

## Annual disclosure of Belgian institutions identified as systemically important and determination of their additional capital requirements (1 December 2023)

In its capacity as the macroprudential authority, the Board of Directors of the National Bank of Belgium (NBB) has, as it does every year, assessed which Belgian banks should be identified as domestic systemically important institutions ("other systemically important institutions" or O-SIIs in EU legislation). The NBB has also determined the additional capital requirements to impose on these institutions.

Systemically important banks are institutions whose failure would have a significant impact on the financial system or the real economy. The NBB imposes additional capital requirements upon such banks for two reasons: (1) to reduce the likelihood of their default, given the high economic and social costs of such an event; and (2) to ensure that each institution has a capital buffer that sufficiently reflects the negative externalities that would be generated by its failure.

### *O-SII identification*

The NBB based the updated list of identified O-SIIs on the methodology laid out in the European Banking Authority (EBA) guidelines on the identification of O-SIIs.<sup>1</sup> This methodology consists of two steps: the first step involves automatic designation of O-SIIs on the basis of a scoring process; while the second step allows for discretionary designation of additional banks as O-SIIs by the macroprudential authority.

In the first step, a score is attributed to each institution to match its systemic importance, using quantitative criteria based on one or more mandatory indicators concerning the size, substitutability (the ability of other institutions to rapidly take over critical services from an ailing bank), complexity, and interconnectedness of the institution. The individual score per indicator of each institution reflects its share in the total value for all Belgian banks and thus, in a way, represents its market share. The overall score of an institution is calculated as the weighted average of its scores for each indicator. Any institution with an overall score above a given threshold value is automatically designated as an O-SII. The indicators and their respective weighting in the overall score are as follows:

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

In the second step of the methodology, authorities may designate additional institutions as O-SIIs. In doing so, they may make use of other indicators or give different weightings to the mandatory indicators.

<sup>1</sup> EBA guidelines [EBA/GL/2014/10](#) of 16 December 2014 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).

Application of this methodology resulted in eight Belgian banks that were designated as O-SIIs in 2022 again being identified as such in 2023. They are KBC Group, BNP Paribas Fortis, Euroclear Holding, ING Belgium, Belfius Bank, The Bank of New York Mellon, Investeringsmaatschappij Argenta, and Crelan. The first seven of these banks automatically qualified as O-SIIs in view of their scores under the first step of the EBA methodology. Crelan was designated as an O-SII in the second step, at the discretion of the macroprudential authority.

The scores that these eight institutions obtained in the first step of the methodology are provided below. The EBA guidelines recommend using a threshold score of 350 basis points for the automatic designation of O-SIIs, but this threshold may be slightly increased or decreased, with adequate justification from the macroprudential authority.

Institution	O-SII-score	Previous O-SII score
KBC Group	2510	2511
BNP Paribas Fortis	2291	2505
Euroclear Holding	1406	858
ING Belgium	1349	1411
Belfius Bank	1120	1339
The Bank of New York Mellon	435	482
Investeringsmaatschappij Argenta	377	348
Crelan	317	338

The alternative indicators that were considered in the second step of the methodology were: (1) private sector deposits from depositors in Belgium; (2) private sector loans to recipients in Belgium; (3) intra-financial system liabilities with respect to Belgian counterparts; and (4) intra-financial system assets with respect to Belgian counterparts. As the scope of these indicators is domestic, they are considered more appropriate for identifying domestic systemically important institutions than some of the indicators with a European or global scope used in the first step. On the basis of these alternative indicators, Crelan was designated as an O-SII, having received an alternative score above the threshold of 350 basis points, of 431.

### *O-SII buffers*

As the failure of larger, more systemically important institutions would give rise to disproportional social costs, additional core equity tier-1 (CET1) capital requirements are imposed on institutions judged to be systemically important. This means that their capital requirements increase proportionally more than their risk-weighted assets.

For seven of the eight O-SIIs, the NBB Board of Directors decided to maintain the additional CET1 capital buffer announced in 2022. For Euroclear Holding, the NBB Board of Directors decided to increase the additional CET1 buffer in view of a marked jump in the institution's systemic importance score. The latter resulted from significant increases in the value of several indicators relating to size, cross-border activity, and interconnectedness, following the introduction of sanctions against Russia. Such additional requirements are imposed on the basis of Article 14 of Annex IV of the Belgian Banking Act.<sup>2</sup> Several criteria were taken into account in the calibration of the O-SII buffer requirements, including each institution's systemic importance as determined by its size and its O-SII score, as well as historical losses in the Belgian banking sector, the results of stress tests, and the need to ensure a level playing field with respect to O-SIIs in other EU jurisdictions as regards buffer levels and total capital requirements.

<sup>2</sup> Act of 25 April 2014 on the legal status and supervision of credit institutions (Belgian Banking Act).

The levels of the additional CET1 capital buffers are determined on the basis of the degree of systemic importance of the bank concerned. Less systemically important institutions (bucket 1 in the table below) are required to maintain a 0.75% buffer, while more systemically important institutions (bucket 2 in the table below) are required to maintain a 1.5% buffer:<sup>3</sup>

Institution	Bucket	O-SII buffer rate
KBC Group	2	1.5%
BNP Paribas Fortis	2	1.5%
Euroclear Holding	2	1.5%
ING Belgium	2	1.5%
Belfius Bank	2	1.5%
The Bank of New York Mellon	1	0.75%
Investeringsmaatschappij Argenta	1	0.75%
Crelan	1	0.75%

The additional buffer requirements come into force on 1 January 2024.<sup>4</sup> The buffers are primarily structural. In the case of a persistent crisis, they can only be released temporarily, after coordination with the national and international institutions concerned. If the need for additional support measures were to arise, release of the buffers would probably be one of the last macroprudential tools to be used.

<sup>3</sup> Taking into account such caps as laid down in Article 14 §5 of Annex IV of the Belgian Banking Act.

<sup>4</sup> NBB Regulation of 12 April 2022 determining the method for designating domestic systemically important institutions and for setting the level of their CET1 capital buffer, as amended by the NBB Regulation of 13 June 2023.