DET SYSTEMISKE RISIKORÅD

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PRESS RELEASE

MEETING OF THE SYSTEMIC RISK COUNCIL

The Systemic Risk Council (the Council) has held its fifth meeting. The Council discussed current financial conditions and other relevant topics and assessed the follow-up on the Council's recommendation on the phasing-in of capital requirements legislation in Denmark overall.

Current financial conditions

Lending by credit institutions is at a high level and almost unchanged from the 3rd to the 4th quarter of 2013. Credit conditions have been eased slightly, and the institutions' risk appetite seems to have increased. Competition has intensified. This pattern is seen e.g. from the diminishing interest-rate margin, Danmarks Nationalbank's lending survey and a survey by the Danish Financial Supervisory Authority focusing on the development in selected business segments. Next autumn, the Danish Financial Supervisory Authority will conduct a targeted survey of the credit standards for selected new grants.

The banks have a lower need for market-based funding than before the financial crisis due to continued customer funding surpluses at end-2013. Considerable long-maturity issues were made towards the end of the year. Many of these were subordinated capital that can be used in connection with the banks' adjustment to coming capital requirements.

Overall, there are no indications of accumulation of vulnerabilities in the banks' exposures to other sectors and households.

Other topics of relevance to the Council

The Council discussed aspects of a supervisory diamond for mortgage banks based on the Danish Financial Supervisory Authority's preliminary deliberations on its content. The Council supported the concept. The work on establishing a supervisory diamond follows up on a recommendation from the Committee on the causes of the financial crisis (the Rangvid Committee).

The Council discussed the implications of deferred-amortisation loans. There are positive welfare effects from deferred-amortisation loans. They expand, for instance, the opportunities for smoothing consumption over a lifetime. In a financial stability perspective, amortisation of the "last-ranking" part of loans with a high loan-to-value ratio will contribute to lowering the credit institutions' credit risk and reducing any need to pledge top-up collateral. The

Council decided to analyse further the systemic risks in relation to deferred-amortisation loans.

The Council made some preliminary observations regarding inter alia the capital- and liquidity-based possibilities for macroprudential measures in the new capital requirement rules (CRR/CRD IV) implemented in Danish law with the amendment to the Danish Financial Business Act of 18 March 2014. In order to provide guidance on the use of the possible measures, the European Systemic Risk Board, ESRB, has published a report on the macroprudential policy framework in the EU and a handbook containing operational advice.

The Council also discussed macroprudential aspects of a number of other regulatory initiatives, including the framework for a banking union in the EU, the European Commission's proposal for structural reform of the banking sector, the implementation of the Crisis Management Directive, the status of the European definition of Liquidity Coverage Ratio, LCR, and the Act on mortgage banks' refinancing risk.

Overall assessment of follow-up on recommendation
The Council has received an answer from the government regarding the Council's recommendation of 24 June 2013 on the phasing-in of capital requirements legislation in Denmark. The Council shares the government's view that the political agreement (Bank Package 6) and the passed act of 18 March 2014 generally comply with the recommendation. The Council noted that a decision on crisis management of SIFIs, including a crisis management buffer, awaits the implementation of common EU rules. Furthermore, the Council noted that the Danish framework for the countercyclical capital buffer will be phased in gradually from 2015 to 2019. The Council had recommended that the framework should be implemented 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. Appendix 1 contains an overview of the follow-up on the individual parts of the recommendation and any deviations.

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Appendix 1. Evaluation of follow-up on recommendation from the Systemic Risk Council

