

Act on the Credit Association for Local and Regional Authorities in Denmark

(Lov om Kreditforeningen af kommuner og regioner i Danmark)

BE IT KNOWN that the Danish Parliament (Folketinget) has enacted and We Margrethe the Second, by the Grace of God, Queen of Denmark, have given Our Royal Assent to the following Act:

Part 1

Scope of application and definitions

1 (1) The Act applies to the Credit Association for Local and Regional Authorities in Denmark (the association).

2 (1) Part 2 of the Financial Business Act applies mutatis mutandis to this Act.

(2) Articles 4 and 5 of Regulation (EU) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms apply mutatis mutandis to this Act.

Part 2

Purpose and activities of the association

3 (1) The objects of the association are to grant loans and offer finance leases within the framework of the rules laid down by the Minister of the Interior and Housing on borrowing by local and regional authorities. The association may further offer its borrowers related financial services as defined in the articles of association of the association.

(2) The association operates under the name of KommuneKredit.

(3) The association must at all times have articles of association in place to regulate the affairs of the association, which articles of association are subject to approval by the Danish Financial Supervisory Authority.

4 (1) The association may offer the services mentioned in section 3(1)

i) to local and regional authorities and joint local-authority enterprises, and

ii) for other public purposes at local or regional level, meeting the conditions in section 4(2).

(2) It is a condition for granting loans and finance leases for other public purposes at local or regional level under section 4(1)(ii) that one or more local or regional authorities guarantee the loan or the finance lease (by assuming primary liability for the loan or the finance lease), or that the loan or finance lease is granted to companies etc. whose articles of association stipulate that the participants are jointly and severally liable for the loans raised or the finance leases concluded, and of which one or more local or regional authorities are partners or participants.

(3) The association may further grant loans and offer finance leases to Greenlandic and Faroese local authorities and certain Greenlandic and Faroese local entities against full guarantee from the Danish Government.

5 (1) Any local or regional authority which has taken a loan from, or entered into a finance lease with, the association, or which is liable for a loan, or a finance lease as set out in section 4(1),

is a member of the association.

(2) Greenlandic and Faroese local authorities which have taken loans from, or entered into finance leases with, the association as set out in section 4(3) are not members of the association.

6 (1) The association funds its activities by taking loans on money and capital markets and entering into financial instruments for hedging purposes.

(2) The association may raise subordinated capital subject to the approval of the Danish Financial Supervisory Authority.

7 (1) The members are directly jointly and severally liable for all obligations of the association. A member shall not withdraw from the association until the debt has been repaid and the member has been released from its joint and several liability in accordance with the articles of association of the association.

(2) On the recommendation of the Danish Financial Supervisory Authority, the Minister of Industry, Business and Financial Affairs may approve that the members are not liable for the subordinated capital raised by the association (see section 6(2)).

8 (1) The association may carry on its activities through subsidiaries subject to prior approval from the Danish Financial Supervisory Authority.

(2) The association may merge with approved subsidiaries (see section 8(1)) subject to prior approval from the Danish Financial Supervisory Authority.

Part 3

Management

9 (1) The board of directors and the management board of the association are responsible for managing the affairs of the association.

(2) The board of directors must ensure an appropriate organisation of the activities of the association. At least two of the members of the board of directors must be independent.

(3) The management board is in charge of the day-to-day management of the association.

10 Section 64(1)-(3), section 64e(1), sections 65, 70, 71, 72a and 72c, section 75(1) and (2), section 75a(1) and (2), and section 75b of the Financial Business Act apply mutatis mutandis to the association.

Part 4

Capital

11 (1) The equity capital of the association shall be at least 1 percent of the association's total liabilities at all times.

(2) The Danish Financial Supervisory Authority may order the association to write down assets, etc.

(3) If the equity capital is reduced to a level below the required minimum (see section 11(1)), the association must collect the amount required to restore the equity capital to a level satisfying the minimum equity requirement. The amount shall be collected from the members of the association in accordance with the guidelines set out in the association's articles of association. The amounts collected, plus interest, must be repaid to the paying members as soon as such repayment is possible, always provided that the association meets the requirement in section 11(1).

