

The Danish Financial Supervisory Authority

20 September 2018

Statement on inspection of Danske Bank A/S's liquidity stress tests

Introduction

In the spring of 2018, the Danish Financial Supervisory Authority (the FSA) conducted an inspection of Danske Bank A/S's liquidity stress tests. The inspection formed part of a themed review of four systemically important financial institutions (SIFIs).

The objective was to look into the design of the institutions' own liquidity stress tests. This included examining whether or not the stress tests sufficiently cover the liquidity risks to which the individual institutions are exposed. The FSA thus examined the methods and assumptions used by the individual institutions in their liquidity stress tests.

Summary and risk assessment

The FSA finds that Danske Bank generally has appropriate methods for designing its liquidity stress tests, but also that there is a need for specific adjustments.

For example, Danske Bank does not assume full run-off of its short-term funding programmes (CD/CP programmes (excluding USCP)) in its liquidity stress test scenarios. The FSA believes that investors will quickly withdraw from this market in the event of stress because no collateral is provided for their investments.

In addition, in its liquidity stress tests, Danske Bank should apply higher haircuts to its holdings of own mortgage credit instruments than to the holdings of mortgage credit instruments from another institution since institution-specific stress can also be expected to have an effect on the value of an institution's own instruments.

Furthermore, Danske Bank should be in a position to perform liquidity stress tests more than once a month, to calculate and monitor the development in the liquidity coverage ratio (the LCR) on a regular basis in its liquidity stress tests and to perform separate liquidity stress tests for Danske Bank A/S. Moreover, in its stress tests, Danske Bank does not include stress of all relevant off-balance-sheet items. Finally, Danske Bank should perform separate liquidity stress tests for currencies that are of material importance to the Group.