

To
The European Banking Authority



**FINANCE
DENMARK**

Comments
on the EBA consultation paper (EBA/CP/2019/05) on Draft
Regulatory Technical Standards on Liquidity horizons for the
Internal Model Approach (IMA) under points (a) to (d) of Ar-
ticle 325bd(7) of regulations (EU) No 575/2013 (Capital Re-
quirements Regulation 2 – CRR2)

October 4, 2019

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*Finance Denmark is a business association for banks, mortgage in-
stitutions, asset management, securities trading and investment
funds in Denmark.*

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Finance Denmark appreciates the opportunity to comment on the draft regula-
tory technical standard on liquidity horizons for the IMA approach. Our com-
ments relate specifically to the currency pairs listed in Annex II to the proposed
regulation.

First of all, we are pleased to see that the very close correlation between euro
(EUR) and Danish kroner (DKK) through participation in the second stage of the
Economic and Monetary Union is recognized with regards to currency pairs be-
tween DKK and currencies forming a liquid currency pair with EUR. According to
the Basel market risk standard (MAR 33.12) the currencies forming a liquid cur-
rency pair with EUR are the following: USD, GBP, JPY and CHF.

We are therefore surprised that CHF/DKK is not included among the currency
pairs listed in Annex II to the proposed regulation. The inclusion of currency pairs
listed in Annex II and subject to a 10-day liquidity horizon should be based on
consisted principles. On this basis we would expect CHF/DKK to be among the
currency pairs qualifying for a 10-day liquidity horizon and therefore included in
the Annex II to the proposed regulation.

According to the consultative document it appears that currencies that underlie
net OTC foreign exchange derivative contract with an average daily turnover of
more than USD 45 bn have been classified as liquid currency pairs. However,
based on the 2016 report of statistics compiled by BIS on the foreign-exchange

turnover of OTC products in April 2016¹, EUR/CHF and USD/ZAR - with average daily turnovers of USD 44 bn and USD 40 bn respectively - were included among the liquid currency pairs in the Basel standard released in January 2019. The Basel Committee has thus not considered these modest deviations in the average daily turnover in April 2016 from the perceived USD 45 bn threshold as a reason to disqualify these two currency pairs as liquid currency pairs.

We therefore find it difficult to understand if the figure regarding EUR/CHF average turnover from April 2016 should be a reason for the EBA to omit CHF/DKK from the list of currency pairs in Annex II, but incidentally not USD/ZAR and currency pairs forming first order crosses across USD/ZAR. The omission of CHF /DKK seems even more difficult to understand when the recent Basel statistic report from 2019 is considered². This shows a EUR/CHF average daily turnover of USD 72,7 bn in April 2019. This figure is well above the perceived threshold of USD 45 bn, and, incidentally, also above the average turnover of the following currency pairs that are all included in the Annex II: USD/RUB, USD/TRY, USD/ZAR.

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¹ <https://www.bis.org/publ/rpfx16.htm>

² https://www.bis.org/statistics/rpfx19_fx.pdf

