Template for notifying the intended use of a systemic risk buffer (SRB)

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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)	Change the level of an existing SRB
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 Faroe Islands above the threshold of 200 mn DKK are requested to recognise the SRB.
2.2 Buffer rate **(Article 133(11)(f) of the CRD)**	The buffer where activated at 1 percent as of 1 January 2018. As of 1 January 2019 the buffer rate is increased to 2 percent and as of 1 January 2020 the buffer rate is increased to 3 percent.
2.3 Exposures covered by the SRB	The SRB applies to domestic exposures
3. Timing of the measure	
3.1 Timing of the Decision	25 June 2018.
3.2 Timing of the Publication	25 June 2018.
3.3 Disclosure	Information about the communication strategy of the notified measure to the market. Do you also intend to publish the justification for the SRB?

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3.4 Timing of Application	The Danish Systemic Risk Council recommended their measure and publiced their decision 9 April 2018. Following their recommendation the Minister of Industry, Business and Financial Affairs has increased the SRB at 2 percent as 1 Januar 2019 and 3 percent as of 1 January 2020. The decision has been announced at the web page of the Ministry.
3.5 Phasing in	The systemic buffer rate is 2 percent as of 1 January 2019 and e percent as of 1 January 2020.
3.6 Review/deactivation of the measure	The buffer 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)**	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, via direct or indirect effects, entail losses in the banking sector and amplify real economic fluctuations. The assessment is the the Faroese financial sector is vulnurable to the structural factors characterising the Faroese economy. For further explanation se the attached recommendation from the Danish Systemic Risk Council.
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)**	Due the structure of the Faroese economy the Faroese financial sector is highly vulnerable to negative economic shocks to both fisheries and aquaculture. For further explanation se the attached recommendation from the Danish Systemic Risk Council.
4.3 Indicators used for the activation of the measure	- Export subdivided into fish species and target countries. - GDP Growth. - Loan impairment charges. - Lending to the corporate sector by industry. - Excess capital adequancy. For further explanation se the attached recommendation from the Danish Systemic Risk Council
4.4 Effectiveness and proportionality of the measure **(Article 133(11)(c) of the CRD)**	The systemic buffer rate increases the institutions capitalisation, thereby enhancing their resilience to negative economic shocks. This contributes to ensuring financial stability in the Faroese Islands.
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	No other measure address the structural vulnerability og a small open economy with a concentrated business structure.

(Article 133(11)(e) of the CRD)	
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)**	The introduction of a systemic buffer rate of 3 percent is not expected to cause increases in the Faroese institutions foreign lending to any notable extent. Since the Faroese institutions foreing exposures are limited, the proposed measure is not expected to impact the financial stability outside the Faroese Islands.
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Credit institutions in other Nordic countries (including Denmark) have significant exposures in the Faroese Islands. We therefore advise reciprocation of the SRB by these member states in order to ensure level playing field and effectiveness of the measure.
5.3 Reciprocation by other Member States **(Article 134(4) of the CRD and Recommendation ESRB/2015/2)**	Danish authorities advise the Nordic countries to reciprocate the SRB of 3 percent for all exposure on the Faroese Islands. For proportionality reasons a de minimes exposure threshold of 200 mn DKK is advised.
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)	An O-SII buffer is not applied on the Faroese institutions. However, an institution specific systemic risk buffer applies to the three largest credit institutions on the Faroese Islands. These largest institutions are also designated as O-SII. The general SRB of 3 percent for exposures in the Faroese Islands will be applied cumulatively with the institution specific systemic risk buffer.
6.2 Other relevant information	
7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Jeppe Eriksen, jee@em.dk
7.2 Any other relevant information	See the attached recommendation from the Danish Systemic Risk Council.