



GENERAL SECRETARIAT

Research and risk analysis directorate

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Methodological note on the identification of “Other Systematically Important Institutions” (O-SIIs) and the determination of the related buffer rates

Version of June 2022 - This English translation is provided for information purposes only. In the event of inconsistency between the French version and any other versions of this note, the French version shall prevail.

Article 31-II-1° of the amended *Arrêté du 3 novembre 2014* on the capital buffers of banking service providers and investment firms other than portfolio management companies requires for the ACPR to comply with the following disclosure requirements:

- 1) A presentation of the methodology used to identify “other systematically important institutions”, any additional indicators thereof as provided for in Article 26-1 paragraph I and, where relevant, the buffer rate requirements enforced by the ACPR;
- 2) Where the ACPR has decided to amend the threshold set in accordance with Article 26-1 paragraph I, the reasons for this decision with regard in particular to the specific features of the French banking sector, along with a statistical analysis;

The list of other systematically important institutions, specifying the following:

- a) The systemic importance rating assigned to them under Article 26-1;
- b) Where this rating is set below the threshold referred to in same Article, the grounds on which the *Autorité de contrôle prudentiel et de résolution* decided to include that entity in the list;
- c) Where applicable, the buffer requirements that apply to each entity.

This regulatory requirement also follows the guidelines issued by the European Banking Authority (EBA) – EBA/GL/2014/10 (Article 15) on the criteria to determine the conditions of application of Article 131 (global systematically important institutions and other systematically important institutions), paragraph 5a of Directive 2013/36/EU (Capital Requirements Directive), as amended by Directive (EU) 2019/878 (“CRD V”)¹.

The identification methodology applied by the ACPR is the one described in the EBA Guidelines and is carried out in two phases:

¹ “Relevant authorities should disclose an overview of the supervisory assessment methodology applied during the identification process and include optional indicators, where appropriate, along with the definition of buffer requirements.”

- **The first phase is based on the calculation of a systemic score** at the highest level of consolidation. It is determined using ten mandatory indicators broken down into four categories. These mandatory indicators are listed in the EBA Guideline and included in the 2014 amended Order.² This phase provides a list of the institutions that are automatically identified as O-SIIs and of those that are automatically excluded;
- **The second phase supplements this list using the supervisor’s judgment**, which is based on a list of optional indicators to be selected from a list included in the Guidelines.

1) The automatic designation phase

Systemic importance is assessed on the basis of at least one of the following criteria:

- (i) Size;
- (ii) Importance for the economy of the Union or for the relevant Member State;
- (iii) Significance of cross-border activities;
- (iv) Interconnectedness of the institution or group with the financial system.

Therefore, for each indicator, the following items are calculated based on the values of all institutions in the sample under analysis - i.e. all credit institutions, investment firms and finance companies³:

- An aggregate total of the indicator (hereinafter “denominator”)
- A relative score for each institution for this indicator (ratio of the indicator’s value for that institution to the aggregate total or denominator).

Thus, the calculation method consists in determining, for each financial group G and for each indicator k, the ratio of the individual value of the $Ind_{k,G}$ indicator to the aggregated indicator over the N institutions considered, expressed in basis points:

$$Score_{k,G} = \frac{Ind_{k,G}}{\sum_{i=1}^N Ind_{k,i}}$$

The calculation is repeated for each indicator. Each indicator is then assigned a risk weight. The indicator corresponding to the size of the institution as measured by its balance sheet total is assigned a 25% risk weight. Every other indicator is assigned an equal risk weight (namely 8.33%). The weighted average of the scores obtained for each indicator determines the final O-SII score.

Institutions with an O-SII score lower than 4.5 basis points (threshold set by the EBA Guidelines) are automatically excluded from the pool.

Institutions with an O-SII score higher than 350 basis points (default threshold as recommended by the EBA Guidelines) are automatically designated as O-SIIs.

² The score is determined using institutions’ market shares for the different indicators (see Annex).

³ Finance companies have been included in the identification universe insofar as they are also listed in the articles of the French monetary and financial Code (L511 41 1 A section V, third subparagraph).

The detailed list of mandatory indicators for automatic designation is featured in the Annex to this document. These indicators correspond to those set out in the EBA Guidelines (EBA/GL/2014/10), which mainly derive from the FINREP/COREP accounting and supervisory statements. In cases where these documents are not required from institutions or do not contain all the necessary information⁴, reconciliations are carried out based on the data available in the existing national framework. This is particularly relevant regarding three of these indicators: “value of domestic payment transactions”, “cross-jurisdictional assets” and “cross-jurisdictional liabilities”. Moreover, as of the 2020 designation of O-SIIs, the ACPR has decided to perform a restatement of the data for entities that have a double status as both a credit institution and a clearing house (CCPs) in order to exclude the central clearing activity of these entities from the indicators, knowing that CCPs’ risks are mainly covered by the provisions of European EMIR Regulation No 648/2012.

