. We seriously question that a competent authority has the ability to judge factors like a person's honesty, knowledge, skills, integrity etc.

We would also like to point out that to be able to do a fit and proper assessment of e.g. a head of compliance, the staff of the competent authority need to have the proper education and experience as well as a thorough understanding of how a CRD institutes functions. Otherwise there is a risk that the assessment will just be a check-box exercise, or that the assessment will become very subjective and

depending on the person doing the assessment. It´s very important that the outcome of the assessment is predictable.

197) Please explain what you consider to be the advantages and disadvantages of competent authorities conducting ex ante and ex post approval, respectively, of suitability of members of the management body.

As indicated in our response to Q 192, we consider that expanding the scope of the fit and proper assessment to KFHs is undesirable for many reasons. However, if introduced, the assessment of KFHs should be accurate, more flexible and less time consuming than the current assessment for Board Members. The criterion that could be accurate when assessing the KFH is the persons repute when it comes to education, previous relevant documented working experience and also whether conflicts of interests have been identified and managed. We seriously question that a competent authority has the ability to judge factors like a person's honesty, knowledge, skills, integrity etc.

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198) If, in your jurisdiction, institutions are required to request approval for the appointment of members of the management body only after they take up their position, please explain what, if anything, would make it difficult for you to adapt to an ex ante system.

Please consider our response to Q 197.

200) Which specific positions within the board and/or senior management of institutions do you believe should be considered as part of an ex ante assessment, given the responsibilities they hold and the risks they may pose? Please provide evidence and/or examples to support your views.

As we have stated, we strongly argue that flexibility is needed. According to Swedish company law, the board is a collective body that makes collective decisions. Therefore, there can be no specific positions or roles among the members of the

board. When it comes to the management body in its management function, in line with Swedish company law, that is the CEO.

It´s clearly stated in GL 11, in the scope of application, that the guidelines intend to embrace all existing board structures and do not advocate any particular structure. This must be embraced also by any considerations regarding fit and proper assessments.

201) Considering a scenario in which at least some fit and proper assessments were to be conducted by competent authorities ex ante, what would be, for you, the costs and benefits of a deadline for the assessment of proposed board members being set in the CRD? What would you consider a reasonable period of time for the assessment?

The timeline should be the same for public and private subjects and it should be defined more clearly. There can be benefit only if and when there are clear rules and legal certainty in the process. We consider that a reasonable timeframe would be a four-week period, starting from when the application was sent in. Any requests for complementing information and documentation must be made during this period.

We would like to point out that in many MS, competent authorities are still having trouble determining starting point of the timeline and adhering to defined timeline. To avoid the “clock to start ticking” they ask for complementing information and documentation, thus prolonging their own time line.

If competent authorities are given tasks to perform, like fit and proper assessments, they must also be given the resources needed to fulfil the task.

202) Do you currently use, or have you envisaged, other timelines for approval, e.g. whereby institutions only have a limited time to provide the additional information requested, or where the length of the assessment period depends on the specific type of position? If so, please explain the rationale for these timelines.

No.

As mentioned above, we are not in favour of an ex-ante approach and advocate flexibility. An ex- ante approach could affect issues regulated by a number of different national legislations, like labour law, the companies act, laws applicable to listed companies etc.

Question 202.1 If no, please elaborate on your response to question 202.

As we stated above: in many MS, competent authorities are still having trouble determining starting point of the timeline and adhering to defined timeline. To avoid the "clock to start ticking" they ask for complementing information and documentation, thus prolonging their own time line.

203) If competent authorities had a fixed time period for giving their approval to proposed new board appointments, would you nonetheless consider it preferable for a decision to be issued in cases where the competent authority decides to approve a candidate?

Yes.

203:1) Could you instead envisage a system of "tacit approval" (i.e. whereby, if no decision has been issued by the deadline, the institution can consider the candidate approved)?

No.

Question 203.2 Please elaborate on your response to question 203 and 203.1.

We do not agree with tacit approval. It´s not uncommon that foreign regulators, correspondent relationships or other business contacts ask for these approvals. It would then put the institute in an awkward position trying to explain why a decision can´t be produced.

According the Swedish Administrative Procedure Act, the person in scope for a decision like a fit and proper assessment have a right to get a decision, to be able to appeal in court. A tacit approval would deprive the person of that right and also put the competent authority in conflict with the mentioned act

204) Should the scope and format of fit and proper assessments be adapted to take into account the principle of proportionality, including in relation to any new provisions such as those discussed in Sections 9.2.1.1. and 9.2.1.2.?

No.

