

THE REGULATORY FRAMEWORK GOVERNING KOMMUNEKREDIT

This is a brief description of the regulatory framework for KommuneKredit's activities as a special-purpose credit institution. Our aim is to clarify that our lending activities are governed by statutory regulation and that, in consequence, the EU rules on ESG risk management and on sustainability reporting do not apply to us.

[The framework for our financial risk management is described in our annual report.](#)

KommuneKredit's objective

KommuneKredit is the credit institution of the Danish municipalities and regions. In 1899, we were established by law and organised as an association. All 98 municipalities and 5 regions in Denmark are members. We provide financing for local government capital investment – similar to central government financing of capital investment. KommuneKredit is operated on a non-profit basis, the objective being to ensure that municipal and regional tasks are financed at the lowest possible cost.

The Act on KommuneKredit

The regulatory framework governing KommuneKredit is set out in the special Act on KommuneKredit.¹

It follows from the Act that KommuneKredit's objective is to provide loans and finance leases to municipalities and regions and other entities undertaking public tasks where such loans are guaranteed by a local government. Accordingly, a municipality or region is always fully liable for a loan taken out with KommuneKredit.

It also follows from the Act that KommuneKredit obtains financing by raising loans in the money and capital markets, and that the members of KommuneKredit – Danish municipalities and regions – are jointly and severally liable for KommuneKredit's liabilities. This guarantee structure contributes to ensuring that KommuneKredit is awarded the highest possible credit rating (AAA) from S&P Global Ratings and Moody's.²

Whereas one of the duties of the boards of directors and the management boards of other financial institutions is to decide on the business model, this is governed by statutory regulation in the case of KommuneKredit.

¹ [Act No. 405 of 25 April 2023 on the Credit Institution for Local and Regional Authorities in Denmark.](#)

² Read about our [credit ratings](#) and [liability structure](#).

Following an amendment to the Act in 2023, the supervision of KommuneKredit was entrusted to the Danish Financial Supervisory Authority (*Finanstilsynet*). In that connection, KommuneKredit became subject to some of the requirements and supervisory frameworks applicable to private credit institutions, while adjusting the frameworks taking KommuneKredit's special-purpose nature and the limited risks assumed by KommuneKredit into consideration. The rules that have been made applicable mainly relate to liquidity and governance.

It follows from the *travaux préparatoires* of the 2023 Act that *'KommuneKredit differs from conventional credit institutions in a number of areas, and the association therefore does not necessarily have to meet the exact same requirements in those areas as other credit institutions. The reasons are that KommuneKredit is an association which operates as a "wholesale society" for its members; that the members of the association consist of Danish municipalities and regions only; that the association cannot enter into agreements with consumers; that the members are jointly and severally liable for the liabilities of the association; [...]; that the association does not pay dividends or the like to its members; that, effectively, the association does not assume credit risks; and that the scope of the association's activities is fairly limited.'*

KommuneKredit is exempt from the Capital Requirements Directive (CRD) and the rules based hereon

KommuneKredit is a special-purpose credit institution governed by its own act and is included in the list of entities exempt from the CRD.³ Accordingly, KommuneKredit is exempt from the EU regulation of credit institutions under the CRD and the Capital Requirements Regulation (CRR) and the rules based hereon.⁴

The rules set out in the CRD and the CRR on the management and reporting of ESG risks do not apply to KommuneKredit

Being exempt from the CRD and the CRR, KommuneKredit is not subject to the supervisory requirements applicable to credit institutions as to the management and reporting of environmental, social and governance risks ('ESG risks'). This tallies well with KommuneKredit's statutory business model.

ESG risk is defined as *'... the risk of any negative financial impact on an institution stemming from the current or prospective impact of environmental, social or*

³ See Article 2(5)(iv) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

⁴ With the exception of the specific rules on liquidity and governance which have been made applicable to KommuneKredit by virtue of the Danish Act on KommuneKredit.

*governance (ESG) factors on that institution's counterparties or invested assets; ESG risks materialise through the traditional categories of financial risks.'*⁵

Accordingly, KommuneKredit is not exposed to financial risks caused by the impact of environmental, social or governance factors on our borrowers. The reason is that, in accordance with our business model, we do not assume credit risks on our loans and leases.

KommuneKredit is exempt from the EU rules on sustainability reporting

It follows from the Act on KommuneKredit that KommuneKredit must prepare an annual report in accordance with the international accounting standards, IFRS (International Financial Reporting Standards), adopted by the European Commission. In addition, KommuneKredit is subject to selected provisions of the additional Danish rules on financial reporting.⁶ The Danish Financial Supervisory Authority has decided which provisions of those rules are applicable to KommuneKredit.

Under the Danish rules on financial reporting, KommuneKredit must prepare a corporate social responsibility report in addition to its management commentary. Corporate social responsibility is defined as '*companies voluntarily integrating concerns such as human rights, social issues, environmental and climate issues and combating corruption into their business strategy and operations*'. This provision now only applies to financial institutions that are not subject to the requirements on sustainability reporting set out in the European Commission's Corporate Sustainability Reporting Directive (CSRD), see below.

In that connection, it is the opinion of the Danish Financial Supervisory Authority that '*KommuneKredit is not to report on human rights and a reduction of its climate impact as KommuneKredit's business model is focused on granting loans to municipalities and regions within the framework of the rules [laid down on the borrowing of municipalities and regions]. Accordingly, KommuneKredit is to provide financing without any particular regard to human rights and a reduction of climate impact.*'

The CSRD rules do not apply to KommuneKredit

In Denmark, the CSRD rules on corporate sustainability reporting as regards financial institutions are implemented in the said rules on financial reporting. Those rules do not apply to KommuneKredit due to our special statutory business model, according to which our objective is limited to granting loans for public tasks where such loans are guaranteed by a local government.

⁵ Article 1(52d) of Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (CRR3).

⁶ Danish Executive Order No. 516 of 17 May 2024 on the financial reporting of credit institutions and investment companies, etc. (as determined by the Danish Financial Supervisory Authority).

The possibility to exempt special-purpose credit institutions follows directly from the CSRD which stipulates that 'Member States should be able to choose not to apply sustainability reporting requirements to credit institutions listed in [the list of exempt institutions in the CRD]'.⁷

KommuneKredit's ESG impact

Even though KommuneKredit is exempt from the sustainability reporting requirements, we strive to improve our own ESG impact and to publish ESG data on our activities to the extent relevant to ensure transparency and to meet the need for data in the world around us.

KommuneKredit is exempt from the Prospectus Regulation

The Prospectus Regulation sets out the requirements for the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market located in or having activities in the European Union.⁸ KommuneKredit's bond issues do not fall within the scope of the Regulation as they are '*securities unconditionally and irrevocably guaranteed by a Member State or by one of a Member State's regional or local authorities*' (Article 1(2)(d)). As mentioned above, it follows from the Act on KommuneKredit that the Danish municipalities and regions are jointly and severally liable for KommuneKredit's liabilities.

KommuneKredit's lending programmes

Even though the prospectus requirements do not apply to KommuneKredit, we provide detailed information about KommuneKredit in our lending programmes which is available on our website.⁹

⁷ Article 1(1) of Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

⁸ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market

⁹ [Documentation for debt programmes | KommuneKredit and Green Bond Framework](#)