FSB consultation on Effective Resolution of Systemically Important Financial Institutions

The financial crisis has shown that dealing with distressed credit institutions is a major challenge. Across Europe different rescue packages and resolution schemes have been put in place to ensure financial stability. The importance of an effective resolution and crisis management scheme for systemically important financial institutions (SIFI’s) is now being addressed by the FSB.

Denmark strongly support this initiative since a harmonised resolution approach for SIFI’s is required in order to ensure a level playing field for institutions across the different countries. The current situation with various solutions across countries hampers transparency and market efficiency. On this background we strongly urge the FSB in corporation with the EU Commission to fast-track an agreement on a harmonised approach for an effective resolution and crisis management scheme for SIFI’s.

Denmark supports the main principles in the consultative document. Denmark generally supports that taxpayers should not experience any loss, that SIFI’s can be resolved and the different resolution tools proposed.

I would like to add, that Denmark has already established a credible resolution regime providing for an orderly wind-up of distressed banks. The objective of the resolution regime is to safeguard financial stability and to minimize economic losses when a bank becomes unable to meet the statutory capital requirements. The scheme allows for potential losses to senior creditors and depositors as well as shareholders and subordinated debt while maintaining a going-concern organisation.

As a follow up to the resolution scheme already in place in Denmark, the Danish government has decided to set up an expert committee which amongst other things must clarify which criteria are to be met in order for a bank to be considered a Danish SIFI and which instruments may be used in relation to SIFIs which experience difficulties. The committee
will be set up this autumn and will report to the Minister of Economic and Business Affairs in 2012.

Specifically as to the question of what debt classes should be outside the scope of the statutory bail-in powers, the Danish government is of the strong opinion that secured debt such as covered bonds should not be included in the statutory bail-in powers. In that regard there must be no doubt that holders of covered bonds and junior covered bonds always will receive timely payment. Holders of covered bonds shall according to CRD and UCITS benefit from a privileged status in case of bankruptcy and holders of junior covered bonds do also benefit from such a status. It should therefore be made clear that covered bonds and junior covered bonds should not be subject of debt write down.

The scope should furthermore exclude covered deposits (also including e.g. retirement savings) but besides that be as broad as possible thereby ensuring an effective bail-in regime.

Yours sincerely

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