

Notification of the intended use of a systemic risk buffer (SRB) in Denmark

1. Notifying national authority (If several designated authorities, please mention all of them)															
1.1 Name of the notifying authority	The Danish Ministry of Business and Growth.														
2. Buffer levels and the institutions to which they apply															
2.1 Type of measure intended (also for reviews of existing measures)	Activate the systemic risk buffer.														
2.2 Buffer level	<p>The systemic risk buffer is set within a range of 1.0 – 3.0 per cent of RWA. The applicable buffer level for an institution depends on the subcategory of systemic risk. There are five subcategories depending on the calculated level of systemic importance. The systemic risk buffer is applied according to the subcategories of systemic importance listed below:</p> <ul style="list-style-type: none"> - Subcategory 1: Systemic risk buffer of 1,0 per cent - Subcategory 2: Systemic risk buffer of 1,5 per cent - Subcategory 3: Systemic risk buffer of 2,0 per cent - Subcategory 4: Systemic risk buffer of 2,5 per cent - Subcategory 5: Systemic risk buffer of 3,0 per cent <p>The systemic risk buffer will be phased in gradually during the period from 2015 to 2019.</p> <p>On the basis of a calculation of systemic importance, the institutions are allocated to the five different subcategories.</p> <p>The systemic importance is calculated as an average of the factors stated below:</p> <ol style="list-style-type: none"> 1. The institution's total assets as a percentage of the total assets of Danish banks, mortgage credit institutions and investment companies 2. The institution's lending in Denmark as a percentage of the total lending by Danish banks and mortgage credit institutions in Denmark, 3. The deposits held by the institution in Denmark as a percentage of the total deposits held by Danish banks in Denmark. <p>The systemic risk buffer is subject to the "notification only procedure" under article 133(11) of Directive (EU) 36/2013.</p>														
2.3 Institutions covered by the intended SRB	<p>The systemic risk buffer is applied only to institutions, which have been appointed as O-SIIs, based on yearend figures 2013.</p> <p>The institutions and the applicable systemic risk buffers based on subcategory (fully phased in) are:</p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Systemic risk buffer in 2019</th> </tr> </thead> <tbody> <tr> <td>DLR Kredit A/S</td> <td>1,0 per cent</td> </tr> <tr> <td>Sydbank A/S</td> <td>1,0 per cent</td> </tr> <tr> <td>Jyske Banks A/S</td> <td>1,5 per cent</td> </tr> <tr> <td>Nordea Bank Danmark A/S</td> <td>2,0 per cent</td> </tr> <tr> <td>Nykredit Realkredit A/S</td> <td>2,0 per cent</td> </tr> <tr> <td>Danske Bank A/S</td> <td>3,0 per cent</td> </tr> </tbody> </table> <p>The systemic risk buffer is applied to all credit exposures, including those in third countries.</p>	Institution	Systemic risk buffer in 2019	DLR Kredit A/S	1,0 per cent	Sydbank A/S	1,0 per cent	Jyske Banks A/S	1,5 per cent	Nordea Bank Danmark A/S	2,0 per cent	Nykredit Realkredit A/S	2,0 per cent	Danske Bank A/S	3,0 per cent
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3. Reasons for the intended SRB															
3.1 Description of the structural systemic risk (Article 133(1) of the CRD)	The institutions covered by the systemic risk buffer are institutions identified as O-SIIs in accordance with Article 308 of the Danish financial business act implementing Article 131 of Directive 2013/36/EU. The identification of O-SII is based on the following criteria:														

