



## Identification of Other Systemically Important Institutions in Ireland and Announcement of Associated Buffers

### *Overview and results of 2017 review*

Under Regulation 121(1) of the European Union (Capital Requirements) Regulations 2014 (S.I. No. 158 of 2014) (“CRD Regulations”), the Central Bank of Ireland (“Central Bank”) is designated as the authority in charge of identifying other systemically important institutions (“O-SIIs”) which have been authorised within the State. Under Regulation 123(2) of the CRD Regulations, the Central Bank may require each O-SII to maintain an O-SII buffer of up to 2 per cent of the total risk exposure amount calculated in accordance with Article 92(3) of the Capital Requirements Regulation (EU) No 575/2013<sup>1</sup>.

O-SIIs are institutions which are systemically important to the domestic economy or to the economy of the European Union (EU). The objective of the O-SII buffer is to reduce the probability of a systemically important institution’s failure and potential impact of failure on the domestic economy. The O-SII framework has been in operation in Ireland since 2015. Under the CRD Regulations, the Central Bank must review on an annual basis the identification of O-SIIs and the associated buffers for each individual O-SII identified. In undertaking its annual review, the Central Bank adhered to European Banking Authority (EBA) Guidelines on criteria to assess O-SIIs (EBA/GL/2014/10) (“EBA Guidelines”),<sup>2</sup> which aim to harmonise O-SII identification practices across the EU.

Arising from the 2017 review, six institutions have been identified as systemically important in Ireland and buffer rates have been applied to these institutions. The review has resulted in two changes to the existing policy stance, namely:

1. Permanent tsb plc has not been identified as an O-SII due to its reduced size<sup>3</sup> and;
2. the buffer applied to Citibank Holdings Ireland Limited has been increased to 1 per cent due to its increased importance.

Otherwise, the institutions identified as O-SIIs, following the 2016 review, and the associated buffers have not changed. The full list of O-SIIs, O-SII buffers<sup>4</sup> and associated phase-in periods are laid out in Table 1.

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<sup>1</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

<sup>2</sup> [https://www.eba.europa.eu/documents/10180/930752/EBA-GL-2014-10+\(Guidelines+on+O-SIIs+Assessment\).pdf](https://www.eba.europa.eu/documents/10180/930752/EBA-GL-2014-10+(Guidelines+on+O-SIIs+Assessment).pdf)

<sup>3</sup> As of end-2016 Permanent tsb plc had total assets of €23.6 billion, a reduction of €5.7 billion compared to end-2015.

<sup>4</sup> To be held in the form of CET1.



As a member of the Single Supervisory Mechanism (SSM), decisions relating to the application of the O-SII buffers are made in conjunction with the European Central Bank (ECB) and are without prejudice to any powers of the ECB under the SSM Regulations<sup>5</sup> in this respect.

**Table 1: 2017 O-SII and associated phased-in buffer requirements**

O-SII	Level of consolidation	O-SII Buffer		
		1 July 2019	1 July 2020	1 July 2021
Allied Irish Banks plc (AIB)	Consolidated	0.5%	1.0%	1.5%
Bank of Ireland Group plc (BOI)	Consolidated	0.5%	1.0%	1.5%
Citibank Holdings Ireland Limited (Citibank)	Consolidated	0.25%	0.5%	1.0%
Ulster Bank Ireland Designated Activity Company (Ulster)	Individual	0.25%	0.5%	0.5%
UniCredit Bank Ireland plc (UniCredit)	Individual	0.25%	0.25%	0.25%
DePfa Bank plc (DePfa)	Consolidated	0.0%	0.0%	0.0%

### Identification of O-SIIs

Regulation 122 of the CRD Regulations outlines that O-SIIs should be identified on the basis of the following criteria: *size, importance for the economy of the Union or the State, significance of cross-border activities, interconnectedness of the institution or group with the financial system*. The EBA Guidelines, applied by the Central Bank, establish a scoring process for assessing the systemic importance of an institution based on indicators relating to size, importance, complexity/cross-border activity and interconnectedness. With respect to size, the total assets of an institution are taken into consideration as the buffer aims to mitigate systemic risk associated with financial institutions that are considered too big to fail. Importance is considered from a domestic and European perspective, taking into account the substitutability of the activities of the institution with respect to its role in the payments system, the provision of loans to, and the taking of deposits from the private sector. Cross-jurisdictional activities are used to assess to the complexity criteria, whilst the interconnectedness of an institution or group is reviewed considering intra-financial system assets and liabilities.

Taking account these considerations, the Central Bank calculated a score for each Irish-authorized entity at the highest consolidated level of the part of the group that falls under the remit of the Central Bank. A 350 basis points threshold of systemic importance was used to identify O-SIIs. This is the standard threshold set out in the EBA Guidelines. All institutions identified by this mandatory scoring process in the EBA Guidelines were identified as O-SIIs. The resultant list of O-SIIs and the corresponding EBA score are outlined in Table 2.

<sup>5</sup> See Council Regulation (EU) No 1024/2013 ('SSMR'), Regulation (EU) No 468/2014 of the ECB ('SSMFR') and the CRD Regulations.



