

Annual disclosure regarding the designation of and capital surcharges on Belgian O-SIIs (1 December 2018)

The NBB has recently undertaken its annual review of the designations of domestic systemically important banks, referred to in EU legislation as “other systemically important institutions”, or O-SIIs. Given that systemically important banks are defined as institutions whose failure would have a significant impact on the financial system or the real economy, additional capital requirements for such institutions have two principal motivations: (1) to reduce the probability of default of the institution, given the high economic and social costs of such a default; (2) to impose surcharges on the institution that reflect the negative externalities that its failure would generate.

O-SII identification

The NBB has undertaken the renewed identification of the O-SIIs in accordance with the methodology specified in the EBA guidelines on the identification of O-SIIs¹. This methodology consists of two steps, the first of which involves automatic designation of O-SIIs on the basis of a calculated score and the second of which allows for discretionary designation of additional banks as O-SIIs.

In the first step of the methodology, scores must be calculated for banks using a mandatory set of indicators in the categories of size, complexity, interconnectedness and substitutability. The value of each indicator for each bank is its share of the total value for all Belgian banks. Each indicator thus represents a type of market share, and the total score for a bank is calculated as a weighted average of the individual indicator values. Any bank whose score lies above a given threshold value is automatically designated as an O-SII. The indicators and their weights in the overall score are as follows:

Criterion	Indicators	Weight
Size	Total assets	25.00%
Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions	8.33%
	Private sector deposits from depositors in the EU	8.33%
	Private sector loans to recipients in the US	8.33%
Complexity/cross-border activity	Value of OTC derivatives (notional)	8.33%
	Cross-jurisdictional liabilities	8.33%
	Cross-jurisdictional claims	8.33%
Interconnectedness	Intra-financial system liabilities	8.33%
	Intra-financial system assets	8.33%
	Debt securities outstanding	8.33%

¹ EBA guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs).

In the second step of the methodology, authorities may make use of other indicators, or place different weights on the mandatory indicators, to designate additional banks as O-SIIs.

The application of this methodology has resulted in the renewed O-SII designations of the eight Belgian banks that were designated as O-SIIs in 2016: BNP Paribas Fortis, KBC Group, Belfius Bank, ING Belgium, Euroclear, The Bank of New York Mellon, Argenta and Axa Bank Belgium. The first six of these banks qualified automatically as O-SIIs according to their scores in the EBA methodology. Argenta and Axa Bank Belgium have been designated as O-SIIs in the second step, through supervisory discretion.

The scores of the eight banks that were obtained in the first step of the methodology are reported below. EBA recommends using a threshold score of 350 basis points for the automatic designation of O-SIIs, although this threshold may be raised or lowered slightly with appropriate supervisory motivation.

Institution	O-SII score
BNP Paribas Fortis	2597
KBC Group	2445
Belfius Bank	1447
ING Belgium	1468
Euroclear	638
The Bank of New York Mellon	417
Argenta	289
Axa Bank Belgium	257

Additional indicators considered in the second step of the identification methodology were banks' deposits in Belgium, loans in Belgium, and intra-financial system liabilities and assets with respect to Belgian counterparts. The rationale for considering the additional indicators with domestic scope is that these indicators are considered to be more appropriate for identifying domestic systemically important institutions than are some of the indicators with European or global scope that are employed in the first step. Argenta is designated as an O-SII on the basis of its important market share in Belgian retail deposits. Axa Bank Belgium is designated as an O-SII on the basis of its important market shares in loans to Belgian counterparts and in Belgian retail deposits.

O-SII buffers

Imposing additional capital requirements on banks that are judged to be systemically important contrasts with regulation in the past, whereby all banks faced the same rules regarding minimum capital requirements (simply proportional to their risk-weighted assets). O-SII buffers mean that capital requirements increase more than proportionally, based on the idea that the failure of larger, more systemically important banks would give rise to greater-than-proportional social costs. For each of the eight O-SIIs, the NBB Board has decided to maintain the capital surcharges announced in 2015. Such surcharges are imposed on the basis of Article 14 of Annex IV of the Belgian Banking Law². Several criteria were taken into account in the O-SII buffer calibration, including the institution's systemic importance as measured by its size and O-SII score, historical losses in the Belgian banking sector, stress test results, and level playing field considerations with respect to the O-SII buffer levels and total capital requirements for O-SIIs in other EU jurisdictions.

In order to account for proportionality with respect to systemic importance, each O-SII is allocated into one of two buckets, where the first bucket is composed of banks with a lower degree of

² Law of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms.

systemic importance and the second bucket contains banks with higher systemic importance. The levels of the CET1 capital surcharges will be as follows:

O-SII	Bucket	O-SII buffer rate
BNPP Fortis	2	1.5%
KBC Group	2	1.5%
Belfius Bank	2	1.5%
ING Belgium	2	1.5%
Euroclear	1	0.75%
The Bank of New York Mellon	1	0.75%
Argenta	1	0.75%
Axa Bank Belgium	1	0.75%

As announced in 2015, these capital surcharges were phased in over a three-year period, which began on 1 January 2016.^{3,4}

³ NBB Regulation of 10 November 2015 determining the method for designating domestic systemically important institutions and for setting the level of their CET1 capital buffer.

⁴ Without prejudice to caps implied by Article 14§5 of Annex IV of the Belgian Banking Law.