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4-21-2009

### Summary of Government Interventions in Financial Markets - Denmark

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#### Recommended Citation

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## Summary of Government Interventions *Denmark*

### Overview

In response to effect of the crisis on Danish financial markets, Denmark, similar to the US, the UK, Germany, Ireland and the Netherlands, has established a state guarantee scheme and a bailout package to ensure financial stability in the country.

### State guarantee scheme

On 5 October 2008, the Danish Government and the Private Contingency Association (the “PCA”, in Danish: *Det Private Beredskab*, which was established in 2007 and comprises nearly all Danish banks), agreed to establish a safety scheme to ensure that depositors and (in respect of Danish banks only) other unsubordinated and unsecured creditors are protected.

The guarantee scheme provides that the Kingdom of Denmark unconditionally guarantees the claims of unsecured creditors against banks to the extent such claims are not otherwise covered (i.e. by the Deposit Guarantee Scheme or other depositor arrangements). The unsecured claims covered within the guarantee period include:

- deposits;
- interbank liabilities; and
- unsecured creditors (i.e. senior debt),

but not including:

- hybrid capital and subordinated debt;
- covered bonds; or
- other secured claims.

The guarantee provided by the Kingdom of Denmark is unlimited, unconditional, irrevocable and granted through the Winding-Up Company, a public limited company which has been established as part of the scheme by the Danish Ministry of Economic and Business Affairs with a share capital of DKK 500,000 and which is wholly owned by the Kingdom of Denmark. The Winding-Up Company is responsible for covering the unsecured claims and has a power to wind up a bank which fails to meet the statutory capital adequacy requirements and for which no sustainable private sector solution can be found. The Winding-Up Company will contribute to a new subsidiary in order to take over the distressed bank and wind it up in a controlled way to safeguard unsecured creditors against losses.

The scheme covers all Danish banks which were members of the PCA prior to 13 October 2008 and may cover their foreign branches, provided they are in a country with a corresponding guarantee scheme. Danish branches of foreign banks can also access the scheme but will only receive coverage for a limited type of claim (i.e. deposits of a type covered by the Danish Deposit Guarantee Scheme).

The arrangement will be in force until 30 September 2010 with the possibility of extension if deemed necessary. The Winding-Up Company may continue its activity after that date. The parties must have applied before 13 October 2008 to participate in the scheme, and participation in the scheme will be binding for the entire two year period.

The guarantee scheme is funded with a strong financial contribution from the participating banks. Under the agreement, the PCA will pay an annual guarantee commission of up to DKK 7.5bn for the two-year period. This amount will be apportioned among members of the PCA according to their size. In addition, the PCA will provide a guarantee of DKK 10bn against any losses of the Winding-Up Company. If, after the expiry of the scheme, the aggregate losses of the scheme, exceed DKK 25bn, the PCA will be liable for covering such losses by way of increased guarantee commission up to the amount of DKK 10bn. Accordingly, the Danish financial sector will absorb a portion of potential losses up to DKK 35bn. The government guarantee will cover any further losses.

Certain conditions were imposed on the banks participating in the scheme including a ban on dividend payments, any new stock buy-back arrangements and stock option arrangements and a restriction on banks undertaking a significant expansion of their activities. There will also be ongoing monitoring of individual banks both by regulatory authorities and also by industry sources to ensure that the restrictions are maintained.

The scheme is set out in the Financial Stability Act of 10 October 2008 available on the website of the Danish Ministry of Economic and Business Affairs:

<http://oem.dk/graphics/oem/nyheder/Pressemeddelelser%202008/Lov%20om%20finansiel%20stabilitet-eng.pdf>

The scheme was approved by the EU Commission on 10 October 2008:

<http://www.oem.dk/graphics/oem/Finansiel%20stabilitet/EU/EU-Kommissionens%20godkendelse.pdf>

### **Government loans and capital injections**

The Financial Stability Act of 10 October 2008 provides that the Danish National Bank will launch a number of new lending facilities involving further lending against collateral, including a special liquidity facility available for all Danish banks at an extraordinary high interest rate.

### *Credit aid package*

On 18 January 2009, the Danish Government concluded an agreement with the Danish political parties on a DKK 100bn credit aid package for banks and mortgage credit institutions (“**MCI**s”). Under the agreement, the Danish state will offer banks and MCIs state-funded capital injections which will take the form of hybrid core capital, to enable the banks and MCIs to continue to lend money to businesses and citizens for financially sound projects.

All credit institutions in Denmark that comply with the statutory solvency requirements may apply for state-funded capital injections until 30 June 2009.

The participating financial institutions are required to have, after the capital injection, a minimum 12 per cent. in tier 1 capital. Depending on the individual bank’s rating, capital adequacy and liquidity risk, the fixed interest rate will vary between 9 per cent. and 11.25 per cent. The state’s agreement with each bank will contain a provision that the capital is granted with the objective of creating room in the bank’s lending policies to counteract a credit squeeze, and the bank will undertake to submit semi-annual reports on lending developments and on the bank’s lending policies. According to the agreement, the Danish state will make capital available to banks on the condition that the financial sector complies with a number of requirements regarding executive pay.

Banks and MCIs will be able to redeem the loans after a period of three years and there will be financial incentives for them to do so. A three-year transition scheme will also be introduced with respect to the government guarantee in the Financial Stability Act, ensuring a gradual phase-out of the existing government guarantee until it expires on 30 September 2010, with effect from 1 October 2010, ordinary deposits will be covered by an increased deposit guarantee scheme of DKK 750,000.

