

Report on inspection of Jyske Bank's compliance function

Introduction

In October 2024, the Danish Financial Supervisory Authority (the FSA) conducted an inspection of Jyske Bank's compliance function (Compliance).

Financial and mortgage credit institutions must have methods and procedures that are suitable for detecting and mitigating the risk of non-compliance with legislation, market standards, and internal regulations (compliance risks). For this purpose, they must have a compliance function that operates independently and must monitor and assess whether these methods and procedures, as well as the measures taken to remedy any deficiencies, are effective.

The purpose of the inspection was to assess whether the compliance function operates appropriately and effectively and complies with the Danish Executive Order on Management and Control of Banks, etc. and ESMA's guidelines on certain aspects of the requirements of the compliance function according to MiFID-II.

The inspection was based on compliance risks related to the MiFID regulation on investor protection, the credit area, and the risk management function.

The Danish Financial Supervisory Authority's observations are based, among other things, on a review of Compliance's internal guidelines, a large number of Compliance's investigation reports, Compliance's risk assessments, and management reporting.

Conclusion and risk assessment

The inspection showed that Compliance was challenged in parts of the credit area due to moderate credit competencies. This included investigations of compliance risks related to lending. For other parts, Compliance had the competencies to assess compliance with credit rules. This includes investigations of the rules on creditworthiness, Jyske Bank's collateral

and the handling of price-sensitive information, where Compliance had only examined limited parts of the rules and Jyske Bank's activities.

Compliance had only to a limited extent investigated compliance risks related to the tasks of the risk management function, including the requirements of the risk management function under the Danish Executive Order on Management and Control of Banks, etc., which, like Compliance, is part of Jyske Bank's second line of defense.

Jyske Bank must submit a plan as to how it will strengthen the monitoring of compliance risks in the financial risk areas.

In the MiFID area, Compliance provided relevant recommendations, but the business units' feedback was sometimes vague and insufficient to address the identified deficiencies. Jyske Bank has implemented various measures to strengthen the impact of Compliance in the organisation, and this work must continue.

The inspection also showed that the risk assessments of Compliance, which are the basis for the planning of compliance activities, were not sufficiently well-founded. They were, for instance, not supported by figures and analyses and did not reflect the specific compliance risks associated with Jyske Bank's business model, nor did they sufficiently consider the risk to Jyske Bank's customers. Also, the risk assessments did not take into account legal areas that Compliance had not yet reviewed.

Jyske Bank has therefore been ordered to strengthen the risk assessments of Compliance to ensure better and risk-based monitoring of compliance risks¹.

Compliance has 14 employees, and a large part of the resources are used for monitoring through compliance investigations. Based on several compliance investigations over the past year, Compliance has assessed that Jyske Bank's compliance risk has increased. The identified issues suggest that Compliance does not have sufficient resources, and Jyske Bank must therefore explain how it ensures sufficient resources for its compliance tasks.

The inspection did not give rise to any changes to Jyske Bank's solvency requirement.

¹ The order was given with reference to S.17(1)-(2) of the Danish Executive Order on Management and Control of Banks, etc.