1 Searches for finance ministers' public statements

I used the Factiva online database of newspaper articles to retrieve public statements made by EU Member State (MS) finance ministers on the Basel III and Capital Requirements Directive (CRD) reforms.

Factiva's search engine takes as input a series of user-defined keywords, organised with Boolean operations (AND, OR, etc.). For my search, I used the following pattern, relating ministers' names to CRD-related keywords:

([*Minister 1's name*] OR [*Minister 2's name*]) AND
([*Keyword 1*] OR [*Keyword 2*] OR [*Keyword 3*])

For the seach, I used the names of those people who were ministers of finance during the period from 1st January 2008 to 31st December 2013:

- **Austria:** Josef Pröll, Maria Fekter;
- **Czech Republic:** Eduard Janota, Miroslav Kalousek;
- **Denmark:** Lene Espersen, Brian Mikkelsen, Ole Sohn, Annette Vilhelmsen;
- **Estonia:** Jürgen Ligi;
- **Finland:** Mauri Pekkarinen, Jyri Häkämies, Jan Vapaavuori;
- **France:** Christine Lagarde, François Barouin, Pierre Moscovici;
- **Germany:** Peer Steinbrück, Wolfgang Schäuble;
- **Hungary:** János Veres, Péter Oszkó, György Matolcsy;
- **Ireland:** Brian Lenihan, Michael Noonan;
- **Italy:** Giulio Tremonti, Mario Monti, Vittorio Grilli;
- **Poland:** Jan-Vincent Rostowski;
- **Slovakia:** Ján Poiatek, Ivan Miklo;
- **Spain:** Pedro Solbes Mira, Elena Salgado Mendez, Luis de Guindos, Cristobal Montoro Romero;
- **Sweden:** Anders Borg, Urban Karström, Peter Norman;
- **United Kingdom:** Alistair Darling, George Osborne, Mark Hoban.

For keywords, I used:

- "Basel III" and "Basel 3", as well as the local translation of the city's name in the local languages;
- "CRD";
- Expressions associated with the Basel III framework—e.g. "leverage ratio"—translated in the local languages.

2 Summaries of country positions

The summaries presented in this section are based on the consultation listed in Table 1, which are made available online together with the present document.

2.1 Austria

Definition of capital:

- Common equity Tier 1 (CET1):
  - Proportion of CET1 in Tier 1 (T1) should be close to 50% (i.e. not much above).
  - Definition of CET1: Common shares are a useful benchmark, but the definition should be independent from legal form of the instrument or that of the issuer; Make eligible any instrument that meets the Basel Committee on Banking Supervision (BCBS) criteria; Pleads for inclusion of instruments giving preferential, non-cumulative dividend rights (in particular non-voting common shares); Justified invoking a level-playing field between joint-stock and non-joint stock (NJS) companies: non-voting shares are commonly used by NJS banks as a secondary source of CET1 capital in addition to co-operative shares to include private investors without compromising on the co-operative decision-making structure.
- Non-core T1: Any type of hybrid included in T1 should have a mandatory principal write-down or conversion feature.
- Prudential adjustments:
  - Minority interests: Inclusion of minorities from all regulated and supervised credit institution subsidiaries.
  - Investments in financial undertakings: No deduction if receive a 0% risk weight (RW) as intragroup exposure under standardised approach to credit risk (SA-CR).
- Emergency capital provided during the global financial crisis (GFC): exclude from proposed regime emergency capital subscribed both by private market investors and public authorities.
- Simplification of capital structure: Welcomed.

Large exposures:

- Interbank exposures: Calls for maintaining existing exemptions based on maturities (short-term interbank exposures) and exemptions for claims on

Table 1: Consultation documents used for analysis

Country	Documents
Austria	Austrian authorities (2008, 2009, 2010)[a]
Czech Republic	Ministry of Finance (MinFin) (2008, 2010) Czech National Bank (2009)
Denmark	Finanstilsynet (2008, 2010) Ministry of Economic and Business Affairs (2010)
Estonia	Eesti Pank (2009) Estonian authorities (2010)[a]
Finland	MinFin (2008, 2009, 2010)
France	MinFin and Commission Bancaire (2008) MinFin (2009) French authorities (2010)[a]
Germany	MinFin (2008, 2010) German authorities (2009)[a] MinFin (2010)
Hungary	Hungarian authorities (2008, 2009)[a] MinFin (2010); Magyar Nemzeti Bank (2010)
Ireland	Department of Finance (2010)
Italy	Banca d'Italia (2010)
Poland	MinFin and financial services authority (FSA) (2008) MinFin (2010)
Slovakia	National Bank of Slovakia (2008) MinFin and National Bank of Slovakia (2010)
Spain	Banco de España (2008, 2009, 2010)
Sweden	Swedish authorities (2008, 2010)[a]
United Kingdom	UK authorities (2009, 2010)[a]

[a] 'Authorities' here refers collectively to a country's MinFin, central bank and bank supervisor.

central institutions of a decentralised banking network ("of the utmost importance for the decentralised banking sectors in Austria"; "[i]f the exemption for claims on central credit institutions is deleted, most of the liquidity would have to be distributed outside the sector and this would gravely impair the functioning of the stable liquidity-pooling and cash-clearing systems within decentralized sectors"). Particular impact on small banks, "which are heavily reliant on a very restricted number of possible counterparts."

- Intra-group exposures: Opposed to the deletion of the exemption for claims on third countries' central governments and central banks; Opposed to a general 100% credit conversion factor (CCF) for all off-balance sheet (OBS) items without any graduation ("may lead to a further tightening of credit"); Welcomes possibility to further exempt covered bonds and calls to make the exemption mandatory (as opposed to a national option).

Liquidity requirements:

- Definition of high-quality liquid assets (HQLAs): The proposed definition is too narrow, will lead to increased concentration risk and vulnerability to sovereign risk; Should include corporate bonds, covered bonds and other liquid assets, with stressed haircuts, but leave the composition of liquidity buffers to the banks. Definition of deep and liquid markets not suitable for smaller countries (would exclude all potential "additional assets"), entailing a competitive disadvantage for banks in those countries.
- net stable funding ratio (NSFR): Will restrict liquidity and maturity transformation, i.e. "one of [banks'] major functions in society". Stable funding factors for retail lending and retail deposits unduly penalise retail banking activities, need to be reconsidered after quantitative impact study (QIS).
- Level of application: Welcomes application at solo- and consolidated level with the possibility of waiving the solo-level requirement (upon agreement of competent supervisors); Calls for allowing sub-consolidated-level application as well; Calls for a "bifurcated approach" for decentralised banking groups that may have difficulties meeting the consolidated-level requirements.
- Intra-group transactions: Favours a symmetrical treatment of intra-group loans and deposits.
- Branch liquidity supervision: Should be the responsibility of the home supervisor, "in close collaboration" with the host supervisor.

Leverage ratio:

- Pillar 1 vs. Pillar 2: Favours an implementation under Pillar 2.

- Capital measure: based on T1.
- Exposure measure: Measure of an institution's derivatives business using gross positive fair value; For credit derivatives, not allowing netting "seems overly conservative" but could be accepted.
- Calibration: Differentiation across business models is necessary (avoiding wrong incentives to invest in riskier assets and punishing prudent institutions and business models).

Treatment of mortgage loans:

- Residential mortgages denominated in a foreign currency:
  - Generally supportive of proposals to increase the RW for foreign currency housing loans, though warns of possible procyclical effects.
  - Supports the introduction of a maximum loan-to-value (LTV) ratio (50%) as "a step in the right direction".
- Mortgage loans in domestic currency:
  - 2009: Generally supportive of aligning the regimes for commercial real-estate (CRE) and residential real-estate (RRE), but the proposed maximum LTV ratio of 40% for the preferential RW is "overly conservative".
  - 2010: Existing preferential treatment of exposures secured by real estate is sufficiently prudent.

