

Statement on thematic review of market risk at Sydbank A/S (settlement of derivatives)

Introduction

In March 2017 the Danish FSA conducted a thematic review at Sydbank A/S on the settlement of derivatives with special focus on the handling of standardised derivatives.

In determining whether settlement is handled in a prudent manner the Danish FSA assessed for instance whether settlement is made independent of the transacting entities and whether there is adequate system support for the settlement. Moreover the review included the daily processes for exchanging collateral in relation to trading with derivatives as well as banks' use of risk mitigation techniques for bilaterally traded derivatives. Finally the review comprised banks' ongoing monitoring of the reporting of trade details regarding derivatives to trade repositories.

On the basis of risk assessment, the review was conducted at four selected banks.

Summary and risk assessment

It is the Danish FSA's assessment that Sydbank A/S' organisation and system support for the settlement of standardised derivatives as well as the exchange of collateral, the use of risk mitigation techniques and the monitoring of reporting are in compliance with the statutory requirements in this area.