Follow-up on recommendation on the phasing-in of capital requirements legislation in Denmark	Table 1
Requirements in recommendations	Financial Business Act of 18 March 2014 and Bank Package 6
Sub-recommendation concerning the implementation of CRR/CRD IV:	
▪ Identification criteria for SIFIs should be introduced as from 2014.	▪ Identification criteria for SIFIs have been introduced. SIFIs will be identified for the first time before 30 June 2014.
▪ Liquidity requirements for SIFIs should be introduced from 2014-15 in accordance with the SIFI Committee's recommendations.	▪ See Table 2.
▪ Existing requirements should be maintained for a transitional period in cases where the phasing-in period in the European capital requirements legislation (CRR/CRD IV) entails easier requirements than existing legislation.	▪ The Liquidity Coverage Ratio (LCR) will be phased in gradually until 2018. Existing Danish liquidity requirements will be maintained as a floor up to and including 2016. ▪ Executive order on transitional rules under the CRR regulation are designed to ease the transition from the existing legal status to the status laid down in CRR as much as possible in those areas in which the legal status does not already comply with CRR.
▪ The framework for the countercyclical capital buffer should be fully implemented as from 1 January 2015.	▪ The framework for the countercyclical capital buffer will be gradually phased-in from 2015 to 2019.
Sub-recommendation concerning the implementation of the SIFI Committee's recommendations:	
▪ The government should present a bill to implement the SIFI Committee's recommendations.	▪ See Table 2.

Follow-up on sub-recommendation concerning the implementation of the SIFI Committee's recommendations Table 2

SIFI Committee's recommendations	Financial Business Act of 18 March 2014 and Bank Package 6
Identification:	
▪ Identification criteria.	▪ Applies the same indicators. ▪ Lower limit for the balance sheet indicator. ▪ No qualitative assessment.
▪ Identification by the Danish Financial Supervisory Authority on the basis of a recommendation from the Systemic Risk Council.	▪ Identification by the Danish Financial Supervisory Authority. ▪ The Minister for Business and Growth may grant/withdraw a financial institution's SIFI status prematurely.
Capital requirements:	
▪ SIFI requirements within the interval 1-3.5 per cent of risk weighted assets.	▪ SIFI requirements within the interval 1-3 per cent of risk weighted assets.
▪ Higher capital requirements if SIFIs become more systemically important.	▪ Cap of 3 per cent of risk weighted assets irrespective of systemic importance.
▪ Gradual phasing-in until 2019.	▪ Gradual phasing-in until 2019.
▪ SIFI capital requirements should be met by means of Common Equity Tier 1 capital and determined at a consolidated level and solo level.	▪ SIFI capital requirements should be met by means of Common Equity Tier 1 capital and determined at a consolidated level and solo level.
▪ A crisis management buffer should be established over a 3 year period from 2020.	▪ A crisis management decision is postponed until the implementation of the EU crisis management directive in Danish law has been clarified.
▪ Requirements for recovery and crisis management plans (resolution plans) for SIFIs. ▪ Crisis management plans should be prepared by authorities.	▪ All SIFIs with balance sheets exceeding kr. 1 billion should prepare resolution plans. ▪ Resolution plans also form part of the implementation of the EU crisis management directive. ▪ Resolution plans will be prepared in close dialogue with the SIFI.
Liquidity requirements:	
▪ The Liquidity Coverage Ratio (LCR) should be fully phased in for SIFIs as from 2015.	▪ As a starting point, if Danish mortgage bonds are included as highly liquid assets in the LCR, the LCR will be fully phased in as from 2015.
▪ Requirement for more stable funding as from 2014.	▪ The Ministry of Business and Growth, the Danish Financial Supervisory Authority and Danmarks Nationalbank will prepare a proposal for specific rules regarding stable funding of SIFIs.
Other requirements:	
▪ Requirements for good corporate governance.	▪ A working group will be set up to present proposals for the implementation of agreed measures.
▪ SIFIs should be subject to enhanced supervision.	▪ SIFIs will be subject to enhanced supervision.
Crisis management:	
▪ Crisis management trigger for SIFIs of 10.125 per cent of risk weighted assets.	▪ The EU crisis management directive has been adopted and is to be implemented into Danish law.
▪ The trigger to limit bonus and dividend payments, etc. should include Pillar II requirements.	▪ The trigger will exclude Pillar II requirements.
▪ Possibility of compulsory use of crisis management tools ▪ Introduction of alternative crisis management tools ▪ Establishment of a stability fund.	▪ The EU crisis management directive has been adopted and is to be implemented into Danish law.
▪ A crisis management authority should be established.	▪ The Financial Stability Company will undertake in an adjusted form the task of national resolution authority – discussions on the design of the coming resolution authority are in progress.