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Implementation of BRRD, and use of and experiences with bail-in in Denmark

Oslo, 29 May 2015

Jens Verner Andersen, EVP – CFO

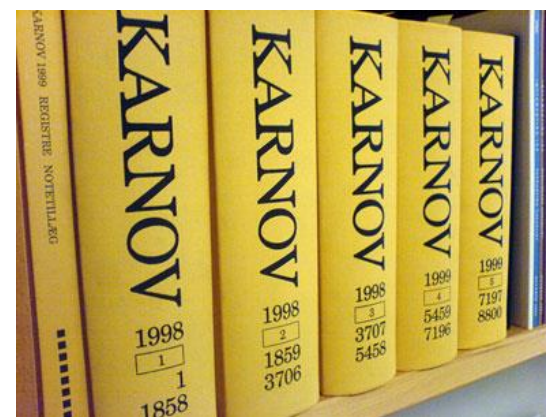
Financial Stability Company, Denmark

Agenda

- Danish framework for resolution of weak financial institutions since 2008
- About Financial Stability Company
- Summarized facts on the winding up process in Denmark
- Bank Package III/IV
- Implementation of BRRD in Denmark

Framework for resolution of weak financial institutions in Denmark

- Ministry of Business and Growth sets the political framework
- Central Bank holds the responsibility for the monetary policy
- The Danish FSA ensures that financial institutions comply with the legislation
- The Financial Stability Company has the responsibility for winding up weak financial institutions
- Deposit and Insurance Guarantee Fund has since 2010 been managed by Financial Stability Company though with a separate and independent board (until 31 May 2015)



Financial Stability Company – the winding up company

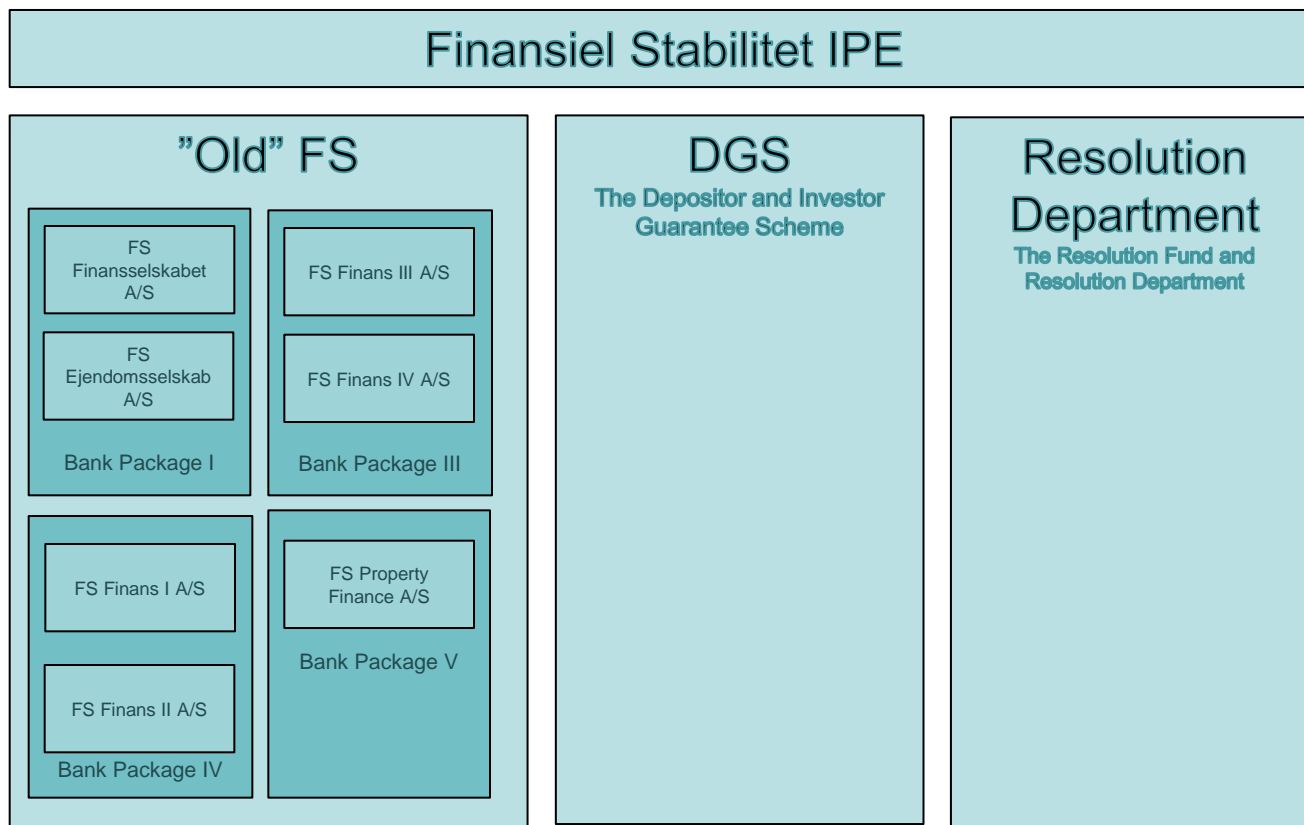
- Owned by the Danish State through the Ministry of Business and Growth
- Established in 2008 with the bank package as a result of the financial crisis
- Winds up financial institutions taken over as part of the Bank Package I-V and under the new legal regime (BRRD)



