To: EBA

Copenhagen, 20 December 2013

EBA consultation paper on Draft ITS on currencies for which the justified demand for liquid assets exceeds the avilability of those assets (CP/2013/38)

Dear Sir or Madam,

The Association of Danish Mortgage Banks (Realkreditrådet), The Danish Bankers Association (Finansrådet) and the Danish Mortgage Banks' Federation (Realkreditforeningen) appreciate the opportunity to comment on the draft implementing technical standard on currencies for which the justified demand for liquid assets exceeds the avilability of those assets.

In general, we support the proposed approach for identifying currency areas with a justified demand for liquid assets exceeding the availability of LCR defined liquid assets.

Answers to specific questions

Q1: Do you agree with the method for estimating the level of free-floating assets required for a market to remain liquid? If not, what alternative methodology would you suggest and what percentage would you deem to be appropriate? Please substantiate your response.

No comments.

Q2: Are the assumptions regarding locked-up assets reasonable and, if not, what alternative assumptions should be made? Please substantiate your response.

In principle , we agree with the reasoning that liquid assets held by certain investors (other than investors regulated under CRR) with the intension of buy-and-hold should be considered as locked-up. However, we find that such an assumption is far more nuanced than described in the consultation paper.

An analytical approach to this should at least be based on both the structural profile of the various liquid assets (on ISIN level) and on the behavior of different investor profiles within a given currency area .

We agree that the assets held by pension funds , insurance companies and central banks (both national and international) typical across different currency areas can be assumed to be 100% buy-and-hold , i.e . 100% locked-up. But we think that it should be stressed that the analysis must be made separately for each currency area as there may be differences.

Thus, all international holdings of liquid assets within some currency areas would probably largely be seen as buy-and-hold. Similarly, within some currency areas are assets that are considered liquid but also structurally more attractive to buy and-hold investors - or at least largely used for this by for example certain hedge funds or UCITS investment funds.

We note that the EBA to the public hearing of this CP 19 November 2013 stressed the need for more data in this field, and therefore, at least in the short horizon, will - within a given currency area - leave it up to the national authorities to make the assessment of locked-up assets. We fully agree with this and also believe that going forward in general should be left to the national authorities' assessment - not least because the national authorities ought to be the best to continuously monitor the market development - including changes in structural profile of liquid assets as well as in investor preferences.

Q3: Is 110% a reasonable assumption for an institution's target liquidity coverage requirement? If not, please outline what you deem to be a reasonable assumption regarding an institution's target liquidity coverage requirement. Please substantiate your response.

No comments.

Q4: Do you agree with the general approach and its results?

We support the general approach and its results. However, it is essential that there is continuous recalculation - not least because of sensitivity to changes in both the total amount of liquid assets in a currency area, changes in the holdings of locked-up assets and revised assumptions about the necessity of free-floating liquid assets in the market and / or institution's target LCR.

We note that the EBA to the public hearing on 19 November 2013 stated that it will be up to the national authorities themselves to assess the need for recalculation - both if the authorities believe that there is about to be a justified shortage of liquidity within a currency area and/or if the authorities believe that significant changes in the need for the use of derogations within a currency area already classified as with a justified shortage of liquid assets.

We support this approach since national authorities within a currency area, all other things being equal, ought to be considered the best to be regularly monitoring the market for liquid assets. However, we find that there are still some ambiguities:

- When a currency area is identified as an area of justified shortage of liquid assets there should be a minimum frequency of recalculation.
- If a recalculation shows that the need for derogations is decreasing, there should either be a gradual scaling down or a time frame for adjustment before the implementation of the reduced usage of derogations.

Q5: Do you agree with the above analysis of the cost and benefit impact of the proposals?

No comments.

Yours sincerely

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