    Supportive of a harmonised LTV ratio; practice in Austria is generally 60%, and 80% for building societies.

    Open to the idea of a maximum harmonised loan-to-income (LTI) ratio, provided calculation does not differ across MS.

    Opposed to introducing the hard test for the treatment of RRE.

    Differences of treatment between RRE and CRE should be maintained (RW and LTV).

Supervisory arrangements:

- Consideration of national supervisors for financial stability in other MS: Strongly opposed to introducing the obligation for national supervisors to take into account the implications of their decisions for financial stability in other MS (unclear legal effects, delays on decisions in crisis situations).
- Approval of cross-border internal models (Austrian authorities, 2008): Opposed to giving the right to an applicant bank to force the consolidating supervisor to consult Committee of European Bank Supervisors (CEBS) in case of disagreements between home and host supervisor in the model approval process.

- Colleges of supervisors:
  - Opposed to an explicit obligation for CEBS to elaborate guidelines for the functioning of colleges;
  - Favours a general right to participate for all competent authorities responsible for supervising subsidiaries and systemically important branches;
  - On the tasks of colleges, opposes an obligation to reach joint decisions (as opposed to merely discuss) on the application of certain provisions
- Removal of options and national discretions (ONDs): Strongly concerned by "the deletion of national discretions that are deeply rooted in local market specificities"

2.2 Czech Republic

Definition of capital:

- Simplification of the capital structure: Welcome.
- Criteria for CET1: No comment.
- Prudential adjustments: Opposed to full deduction of minority interests without corresponding deduction of the subsidiary's risk-weighted assets (RWA). Suggests the inclusion of minority interests to the extent that they cover the risk related to the subsidiary.
- Hybrid capital: Wait for the results of the QISs to decide upon precise features.

Large exposures:

- Interbank exposures: Calls for the introduction of a national discretion to partially exempt exposures to credit institutions, based on relative values to account for market size differences.
- Intra-group exposures: Strongly opposed to reduced national discretion to impose limits on cross-border intra-group exposures, as a system where banks have no limits on such exposures "could potentially jeopardise financial stability in the Czech Republic" (increase concentration risks and vulnerability of individual group members, contagion of crises from one national market to another);
- Calculation of the large exposures (LE) limit based on T1 (2010): Would require reviewing the calibration of the LE limit to "ensure that credit institutions were not compelled to limit their exposures."

Liquidity requirements:

- Definition of HQLAs: calls for the inclusion of bank bonds eligible as collateral to central banks operations.
- Intra-group transactions: Favours a symmetrical treatment.
- Scope of application: Application at both entity and consolidated levels; waivers should be decided upon by the competent authority at the individual level (the host supervisor for subsidiaries)
- Branch liquidity supervision: Conditional agreement to shift responsibilities to the home supervisor (harmonised standards, full access to relevant information for the host supervisor), only where liquidity risk is effectively managed at the group level, and without impairing the host supervisor's action to ensure financial stability.

Leverage ratio:

- Capital measure: Supportive of using T1 or even CET1.
- Should be binding only for systemically important institutions and systemically important financial institution (SIFI) and be a Pillar 2 tool for other banks.

Treatment of mortgage loans:

- Residential mortgages denominated in a foreign currency (Czech National Bank, 2009): Foreign exchange (FX) mortgages rare in the Czech Republic; Proposed RW appears too high.
- Treatment of mortgage lending in general:
  - 2009 (Czech National Bank): Opposed to a lower LTV ratio for the preferential RW on RRE mortgages; QIS necessary to avoid undesirable effects on the economy.
  - 2010 (Czech Minfin): Using the preferential RW for CRE mortgages is not permitted in the Czech Republic (have not made use of the option).

    For RRE, a maximum LTV of 80% is a basis for discussion, "as it is crucial to avoid negative impacts on such an important market segment."

    Supports maintaining differentiated treatments for CRE and RRE.

Supervisory arrangements:

- Regard to financial stability in other MS (Czech MinFin, 2008): Opposed to introducing a legal requirement on national supervisors to take into account the consequences for financial stability in other MS (risks undermining the legal certainty of decisions), favours moving this to a recital.

- Determination of a systemically relevant branch (Czech MinFin, 2008): Host supervisor should have the last say on labelling a branch as "systemically relevant".

- Colleges of supervisors (Czech MinFin, 2008):

  - Opposed to obliging colleges to agree on a common application of certain articles (risks fragmenting supervision at global and at national level, particularly in MS where the banking sector is dominated by large subsidiaries of foreign banks).
  - Calls for general right of participation for host supervisors responsible for subsidiaries and systemically relevant branches.
  - Calls for "a clear and explicit provision in the body of the directive" stating that the activities of the colleges are without prejudice to the competences of national supervisors.

- Removal of ONDs (Czech National Bank, 2009): No objection, as long as this does not apply to Pillar 2 and other regulations based on specific risk assessment.

2.3 Denmark

The Danish MinFin's submission in 2010 consisted in a long letter from the Minister defending the Danish mortgage credit system, and in particular covered bonds. The *Finanstilsynet*, Denmark's financial supervisor, submitted a parallel response which followed the general line of the MinFin's response, but provided more detailed responses to the European Commission (EC)'s questions: Those were used for the present summary to supplement the MinFin's comments.

Definition of capital:

- CET1 (Danish Finanstilsynet, 2010): Need to clarify to what extent the specificities of NJS companies' capital instruments are taken into account. In particular, necessary to have some flexibility regarding redeemability or buy-back of NJS capital instruments, since they are not tradable.

- Prudential adjustments (Danish Finanstilsynet, 2010):

  - Minority interests: Opposed to full deduction ("does not recognise that minority interests can support risks at the level of the related subsidiary").
  - Holdings in financial institutions: The proposed deduction should not apply to financial conglomerates whose consolidated capital requirements are calculated under the Financial Conglomerates Directive (FICOD).

Large exposures: No response from the Danish MinFin in 2008 and no comment on LE in 2010, responses taken from the Danish Finanstilsynet (2008, 2010) instead.

- Intra-group transactions (Danish Finanstilsynet, 2008): Maintain the national discretion to fully or partially exempt exposures between group entities subject to the same or equivalent supervision on a consolidated basis: it may be necessary to impose more stringent restrictions.
- Treatment of covered bonds (Danish Finanstilsynet, 2008): Maintain the national discretion to assign a lower RW to covered bond exposures, otherwise "we can foresee a disastrous blow to the Danish market for Mortgage Credit Bonds", and "immediate consequences for the liquidity risk management by banks".
- Reference point for the calculation of LE limits (Danish Finanstilsynet, 2010): The change of reference point must be accompanied by a recalibration of LE limits

Liquidity requirements: Major issue for the Danish banking sector: the restrictions on covered bonds (50% cap on their inclusion in HQLAs, low available stable funding (ASF) factor) might destabilise the entire liquidity management of Danish banks ("covered bonds outnumber government bonds by a factor of more than 6 to 1 on the Danish banks' balance sheets") (Danish MinFin, 2010).

- Definition of HQLAs: Eligibility and haircuts should be "assessed on the basis of factors relevant for the liquidity" and independent from the legal form of the instrument, thereby allowing the inclusion of covered bonds (very important for the Danish mortgage lending sector) without cap (main point in Danish Minfin, 2010).
- NSFR: Problematic for Danish mortgage loans, which banks finance by issuing short-term covered bonds (Government, 2010). Rules should provide room for discretional adjustment in order to "specific sound business models" such as saving banks (Danish Finanstilsynet, 2010).
- Scope of application: Supportive of the possibility to waive the entity-level application (Danish Finanstilsynet, 2010).

