

Notification: Activation of the Systemic Risk Buffer in the Faroe Islands

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Danish Ministry of Industry, Business and Financial Affairs
1.2 Type of measure intended (also for reviews of existing measures)	Activate a SRB in the Faroe Islands.
2. Description of the notified measure	
2.1 Institutions covered by the intended SRB	All credit institutions in the Faroe Islands. Furthermore, all Danish credit institutions with exposures in the Faroes Islands above 200 mn DKK are requested to recognise the SRB.
2.2 Buffer rate (Article 133(11)(f) of the CRD)	1 percent of domestic exposures as of 1 January 2018
2.3 Exposures covered by the SRB	The SRB applies only to domestic exposures
3. Timing of the measure	
3.1 Timing of the Decision	2 May 2017
3.2 Timing of the Publication	2 May 2017
3.3 Disclosure	The Danish Systemic Risk Council recommended the measure and publicised their decision 30 Marts 2017. Following their recommendation the Minister for Industry, Business and Financial Affairs has set a SRB of 1 pct. The setting of the buffer has been announced on the web page of the Ministry. Furthermore, the Danish FSA has informed the institutions on the Faroes Islands about the setting of the SRB.
3.4 Timing of Application	1 January 2018
3.5 Phasing in	No phasing in
3.6 Review/deactivation of the measure	The measure is permanent but will be reviewed every year.

4. Reasons for the intended SRB	
4.1 Description of the long-term non-cyclical systemic risk in your Member State (Article 133(11)a of the CRD)	<p>The Faroese economy is a small, open economy with a concentrated business structure dependent on fisheries and aquaculture. This makes the economy vulnerable to negative economic shocks, which may, entail losses in the banking sector and amplify real economic fluctuations. The assessment is that the Faroese financial sector is vulnerable to the structural factors characterising the Faroese economy.</p> <p>For further explanation, see the attached recommendation from the Danish Systemic Risk Council.</p>
4.2 Reasons why the dimension of the long-term non-cyclical systemic risk threatens the stability of the financial system in your Member State (Article 133(11)(b) of the CRD)	<p>Due to the structure of the Faroese economy the Faroese financial sector is highly vulnerable to negative economic shocks to both fisheries and aquaculture.</p> <p>For further explanations, see the attached recommendation from the Danish Systemic Risk Council.</p>
4.3 Indicators used for the activation of the measure	<p>Export subdivided into fish species and target countries</p> <p>GDP growth</p> <p>Loan impairment charges</p> <p>Lending to the corporate sector by industry</p> <p>Excess capital adequacy</p> <p>For further explanation, see the attached recommendation from the Danish Systemic Risk Council.</p>
4.4 Effectiveness and proportionality of the measure (Article 133(11)(c) of the CRD)	<p>The buffer increases the institutions' capitalisation, thereby enhancing their resilience to negative economic shocks. This contributes to ensuring financial stability in the Faroe Islands.</p>
4.5 Justification of inadequacy of existing measures in the CRD or in the CRR, excluding Articles 458 and 459 of the CRR, to address the identified risks (Article 133(11)(e) of the CRD)	<p>No other measures address the structural vulnerability of a small open economy with a concentrated business structure.</p>
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD and Recommendation ESRB/2015/2)	<p>The introduction of a systemic risk buffer rate of 1 per cent is not expected to cause increases in the Faroese institution's foreign lending to any notable extent. Since the Faroese institution's foreign exposures are limited, the proposed measure is not expected to impact financial stability outside the Faroe Islands.</p>

5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>Credit institutions in other Nordic countries (including Denmark) have significant exposures in the Faroese Islands. We therefore advise reciprocity of the SRB by these member states in order to ensure level playing field and effectiveness of the measure.</p>
5.3 Reciprocity by other Member States (Article 134(4) of the CRD and Recommendation ESRB/2015/2)	<p>Danish authorities advise the Nordic countries to reciprocate the systemic risk buffer rate of 1 per cent for all Faroese exposures. For reasons of proportionality a de minimis exposure threshold of 200 mn DKK is advised.</p>
6. Combination of the SRB with other buffers	
6.1 Combination with G-SII and/or O-SII buffers (Article 133(4) and (5) of the CRD)	<p>An O-SII buffer is not applied on the Faroes institutions. However, an institution specific systemic risk buffer applies to the three largest credit institutions on the Faroes Islands. These large institutions are also designated as O-SII.</p> <p>The general SRB of 1 pct. for exposures in the Faroe Islands will be applied cumulatively with the institution specific systemic risk buffer.</p>
6.2 Other relevant information	
7. Miscellaneous	
7.1 Contact person(s) at notifying authority	<p>Helene Gyldenloeve, heg@em.dk.</p>
7.2 Any other relevant information	<p>See the attached recommendation from the Danish Systemic Risk Council.</p>