DANISH SECURITIES DEALERS ASSOCIATION

FINANCE DENMARK

Response to the Financial Stability Board Consultation: *Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*

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Finance Denmark and the Danish Securities Dealers Association appreciates the opportunity to comment on FSB's proposed evaluation framework.

Finance Denmark and the Danish Securities Dealers Association welcomes the FSB's initiative to evaluate the impact of G20 post-crisis reforms. These reforms were implemented out of necessity in a huge scale with unprecedented speed. As such, the benefits of some regulation have exceeded costs and needs re-calibration. It is wholly appropriate to assess the effects in a methodical and detailed manner now that conditions are more stable.

Finance Denmark and the Danish Securities Dealers Association finds that it is crucial to find right overall balance between growth and financial stability and there are certain parts of the post-crises reforms that are constraining on the financial sector and the general economy. In particular, market liquidity is an area of concern which should be closely monitored.

The market continues to believe that the range of new measures has diminished liquidity. While the loss of "illusory" liquidity has been intended, the loss of market making on the current scale has created less efficient markets. While market makers may pull back in extreme markets, liquidity is so important in the increasingly market based finance system that market makers must be encouraged as an indispensable element. Some believe that technology and

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platforms can replace market makers, but dedicated market maker focus and expertise is fundamental. Some may find liquidity sufficient in the current extraordinarily benign environment, but there will be challenges in both normalized and stressed scenarios.

Ensuring market liquidity is important both from a financial stability and economic growth perspective. The effects of the recent reforms have been reduced liquidity and increased volatility in global financial markets, even in formerly ultra-liquid markets such as US and German government bonds. The same trends have been observed in the European market for mortgage covered bonds, indeed a particularly important subject in the Danish context. This will reduce the banks' ability to rise funding. This is not compatible with the aim of securing that the banks can foster growth and employment.

In Denmark, interest rates on the majority of all lending to Danish households are set by supply and demand in the covered bond markets and are passed through to investors in a 1:1 relation. Such market-based pricing of mortgages historically have been keeping Danish mortgage rates at remarkably low levels. The interest rates are directly dependent on the high liquidity in the Danish covered bond market. If liquidity is low, the liquidity premium required is passed directly through to customers as an extra expense.

Therefore, we find it essential that the evaluation of the impact of the post-crisis reforms should be as comprehensive as possible and should also take into consideration the effect on the market liquidity in the financial markets. This is especially important when evaluating the effects of introducing the long-term liquidity requirements (NSFR), the fundamental review of the trading book (FRTB) and potentially binding leverage ratio requirements.

Yours faithfully

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