- Branch liquidity supervision: Supportive of shift to home-country supervision of branches, in close cooperation with a host supervisor (sharing of responsibilities, unhindered access to liquidity reporting information) (Danish Finanstilsynet, 2010).
- Intra-group transactions: Supportive of the symmetrical treatment (Danish Finanstilsynet, 2010).

Leverage ratio:

- The leverage ratio (LR) should be part of Pillar 2 in order to take into account the specific risk profile of each bank (MinFin, 2010).

Treatment of mortgage loans: (Danish Finanstilsynet, 2010)

- Heterogeneity of real estate markets in Europe; maximum harmonisation may not be advisable.
- Opposed to the introduction of a LTI ratio: creditworthiness is not limited to income.

Supervisory arrangements:

- Regard to financial stability in other MSs (Danish Finanstilsynet, 2008): Opposed to introducing a legally binding requirement on national supervisors.
- Removal of ONDs (Danish Finanstilsynet, 2010): Generally supportive, although welcomes continued flexibility regarding real estate lending.

2.4 Estonia

Definition of capital: (Estonian authorities, 2010)

- Simplification of the capital structure: Welcomed. Already enforced in Estonia since 2007.
- Criteria for CET1, T1, Tier 2 (T2): Proposed criteria sufficiently robust.
- Non-core T1: Hybrids generally not used in Estonia, then no opinion on write-down and conversion.
- Prudential adjustments: deductions of holdings in financial institutions, goodwills and unrealised gains expected to have the greatest impact. Unrealised gains: Favours asymmetric treatment (exclusion of unrealised gains but inclusion of unrealised losses).

Large exposures:

- No response to the 2008 consultation (i.e. no comments submitted on the LE regime for intra-group and interbank exposures).
- Reference point for the calculation of LE (Estonian authorities, 2010): LE limits should be calculated based on total capital (T1 and T2), not on CET1.

Liquidity requirements: (Estonian authorities, 2010)

- Definition of HQLAs:
  - Favours a "more conversative approach", since exising law in Estonia only allow the inclusion of instruments with a 100% liquidity factor (i.e. excludes corporate and covered bonds, as well as other "additional assets"), combined with a high minimum reserve requirement (15%).
  - Central bank eligibility should be required for any instrument in HQLAs.
- NSFR: Market practice in Estonia already includes models similar to the NSFR; does not expect any significant impact on the pricing of banking products.
- Setting all paramters in EBA Technical Standards: Some national discretion must remain to enable competent authorities "to ensure that market participants are holding adequate liquidity buffers at all times".
- Scope of application: Favours entity- plus consolidated-level application with the possibility of waiving the entity-level application, but "consent of the competent authorities of the host countries —for subsidiaries as well as branches— must be a prerequisite".
- Intra-group transactions: Should be treated as transactions with third parties (asymmetric treatment), although waivers could be considered provided all the competent authorities of all concerned MS fully agree to it.
- Branch liquidity supervision: The shift of responsibility should be a voluntary delegation of tasks from the host- to the home-country supervisor, possible only if both parties agree and with the host supervisor retaining an option to withdraw the delegation.

Leverage ratio: (Estonian authorities, 2010)

- The LR should be indicative only and not a mandatory minimum requirement (can slow economic recovery) The design makes it impossible to calibrate the LR so that it would be constraining only in benign economic conditions.

- Capital measure: Total capital (T1 and T2).
- Exposure measure: To measure the extent of a firm's derivatives business, prefers to use the replacement cost.

Treatment of mortgage loans:

- Residential mortgages denominated in a foreign currency (2009, Eesti Pank):
  - "[P]uzzled" by proposed amendments that single out FX mortgage lending.
  - Would raise "important and fundamental questions" regarding free movement of capital in the Single Market and credit supply to corporations and individuals.
  - Criticise the absence of link between actual FX risk of different currencies and the proposed RW: Need to differentiate between euro-denominated loans in EMR-II participating countries and FX loans in free-floating currencies of third countries.
  - Proposed 1250% RW is a "penalty rate on all foreign currency loans".
  - Lack of empirical basis to support the proposed 50% LTV

Supervisory arrangements: (Estonian authorities, 2010)

- Removal of ONDs: Opposed to maximum harmonisation of Pillar 1 tools ("Member States should be entitled to apply more stringent requirements to financial institutions than the common harmonised minimum requirements");

  National responsibility for financial stability must be matched by supervisory tools being available to national authorities ("It is essential that the development of financial stability tools and reorganisation of supervisory powers must be in balance with national obligations regarding financial stability").

2.5 Finland

Definition of capital: (Finnish MinFin, 2010)

- CET1: Criteria should be related to the general economic characteristics of the instrument, not its legal form.
- Non-core T1: Opposed to requiring a mandatory principal write-down or conversion mechanism.
- Prudential adjustments:

  - Minority interests: Opposed to full deduction. Deduction only of the part that exceeds the capital requirements arising from the subsidiary.
  - Holdings in financial institutions: Opposed to deduction (*dramatic consequences* for some groups in the Finnish market).

Large exposures:

- Intra-group exposures (Finnish MinFin, 2008): Requirement that there should be no impediment to transfers of own funds between group entities for exempting transactions between them is "far too rigorous" and should be deleted.
- Interbank exposures (Finnish Minfin, 2008): Welcomes exemptions of transactions below €150Mln ("good starting point"), but additional measures necessary to avoid market disturbances (e.g. 3-5 years transitional period, exemption for exposures up to 3 months).
- Reference point for the calculation of LE limits (Finnish MinFin, 2010): Change of calculation basis should not significantly limit the maximum amounts of allowed large exposures.

Liquidity requirements: (Finnish MinFin, 2010)

- Definition of HQLAs: Concerned about defining eligible assets by the type of instruments. Central bank eligibility should be one criterion, together with trading in a liquid market. Harmonised criteria could be introduced to define a liquid market, and then national authorities left to identify which instruments meet the criteria.
- NSFR: Favours introduction as a Pillar 2 tool, at least initially, with the possibility to move it to Pillar 1 once sufficient empirical evidence about its effect is gathered.
- Scope of application: Would support an application at consolidated level only.
- Intra-group transactions: Issue linked with that of asset transferability, which should be harmonised.
- Branch liquidity supervision: Calls for defining the roles of home and host supervisors, based on on the principle of home supervisory responsibility, with powers to the host supervisor to suspend branch operations if has not received sufficient information, or to require contractual liquidity arrangements ensuring that the branch holds a liquidity buffer.

Leverage ratio: (Finnish MinFin, 2010)

- Favours introducing the LR as a Pillar 2 tool (a Pillar 1 requirement would "unduly penalise certain credit institutions, which specialise in financing municipalities and other local authorities").
- Leverage being greater in large banks, Finland suggests integrating LR and countercyclical measures in Pillar 2. The LR requirement could depend on the evolution of the credit cycle.
- Exposure measure: Preference for the gross positive fair value of derivatives contracts.

Treatment of mortgage loans:

- FX mortgage lending: Primarily a consumer protection issue, not a matter for prudential requirements (Finnish MinFin, 2009).
- Mortgage lending in general: Opposes any maximum LTV ratio lower than 70% on RRE (Finnish MinFin, 2009, 2010).

