

Changing the criteria for SIFI designation in the Faroe Islands

4 March 2020

The Systemic Risk Council (the Council) recommends to the government that a lower limit be introduced for when a credit institution in the Faroe Islands is designated as a systemically important financial institution.

Institutions regarded as being of significant importance to the economy should be designated as systemically important financial institutions (SIFIs). SIFIs are therefore subject to additional requirements to reduce the probability of the institutions failing and limit the negative consequences in case of their failure. SIFIs are today designated on the basis of indicators measuring their size in relation to the Faroese economy and banking sector.

The Council finds that a lower limit for the absolute size of a bank should be introduced so that very small banks are no longer designated as SIFIs and thus do not have to meet the additional requirements imposed on SIFIs. Føroya Váðaráð, the Faroese Systemic Risk Council, supports the recommendation. The representatives of the Faroese government, Føroya Landsstýri, on the Faroese Risk Council take note of the recommendation.

The government is required, within a period of three months, to either comply with the recommendation or to present a statement explaining why the recommendation has not been complied with.

Explanatory statement

The Systemic Risk Council is responsible for identifying and monitoring systemic financial risks in the Faroe Islands and can recommend macroprudential measures relating to the banks of the Faroe Islands.¹ In this context, the Council also assesses whether the requirements for banks are appropriate to the systemic risks to be addressed by the requirements.

The Council, in cooperation with the Faroese Risk Council, has [analysed](#) the Faroese banking sector, including SIFI designation and SIFI requirements. Representatives of the Faroese Risk Council have participated in the Council's discussions of the Faroese conditions.

The bankruptcy of a major Faroese bank can have significant negative consequences for the Faroese economy. The systemic importance of the Faroese banks is therefore measured in relation to the Faroese economy and the Faroese banking sector. However, as the Faroese economy is quite small, even small banks can achieve SIFI status. The Council therefore finds that the relative indicators should be supplemented by a lower limit for when a bank can be designated as a SIFI.

¹ Føroya Váðaráð, the Faroese Systemic Risk Council, may issue observations, warnings and recommendations relating to Faroese areas of responsibility. As regards Danish areas of responsibility in the financial area, the Faroese Systemic Risk Council may submit opinions to the Systemic Risk Council in Denmark.

The Council finds that the lower limit for the bank's balance sheet should be set at 3 kr. billion. The amount should be adjusted in step with developments in the Faroese banking sector to take account of positive growth in the sector over time.² In order to be designated as a SIFI, a bank must thus both be of a certain absolute size and be relatively large in relation to the Faroese economy and banking sector.

Two SIFIs in Faroe Islands based on revised method

Today, three out of four banks in the Faroe Islands have been designated as SIFIs. The introduction of a lower limit will result in the designation of two SIFIs in the Faroe Islands.

The third-largest bank, Norðoya Sparikassi, will no longer be designated as a SIFI. This means that, if it is failing, it must be resolved as a non-SIFI. The initial response is to seek a market solution. This means that private solutions will be sought, including the possible merger with a stronger institution. If this is not possible, an orderly wind-down must be carried out, selling the good assets and transferring the rest to the resolution authority Finansiell Stabilitet for resolution. The Council's dialogue with the Faroese Risk Council confirmed that the resolution of Norðoya Sparikassi will not have systemic impact.

Due to the systemic importance of the SIFIs to the economy, they are subject to additional regulatory and supervisory requirements.³ If Norðoya Sparikassi is not designated as a SIFI, it is not required to meet the additional SIFI requirements.

The Council's recommendation is in compliance with current legislation.

Lars Rohde, Chairman of the Systemic Risk Council

Statements from the representatives of the ministries on the Council

"Legislation regarding the Systemic Risk Council stipulates that recommendations addressed to the government must include a statement from the government representatives on the Council. Neither the government representatives nor the Danish Financial Supervisory Authority have the right to vote on recommendations addressed to the government.

The government has taken note of the recommendation. The government will, after hearing the Faroese government, decide on the recommendation from the Systemic Risk Council within a period of three months."

² The starting point is the accounting balance sheet. Growth ascribable to acquisitions or mergers with institutions outside the Faroe Islands may be deducted from the growth in per cent of the sector's aggregate balance sheet.

³ See the memo 'Requirements for Faroese banks' for further details.