

The Danish Financial Supervisory Authority

MEMORANDUM

The Danish FSA

9 May 2022

Statement on inspection at Sydbank (management of counterparty risk)

Introduction

In November 2021 the Danish FSA conducted an inspection at Sydbank to assess Sydbank's management of counterparty risk.

The inspection comprised a review of the bank's management documents, organisation, duties and division of responsibilities between departments. In addition the Danish FSA reviewed the bank's controls, its approach as regards approval of exposures with counterparty risk, reporting and ad hoc analyses.

Summary and risk assessment

In the Danish FSA's assessment the bank's exposure to counterparty risk is limited relative to the bank's size.

The Danish FSA found that the bank's management documents do not explicitly include a position on the risk profile in the counterparty risk area or when a customer is considered to be suitable to enter into an exposure with counterparty risk. Therefore the bank has been ordered to ensure that the bank's management documents reflect the counterparty risk area to a relevant extent and that the bank ensures an adequate calculation and reporting to the group executive management in terms of the overall counterparty risk.

The bank does not have in place adequate documentation, processes and controls of the bank's risk weighting used to determine the framework of counterparty risk as regards the bank's non-financial counterparties. As a result the Danish FSA has ordered to bank to ensure that the method of calculation of counterparty risk is reviewed on a regular basis and that this process is well documented.

The Danish FSA found that the bank's business procedures regarding approval and reapproval of deviations from the bank's standard CSA agreements and consequently the division of responsibilities as to when departments are involved are not clearly described. The bank was therefore ordered to ensure that the business procedures related to the approval of deviations from standardised CSA agreements are clear.

The inspection did not give rise to any change in the bank's solvency need, which represented 10.6% at 31 December 2021.