2) The designation phase based on the supervisor’s judgment

In this second phase, the ACPR conducts a supplementary analysis of the systemicity of the French banking sector, in line with the recommendations and within the framework set by the EBA Guidelines. According to Article 14 of these Guidelines, a national authority responsible for the designation of O-SIIs must base its assessment on at least one of the mandatory or optional indicators respectively listed in Annexes 1 and 2 to the Guidelines.

In order to better capture the domestic systemic footprint, the ACPR chose the following two indicators from the optional indicators listed in Annex 2 to the EBA Guidelines:

- Market share in loans to private customers (corporate and retail) who are French residents, with a minimum threshold set at 350 basis points;
- Market share of deposits made by private customers (corporate and retail) who are French residents, excluding centralised deposits to the *Caisse des Dépôts et Consignations*, with a minimum threshold set at 350 basis points.

All institutions for which the systemic score calculated during the automatic designation phase is comprised between 4.5 and 350 basis points shall be subject to further examination on the basis of these two indicators. Therefore, any institution that outscores 350 basis points for one of these optional indicators shall become an O-SII, even if it does not reach that score for its mandatory indicators.

The share of regulated savings centralised at the *Caisse des Dépôts et Consignations* (mainly *Livret A* passbook accounts) is excluded from the deposit indicator, as this share is subject to mandatory reuse.

⁴ Therefore, the Guidelines provide for the deduction of domestic outstandings (subsidiaries or branches) for indicators related to international activities, a deduction which requires specific treatment.

3) Determining additional capital requirements based on O-SII scores

The ACPR has decided to calibrate the additional requirement (or buffer) by adopting an interval-based approach. Institutions designated as O-SIIs are assigned to interval buckets according to their O-SII score. Each of these buckets is associated with a rate that sets the additional CET1 capital requirement and takes into account the limit specified by the CRDV Directive (which notably raised the maximum buffer rate from 2% to 3%). The table below shows the thresholds used to define the buckets:

	Bucket	O-SII buffer
1	≤ 499 bp	0.25%
2	[500 – 999 bp[0.5%
3	[1000 – 1999 bp[1%
4	[2000 – 2999 bp[1.5%
5	[3000 – 3999 bp[2%
6	[4000 – 4999 bp[2.5%
7	≥ 5000 bp	3%

The O-SII buffer requirement is applied at the consolidated level for each O-SII identified by the ACPR.

4) Timeline for the application of additional capital requirements

The O-SII buffers set in year N (based on data as at 31st December of year N-1) apply from January 1st of year N+2. This timeline for the application of O-SII buffers is aligned with that for buffers set under the designation of global systematically important institutions (G-SIIs).

Annex: list of indicators and calculation method

1. Total assets of the entity considered (Size)
2. Value of domestic payment transactions for the entity considered
3. Amount of private sector deposits from depositors in the European Union to the entity considered
4. Outstanding amount of loans provided by the entity considered to the private sector for EU recipients
5. Notional value of OTC derivatives for the entity considered
6. Cross-jurisdictional liabilities of the entity considered
7. Outstanding cross-jurisdictional receivables
8. Intra-financial system liabilities of the entity considered
9. Intra-financial system assets of the entity considered
10. Total outstanding debt securities of the entity considered

The following items are calculated for each given indicator, based on the values of all institutions included in the sample under analysis for that specific indicator:

- An aggregate total of the indicator (hereinafter referred to as “denominator”)
- A relative score for each institution for this indicator (ratio of the indicator’s value for that institution to the aggregate total or denominator).

Thus, the calculation method consists in determining, for each financial group G and each indicator k, the ratio of the individual value of the $Ind_{k,G}$ indicator to the aggregated indicator for the N institutions, expressed in basis points:

$$Score_{k,G} = \frac{Ind_{k,G}}{\sum_{i=1}^N Ind_{k,i}}$$

Each institution is thus assigned a score, which represents its weight in the whole universe concerned. Therefore, if there were only 3 institutions in the universe under analysis and the total was equal to EUR 3,000 billion, the following calculation would be applied to the size indicator:

Table1
Method for calculating the score on a systematically important indicator

	Size (in EUR billion)	Score (in basis points)
Institution 1	1500	$(1500/3000)*10\ 000= 5000$
Institution 2	900	$(900/3000)*10\ 000= 3000$
Institution 3	600	$(600/3000)*10\ 000 =2000$
Total	3000	10 000