Permanent tsb plc, who had been designated as an O-SII in the 2016 assessment having received a score of 385bps, did not meet the 350 basis point threshold on this occasion.<sup>6</sup> The use of supervisory overlay was considered on the basis of supplementary analysis, incorporating both retail and wholesale indicators. However, no additional institutions were designated as O-SIIs.

**Table 2: List of O-SIIs for 2017 and EBA scores**

O-SII	Overall EBA Score <sup>1</sup>	Category Score			
		Size	Interconnectedness	Importance	Complexity
BOI	1936	1980	1189	2411	2164
AIB	1406	1759	887	2028	949
Citibank	1301	859	612	2518	1214
DePfa	664	508	1035	145	968
Ulster	474	565	257	691	385
UniCredit	446	368	728	6	685

<sup>1</sup> An institutions overall EBA score is a simple average of its four category scores. Where marginal differences appear these are due to rounding.

A separate assessment was carried out for investment firms in scope of the CRD Regulations and which deal on own account or underwrite on a firm commitment basis. The analysis has been completed in accordance with the EBA Guidelines using indicators appropriate for investment firms. This assessment led to no investment firms being identified as O-SIIs.

### *Calibration of O-SII buffers*

The rationale for the O-SII buffer arises from the negative externalities created by systemically important institutions to the domestic/ European economy, which are not borne fully by the equity and debt holders of these institutions. Higher capital requirements for these institutions can reduce the probability, and impact, of their failure relative to non-systemic institutions, which should neutralise the greater impact the failure of an O-SII would have on the financial system and economy.

The Central Bank's approach to calibrating the O-SII buffers takes into account the high-level principles of the Basel Committee on Banking Supervision (BCBS) framework<sup>7</sup>, the requirements of the CRD Regulations and the specificities of the Irish economy.<sup>8</sup> The approach assessed the systemic importance of each institution after which institutions were grouped and ranked accordingly before O-SII buffers were applied. A peer comparison with European institutions was then conducted.

#### *Assessing systemic importance:*

When assessing the systemic importance of supervised institutions in Ireland, the mandatory requirements laid out in Regulation 122 of the CRD Regulations and the EBA Guidelines were used. The EBA Guidelines identify a mix of banks as O-SIIs for Ireland. Given the wide variation in business

<sup>6</sup> Permanent tsb plc continues to be a significant institution for the purpose of prudential supervision under the SSM.

<sup>7</sup> BCBS (2012), "[A framework for dealing with domestic systemically important banks](#)", Basel Committee on Banking Supervision, October 2012

<sup>8</sup> Account is also taken of the [ECB floor methodology for setting the capital buffer for an identified O-SII](#), Macroprudential Bulletin, Issue 3, June 2017



models operating in Ireland, it is important to consider the business model of individual institutions and how this affected the EBA scores. Each institution's category score was examined to provide a clearer picture of the drivers of their systemic importance score.

Relative to last year's assessment, Citibank has seen a substantial increase in its overall EBA score, pointing to a higher degree of systemic relevance. This reflects increases in Citibank's score across a number of the EBA categories, in particular the importance category.

#### *Buffer calibration:*

A number of quantitative approaches inform the decision on buffer rates: (1) a simple scaling approach benchmarks institutions buffers relative to the largest institution; (2) a two-dimensional bucketing framework aims to account for the range of business models among the identified O-SIIs. Under this framework an institution may fall into a given buffer rate bucket due to its size or its market share in domestic deposit and lending markets; (3) an expected impact framework<sup>9</sup> which aims to equalise the expected impact of each O-SII with that of a reference non-O-SII. In this approach two main variables are calculated, the probability of default (PD) as a function of capital and the relative economic cost of failure (ECF). Historical bank losses were used to calculate the PD of an Irish institution as a function of capital and a number of approaches were taken to measuring ECF of an institution including; total EBA score; total assets and average market share in Irish loans and deposits.

The range of quantitative approaches provide the following observations:

- Overall, BOI and AIB receive higher implied buffers than other institutions, although under certain measures Citibank is assigned a similar buffer to these institutions.
- Based on indicators focusing on the Irish economy, such as share of domestic loans and deposits, implied buffers for domestically-focussed institutions tended to be relatively higher and buffers for more internationally-focussed institutions tended to be lower.

#### *Applying buffer rates:*

Informed by the above, and taking account of a peer review of buffers set by other authorities in Europe for similar institutions, expert judgement is used to assign buffers to each O-SII. Higher buffer requirements are applied to institutions with a higher degree of systemic importance. The maximum buffer of 2 per cent has not been utilised by the Central Bank. This provides the Central Bank with scope to tighten the O-SII buffer for all institutions, if required, and may act as a disincentive for banks to grow larger and attract this higher buffer rate.

At present, within the euro area, DePfa is the only O-SII with a 0 per cent buffer. This rate is deemed appropriate due to the very specific circumstances of this institution, i.e. the institution is in run-down.

#### *Phase-in period*

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<sup>9</sup> For more information see "[Calibrating the GSIB Surcharge](#)" Federal Reserve Board (2015) or "[The FPC's framework for the systemic risk buffer](#)" Bank of England (2016).



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Central Bank of Ireland

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10 November 2017

No changes to the overall phase-in period for the application of O-SII buffer have been made following the 2017 review. Therefore, O-SII buffers will first become operational on 1 July 2019. The increase in Citibank's buffer has been added as a third step to their individual phase-in; this is shown in Table 1.