

Report on thematic inspection of market risk at Jyske Bank A/S (settlement of derivatives)

Introduction

In March 2017, the Danish Financial Supervisory Authority (FSA) conducted a thematic inspection at Jyske Bank A/S on the settlement of derivative financial instruments (derivatives) with special focus on the handling of standardized derivatives.

In its assessment whether the settlement is handled in a satisfactory and adequate manner, the FSA assesses, among other things, whether the settlement takes place independently of the acting units, and whether the settlement takes place on the basis of appropriate system support. In addition, the inspection covered the day-to-day processes for the exchange of collateral in relation to trade with derivatives and also the banks' use of risk-reducing methods applicable to derivatives traded bilaterally. Finally, the inspection covered the banks' on-going follow-up on reports of trading details on derivatives to trade registers.

On the basis of a risk assessment, thematic inspections were conducted at four selected banks.

Summary and risk assessment

The FSA found that Jyske Bank A/S' organisation and system support of the settlement of standardised derivatives are in compliance with the statutory requirements in the area. The FSA does, however, assess that the bank's reporting on the settlement to the person in charge of the day-to-day operations in the area must be expanded, and the bank was ordered to do so.

When examining the bank's day-to-day processes for the exchange of collateral in relation to trading in derivatives, the FSA found that the bank does not have specific guidelines for the follow-up on and on-going reporting of disputes in connection with the exchange of collateral. On that basis, an order to comply with this was issued to the bank.

In addition, the bank was ordered to strengthen its organisational anchoring of the risk-reducing methods in order to establish clear procedures for the execution and control of such methods. Also, the bank was ordered to establish reporting on the compliance with risk-reducing methods.

Finally, the bank was ordered to establish reporting to the person in charge of the area on the quality of the reporting to the bank's trade register.