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**The Systemic Risk Council**
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PRESS RELEASE

# MEETING OF THE DANISH SYSTEMIC RISK COUNCIL

**The Systemic Risk Council (the Council) held its fourth meeting. The Council discussed the current financial situation, followed up on its recommendation of June 2013 and considered relevant issues in relation to hearings.**

**Current financial conditions**
The Council discussed the current financial situation with a view to identifying and monitoring potential systemic risks in the Danish financial system. Lending from credit institutions relative to GDP fell in the 3rd quarter of 2013, but remains at a high level. Measured in Danish kroner, lending was broadly unchanged in recent quarters. Recent years' tightening of credit standards has ended, and banks' lending rates declined through 2013, while earnings remained weak. The banks had customer funding surplus and debt issued has primarily been of long maturity.

In light of the growth in the repo market in Denmark since the beginning of the financial crisis, the Council considered potential related sources of financial instability. All other things equal, use of collateral contributes to a more stable financial system. However, increased use of repos and rehypothecation can also bring vulnerability to the financial system in some cases due to a higher risk of fire sales and falling prices, which may propagate throughout the system. The Council decided to continue working on the issue.

The Council discussed whether households with high debt increase the vulnerabilities in the financial system. A study indicates that Danish households with high loan-to-value ratios in 2007 demonstrated a greater propensity to reduce consumption during the ensuing crisis. This is likely to have contributed to weaker growth in private consumption and economic activity in recent years, with spill-overs to the financial sector. The Council will revert to the issue.

**Follow-up on the recommendation of June 24, 2013**
The Systemic Risk Council issued a recommendation to the government on June 24, 2013, on the phasing-in of capital requirements legislation in Denmark. Since the Council's meeting in September, the government has

presented a draft law on, inter alia, the regulation of Systemically Important Financial Institutions (SIFIs) and the phasing-in of the countercyclical capital buffer. It is the Council's assessment that the recent draft law largely meets the recommendation with respect to the identification of and capital requirements for SIFIs. The Council noted that a decision on crisis management of SIFIs is pending clarification on the future common EU-rules on crisis management. The Danish framework for the countercyclical capital buffer is proposed to be phased-in gradually from 2015 to 2019. The Council had recommended that the framework should be introduced in full from 2015. The Council found that if, for example, credit developments in the period up to 2019 would warrant a level of the countercyclical buffer that is higher than the one allowed under the gradually implemented framework, new legislation would be required.

According to a political agreement (Bank Package 6) on, inter alia, the phasing-in of the framework for the countercyclical capital buffer, buffer rates set in other EU/EEA Member States will be recognized up to a level of 2.5 per cent of risk-weighted assets from 2015. In Norway, it has been decided to activate the countercyclical capital buffer. The level should be 1 per cent of risk-weighted assets as of July 1, 2015. The Norwegian decision will thus have an impact on Danish banks with credit exposures in Norway.

**Hearings**

By law, the Council shall be consulted on warnings and recommendations from the European Systemic Risk Board (ESRB). The Danish Financial Supervisory Authority (FSA) presented to the Council its intended reporting to the ESRB and the ECOFIN regarding the ESRB's recommendation on funding of credit institutions (ESRB/2012/2). The Council had no comments.

According to the government's proposal to amend the Financial Business Act, the Council is to be consulted on exemptions from the requirement to draw up recovery plans for mortgage banks, commercial banks and certain investment firms. The FSA presented the draft exemption to the Council for banks and certain investment firms with a balance sheet of less than kr. 1 billion. The Council had no comments. The FSA is expected to launch a public hearing on a draft executive order on this matter in the first quarter of 2014.

The meetings of the Council in 2014 are scheduled for March 26, June 19, September 25 and December 16.

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