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# More reflection on reflection of low risks needed

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Much has been achieved already in regulatory reforms in the banking sector, however significant uncertainty remains. The current Basel discussions represent another major overhaul of regulatory capital across multiple dimensions. The challenges to banks seeking to implement these changes, will be considerable. And for banks like ING, that are very advanced in applying IRB models, the impact can be material without any changes to the risk profile. Thereby the impact would override the capital requirements stemming from internal models which are not only approved, but have been actively promoted by the supervisor.

In particular, the introduction of input and output floors is something we are not keen on. We do not recognize the added value of another backstop to the risk-weighted process, the leverage ratio already serves this purpose. Global regulators should stick with the leverage ratio as a safeguard to banks' asset-risk models rather than imposing so-called capital floors. Capital floors fail to encourage prudent underwriting standards, potentially leading to some undesired incentives towards risk taking.

Furthermore, it would be a mistake not to take institution's characteristics or structural country features into account in supervision. Regarding the first, it is important that regulators recognize the risk profile of a bank instead of focusing on the liability side in isolation. Concentration risks should be actively reviewed as history has shown that these can be fatal to both large and small financial institutions. On the issue of structural country features, the proposed approach does not take into account local market variations, which are important in particular for small- and medium-sized businesses and housing markets.

Regarding mortgages, we should not look for extreme standardisation in Europe, but allow for economically relevant and proven country specifics (savings, government guarantees, insolvency law) to be included in the modelling. Concerning the Dutch mortgages, we hope that regulators will recognise that this is indeed a low risk activity for banks, as illustrated by historic loss figures. Numerous investigations, including the ECB's Asset Quality Review, have confirmed the low-risk nature of our business model. We are further confident that ongoing ECB reviews as part of their the Single Supervisory Mechanism, including new on-site inspections, will lead to similar conclusions. If that is indeed the case, supervisors and regulators should be brave enough to support their own conclusions.

Last but not least, it is important that the proposals of the Basel committee are not discussed in isolation and that some stability and clarity with respect to regulations is accomplished. Lately we have seen intense discussions around Pillar II and requirements, capital buffers and consequences for restrictions on coupon and dividend pay. In our view imposing significant buffer requirements, which are sensitive to risk-weighted asset developments, as well as making fundamental changes to risk weights, should not coincide.