Supervisory arrangements:

- Determination of a systemically relevant branch (Finnish MinFin, 2008): For the threshold, any figure up to 5% of the country's total banking sector assets in acceptable.
- Colleges of supervisors (Finnish MinFin, 2008):
  - The actual composition of colleges should not be left to the discretion of the consolidating supervisor.
  - Colleges should not have any legal obligation to reach a consensus
  - Broaden the list of topics to be discussed in colleges, in order to inform all potentially concerned supervisors.
- Removal of ONDs (Finnish MinFin 2009, 2010): Supportive, no need for any gold plating.

2.6 France

Definition of capital: (French authorities, 2010)

- Simplification of the capital structure: Welcomed.
- CET1: Need to clarify how the specificites of NJS companies can be taken into account.
- Prudential adjustments:

  - Minority interests: Opposed to full deduction ("it would penalise the business model of cross-border groups"). Suggests excluding the RWA supported by minority interests from the group's consolidated RWA; or including minority interests up to a limit.
  - Holdings in financial institutions: Opposed to the deduction ("Double counting of own funds between banks and insurance companies is already addressed under the current regime of the financial conglomerates Directive").
  - Deferred tax asset (DTA): Favourable in principle to deduction, but *full* deduction may be problematic (need for QIS). If so, favours a limited recognition of DTA.
  - Unrealised gains: Agrees with the proposed exclusion, but wait for international accounting and prudential standards, and QIS needed to measure the effect of including unrealised losses.

Large exposures:

- Interbank exposures (French MinFin and Commission bancaire, 2008): Questions the proposal to apply a blanket 100% RW to all interbank exposures, the same as for exposures to unregulated counterparties; Fears effects on the interbank market; A QIS should explore alternatives.

- Reference point for the calculation of LE limits (French authorities, 2010): Opposed to the suggested change of reference point; Calibration would need to be reviewed as well.

Liquidity requirements: (French authorities, 2010)

- Liquidity coverage ratio (LCR) stress assumptions "appear excessively conversative". Cites in particular the cash outflow assumptions on retail deposits and on corporates' and financial institutions' liquidity lines.

- Definition of HQLAs:

  - Calls for the inclusion of all central bank-eligible assets (including "certificates of deposits, covered bonds, corporate and financial institution bonds" and equities), although central bank eligibility should not be required for inclusion.
  - Inclusion of additional assets should be suject to qualitative criteria leaving room for supervisory assessment.
  - Rejects the principle of having a significant portion of the liquidity buffer made of domestic sovereign debt.

- NSFR:

  - Denies banks' "key role" of maturity transformation; would create incentives to reduce the volume of long-term loans.
  - Necessary to reduce the ratio (suggests 75% instead of 100%) to enable maturity transformation.
  - Increase the portion of retail deposits to be considered stable and reduce the portion of loans considered stable.
  - Assumptions need to recognise that over a one-year stress banks would be able to adjust their strategies.

- Calls for a different treatment of the French *livret A*, used to fund state-subsidied housing and subject to a specific taxt treatment.

- Scope of application: Favours consolidated-level application only, considers "counter-productive" and application at both entity- and consolidated level: "Requiring legal entitites to keep liquidity buffers locally would be a new constraint on liquidity flows within EEA and would hamper financial solidarity within groups, and as a result, financial stability within Europe".

- Treatment of intragroup transactions: Favours a symettrical treatment.

- Branch liquidity supervision: Favourable to home-country supervision, in close collaboration with host supervisor (no more details).

Leverage ratio: (French authorities, 2010)

- Strongly opposes the introduction of the LR under Pillar 1 ("strong limits", "would penalize retail or universal banks", "blunt measure"). Introduction as Pillar 2 and limited disclosure.

- Capital measure: Favours using T1 and deducting from the exposure measure all the elements that are deducted from regulatory capital.

- Exposure measure:

  - Derivatives should be included using the current exposure method, and credit derivatives using the notional amount.
  - HQLAs should be deducted (avoid incentives not to hold these assets)
  - Exclude interbank exposures (avoid disincentives to use this source of funding)
  - Any OBS item should be included with a 100% CCF.

Treatment of mortgage loans:

- FX mortgages: Calls for impact assessment before giving any comment (French MinFin, 2009).
- Mortgage lending in general: (French authorities, 2010)
  - Supportive of harmonised preconditions for granting the preferential treatment to mortgage loans.
  - Supportive of generalisation of the hard test when waiving the independence criterion for the preferential treatment.
  - LTV ratios should be different for CRE and RRE.
  - Generally supportive of the proposed values for LTV and LTI ratios for RRE (80% and 35% respectively, reflect current practice in France).
  - No need for additional preconditions for the preferential treatment of CRE, sufficiently sound.

Supervisory arrangements:

- Removal of ONDs (French MinFin and Commission Bancaire 2008; French MinFin, 2009; French authorities, 2010): Calls for rules to be "as harmonised as possible"; Finds "important to make sure that same things are treated in the same way by all the banks" across the European Union (EU), and "has not identified areas where national or market circumstances necessitate more stringent general requirements or stricter rules".
- Approval of internal models (French MinFin and Commission Bancaire 2008): Decisions to be made jointly, but the consolidating supervisor should have the last say in case of disagreement.
- Colleges of supervisors (French MinFin and Commission Bancaire 2008)
  - Strong coordinating role for the consolidating supervisor ("It should be given the power to make decisions regarding the most important measures at the level of the group", notably Pillar 2 requirements, designation of systemically relevant branches and reporting requirements).
  - Strengthen the role of CEBS.
  - Ensure a right to information for all supervisors materially involved in the supervision of a group.
  - Provide an effective decision-making structure.
  - Calls for the establishment of a "European-level mandate for national supervisors".

2.7 Germany

Definition of capital: (German MinFin, 2010)

- Simplification of capital structure: Welcomed.
- Criteria for CET1: Definition of regulatory capital should be "neutral to the legal form of banks". Proposed definition "may cause competitive distortion between legal forms of institutions"; Plea for including instruments with preferential rights for dividend payments.
- Non-core T1:
  - Supportive of proposal to require a mandatory principal write-down or conversion feature for all non-core T1.
  - Opposed to required that the bank have full discretion at all times on payments of the coupon: it would put the investor at a disadvantage vis-à-vis the bank.
- T2: Need for "appropriate grandfathering rules": Germany had allowed its co-operative banks to include in T2 the uncalled commitments of their members (representing "the second most important contribution to the tier 2 capital of co-operative banks").
- Prudential adjustments:
  - Deductions should be taken to total T1, not only CET1.
  - DTAs: Opposed to full deduction, "a materiality threshold should be envisaged". DTAs and goodwills are the deductions expected to have the greatest impact on the German banking sector, a gradual phasing in is necessary.
  - Unrealised gains: Favours asymmetric treatment (exclusion of unrealised gains but inclusion of unrealised losses.

Large exposures:

- Interbank exposures: Welcomes the exemption of interbank loans below €150 Mln, which preserves the access of smaller banks to the interbank market (German MinFin, 2008).
- Intra-group exposures: "expressly welcome[s]" the exemption of claims where "borrowers and lenders are subject to joint risk management, own funds transfer within the group is guaranteed or membership in the same protection scheme" (i.e. for all decentralised banking networks) (German MinFin, 2008).
- Opposed to the change of reference point for LE (German MinFin, 2010).