204.1 Please elaborate on your reply and provide examples.

As we have stated, we are of the opinion that that the scope of the fit and proper assessment should not be expanded. We also are not in favour of an ex-ante approach and advocate flexibility.

Who is going to decide on proportionality with regards to the scope and format of the fit and proper assessment – the institute or the competent authority?
It must be very clear what information is expected to be included in the application, to avoid uncertainty that would result in unnecessary work both for the institute and the competent authority. Usually the competent authority is providing forms to be filled in and supplemented with supporting documents. It would place high demands on the competent authority to be able to produce forms and instructions that make it clear how and when proportionality can be applied. It would also demand that the competent authority have a great knowledge of the institute in question, to be able to asses if and how proportionality can be applied in the specific case.

If the institute is to make the decision on whether to apply proportionality, it would always run the risk that the competent authority would disagree and demand complementing information and documentation. To avoid that many institutions would perhaps forgo the possibility of using proportionality even in I situation where it would have been very proper.

205) What specific criteria would you consider appropriate as a basis for allowing some degree of proportionality in the fit and proper assessment, including in relation to any new provisions such as those discussed in Sections 9.2.1.1 and 9.2.1.2? Views are also sought on the possibility of granting competent authorities the right to apply supervisory judgement to enlarge the scope of their assessment based on the risk profile of the institution/role.

As indicated earlier, we consider that expanding the scope of the fit and proper assessment to KFHs is undesirable for many reasons. However, if introduced, the assessment of KFHs should be accurate, more flexible and less time consuming than the current assessment for Board Members. The criterion that could be accurate when assessing the KFH is the persons repute when it comes to education, previous relevant documented working experience and also whether conflicts of interests have been identified and managed. We seriously question that a competent authority has the ability to judge factors like a person's honesty, knowledge, skills, integrity etc.

206) What specific risks do you see in allowing some degree of proportionality in the application of any new provisions, such as those discussed in Sections 9.2.1.1. and 9.2.1.2., on the timing of the approval of board members by competent authorities and of key function holders?

The risk of an ex-ante assessment applicable to KFHs is that it might result in the post being vacant for a certain time. The same would apply as regards most of the board members, which makes the ex-ante approach not possible in some MS.

207) What would be the benefits and drawbacks of designing an accountability regime whereby the management body of each institution would be required to draw up a statement of responsibilities of each of its members clearly identifying the activities for which they are responsible, beyond the sole responsibilities linked to their membership of specialised committees (e.g. risk committee, remuneration committee)?

This would not be possible, given the Swedish Companies Act. The board is a collective body that makes collective decisions. Therefore, there can be no specific positions or roles among the members of the board. Responsibility cannot be divided between board members. When it comes to the management body in its management function, in line with Swedish company law, that is the CEO. The responsibility as management function rests with the CEO and she/he can´t delegate responsibility to anyone else.

208) How might the collective functioning of the board be affected by the introduction of a system where each individual has a defined set of responsibilities? Please consider the possible effects on both individual conduct and the board as a whole (e.g. the impact on the collective responsibility of the board, or on the quality of its discussions).

It will not work at all! In Sweden the board is a collective body that makes collective decisions and also carry the responsibility collectively (this also includes employee representatives at the board). It´s not possible to divide responsibility between different board members.

It must also be pointed out that the EU laws and regulations are supposed to be neutral regarding the different board structures that exists in the MS. This is clearly stated in GL 11, in the scope of application, that the guidelines intend to embrace all existing board structures and do not advocate any particular structure.

If a system with defined sets of responsibilities for board members is introduced, the EU regulator **has** advocated a particular board structure. This would have a very negative impact on MS like Sweden and the board structure used here.

209) What would be the benefits and drawbacks of designing a similar accountability regime for key function holders (e.g. information on key function holders, their responsibilities, details of the firm's governance and structure)?

We see great difficulties in designing a common accountability regime for all CRD institutes, given the great differences between institutes. Such accountability regime needs to take into account the individual structures the institute and be able to adapt to the governance structure suitable for the institute in question.

210) Would the assessment of individuals proposed for positions on the board or as key function holders be more accurate and/or reliable if the responsibilities the individual would be taking on were clearly defined, including in relation to any new provisions, such as those discussed in Sections 9.2.1.1 and 9.2.1.2?

No.

As stated earlier: according to the Swedish Companies Act the board is a collective body that makes collective decisions. Therefore, there can be no specific positions or roles among the members of the board. Responsibility cannot be divided between board members.

The assessment of the potential board member must be made in the light of the collective responsibility.

211) Do you consider that corporate culture could and should be taken into consideration as part of the fit and proper assessment? If yes, please explain how this could be most effectively achieved.

