

9 Other Systemically Important Institutions in Europe

Preventing and mitigating systemic risk at a domestic level

Since 1 January 2016, credit entities have had to start to comply with their capital buffers for global systemically important institutions (G-SIBs) and/or for other systemically important institutions (O-SIIs) at a domestic level, as the case may be.

The EBA released its final framework for O-SIIs on 16 December 2014. It is broadly an adaptation of the G-SIB methodology of the BCBS - with some differences - and broadly consistent with it. It is composed of four equally-weighted indicators (size, importance of the entity for the domestic economy, complexity including cross-border activity and interconnectedness) that provide a score for each entity. If a bank exceeds the 350bp threshold (the range is from 275bp to 425bp), it is automatically designated as an O-SII.

On the one hand, national authorities use their supervisory judgement to include also banks that are below the cut-off score as O-SIIs and to set, in any case, the O-SIIs capital buffer from 0% to 2% at the highest consolidated level. On the other hand, they have national discretion to set a 0% buffer for entities that exceed the quantitative limit. As a consequence of that, two banks with exactly the same systemic score that operate in two different EU markets might be subject to different capital surcharges.

The O-SII buffer might or might not be added to the G-SII buffer and to the systemic risk buffer (SRB)⁵, and the ECB is empowered⁶ to raise (but not to lower) the O-SII buffer for the banks of the Member States supervised by the Single Supervisory Mechanism - and of the non-Member States that would like to adhere to it.

In Europe, there is some heterogeneity in establishing the O-SIIs' buffer, as shown in Table 1. Fifteen countries have identified eighty-five O-SIIs in 2015-16. Twelve of the fifteen countries have also established the O-SIIs' buffers for 2016 and six of the twelve have combined the O-SII buffer with the SRB buffer. Two issues should be noted: i) there is national discretion to apply 0% buffers to entities that exceed the quantitative threshold (two Spanish and three Italian banks) and supervisory judgment to designate O-SIIs that do not exceed it (Czech Republic and Belgium) have been applied, and ii) the German and French authorities have not yet completed the identification of their O-SIIs and their respective capital buffers for 2016.

Table 1

Empirical evidence: Identification of European O-SIIs and capital buffers notified

Country	O-SIIs	O-SII buffer	Plus SRB	Observations	Phase-in	Implementation		
Austria	12	Yes	Yes	SRB* [0%; 3%] = SVB** [0%; 1%] + O-SIIs [0%; 2%]	Yes	1 Jan 2016		
Netherlands	5			O-SIIs [1%, 2%] & SRB [until 3%]. The highest applies in 2019				
Slovakia	5			O-SIIs [1.5%; 2%] + SRB [0%; 1%] in 2019				
Denmark	6			Same level of application than SRB. SRB [1%; 3%] in 2019				
Italy	3			O-SIIs buffer= 0%. Entities must maintain a 1% SRB			N/A	
Sweden	4			O-SIIs (2%) & SRB (3%) SRB. Only SRB applies			No	
Spain	6		No	BdE applied its national discretion. O-SIIs [0%; 1%] in 2019	Yes	1 Jul 2016		
Belgium	8			O-SIIs [0.75%; 1.50%] in 2019. 1 entity by superv. judgement				
Norway	3			2 % from 1 July 2016				
Portugal	6			1 of the 7 O-SIIs excluded due to the resolution measure			1 Jan 2017	
Finland	4			O-SIIs [0.5%; 2%] in 2019			No	7 Jan 2016
Slovenia	8			Advocates for a longer phase-in period. O-SIIs [0.25%; 1%]			1 Jan 2019	
Czech Rep	7	Not Yet	1 of the 7 designated by domestic supervisory judgement	N/A	1 Jan 2016			
Latvia	6		Threshold in 425 bps as allowed by the EBA					
Estonia	2		O-SII buffer will be fixed in 1H2016					
15	85							

Source: BBVA Research based on ESRB and national authorities. Data as of 25 January 2016. **SVB: Systemic Vulnerability Buffer

5: Accumulation capital buffer rules: i) at consolidated level: max (G-SII buffer, O-SII buffer); ii) a banking group can be subject to G-SII and O-SII buffers: G-SII buffer (consolidated level) + O-SII buffer (sub-consolidated or subsidiary); iii) if G-SII buffer, O-SII buffer and SRB apply at the same level: iii.a) SRB covers domestic and cross-border exposures: max (G-SII buffer, O-SII, SRB); iii.b) SRB covers only domestic exposures: SRB + max (G-SII, O-SII). The SRB is a discretionary buffer that applies to portfolios or sectors.

6: OJEU. COUNCIL REGULATION (EU) No 1024/2013 of 15 October 2013.

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