Liquidity requirements: (German MinFin, 2010)

- LCR cash-flow assumptions: Too conservative (cited example: inter-bank transactions). Cash flow assumptions sometimes unrealistic, need to prevent "an unbalanced and disproportional burden on certain participants of the banking sector" and "the cash-flow structure of more simply structured banks, in particular, should receive closer consideration".
- Definition of HQLAs:
  - Eligible assets: Calls for the inclusion of "certain high quality corporate and covered bonds" and "bank debt securities fully guaranteed by sovereigns or respectively securities of promotional banks under public ownership". The "best-quality guarantor" should be the key factor in assessing the liquidity of assets and their eligibility to the buffer. Central bank eligibility can be an indicator of liquidity, but should not be the main criterion (keep the regulator's list of liquid assets independent from central bank policies).
  - Cap on "additional assets": Augment the allowed proportion of additional assets in the buffer (70% instead of 50%)
- NSFR: Indications that the calibration of the NSFR may be "overly restrictive" for retail banking; "inappropriate" to further tighten required stable funding (RSF) factors on retail banking items "such as loans".
- Scope of application: Welcomes the possibility of waiving the entity-level application ("sophisticated group-wide liquidity management" should be the criterion). In case of disagreements between home and host supervisors, final decision to the supervisor of the subsidiary.
- Branch liquidity supervision: Welcomes proposal to shift responsibilities to the home supervisor and abolish separate liquidity standards for branches.

Leverage ratio: (German MinFin, 2010)

- Strongly opposed to the introduction of a LR, even more so a binding LR (procyclicality, "risk of credit crunch during times of high losses").
- Capital measure: Full T1.
- Exposure measure: Capturing the extent of derivatives businesses: Fair value is inappropriate, does not take into account future replacement costs. Netting of derivatives should be allowed.
- Calibration: Faulty design of the LR "prevents any reasonable calibration".

Treatment of mortgage loans:

- FX lending: Need to distinguish between the objectives of consumer protection and financial stability; Need to avoid opportunities for regulatory arbitrage (German authorities, 2009).
- Mortgage lending in general:
  - 2009 (German authorities, 2009): National flexibility as to the eligibility of real estate as collateral is necessary to reflect the heterogeneity of housing markets and enable national authorities to grant alleviations as appropriate.

    Current treatment of RRE is adequate and should be maintained.

    Considering the "considerable public importance" of RRE in MS, need to remain subject to individual assessment (as opposed to harmonised criteria).

    Proposed reduction/introduction of the LTV ratio is not justified based on empirical evidence.
  - 2010 (German MinFin, 2010): Need to maintain existing options in the CRD to accommodate the local specificities of RRE markets.

    Proposed LTI ratio burdensome for institutions and could have negative unintended consequences for the borrower.

    No further preconditions are necessary to grant a preferential RW to CRE.

    Maintain differentiated treatment for CRE and RRE.

Supervisory arrangements:

- Regard to financial stability in other MS (German MinFin, 2008): Provision welcome (promotes awareness), but in no case should it oblige national supervisors to decide, when interests conflict, against financial stability in their own MS, and should be made clear that it cannot serve as a basis for claims for damages against supervisors.
- Designation of systemically relevant branches (German MinFin, 2008): Can agree with additional information rights for host supervisors, but without any change to supervisory responsibilities regarding branches.
- Removal of ONDs: Where gold plating is proved to be superfluous, then no objection to a maximum harmonisation.

2.8 Hungary

Definition of capital: (Hungarian MinFin, 2010)

- Simplification of the capital structure: Welcomed.

- CET1: All capital instruments of NJS companies with loss-absorbency features equivalent to common shares should be eligible for CET1.
- Non-core T1 and T2: Supportive of mandatory principal write-down or conversion features.
- T2: Agreement with the exclusion of uncalled commitments by members of co-operative banks.
- Prudential adjustments: Opposed to the deduction of minority interests, should be included.

Large exposures: The Hungarian authorities did submit a response to the 2008 consultation but did not comment on proposals regarding the LE regime.

Liquidity requirements: (Hungarian MinFin, 2010)

- Definition of HQLAs: Suggests including all central bank-eligible assets, including those issued by financial institutions.
- NSFR: Specificities of the Hungarian banking system: * short-term (less stable) deposits are preferred to long-term savings; * dominated by subsidiaries of foreign banks that receive funding from their parent banks on a short-term basis.
- Calls for a specific treatment of co-operative banking structures: for co-operative networks, consider funds received by a central institution from its affiliated co-operative banks as retail deposits.
- Intra-group transactions: Supports a symmetrical treatment
- Level of application: Subconsolidated-level application should be possible for subsidiaries of a same banking group within one MS; Waiver of entity-level requirement should decided by the host supervisor.
- Branch liquidity supervision: "[S]erious concerns" about the transfer of responsibility. Requires for the host supervisor full information about branches' liquidity positions, possibility to conduct on-site inspections and warnings from the home supervisor.

Leverage ratio: (Hungarian MinFin, 2010)

- Pillar 1 vs. Pillar 2: Opposed to the principle of a binding leverage ratio ("will result in double limitation [...] on banks' activities"; "can only be justified in extreme situations"); Calls for using it as a monitoring tool only, with related powers for the competent authority to act when necessary (Pillar 2).

- Capital base: T1 to be used only if non-core T1 elements include a mandatory, automatic conversion feature.
- Exposure measure: Favours the use of the replacement cost for measuring derivative contracts' values.

Treatment of mortgage loans:

- FX mortgage lending (Hungarian authorities, 2009):
  - Supportive of stricter risk management requirements "including but not exclusively a proper LTV ratio".
  - Calls for different maximum LTV ratios on FX loans in euro and in other foreign currencies (more stable exchange rate with the euro).
  - Reduce the RW to be applied to the part of the loan that exceeds the maximum LTV ratio ("extremely excessive")
  - Requirement has to apply equally to non-bank financial institutions issuing FX loans).
- Mortgage lending in general:
  - Opposed to lowering maximum LTV ratios for RRE loans to 40% ("too restrictive and overly conservative"): would in effect "restrict the availability of mortgage credit for a small segment of the potential borrowers and would curb mortgage lending and financial intermediation" (Hungarian authorities, 2009). Agreement with the 80% ratios proposed in 2010, but suggests national authorities should be free to impose stricter requirements (Hungarian MinFin, 2010)
  - Differentiation between CRE and RRE is warranted.

Supervisory arrangements:

- Colleges of supervisors (Hungarian authorities, 2008):
  - Opposed to limiting the powers of host supervisors on subsidiaries, including the imposition of additional capital requirements.
  - Favours mandating CEBS to issue guidelines to make sure harmonised functioning of colleges regardless which national supervisor acts as consolidating supervisor.
  - Final decisions regarding a subsidiary should be taken by its host supervisor. Colleges themselves should have no decision-making powers.
  - General right of participation for supervisors of subsidiaries and systemically relevant branches; host supervisors should decide themselves whether to participate or not.

  - Supervisory agreements should be standardized to avoid significant differences, so as to avoid subsidiaries/branches of foreign banks in a host country to be subject to different requirements.
  - Removal of ONDs (Hungarian authorities, 2009; Hungarian MinFin, 2010, Magyar Nemzeti Bank, 2010): Opposition to maximum harmonisation ("the historically formed specificities of the Member States should remain national competency"). Need for national authorities to be able to increase Pillar 1 requirements nationally to address systemic risk at a national level.

2.9 Ireland

Definition of capital: (Irish MinFin, 2010)

- Simplification of the capital structure: Welcomed.
- CET1:
  - Nationally imposed target of 8% (of which 7% in common equity) by end of 2010 (i.e. beyond and before Basel III targets).
  - Need to take into account the diversity of characteristics of NJS companies.
- Prudential filters: Defined benefit pension schemes: Deducting the full accounting deficit from CET1 could create an unlevel playing field.

Large exposures: No Irish submission to the 2008 consultation.