"Corporate culture" is a very fluffy concept. To be able to assess someone according to a criterion, the criteria must be very clear and precise. "Corporate culture" is very imprecise criterion that means different things to different persons. It also probably varies a lot between different MS. We find it impossible that all MS would be able to agree on a definition on "corporate culture" that is clear and precise enough to be a criterion it would be possible to take into account in a fit and proper assessment.

The assessment is made by a third party, the competent authority, who then has to assess first: what corporate culture the institute in question has, and second: would the person be able to fit into the corporate culture. We can´t see that it´s possible to make such an assessment for a third party.

212) What do you consider would be the benefits of, and/or difficulties encountered in, including the ability to create and promote the organisation's desired culture as part of the "fit and proper" assessment of members of the management body?

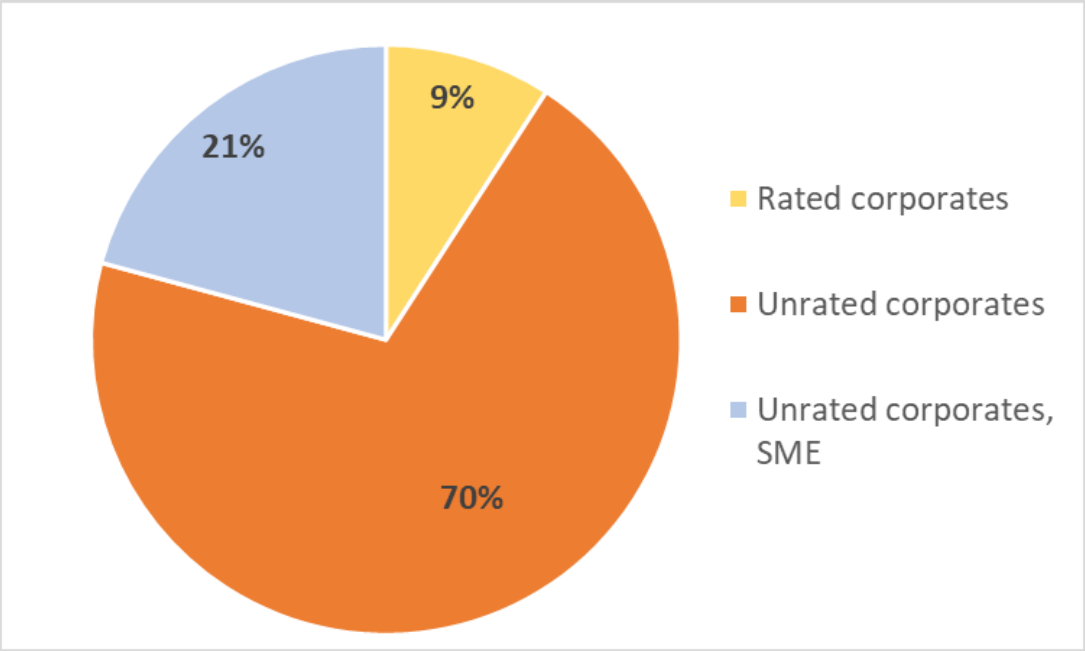
We can´t see any benefits, only difficulties. To be able to assess someone according to a criterion, the criteria must be very clear and precise. "Corporate culture" is very imprecise criterion that means different things to different persons. It also probably varies a lot between different MS. We find it impossible that all MS would be able to agree on a definition on "corporate culture" that is clear and precise enough to be a criterion it would be possible to take into account in a fit and proper assessment.

The assessment is made by a third party, the competent authority, who then has to assess first: what corporate culture the institute in question has, and second: would the person be able to fit into the corporate culture. We can´t see that it´s possible to make such an assessment for a third party. Nor to assess whether the person has the ability to "create and promote the organisation's desired culture"

Annex to the answers from the Swedish Bankers' Association regarding the public consultation document "Implementing the final Basel III reforms in the EU"

