

August 2024

## **Statement on functional inspection of Danske Bank A/S's quality-improving services**

In the first half of 2024, the Danish Financial Supervisory Authority (the Danish FSA) conducted a functional inspection of Danske Bank A/S focusing on the bank's documentation of quality-improving services provided in return for agency commissions.

The functional inspection formed part of a themed review that also covered four other banks. The purpose of the inspection was to check whether the bank has documented its compliance with the requirements for providing quality-improving services to investment customers paying agency commissions to the bank.

At the inspection, the Danish FSA noted that Danske Bank has a process for evaluating how the bank complies with the rules on quality-improving services. However, the documentation has a number of shortcomings. For example, the bank assesses its service offerings only at a general level. Moreover, since the introduction of the bank's current model for providing quality-improving services in 2019, the bank has not revisited the assessment of the value of the services offered and the assessment of whether the bank provides services that are proportionate to the agency commissions received. Finally, the bank's management is not sufficiently involved.

Because of the inadequate documentation, the bank is unable to demonstrate that its customers actually receive quality-improving services for the agency commissions that they pay, and this involves a risk that the bank fails to meet the obligation to provide satisfactory quality-improving services to its customers.

As a result, the Danish FSA has ordered the bank to update its procedures for evaluating quality-improving services for the purpose of ensuring that the bank, to a satisfactory degree, records how commissions improve the quality of the services provided to its customers.<sup>1</sup>

The bank's business model is targeted solely at customers receiving advisory services, but the bank's systems do not exclude customers from trading on their own without making use of the bank's advisory services. At the inspection, the Danish FSA noted that the bank does not inform such customers that, if they do not make use of advisory and related services, they pay agency commissions covering service offerings that are not relevant, in whole or in part, to them.

Not providing this information to customers who choose to trade on their own entails a risk that the bank does not provide services that are proportionate and relevant to customers without the customers being aware of this fact.

As a result, the Danish FSA has ordered the bank to inform commission-paying customers that, if they do not make use of advisory services, they pay agency commissions covering service offerings that are not relevant, in whole or in part, to them.<sup>2</sup>

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<sup>1</sup> See section 8(ii) of the Danish Executive Order on Third-Party Payments etc.

<sup>2</sup> See section 3 of the Danish Executive Order on Good Business Practices for Financial Undertakings.