Liquidity requirements: (Irish MinFin, 2010)

- Definition of HQLAs: Eligibility should be based on the short- and long-term liquidity profile of each instrument, and the standards applied in a way that avoids "creating unforeseen price impacts in the market".

Leverage ratio: (Irish MinFin, 2010)

- "[O]pen view" on Pillar 1 vs. Pillar 2 requirement.

Treatment of mortgage loans: Did not respond to the consultation questions.

Supervisory arrangements: (Irish MinFin, 2010)

- Removal of ONDs: Generally supportive of a reduction in the number of ONDs, but should still room to account for national/product circumstances.

2.10 Italy

The Italian government did not submit any response to the EC consultations on CRD-IV. I use instead the response submitted by the Banca d'Italia to the 2010 consultation, the reasoned opinion on CRD-IV sent to the European Parliament by the Italian Chamber of Deputies (2012) and elements obtained from newspaper reports.

Definition of capital:

- CET1:
  - Criteria for the equivalence assessment of NJS capital should not be limited to loss-absorption features but also consider permanence and flexibility of payments criteria (maintain the current wording of CRD 2 recital 4) (Banca d'Italia, 2010).
  - Italian Chamber of Deputies (2012) calling for the EBA's technical standard listing eligible capital instruments to be "exhaustive", guaranteeing a level playing field for all banks across the Single Market.
- Non-core T1: In favour of a mandatory principal write-down or conversion mechanism (Banca d'Italia, 2010).
- Prudential adjustments:
  - Minority interests: Opposition to the full deduction. In favour of including the part of minority interests that cover capital requirements arising from the subsidiary (Banca d'Italia, 2010; Ninfole, 2010).
  - DTAs: Opposition to the full deduction. Banca d'Italia (2010) called for partial deduction of *net* DTAs; Italian Chamber of Deputies calling for inclusion.
  - Holdings in financial institutions: Participations in insurance undertakings should not be deducted where both institutions are part of a financial conglomerate regulated under FICOD (Banca d'Italia, 2010).
  - Unrealised gains: Should be deducted (Banca d'Italia, 2010).
  - Stock surplus: Should not automatically be deducted (Banca d'Italia, 2010).
  - A specific grandfathering regime should be included for capital instruments subscribed by governments to support banks during the crisis (these would not be eligible as regulatory capital since their contain incentives to redeem the instrument early to facilitate the end of state intervention) (Banca d'Italia, 2010).

Large exposures: No Italian submission to the 2008 consultation.

Liquidity requirements:

- Scope of application:
  - Favours a combined application at entity- and consolidated-level. For the NSFR, “a possible application [...] only at consolidated level could be considered”.
  - Contemplates the possibility to waive the entity-level requirement, but this possibility “should be accompanied by the possibility to require the application at the sub-consolidated national level, in the case the parent company in that Member State is itself a subsidiary of a bank in another Member State.”
  - Decisions about waivers for subsidiaries should be taken in colleges of supervisors rather than bilaterally between home- and host-supervisor.
- Supervisory responsibility for branch liquidity: With the establishment of uniform liquidity standards, mutual recognition is possible, then “supervisory responsibility for liquidity supervision could be entrusted to the home supervisor”, but “reinforced collaboration between home and host supervisors” is essential (calls for a comprehensive clarification of the powers available for host supervisors of branches in emergency situations).
- LCR Favours a wider definition of HQLAs (“take into consideration also private debt, including covered bonds and high quality covered bonds”). No mention of central bank eligibility.

Leverage ratio:

- The Banca d’Italia (2010) “supports the migration of the LR to a Pillar 1 treatment”, but after a “careful calibration and review” aimed ensuring its “right functioning along the economic cycle”. The Italian Chamber of Deputies (2012) also supported the introduction of the LR as a binding requirement.
- Exposure measure: Banca d’Italia (2010) favours inclusion of all OBS items of a gross basis.

Treatment of mortgage loans: Without mentionning mortgage loans, the Italian Chamber of Deputies (2012) called for the introduction in the Capital Requirements Regulation (CRR) of “regulatory measures which encourage loans to small and medium-sized entreprises (SMEs) by reducing their cost”.

Supervisory arrangements: No Italian submission to the 2008 consultation. No elements on this issue in the Banca d’Italia’s response in 2010.

Risk-weighting of government bonds on banks' balance sheets: Both chambers of the Italian parliament forcefully made the point that no risk-weighting of sovereign debt should be introduced in the CRR, by opposition to the practice of European Banking Authority (EBA)'s stress tests (considering the market valuation of the Italian debt at the time and the amounts of said debt in Italian banks' balance sheets, the effect on their capital ratios would be more than significant).

2.11 Poland

Definition of capital: (Polish Minfin, 2010)

- Simplification of the capital structure: Concerns about the fall in capital ratio related to the suppression of Tier 3 (T3) capital.
- CET1:
  - Necessary to include the share fund of co-operative banks in co-operatives' CET1 capital, as well as subordinated loans in associated co-operative banks.
  - Calls for the inclusion of bonds convertible into shares.
- Non-core T1: Supportive of a mandatory principal write-down or conversion feature.
- Prudential adjustments:
  - Unrealised gains: Supportive of deduction.
  - DTAs: Concerned about the proposal for full deduction (different tax systems may lead to different impacts across countries).

Large exposures:

- Interbank exposures (Polish MinFin and FSA, 2008):
  - Welcomes the exemption of exposures below €150 Mln, but also the national discretion to set a lower threshold ("in the case of Poland, EUR 150 million is relatively high and exceeds in many cases own funds of larger banks");
  - Warns of the effect on small banks, in particular co-operative banks, operating in networks with a central associating bank to which they have LE;
  - Calls for the exemption of short-term LE (up to 3 months or even up to 1 year).
- Intra-group exposures (Polish MinFin and FSA, 2008): Calls for deleting the 20% limit on intra-group exposures, replaced by the general 25% limit on LE, for the sake of simplification.

- Reference point for the calculation of LE limits (Polish MinFin, 2010): A change in the reference point should be accompanied by a recalibration of the LE limits.

Liquidity requirements: (Polish MinFin, 2010)

- Standards should enable local and individual specificities. Calls for basing the liquidity ratios "on internal models of deposit base stability and the repayment of off-balance sheet liabilities".
- Definition of HQLAs:
  - Criteria should be "as wide as possible" ("quite a 'shallow' market of Polish MinFin debt instruments"), and decided by the national central bank in cooperation with the bank supervisor.
  - Need to recognise as liquid assets the deposits kept by co-operative banks with their central institutions.
  - Not particularly favourable to including corporate and covered bonds (not very liquid markets in Poland).
- NSFR: Calls for allowing banks to use internal models to determine their amounts of stable funding (Polish banks rely primarly on accumulating and rolling over current and short-term deposits, small markets for long-term bank debt instrument). Proposed design for the NSFR would "negatively impact the financial position of a considerable group of domestic financial institutions".
- Scope of application: Calls for application at both entity- and consolidated level for both subsidiaries and branches ("National supervisory authorities must have the right to enforce standards on a stand-alone level [...], including the right to impose local liquidity standards on branches").
- Branch liquidity supervision: Opposition to a transfer of responsibility for branch liquidity supervision ("The host supervisor, on account of the stability of the financial system, must have the guaranteed right to perform liquidity supervision over a cross-border branch").
- Intra-group loans and deposits: Received liquidity lines should be included in the liquidity buffer.

Leverage ratio: (Polish MinFin, 2010)

- Pillar 1 vs. Pillar 2: No indication of the government's preference.
- Capital measure: Seems to favour the use of CET1.
- Exposure measure: Concern for international harmonisation, including with the United States (US)

- Calibration: Needs to be based on results of the QIS, but already mentions concerns about reduced lending and investment opportunities "which would be unprofitable from the macroeconomic point of view".