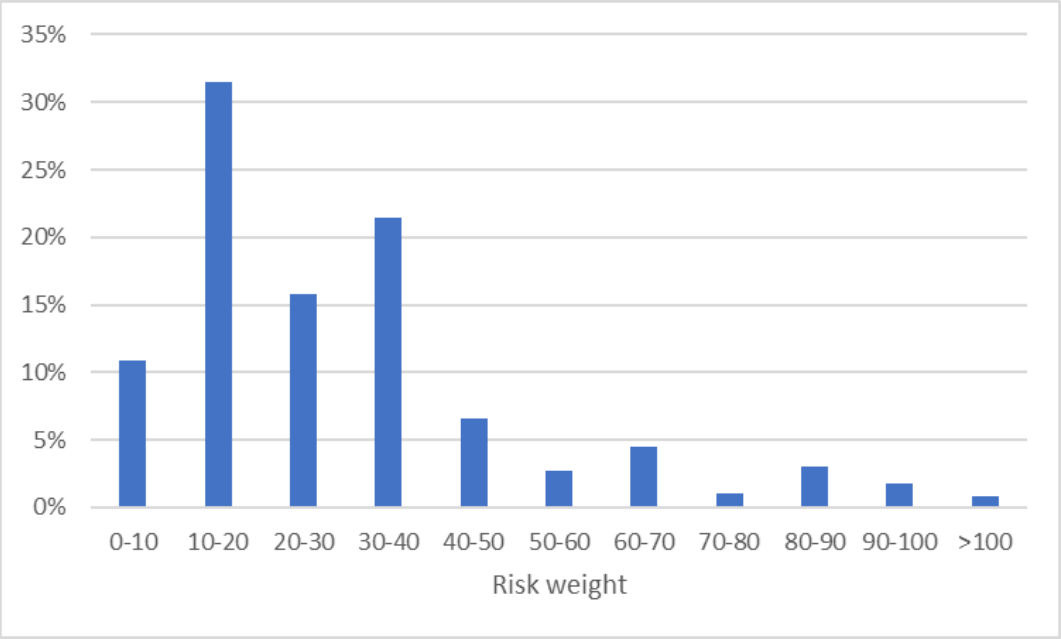
In the answers to the questions in the consultation we refer to the following figures.

Figure 1 Share of exposures (volume) to different kind of corporates (Question 12)



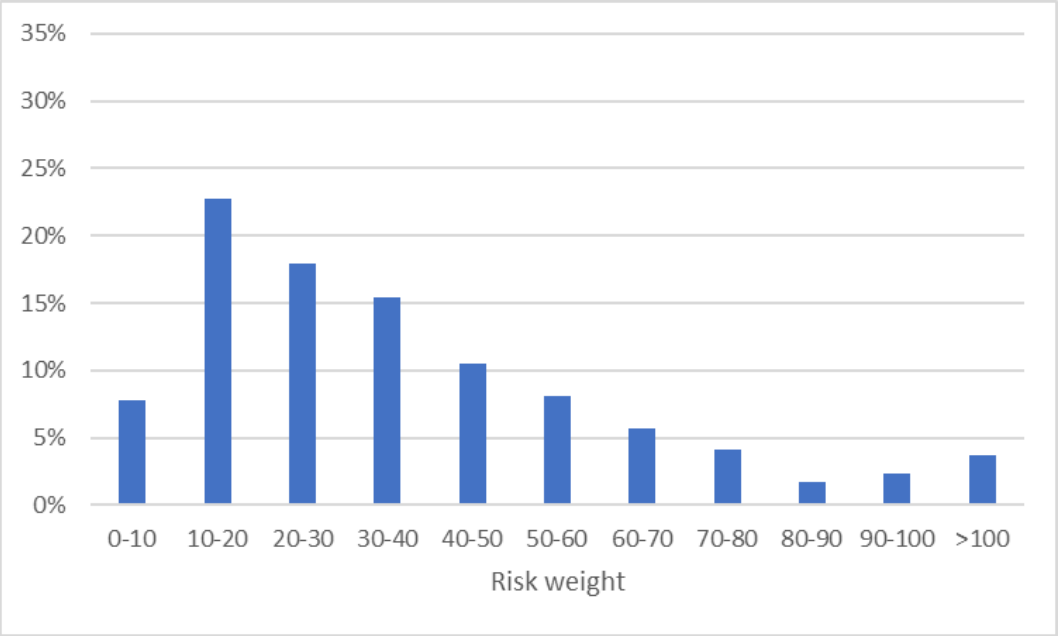
Source: Data from the four largest banks on the Swedish market. Lending to real estate is excluded. Total lending is 2 500 billion SEK. 89 per cent of the lending to non-SME is to unrated corporates. 72 percent of lending to unrated non-SME qualify as investment grade based on banks approved internal ratings.

Figure 2a Risk weight distribution, rated corporates (non-SME) (Question 14)



Source: Data from the four largest banks on the Swedish market.

Figure 2b Risk weight distribution, unrated corporates (non-SME) (Question 14)



Source: Data from the four largest banks on the Swedish market.

Figure 3 Illustrative example bank: Fully risk sensitive IRB requirements and global floored requirements in parallel (Question 178)