Results for winding up operations since 2008

	Activities (in total)	Remaining
Deposit accounts (billion DKK)	65	0
Loan accounts (billion DKK)	99	7
Employees (number)	2,600	30

Corporate Structure (as of 1 June 2015)



Legislation as from 2008 to 2015 – In brief

- October 2008** *The Bank Package* (Bank Package I) - general state guarantee. Terminated end September 2010
- February 2009** *The Credit Package* (Bank Package II) - individual state guarantee and capital injection from the State. Terminated end December 2010
- October 2010** *The Exit Package* (Bank Package III) – trimming unsecured senior loans and deposits above EUR 100,000
- August 2011** *The Consolidation Package* (Bank Package IV) – extension of the amended Exit Package (dowry from the Danish Deposit Guarantee Fund) to include a dowry from the Financial Stability Company
- March 2012** *The Development Package* (Bank Package V) - Initiatives for promoting the financing of SMEs (FIH property portfolio and farm financing institute)
- October 2013** The Bank Package IV - Financial Stability Company will in an adapted form continue to perform the role as national resolution authority (BRRD)
- June 2015** BRRD will enter into force as of 1 June 2015. Separates responsibility as national resolution authority between Danish FSA and Financial Stability Company

Banks taken over by the Financial Stability Company - update

The Bank Package (Bank Package I):

- Ebh Bank (21 November 2008)
- Loekken Sparekasse (2 March 2009)
- Gudme Raaschou Bank (16 April 2009)
- Fionia Bank (28 May 2009)
- (Roskilde Bank (10 August 2009))
- Capinordic Bank (11 February 2010)
- Eik Bank (14 October 2010)
- Eik Banki (14 October 2010)

Exit Package (Bank Package III):

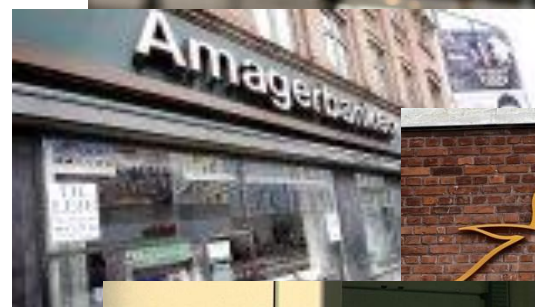
- Amagerbanken (6 February 2011)
- Fjordbank Mors (24 June 2011)