Treatment of mortgage loans: (Polish MinFin, 2010)

- Mortgage lending in general:
  - Opposed to harmonisation of conditions for granting the preferential treatment (invoking financial stability reasons and the diversity of real estate markets in Europe).
  - "[N]o reason" to apply a preferential RW for CRE mortgages.
  - Treatment of CRE and RRE should be differentiated (lower risks attached to RRE).

Supervisory arrangements:

- Regard for financial stability on other MS (Polish MinFin and FSA, 2008): Proposed requirement is too vague, need for detailed list of facts and considerations to be taken into account.
- Determination of systemically relevant branches (Polish MinFin and FSA, 2008): Host supervisor should have the last say; Opposed to relying on a quantitative threshold for determining systemically relevant branches, should instead allow host supervisor to take into account several factors; If relying on the share of total banking sector assets as a threshold, then should be possible to set it lower than the proposed 2%.
- Internal model approval (Polish MinFin and FSA, 2008): Local models for the advanced internal ratings-based approach (A-IRB) approach should be subject to the approval of the host supervisor.
- Colleges of supervisors (Polish MinFin and FSA, 2008):
  - Opposed to any potential increases in supervisory competences of a home authority without commensurate shift of responsibility for financial stability in host countries.
  - Decision on participation in colleges could be left to consolidating supervisor only if there is a guaranteed right for all host supervisors to be informed about college decisions.
  - Opposed to obliging colleges to reach decisions.
  - Removal of ONDs: National discretion on Pillar 1 requirements is necessary to address specific national circumstances ("financial stability has a national dimension, and for that reason the national supervisors shall have the tools to react to some adverse developments"); Suggests as a compromise enabling national discretion for more restrictive requirements than the CRD, but limited by a "comply or explain" principle.

2.12 Slovakia

Definition of capital: (Slovakian MinFin and National Bank of Slovakia, 2010)

- Simplification of the capital structure: Welcomed.
- CET1: Supports the limitation of CET1 to common shares, as it corresponds with existing Slovak legislation.
- Prudential filters:
  - Minority interests: Should not be deducted.
  - DTAs: The list of DTAs to be deducted should be determined by the national legislator, considering the differences across national tax laws.

Large exposures:

- Intra-group exposures (National Bank of Slovakia, 2008):
  - Maintain the national discretion on whether to eliminate intra-group exposure limits.
  - Deeply concerned about potential for contagion across banking groups and national interbank markets resulting from no of high intra-group limits.
  - Lenders outside the group risk increasing borrowing costs or even cut credit to a group entity if they perceive it to be significantly exposed to another (failing) entity in the same group.
  - For countries with a large presence of foreign banks through subsidiaries, the potential costs "would only be in very small part offset by the related benefits".

Liquidity requirements: (Slovakian MinFin and National Bank of Slovakia, 2010)

- LCR: Distinction between stable and less stable deposits is crucial, especially for retail banks.
- Definition of HQLAs: Warns of a "crowding-out effect" whereby eligible instruments would be preferred to non-eligible ones, with impact on pricing and spreads.
- NSFR: Overall, expected to significantly impact several banks in Slovakia. The 85% RSF for loans with residual maturity up to one year is too high.
- Scope of application: Favours application at entity-level.

- Intragroup transactions: Opposed to any change to the intra-group asset transfers regime ("'Financial group interest' cannot be placed above the responsibility of the Member States to maintain financial stability on their territory"; "we are deeply concerned about the increase in potential for brand contagion throughout the group and consequently across all national (interbank) markets where the related group is present").
- Branch liquidity supervision: Opposed to the transfer of responsibility to the home supervisor. Liquidity of branches can have major impacts on a national banking sector's stability, therefore host authorities need to have power over them. Transfering responsibility to the home supervisor for branches would incentivise banking groups to change their subsidiaries into branches in order to free local liquidity buffers.

Leverage ratio: (Slovakian MinFin and National Bank of Slovakia, 2010)

- Generally agrees "with the overall philosophy of the indicator".
- Capital measure: Favours "a narrow definition of Tier 1".
- Exposure measure: Do not see the rationale to include OBS items, "which themselves do not create 'leverage' until the moment they materalize".

Treatment of mortgage loans: (Slovakian MinFin and National Bank of Slovakia, 2010)

- Mortgage lending in general (Slovakia MinFin and National Bank, 2010):
  - Need for a comprehensive QIS on suggested measures.
  - Cautious about the possibility of using the hard test to waive the requirement of independence between the borrower's income and the property's performance: it is a transfer or responsibility from the supervisor to the bank.

Supervisory arrangements:

- Determination of systemically relevant branches (National Bank of Slovakia, 2008): Supports the proposed amendments.
- Internal models approval (National Bank of Slovakia, 2008): Opposed to give banks request the consolidating supervisor to consult CEBS.
- Colleges of supervisors:
  - Only one college of supervisors per group (permanence of membership), including right of participation for supervisors of subsidiaries and systemically relevant branches.

  - possibility of ad-hoc meetings in restricted format, provided all members are fully informed.
  - Opposed to require colleges to agree on delegation of responsibilities; merely a structure for cooperation and exchange.
- Removal of ONDs (Slovak MinFin and National Bank of Slovakia, 2010): Opposed to full maximum harmonisation; In some areas, national discretion remains necessary for financial stability.

2.13 Spain

Definition of capital: (Banco de España, 2010)

- CET1: Need to clearly state how to apply the criteria to NJS companies to "guarantee that their specificities are taken into account".
- Prudential adjustments:
  - Minority interests: Opposed to full deduction. Inclusion in CET1 up to the capital requirements the subsidiary generates.
  - DTAs: Opposed to full deduction. Only excesses over a given threshold should be penalised.
  - Unrealised gains: Favours asymmetric treatment (exclusion of unrealised gains but inclusion of unrealised losses.
- Non-core T1: No need for a mandatory principal write-down or conversion mechanism if the level of predominance of CET1 is increased; only for debt instruments.
- Simplification of the capital structure: Welcomed.

Large exposures:

- Intra-group exposures (Bank of Spain, 2008): Maintain the national discretion to partially or fully exempt intra-group exposures where both parties are subject to the same or equivalent supervision on a consolidated basis; Need to keep the exemption for networks of small credit institutions "grouped around a central institution which is responsible of cash-clearing operations within the network".
- Exposures to MSs' regional governments and local authorities (Bank of Spain, 2008): National discretion is warranted to differentiate among these exposures.
- Reference point for the calculation of LE (Bank of Spain, 2010): No objection, provided the change does not reduce the amount of large exposures allowed.

Liquidity requirements: (Banco de España, 2010)

- Definition of HQLAs: No comments from the Banco de España.
- NSFR: No comments from the Banco de España.
- Scope of application: Favours application at entity- plus (sub)consolidated level, with the possibility of waiving the entity-level requirements.
- Branch liquidity supervision: Shift to home-country supervision acceptable under harmonised standards.
- Intra-group exposures: Too early to take any decision, need to wait for QIS results.

Leverage ratio: No position in the Banco de España's responses; I could not find any other source on this particular issue.

