

Statement on order issued to Danske Bank A/S in respect of product approval processes and product governance arrangements

In 2020-21, the Danish Financial Supervisory Authority (the Danish FSA) conducted a themed review with focus on product approval processes and product governance arrangements. The themed review was conducted as a functional inspection at six banks that distribute investment products and services, including Danske Bank A/S.

The regulation regarding product approval processes and product governance arrangements is a key element of investor protection. The purpose of the regulation is to ensure that customers buy only products that are suitable for them and match their investment needs.

Banks are under a duty to identify a positive target market and a negative target market for all investment products and services. As part of the target market identification, the bank must assess whether the target market of clients can be expected to receive a return that offsets client costs and is commensurate with the risk. In its assessment, the bank must use return expectations that, in relation to the investment horizon of the intended target market, are realistic, reasoned and well-documented and thus suitable for ensuring that client interests are attended to.

At the time of the inspection, Danske Bank used a model developed by the bank itself to calculate the expected return on products or services. The model determined the total expected return on actively managed products and services as an expected market return on the given instrument category plus an expected excess return from the active management process.

The Danish FSA is of the opinion that the model used by the bank, including, in particular, the use of an excess return from the active management process, was not sufficiently substantiated and documented for it to be included in the product governance arrangements for the determination of return expectations. Against this background, Danske Bank was ordered to ensure the use of realistic, reasoned and well-documented return expectations.

Danske Bank has informed the Danish FSA that it has not been using the approach mentioned above since October 2020 and that it does not add an excess return from active management.