Part 5

Financial risks, liquidity, and market and counterparty risks

12 (1) The board of directors of the association shall lay down a policy on management of financial risks and the use of financial instruments, which policy must be sent to the Danish Financial Supervisory Authority immediately after its adoption. The Danish Financial Supervisory Authority may order the association to amend such policy.

13 (1) Article 411, article 412(1)-(3), article 413(1), article 414, article 415(1) and (2), article

416(1)-(4), (6) and (7), articles 417, 418 and 420, article 421(1), (2), (4) and (5), article 422(1)-(9), articles 423 and 424, article 425(1)-(5) and (7)-(9), and articles 427-428az of part 6 of the Regulation (EU) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms apply mutatis mutandis to the association.

(2) The Commission Delegated Regulation (EU) to supplement Regulation (EU) No 575/2013 with regard to liquidity coverage requirement for credit institutions applies mutatis mutandis to the association.

14 (3) Articles 1-4, 16 and 17 and Annexes 12, 13, 24 and 25 of the Commission Implementing Regulation (EU) laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions apply mutatis mutandis to the association. (1) The board of directors of the association shall lay down a market and counterparty risk policy providing the risk limit framework for the types of market and counterparty risks in and outside the trading book that the association may assume, and for the level of the individual risks.

(2) The association's market and counterparty risk policy must provide procedures for how market and counterparty risks are identified, quantified and reported.

(3) The policy mentioned in section 14(1) and significant amendments to such policy including new market and counterparty risks, significant changes to the current risk limit framework for market and counterparty risks, significant changes to the quantification of market risks or significant changes to the limitation of counterparty risks are subject to approval by the Danish Financial Supervisory Authority.

15 (1) The association's framework for market risks (see section 14(1)) must not cause the total market risks to exceed 25 per cent of the equity capital.

(2) The association must regularly check the calculated market risks against the risk limit framework set out in the association's market and counterparty risk policy (see section 14(1) and the market risk limit mentioned in 15(1)).

(3) The association must reduce or hedge market risks as soon as possible if the total market risks exceed 25 per cent of the equity capital at any time (see section 15(1)). The association must promptly notify the Danish Financial Supervisory Authority of any such exceeding.

16 (1) The association's market and counterparty risk policy (see section 14(1)) must specify the minimum credit rating that issuers of financial instruments in which the association wishes to invest must have at the time of investment.

(2) The association's market and counterparty risk policy (see section 14(1)) must specify the minimum credit rating that derivative counterparties with whom the association wishes to contract must have at the time of contracting.

Part 6

Disclosure of confidential information

17 (1) Section 117 and section 118(1), (5) and (6) of the Financial Business Act apply mutatis mutandis.

Part 7

Accounting and auditing

18 (1) The association must prepare an annual report in accordance with the international accounting standards (IFRS) adopted by the European Commission.

(2) Section 183(1), (2) and (6), sections 184-196, 198 and 199 and section 200(1) and (2) of the Financial Business Act apply mutatis mutandis to the association.

(3) For the purpose of ensuring that the annual report of the association is in compliance with the rules in section 18(1) and (2) and the rules issued pursuant hereto, the Danish Financial Supervisory Authority may i) offer guidance, ii) issue a reprimand for breach of certain rules, and iii) order the rectification of errors or order a violation to be stopped.

(4) In addition to the auditor appointed in accordance with section 18(2) (see section 199 of the Financial Business Act), the Minister of Industry, Business and Financial Affairs will appoint an additional auditor on recommendation from the association. The auditor appointed will, among other things, ensure that the association's lending is in line with the applicable rules on local and regional authority borrowing (see section 3(1), 1st sentence, of this Act), and the definition of the association's group of customers in section 4 of this Act.

(5) The auditor appointed under section 18(4), 1st sentence, will notify the Minister of Industry, Business and Financial Affairs and the Danish Financial Supervisory Authority of his or her observations and conclusions.

Part 8

Cessation

19 (1) If in the assessment of the Danish Financial Supervisory Authority, the security of the creditors is significantly deteriorated, and the association fails to take the necessary steps to address the situation within a deadline set by the Danish Financial Supervisory Authority, the Danish Financial Supervisory Authority may suspend the activities of the association or decide that its estate is put into administration.

20 (1) If the association ceases to carry on its business, its reserves will be used in accordance with the directions of the board of directors, except for provisions for pensions, and after all claims against the association have been settled.

