

Identification of Systemically Important Irish Institutions and Announcement of Buffer Rates

8 December 2015

Identification and Buffer Rate

The Central Bank of Ireland (Central Bank) today announces the identification of The Governor and Company of the Bank of Ireland (BoI) and Allied Irish Banks plc (AIB) as domestically systemically important for the purposes of the European Union (Capital Requirements) Regulations 2014 (S.I. 158 of 2014).¹ Due to their particular importance to the Irish financial sector and domestic economy, the Central Bank has decided that a buffer rate of 1.5 per cent (to be held in the form of CET1) will be applied to both institutions on a consolidated basis. This requirement will be phased in over the period 1 July 2019 to 1 July 2021.

O-SII Framework

S.I. 158 of 2014 provides for a number of capital buffers, including for domestically and/or regionally systemically important institutions. These are referred to as 'other systemically important institutions' (O-SIIs) in S.I. 158 of 2014. The objective of the O-SII buffer is to reduce the probability, and potential impact, of a systemically important financial institution's failure on the domestic economy.

The Central Bank has been designated under S.I. 158 of 2014 as the national authority responsible for O-SII identification and associated buffer rate settings. As a member of the Single Supervisory Mechanism (SSM) these decisions are also made in conjunction with the European Central Bank (ECB) and are without prejudice to any powers of the ECB under the SSM Regulations² with respect to O-SII identification and/or buffer rate settings. O-SII identifications and rate decisions will be reviewed on an annual basis henceforth.

Rationale

The Central Bank carried out its assessment in line with guidelines set out by the European Banking Authority.³ In identifying BoI and AIB as O-SIIs, the Central Bank took into account the following:

- **Size and importance to the domestic economy** – Both AIB and BoI have assets greater than 50 per cent of Irish GDP and market shares of over 25 per cent in the deposit and lending markets.
- **Importance to the payments system and reputational indicators** – Both institutions play an important role in the processing of payments in Ireland.

¹ S.I. 158 of 2014 transposes Directive 2013/36/EU ('the EU Capital Requirements Directive') in Ireland..

² See Council Regulation (EU) No 1024/2013 ('SSMR'), Regulation (EU) No 468/2014 of the ECB ('SSMFR') and S.I. 158 of 2014.

³ See EBA (2014), "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)", EBA/GL/2014/10.

In setting the O-SII buffer requirement at 1.5 per cent, the Central Bank took into account the following:

- **The structure of the domestic banking system** - Ireland has a highly concentrated banking system with Irish banks relatively large and material to the economy.
- **The systemic importance of the institutions** – as established during the identification process
- **A peer review of other countries** - In setting a buffer rate for the two institutions, the Central Bank also looked at the characteristics of European banks where an O-SII buffer has already been set and the size of these buffers.

In establishing the phase in period, the Central Bank took into account the balance to be struck between building buffers to meet the objectives of the measures and ensuring that banks are in a position to support the on-going recovery in the broader economy, with the overall objective of ensuring financial stability.

Further information

Further information can be found on the Central Bank website www.centralbank.ie and in Macro-Financial Review 2015.2.