Further, pursuant to the agreement, the supervision of banks and MCIs would be enhanced, and the Danish FSA would receive an additional DKK 15m with a view to increasing the scope of its supervision. On 24 March 2009, Reuters reported that the Danish FSA’s supervision is to target, in particular, mid-sized banks, after several of these lenders had defaulted or sought government protection over the last 12 months. The Danish FSA is planning also to publish once a year estimates of what solvency ratio it believes each individual bank requires in order to meet its legal obligations.

Detailed information on the credit package agreement is available on:

<http://oem.dk/graphics/oem/nyheder/Pressemeddelelser%202009/Aftale%20om%20kreditpakke%20eng%20oer%20bem%2018%20januar%202009%20uden%20bilagshenvisninger.pdf>

A bill implementing the agreement, including a proposal for a new Act on State-Funded Capital Injections was fast-tracked through the legislation process and adopted by the Danish Parliament on 3 February 2009. On the same day the recapitalisation scheme and amendments to the existing guarantee scheme were approved by the European Commission.

## Notable developments with commercial banks

### *Roskilde Bank*

On 11 July 2008, Roskilde Bank, the eighth largest bank in Denmark, was granted an unlimited liquidity facility by the Danish National Bank (“**DNB**”) and a guarantee of up to DKK 750m of any potential losses on the liquidity facility by the PCA, to enable it to continue its business. However, the rescue did not succeed and the DNB and the PCA decided on 24 August 2008 to take over, through a newly created entity, all assets and liabilities of Roskilde Bank, to wind up Roskilde Bank’s activities. Ultimately, a large part of Roskilde Bank’s branches were sold on 29 September 2008 to Nordea, Spar Nord Bank and Arbejdernes Landsbank. The European Commission approved the liquidation on 5 November 2008.

### *Fionia Bank A/S*

On 22 February 2009, Fionia Bank, the ninth-largest Danish bank by market value, ceded control to the Danish state in return for a DKK 1bn (USD 169m) capital injection that will keep the bank solvent. The agreement means that banking activities in the current Fionia Bank are transferred to a new company founded and owned by Fionia Bank but controlled by the State. The only assets of Fionia Bank (which is to be renamed Fionia Holding A/S) will be the shares in the new company which Fionia Bank will pledge (together with associated voting rights) to the State as collateral for the capital injection.

### *Danske Bank*

In its Annual Report 2008 announced on 31 March 2009, the Danske Bank Group stated that it would apply to the Danish state for subordinated loan capital in the form of hybrid core capital. The Bank has submitted its application and expects to receive subordinated loan capital totalling around DKK 26bn.

## Other developments

### *Swap Facilities*

On 29 September 2008, the Danish National Bank announced that the Federal Reserve has concluded agreements with a number of central banks, including the DNB, to increase and extend temporary reciprocal currency arrangements (swap lines).

The DNB’s swap facility has been increased from USD 5bn to a total of USD 15bn and the term has been extended until 30 October 2009.

### *Icelandic aid*

On 14 October 2008, Iceland drew on swap facilities it had set up with Nordic central banks tapping Denmark for EUR 200m (USD 273m).

Under the terms of the facility set up with the central banks of Denmark, Norway and Sweden, Iceland can swap ISK for up to EUR 500m with each central bank.

On 20 November 2008, the Ministers of Finance of Denmark, Norway, Sweden and Finland issued a joint statement on supplementing the IMF financing to Iceland of USD 2.1bn with additional loans of USD 2.5bn, with initial intention to split the loan roughly equally between the Nordic countries.

#### *Short selling*

With effect from 13 October 2008, the Danish Financial Supervisory Authority by the Executive Order on short selling No. 1004 has prohibited short selling in relation to shares in all Danish banks which are licensed under the Financial Business Act and traded on a regulated market. A transaction will constitute short selling where the person entering into the agreement either does not own the shares or has not entered into an agreement to become the owner of the shares (with the shares to be delivered in time to settle the short sale). There are certain exemptions provided for in the Order. A translation of the Order is available [here](#).

#### *Mortgage market & pension funds*

On 31 October 2008, Denmark announced a proposal to protect its USD 360bn mortgage-bond market from a sell-off by pension funds.

The government, the Danish Financial Supervisory Authority and the Danish Insurance Association agreed to let pension funds, which hold 25 per cent. of outstanding mortgage debt, change the way they calculate future obligations, reducing pressure on portfolios and preventing a “systematic divestment” of mortgage bonds.

#### *Interest-rate reduction*

With effect from 6 March 2009, as a consequence of lowering the European Central Bank’s rate on the main refinancing operations, the Danish National Bank’s lending rate and the rate of interest on deposit were lowered by 0.75 per cent. to 2.25 per cent. and the discount rate and the interest rate on the banks’ current accounts with Danish National Bank were lowered by 0.75 per cent. to 2.00 per cent. Danish National Bank’s interest rates were further reduced by 0.25 per cent. as a consequence of purchase of foreign exchange in the market.

With effect from 3 April 2009, the Danish National Bank’s lending rate and the rate of interest on deposit were lowered by further 0.25 per cent. to 2.00 per cent.

#### *Adoption of Euro*

The Danish Prime Minister is now seeking discussions with various parties on adopting the Euro, hoping to secure backing to hold a referendum within the next three years, as a result of the financial crisis. An economic cost of being outside the Eurozone is materialising, with the Kroner being hit by the global credit crunch as investors turn their backs on smaller markets.

### *2009 tax reform*

On 1 March 2009, the Danish government and the Danish People's Party have agreed on a tax reform and additional measures to stimulate activity in the Danish economy. The tax reform implies that income taxes are reduced by more than DKK 28bn. About half the cuts will come in 2010, with most of the rest in 2011. More detailed information may be found at: <http://uk.fm.dk/News/Press%20releases/2009/03/20090301%20tax%20reform.aspx>

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