Part 9

Supervision etc.

21 (1) The Danish Financial Supervisory Authority shall supervise compliance with this Act and rules and regulations issued pursuant hereto, except for section 3(1), 1st sentence, as well as sections 4 and 20.

22 (1) Section 346(1)-(3), section 347(1)-(6), sections 347a, 354, 354a, 354g and 355 and section 372(1) of the Financial Business Act apply mutatis mutandis to the association.

23 (1) At the expense of the association, the Danish Financial Supervisory Authority may arrange for an investigation into affairs relating to the association.

Part 10

Communication

24 (1) Part 2a of the Financial Business Act applies mutatis mutandis to the association.

Part 11

Penalty provisions

25 (1) Breaches of section 10, cf. section 64(2), cf. (1)(iii) and (iv), section 65(1), and section 75(1), 1st sentence, and (2) of the Financial Business Act, section 11(1) and (3), section 15, section 17, cf. section 117 and section 118(5) of the Financial Business Act, and section 18(2), cf. section 194, section 195(1) and (2) and section 200(1) and (2) of the Financial Business Act, shall be punishable by a fine or imprisonment for up to four (4) months unless a higher penalty is imposed pursuant to other legislation.

(2) Breaches of section 10, cf. section 64e(1), section 70(1)-(4) and section 71(1) and (2) of the Financial Business Act, section 12, section 13(1), cf. article 412(1) and (2), and article 415(1) and (2) of the Regulation (EU) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, sections 14 and 16 and section 18(2), cf. section 183(1), 1st sentence, and (5), section 184(1), section 185(1) and (3) and (4), 1st sentence, sections 186 and 187, section 188(1) and (2), 1st sentence, sections 189 and 190, section 191(1)-(3), section 192, 1st sentence, section 193, 1st sentence, section 198(1) and section 199(2) and (6) of the Financial Business Act, shall be punishable by a fine.

(3) Rules issued pursuant to this Act may provide for punishment by fine or imprisonment for up to four (4) months for breaches of the provisions of such rules.

(4) Companies etc. (legal persons) may incur criminal liability under the rules in Part 5 of the Danish Criminal Code.

(5) The period of limitation for breaches of the provisions of this Act or rules issued pursuant to this Act is five (5) years but see section 25(6).

(6) The period of limitation is, however, ten (10) years for breaches of section 10, cf. section 70(1)-(4), section 71(1) and section 75(1), 1st sentence of the Financial Business Act, section 13, cf. article 412(1) and (2) and article 415(1) and (2) of the Regulation (EU) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, and section 18(2), cf. section 183(5), sections 186 and 187, section 188(1) and (2), 1st sentence, section 193, 1st sentence, section 199(2) and (6) and section 200(1) and (2) of the Financial Business Act.

Part 12

Entry into force and transitional provisions

26 (1) This Act shall enter into force on 1 July 2023.

(2) Act No. 383 of 3 May 2006 on the Credit Association for Local and Regional Authorities in Denmark is hereby repealed.

(3) Section 18 does not apply to the financial year 2023. For the financial year 2023 the rules in force till now apply.

Part 13

Amendments in other legislation

27 (1) The Financial Business Act, cf. Consolidation Act No. 406 of 29 March 2022 as most recently amended by section 7 of Act No. 243 of 7 March 2023, is amended as follows:

1. In *section 354(6)*, the following sentence is inserted as *paragraph 49*:
“49) The Ministry of the Interior and Housing concerning information on compliance by KommuneKredit with section 3(1), 1st sentence, of the Act on the Credit Association for Local and Regional Authorities in Denmark.”
2. In *section 361*, a new subsection is inserted after subsection 10:
“(11) KommuneKredit shall pay an annual basic fee of DKK 850,000 to the Danish Financial Supervisory Authority each year.”
Accordingly, subsection (11) becomes subsection (12).
3. In *section 361(11)*, now section 361(12), “1-10” is amended to “1-11”.

Part 14

Territorial provisions

28. The Act is not applicable to the Faroe Islands and Greenland.

Given at Christiansborg Castle on 25 April 2023

Under Our Royal Hand and Seal

MARGRETHE R.

/ Morten Bødskov