Consolidation Package (Bank Package IV):

- Max Bank (8 October 2011)
- Sparekassen Østjylland (21 April 2012)

Development Package (Bank Package V):

- FS Property Finance (May 2012)



Bank Package III/IV

The Exit Package (Bank Package III)

- The exit package came into force on 1 October 2010 (no longer general state guarantee)
- Incentive to enhance the market mechanism and pricing of risk. Thus simple creditors should bear the risk of the failure of financial institution

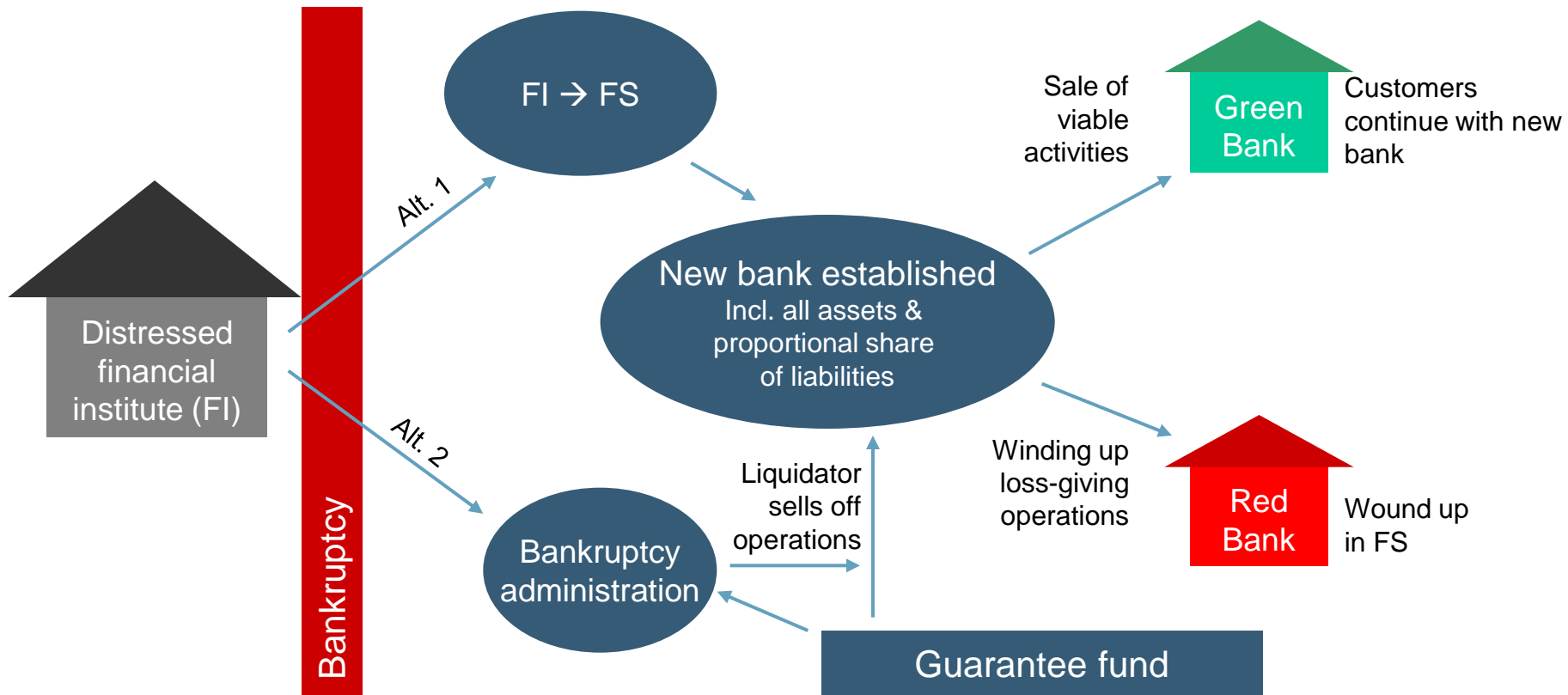
Consolidation Package (Bank Package IV)

