

15 July 2020

Statement on a themed inspection at Danske Bank A/S

Introduction

In February 2020, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danske Bank A/S.

This was a themed inspection in several financial institutions with the focus on the banks' market risk management functions and governance regarding valuation models.

For the market risk area, the FSA reviewed the key management documents and the organisation of the area, including the use of committees. In addition, the FSA examined which tasks are the responsibility of the banks' market risk functions in the second line of defence. The FSA placed particular emphasis on the distribution of responsibilities between the first and second lines of defence, including the extent to which the risk management functions in the second line of defence challenge the risk-taking of transactional entities and whether there is sufficient monitoring that the bank's market risks are within the limits determined by the board of directors and the board of management. The inspection focused on governance regarding market risks related to positions in the trading book.

As regards valuation models, the FSA's inspection focused on the banks' governance in terms of ensuring correct valuations. Correct valuations are key to establishing whether the banks have calculated risks correctly. The inspection did not include the IT risks associated with operating and implementing the valuation models.

Summary and risk assessment

As part of the inspection, the FSA assessed that, from an overall perspective, Danske Bank's risk management function in the market risk area adequately monitors and understands developments in Danske Bank's market risks. The FSA assessed that Danske Bank's second line of defence risk departments play a significant role at the bank and may serve to counter the risks assumed in the first line of defence. However, the FSA assessed that due to the very active role of the risk management function in the organisation and inadequate precision in the description of the role, the distribution of responsibilities between Danske Bank's first and second lines of defence appeared in some respects to be unclear. Lack of clarity may lead to each of the lines of defence underestimating their responsibilities.

In relation to the determination, delegation and distribution of operational limits in the market risk area, the bank was ordered to ensure clear, precise and well-documented distribution of responsibilities between the first and second lines of defence. In addition, the bank was ordered to identify and assess any conflicts of interest on the bank's committees relevant to the market risk area established below the level of the Board of Directors and the Executive Leadership Team and to ensure through business procedures and the committees' charters that the distribution of responsibilities between the first and second lines of defence is clear and well-documented.

As part of the inspection, the FSA reviewed the bank's management reporting. In that connection, the bank was ordered to ensure that the reporting to the Board of Directors includes information about the utilisation of the bank's most significant limits in the market risk area in addition to the reporting on any violation of limits the Board of Directors already receives.

The inspection also revealed that the bank's compliance function does not have adequate methods and procedures in place to identify and reduce compliance risks relating to the market risk area, including valuation models. The bank was therefore ordered to implement such methods and procedures.

At 31 December 2019, Danske Bank A/S calculated its solvency need ratio at 12.7%. The inspection did not give rise to change the bank's calculated solvency need.