Treatment of mortgage loans:

- Residential mortgages denominated in a foreign currency (Banco de España, 2009): Specific incremental capital requirements for FX loans should be established, but suggested RW "appears excessive" and could create incentives to circumvent the measures.
- Mortgage lending in general:
  - 2009 (Banco de España): Supportive of a harmonised maximum LTV for a preferential RW. But proposed LTV for RRE is too strict (not supported by empirical data). Could endanger certain special purpose mortgage loans (e.g. "residential property promoted with public aid"). Common practice in Spain accepts a 80% LTV ratio. Instead of a general tightening, it would be better to identify which mortgage loans are particularly risky and apply higher RWs on those.
  - 2010 (Banco de España): Reiterates the 2009 position. Introduction of a maximum LTI "could be also a good precondition", with a value around 35%. Current LTV for the preferential RW on CRE lending is adequate. Introduction of the hard test for both types "could be appropriate".

Supervisory arrangements:

- Removal of ONDs (Banco de España, 2010): Opposed to maximum harmonisation; national discretion on Pillar 1 requirement necessary "to address specific negative circumstances that affect a whole financial system".

2.14 Sweden

Definition of capital: (Swedish authorities, 2010)

- Simplification of the capital structure: Welcomed.
- CET1:
  - "Primary concern" is increasing the predominance level of CET1 in T1.
  - Supportive of the limitation of CET1 to common equity, even if certain categories of banks will need to gradually change their capital structure.
  - Supports the application of CET1 criteria to assess the capital instruments of NJS companies.
- Non-core T1: Supports a mandatory principal write-down or conversion mechanism. Sceptical of *temporary* write-downs.
- Prudential filters: Unrealised gains should be deducted.

Large exposures:

- Interbank exposures (Swedish authorities, 2008): Need to balance credit risk objectives with liquidity management by banks, "especially for banks active in smaller currency areas"; Welcomes the exemption of LE below €150Mln; Calls for exempting LE with very short maturities ("up to no more than two days could be a resonable compromise" for liquidity management).
- Group of connected clients (Swedish authorities, 2008): Problematic for countries with a concentrated banking sector if the major banking groups are all considered as a "group of connected clients" due to funding interconnectedness.
- Intra-group exposures (Swedish authorities, 2008): Opposed to ring-fencing at national level, would prevent banks from having a central MinFin function or create incentives to transform subsidiaries into branches; Conditions for using the exemption are unclear (e.g. what is to be considered as a material impediment to the transfer of own funds?)
- Change of reference point: If own funds include a large proportion of non-core T1 and T2, then supportive of changing the reference point. Otherwise prefers to maintain the existing rules (Swedish authorities, 2010).

Liquidity requirements: (Swedish authorities, 2010)

- LCR: Scenarios "fairly severe [...] even compared with to the past financial cisis"; Level may be too high for smaller institutions (apply proportionality principle).
- Definition of HQLAs:
  - Proposed definition is too narrow: volume of domestic eligible assets in some countries too small to meet banks' needs, smaller countries should be allowed to make use of other domestic liquid markets.
  - In particular, extend the definition to covered bonds (extensively used by Swedish banks for funding, including during the GFC).
  - Central bank eligibility should be a necessary though not sufficient criterion.
- NSFR:
  - Calibration may be too harsh, could have negative effects on the economic recovery.
  - May create cliff effects and is prone to regulatory arbitrage.
- Scope of application: Application at both entity- and consolidated level is "reasonable, as long as there is a possibility for waivers".
- Intra-group transactions: Favours a symmetrical treatment recognising both intra-group loans and deposits; maximum harmonisation necessary to avoid disagreements between national supervisors interfere with capital flows during times of crisis.
- Branch liquidity supervision: Supports transfer of responsibility to the home supervisor.

Leverage ratio: (Swedish authorities, 2010)

- Favours introduction as Pillar 2 and Pillar 3 tool "at least until the effects of the ratio have been properly tested and evaluated" (avoid higher capital requirements for low-risk activities).
- Capital measure: Favours a narrow capital measure (CET1).
- Exposure measure:
  - Favours a gross exposure measure. Warns about potential effect on liquidity provision in markets for government bonds and other high-quality instruments of including repo transactions on a gross basis.
  - Credit derivatives measure at notional value, with no netting allowed.

Treatment of mortgage loans:

- Mortgage lending in general (Swedish authorities, 2010):
  - Low RW on RRE mortgages is supported by empirical data. Suggested measures would have little impact in Sweden: most mortgage lending is done by internal ratings-based (IRB) banks.
  - Regarding RRE, opposed to suggested amendments: encourage development of banks' internal valuation expertise rather than imposing LTV ratios.
  - Different treatment of RRE and CRE is only applicable to SA-CR, not to IRB.

Supervisory arrangements:

- Determination of systemically relevant branches (Swedish authorities, 2008): Additional legal requirements on supervisory cooperation should be avoided; Threshold should be at least 5% of deposits "and preferably higher"; Decision to be agreed by home and host supervisor, with CEBS as mediator (no final say for the host).
- Removal of ONDs (Swedish authorities, 2010): Supportive of removing ONDs; no areas identified where stricter requirements mgith be necessary at national level.

2.15 United Kingdom

Definition of capital: (UK authorities, 2010)

- Simplification of capital structure: Welcomed.
- CET1: Agreement with the proposed criteria. Even though NJS companies "should also be required to meet these criteria in full", the criteria "need to work for NJS companies".
- Non-core T1: Supports a mandatory principal write-down or conversion feature for all non-core T1 instruments, as well as for T2.
- Prudential adjustments:
  - Should be made in respect of CET1 capital.
  - DTAs: Supportive of exclusion.
  - Unrealised gains: Ambiguous position.

Large exposures: No UK response to the 2008 consultation. In the 2010 consultation, UK authorities opposed changes to the LE regime on the grounds that it had already been changed recently and that a QIS would be necessary to ask CEBS for additional advice before any further change (UK authorities, 2010).

Liquidity requirements: (UK authorities, 2010)

- - Definition of HQLAs: Favours a "narrow, prudent" definition of HQLAs "as high quality government bonds". Opposed to include assets, based on central bank eligibility or any other criterion.
- NSFR: Proposed calibration may lead banks to restrain the availability of loans regarded as illiquids and turn to bonds instead (the calibration could "could significantly disadvantage SME and retail loans relative to lending to large highly-rated corporates").
- Scope of application: Favours application at entity-level, though "willing to consider" possible waivers, but only for partial dis-application and with the decision being at the sole discretion of the host authority.
- Intra-group transactions: Favours a more conservative asymmetrical treatment.
- Branch liquidity supervision: Opposed to the transfer of responsibilities (MSs' different resolution capabilities, necessary safeguards for local consumers). A waiver system could be agreed.

Leverage ratio: (UK authorities, 2010)

- - Supports the introduction of the LR as a binding, Pillar 1 requirement, though it should "only bite for well-managed institutions when in a period of excess credit growth".
- Capital measure: Favours using T1, or even CET1.
- Exposure measure:
  - Credit derivatives included at notional value
  - Derivative exposures: measure on a gross basis (remove incentives to manipulate the LR by creating netting positions), but need further analysis.

Treatment of mortgage loans:

- FX mortgage lending: Calls for an impact assessment before commenting.
- Mortgage lending in general:
  - Supportive of a more conservative treatment for buy-to-let (BTL) mortgages (higher loss rates), but suggested treatment highly procyclical (could double capital requirements in a downturn) (UK authorities, 2009).

  - Welcomes the withdrawal of the proposal to impose “very tight” maximum LTV ratios. Opposed to a maximum LTV ratio below 80% for RRE (UK authorities, 2010).
  - National discretion is warranted (heterogeneity of real estate markets across the EU).

Supervisory arrangements:

- Removal of ONDs (UK authorities, 2010): MS “need to retain the ability to impose stricter capital requirements and/or adopt more stringent national regulatory measures considered to be domestically appropriate for safeguarding financial stability”, including Pillar 1 requirements.

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