- The Consolidation Package of September 2011 was implemented to create a greater incentive among viable financial institutions to take over engagements from distressed financial institutions wholly or partially
- Both the Guarantee Fund and the Financial Stability Company may contribute with a 'dowry'



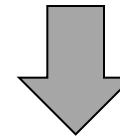
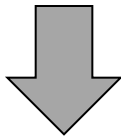
Finansiel Stabilitet

Bank Package III/IV



Outcome and processes under Bank Package III/IV

- FS takes over the distressed financial institution (excl. equity and subordinate capital)
- Healthy financial institution takes over the viable operations
- DGS covers any losses in connection with winding up



Result

- ✓ Distressed financial institution avoids bankruptcy
- ✓ Better image in the financial section
- ✓ The State carries no financial risk from winding up
- ✓ The infrastructure is in place immediately after the takeover
- ✓ Depositors with deposits above DKK 750,000 and all ordinary creditors may lose money (Bank Package III). Creditors may be compensated via dowry from DGS or Financial Stability Company (Bank Package IV)

Case: Amagerbanken

The screenshot shows a web browser window displaying the FT Alphaville website. The address bar shows the URL: <http://ftalphaville.ft.com/2011/02/17/490921/armageddon-bank/>. The page title is "Armageddon Bank | FT Alp...". The user is logged in as "HBN@FINANSIELST" and "Welcome ABILITET.DK". The page features a search bar and a navigation menu with categories: "The Blog", "Markets Live", "The Long Room", and "Camp Alphaville 2015". The main article is titled "Armageddon Bank" by Tracy Alloway, dated Feb 17 2011 08:20. The article text reads: "Amagerbanken is a small bank in Denmark – but its failure could end up having big consequences for investors in bank debt. It might end up being a relatively rare instance of a bank's senior unsecured investors (and depositors) taking a hit. Here's Ivan Zubo and Olivia Frieser at BNP Paribas with the background: " At a Friday night Board meeting on 4 February, the Directors of the bank determined that the additional writedowns in Q4 2010 of DKK3.14bn implied the equity capital of the bank as of 1 January 2011 would be proforma negative DKK0.7bn. The bank subsequently informed the Danish FSA that it did not meet the solvency requirements. The FSA responded with an order for the solvency requirements to be met by 7pm on 6 February. As no acquirer or investor could be found in such a short period of time (i.e. over the weekend), the supervisory board of the bank elected for the bank to be wound down under the new Danish legislation approved in June 2010 and in force since 1 October 2010. Hence, all the assets and some liabilities have been transferred to a new company, Amagerbanken af 2011 A/S, which is wholly owned by Financial Stabilitet A/S ('Financial Stability'), the government's bank resolution fund. Equity

On the right side of the page, there is a promotional banner for "fDi Magazine" and "fDi Forum 2015" on 24 September at Kings Place, London. Below the banner is a "MOST POPULAR" section with a list of five articles:

1. Where are Plus500's customers?
2. 21 Inc and the plan to kill the free internet
3. Is Calpers missing the forest for the trees?
4. Every day we're sorry, by \$53m
5. Further reading

A "Show more" link is provided below the list. The bottom of the page shows a Windows taskbar with various application icons and a system tray with the date 14:23 on 22-05-2015.

