

**FOR
INFORMATION**

SM/20/113
Correction 1

July 20, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Denmark—Publication of Financial Sector Assessment Program
Documentation—Technical Note on Financial Safety Net and Crisis
Management Arrangements**

Board Action: The attached correction to SM/20/113 (7/17/20) has been provided by the staff:

Typographical Errors **Page 25**

Questions: Mr. Elekdag, MCM (ext. 34835)

provided within a day without parliamentary approval.³⁹ Re-lending would be on market terms and paid back over time with the industry's contributions to the Resolution Fund.

OFFICIAL FINANCIAL SUPPORT (INCLUDING LIQUIDITY ASSISTANCE IN RESOLUTION)

A. Official Financial Support

44. Denmark has implemented in its law the BRRD's optional government stabilization tools.⁴⁰ In extraordinary circumstances, the state may participate in the resolution of an institution when the use of other resolution tools would not suffice to avoid significant adverse effects on financial stability or the public interest. The tool allows the government to provide capital contributions or to temporarily acquire the institution through a company established by FSC. The tool may only be applied when the Minister for Industry, Business, and Financial Affairs assesses the conditions for the use of the stabilization tool have been met and when the parliament's Finance Committee has approved the application. The Minister will base his decision upon a recommendation of FSC and after consulting with DFSA and DN. FSC would then implement the decision on behalf of the state. The use of the tool is subject to the mandatory 8 percent contribution to loss absorption by the institution's shareholders and creditors and also to the EU state aid rules. *Assistance*

45. Beyond this, the framework does not explicitly establish arrangements for exceptional financial or system-wide support. Such support would be discussed within the Coordination Committee on Financial and would be subject to final approval by the Danish Parliament. Crisis funding would be available only as a last resort and on the condition that it is paid back by the industry (as exercised during the last financial crisis through the Bank Packages).

B. Liquidity Assistance in Resolution

46. The critical issue of liquidity support in resolution warrants further consideration. The Danish authorities acknowledge the importance of having procedures in place but are following the EU discussions on the topic while exploring different options internally (liquidity provided through ELA, the Resolution Fund with government back-up or the government directly). DN may—but is not obliged to—grant emergency liquidity assistance (ELA) to solvent credit institutions (banks and MCIs) that have a temporary need for liquidity and that are no longer able to refinance their

³⁹ Art. 74 (4) Resolution Act. Out of courtesy, the government might consider informing the parliament (Finance Committee) on the matter out, provided there is sufficient time. There are arrangements in place to ensure confidentiality of such information process.

⁴⁰ Section 51 Resolution Act.