	<ol style="list-style-type: none"> 1. The institution's <u>total assets</u> are larger than 6,5 percent of domestic GDP, 2. The institution's <u>lending</u> in Denmark is larger than 5 percent of the total lending by Danish banks and mortgage credit institutions in Denmark, 3. The <u>deposits</u> held by the institution in Denmark are larger than 5 percent of the total deposits held by Danish banks in Denmark. <p>The reasons why the breach of one or more of these criteria represents a long-term non-cyclical systemic risk are listed below.</p> <p><u>The first criterion</u> addresses the size of a Danish credit institution. The size is central for a credit institutions significance in the Danish financial system, as the size of the credit institution indicates the extent of the financial services supplied by the institution to the Danish economy and the financial system. Any possible damaging effects in the form of risks to the real economy if a credit institution fails, are likely to increase more than proportionally with the size of the institutions.</p> <p><u>The second criterion</u> addresses substitutability. Danish credit institutions, i.e. banks and mortgage-credit institutions, have lending as their core business activity. Lending comprise activities which can be difficult for other credit institutions to take over in the short term. It is likely that the larger the loan book, the more difficult it will be for other institutions to take over the loans. Extensive losses and subsequent winding-up of a systemic institution may therefore constrain the lending capacity which may limit economic growth.</p> <p><u>The third criterion</u> addresses deposits. Depositors which suffer losses (after coverage from the Deposit Guarantee Scheme) in a resolution may limit their consumption and investments and bear the risk of creating a vicious circle between the economic trends and developments in the financial sector. This may give rise to financial instability and limit the possibility of the sector to provide the services that it is expected to deliver, and thus also restrain economic activity.</p> <p>The limits for identification as an O-SII are set in order to take account of the special characteristics of the Danish banking sector, with a few very large institutions, but also a group of medium-sized institutions which may cause considerable problems for the economy in the event of failure.</p>
<p>3.2 Analysis of the potential to have serious negative consequences for the financial system and the real economy in your Member State</p>	<p>The failure of a Danish O-SII could cause significant disruption to the financial system and have far-reaching negative consequences for households, enterprises and the real economy as these institutions are large and associated with special risks as described above.</p> <p>The O-SIIs are required to meet a systemic risk buffer to reduce the probability of failure compared to non-systemic institutions, reflecting the greater impact an O-SII's failure on the Danish financial system and real economy. If a large institution fails, this may, to a greater extent than for smaller institutions, damage public confidence in the financial system as a whole.</p>
<p>3.3 Indicators used for activation of the measure</p>	<p>Cf. 3.1 for the identification of O-SII and cf. 2.2 for the application of buffer level to individual institutions.</p>
<p>3.4 Justification of the scope of the SRB</p>	<p>The systemic risk buffer is only applied to institutions that are systemically important to the stability of the Danish economy. Therefore, it is only applied to a small group of institutions which have been appointed as O-SIIs.</p> <p>The systemic risk which is addressed is primarily connected to the risk to the Danish economy posed by a few large and medium sized financial institutions. Other macro-prudential measures alone or in combination are not deemed sufficient to address these risks in an efficient way.</p>
<p>3.5 Suitability, effectiveness and</p>	

proportionality of the measure	<p>The systemic risk buffer is assessed to be effective because it increases the loss absorbing capacity of the systemic credit institutions. Hence, it may increase the stability of the financial system and the real economy.</p> <p>The systemic risk buffer is set in line with the capital requirement of systemic institutions in other European countries in order to ensure equal competitive conditions for Danish credit institutions, while taking into account the specific Danish market conditions</p>
3.6 Assessment of the likely impact on the internal market	<p>The increased capital requirements will increase the solvency of the O-SIIs in Denmark. This increases the stability of the Danish financial system and the real economy in Denmark as well as the Internal Market.</p> <p>Furthermore, since the capital levels of the credit institutions are already close to the intended levels and to a large extent on par, or slightly below, with the requirements in surrounding countries, and because the capital requirement will be phased in gradually, the potential negative impact from increased capital requirements is expected to be limited.</p>
4. Combination of the SRB with other buffers and timing of the measure	
4.1 Combination with G-SII buffers (Article 133(4) and (5) of the CRD)	There are currently no G-SIIs appointed in Denmark.
4.2 Combination with O-SII buffers (Article 133(4) and (5) of the CRD)	The O-SII buffers are currently not applied in Denmark.
4.3 Combined buffer requirement (Article 133(6) and (7) of the CRD)	<p>The combined buffer requirement will apply to Danish financial institutions from January 1, 2015.</p> <p>The capital conservation buffer is applied to all Danish institutions from January 1, 2015. It will be phased in gradually so the buffer is 0 in 2015, 0.625 per cent in 2016, 1.25 per cent in 2017, 1.875 per cent in 2018 and 2.5 per cent in 2019.</p> <p>The framework for the countercyclical capital buffer will be phased in gradually so that the buffer can be set up to 0.5 per cent in 2015, 1 per cent in 2016, 1.5 per cent in 2017, 2 per cent in 2018 and 2.5 per cent in 2019. The countercyclical capital buffer has not yet been activated.</p>
4.4 Timing of the measure	The systemic risk buffer will be phased in gradually starting January 1, 2015 and will be fully applicable by January 1, 2019.
4.5 Review of the measure	<p>The systemic risk buffer will be applied to credit institutions that are appointed as O-SIIs based on the level of systemic importance, which will be reviewed yearly.</p> <p>The level of the systemic risk buffers applied to the subcategories of systemic importance will be reviewed in 2017.</p>

5. Miscellaneous	
5.1 Publication (Article 133(16) of the CRD)	<p>a. Where do you intend to publish details of the SRB?</p> <p>At the homepage for the Ministry of Business and Growth, www.evm.dk</p> <p>b. Do you also intend to publish the justification for the SRB?</p> <p>Yes we intend to give some justification when we publish the SRB.</p>
5.2 Contact person(s) at notifying authority	<p>Contact person(s) for further inquiries (name, phone number and e-mail address).</p> <p>Mette Katholm Tams, mkt@evm.dk +45 91 39 94 30</p>
5.3 Any other relevant information	