Summary of Amagerbanken before take-over

	2010 (Q1-Q3)	2009	2008	2007
Private customers	n/a	110.000	n/a	n/a
Coperate customers	n/a	10.000	n/a	n/a
Profit/loss for the year	-328,1	-468,9	-582,9	393
Selected balance sheet items (DKKm)				
Loans and advances	21.105	22.164	24.411	24.664
Deposits	7.704	13.129	14.441	15.033
Issues bonds	15.244	10.129	3.309	1.737
Subordinated debt	2.535	2.529	1.174	1.351
Shareholdes' equity	2.441	1.888	1.640	2.319
Total assets	33.290	33.638	35.587	31.101
Solvency				
Solvency ratio	19,1	17,2	10,1	12,5
Core (tier 1) capital ratio	13,9	12,0	6,3	8,2
Credit risk				
Sum of large exposures	161,4	180,3	416,3	349,1
Growth in lending for the year (%)	-10,8	-9,2	-1,0	35,5
Depreciation ratio for the year	3,1	4,1	4,0	0,1
Accumulated depreciation ratio	13,6	9,8	5,2	1,2
Liquidity				
Excess cover/statutory adequacy requirement	153,6	208,6	101,1	72,1
Loans/deposit ratio	3,2	2,0	1,9	1,7
Employees				
Number of employees, full-time equivalent, end-of-year	481,6	503,2	579,5	575,4
Rating (Moody's)				
Financial strength	D-	E+	C-	n/a
Long-term liquidity	Baa2	Baa3	A3	n/a
Short-term liquidity	NP (Not prime)	P-3	P-2	n/a

	Long-Term	Short-Term
Investment-Grade	Aaa	Prime-1
	Aa1	
	Aa2 Aa3	
	A1	Prime-2
	A2 A3	
	Baa1	Prime-3
Baa2		
Baa3		
Speculative-Grade	Ba1	Not Prime
	Ba2	
	Ba3	
	B1	
	B2	
	B3	
	Caa1	
Caa2		
Caa3		
Ca		
C		

Losses allocated on simple creditor groups

	Claim (DKKm)	Loss (DKKm)
Full loss:		
Equity*		2.441
Subordinated capital		2.550
Dividend (preliminary):		
Financial Stability Company	13.600	2.122
DGS	5.900	920
Other unsecured creditors	2.722	425
Contingent liabilities	2.200	343
		3.810

* As of 30 September 2010

- Paid out preliminary dividend 84,4 %

Status for winding-up of Amagerbanken

(DKKm)	2011 (taken over)	Winding-up	Status 31 Dec. 2014
Loans and advances	13.157	12.457	700
Deposits	7.191	7.191	0
Issued bonds	15.083	15.083	0
Total assets	28.110	26.413	1.697
No. of employees in continuing employment	285	285	0

- Expected higher dividend ratio (Currently around 90 pct.)

Implementation of BRRD in Denmark (1)

- The legislation implementing BRRD was approved by Danish parliament in March 2015 and will enter into force on 1 June 2015
- Two resolution authorities
 - The powers dedicated in BRRD to the resolution authority are divided between Danish FSA (DFSA) and Financial Stability Company (FSC)
- DFSA will be the competent resolution authority until the institution meets the resolution conditions
 - FSC will develop resolution plans. DFSA is granted the power to conclude resolution plans and resolvability assessments and determine the MREL as resolution authority. These powers will be made in cooperation with the FSC
- FSC will be the more executing resolution authority
 - FSC is granted the resolution powers when the resolution conditions are met
- The DGS is transferred to FSC

Implementation of BRRD in Denmark (2)

- Cooperation between the FSC and DFSA
 - The DFSA and the FSC will cooperate on the preparation of resolution plans. The DFSA is responsible for the final wording including orders to remove impediments to resolvability and MREL
 - The DFSA decides if an institution is failing or likely to fail and if there are any private sector solutions
 - FSC assesses whether the public interest test is fulfilled
- Preparation of resolution plans are still in a early phase
 - 81 banks and mortgage banks, including 6 SIFI and 4 resolution colleges
 - 8 investment firms

Concluding remarks

- In practice Denmark has been operating a bail-in regime since 2010 and 4 banks have been taken over under this set-up
- Leads to right market incentive for placing risks
- Private market had to adopt for new regime
- In process of preparing for new regime under BRRD