

Notification related to the yearly setting of the systemic risk buffer in Denmark

The Danish Ministry of Business and Growth is setting the systemic risk buffer once a year. This is a notification relating to this setting of the buffer.

The systemic risk buffer is subject to the “notification only procedure” under article 133(11) of Directive (EU) 36/2013.

This notification is given to the European Commission, EBA, ESRB and relevant competent authorities.

The systemic or macroprudential risk in Denmark

The failure of a Danish O-SII could cause significant disruption to the Danish 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.

The Danish 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 has 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.

The institutions required to meet 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:

1. The institution’s balance sheet is larger than 6.5 per cent of domestic GDP,
2. The institution’s lending in Denmark is larger than 5 per cent of the

total lending by Danish banks and mortgage credit institutions in Denmark,

3. The deposits held by the institution in Denmark are larger than 5 per cent of the total deposits held by Danish banks in Denmark.

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 a failure.

The chosen buffer levels

The systemic risk buffer is set within a range of 1.0 – 3.0 per cent of REA. 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:

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

The systemic risk buffer is applied to all credit exposures, including those in third countries.

The systemic risk buffer will be phased-in gradually from 2015 to 2019.

On the basis of a calculation of systemic importance, the institutions are allocated into five different subcategories. The systemic importance is calculated as an average of three factors stated below:

1. The institution's balance sheet as a percentage of the total balance of the Danish banking sector,
2. The institution's lending in Denmark as a percentage of 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.

The institutions and the applicable systemic risk buffers based on subcategory (fully phased-in) are:

Institution	Systemic risk buffer in 2019
DLR Kredit A/S	1.0 per cent
Sydbank A/S	1.0 per cent
Jyske Bank 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

Possible effects to the internal market

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 stability in the internal market.

The systemic risk buffer is set in line with the capital requirement of systemically important 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.

Justification for the systemic risk buffer

The buffer is only applied to institutions that are systemically important to the financial stability of the Danish economy. Therefore, it is only applied to a small group of institutions which have been appointed as O-SIIs. See above.

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. These institutions are so important for the Danish economy that the Danish authorities have to take all the international risks of the institutions into consideration. This is why the buffer requirement relates to all exposures. Other macroprudential measures alone or in combination are not deemed sufficient to address these risks in an efficient way.

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.