



# Principles for determining national systemically important credit institutions (O-SIIs) and setting additional capital requirements (O-SII buffers)

## 1 Background

Systemically important credit institutions are those that pose a systemic risk so great that, if realised, it would have a highly negative impact on the entire financial system and the real economy. Systemically important credit institutions are typically large relative to other credit institutions, functionally diverse, and they have significant connections, directly or indirectly, with the rest of the financial system and the economy. As a result, the solvency and liquidity problems of these institutions easily spread to the rest of the financial system.

In the regulatory framework, systemic importance is examined globally (G-SIBs) and at the EU level as well as nationally (O-SIIs). Efforts are made to mitigate the risks of systemically important credit institutions for the entire financial sector and the economy by strengthening the institutions' loss absorbency, hence reducing the probability of their failure. The objective of additional capital requirements imposed for O-SIIs (O-SII buffers) is to prevent macroprudential risks arising from structural factors in the financial markets.

## 2 Regulatory framework relating to national systemically important credit institutions

### 2.1 Credit Institutions Act (Chapter 10 Section 8 and Chapter 23 Section 2)

Other credit institutions significant for the financial system (i.e. other systemically important institutions, O-SIIs) refer to credit institutions

1. the balance sheet total of which is at minimum EUR 1 billion **and**
2. the insolvency of which would jeopardise the stability of the financial markets in Finland or in another European Union Member State. (Credit Institutions Act, Chapter 10 Section 8).

Under the Credit Institutions Act, the fact that a credit institution's balance sheet total exceed EUR 1 billion does not in itself make the institution systemically important; both conditions (1 and 2) must be fulfilled.

An O-SII shall have the amount of consolidated core capital provided for in Section 8, in addition to that prescribed elsewhere. The Financial Supervisory Authority (FIN-FSA) shall divide O-SIIs into five classes, the O-SII buffers of which shall be calculated according to the following table as a percentage of the total risk exposure of the institution:



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Class	O-SII buffer
1	0%
2	0.5%
3	1.0%
4	1.5%
5	2.0%

The FIN-FSA shall divide the credit institutions referred to in Subsection 1 into one or more classes referred to in Subsection 4 on the basis of the following criteria:

1. the size of the credit institution measured by its total liabilities or the balance sheet total or consolidated balance sheet total
2. the liabilities of the credit institution and undertakings within its consolidated supervision to other credit institutions and receivables from other credit institutions as well as other direct connections with the financial system
3. the substitutability of the critical functions of the credit institution and undertakings within its consolidated supervision in the event of an undertaking losing its capacity to continue its operations
4. the extent and significance of cross-border operations of the credit institution and undertakings within its consolidated supervision in Finland and in the European Economic Area. (Credit Institutions Act, Chapter 10 Section 8).

The Credit Institutions Act does not contain more detailed provisions on how credit institutions are divided into different classes using identification criteria. On the basis of the Capital Requirements Directive (2013/36/EC, Article 131(5)), a credit institution's importance for the financial system shall, however, be taken into account in imposing any buffer. In assessing importance and calibrating the level of O-SII buffers, the EBA Guidelines on the determination of O-SIIs (EBA/GL/2014/10) shall be applied.

## 2.2 EBA Guidelines on the determination of O-SIIs

In accordance with the Capital Requirements Directive<sup>1</sup>, on 1 January 2015 the EBA published guidelines on the criteria to determine the conditions of application of the Directive in relation to the assessment of O-SIIs. In determining O-SIIs, four criteria and ten mandatory indicators are used.

<sup>1</sup> 2013/36/EC, Article 131(3).



**Table 1. O-SII identification criteria and indicators<sup>2</sup>**

Criteria	Indicators	Weight
Size	Total assets (balance sheet total)	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 EU	8.33%
Interconnectedness	Intra-financial system liabilities	8.33%
	Intra-financial system assets	8.33%
	Debt securities outstanding	8.33%
Complexity/cross-border activity	Value of OTC derivatives (notional)	8.33%
	Cross-jurisdictional liabilities	8.33%
	Cross-jurisdictional claims	8.33%

According to the EBA Guidelines, O-SIIs are determined in a two-step procedure:

1. Institutions whose O-SII scores, calculated using the indicators, are at least 3.5% should be automatically designated as O-SIIs. The national macroprudential authority may change this threshold to take into account the specificities of the national credit institutions sector and the distribution of the scores. National discretion is 0.75 percentage points in each direction. Changes made when exercising national discretion should be justified.
2. Macroprudential authorities should assess whether further institutions than those identified in the first step should be included in the group of O-SIIs. This assessment should be based on the optional indicators specified in Annex 2 of the EBA Guidelines.

According to the EBA Guidelines, the assessment should cover all credit institutions with total assets exceeding 0.02% of the total banking sector. In determining O-SIIs, the FIN-FSA also applies the EUR 1 billion balance sheet total threshold specified in Chapter 10 Section 8 of the Credit Institutions Act. Credit institutions whose O-SII

<sup>2</sup> In interpreting calculations and indicators, the following aspects should be taken into account:

- Calculations do not include insurance business items.
- Private sector deposits from depositors in the EU: credit institutions whose foreign liabilities account for less than 10% of balance sheet liabilities do not report deposits in the EU separately. With respect to these institutions, the figure includes all deposits.
- Private sector loans to recipients in the EU: credit institutions whose foreign claims account for less than 10% of balance sheet liabilities do not report loans in the EU separately. With respect to these institutions, the figure includes all loans.
- Cross-jurisdictional claims and liabilities: data only include items of credit institutions exceeding the 10% threshold value.



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scores do not exceed 0.045% in the first-step assessment should also not be included in the O-SII group when exercising discretion in step two.

### 3 Finnish credit institutions' O-SII scores and buffers

To identify Finnish O-SII credit institutions, O-SII scores were calculated for credit institutions' consolidation groups and for individual credit institutions that did not belong to a consolidation group. The scores were calculated using the EBA Guidelines' mandatory indicators (EBA Guidelines, Annex 1). The indicators are based on FINREP reporting data, except for domestic payment transaction data, which were collected from the TARGET2 system.

The FIN-FSA is required to annually revise the O-SII buffers calculated for O-SIIs. If an O-SII buffer changes as a result of this revision, the FIN-FSA shall take a decision on it.

Nordea Bank Finland Plc's conversion into a branch in January 2017 resulted in the determination of O-SIIs and the related buffers from the situation as at 30 June 2017. The O-SII decision was taken by the Board of the FIN-FSA on 21 December 2017. In accordance with the decision, the O-SII buffer requirements will take effect on 1 July 2018 (Credit Institutions Act, Chapter 23 Section 2). The other specific O-SII provisions of the Credit Institutions Act will also become effective at the same date.

The FIN-FSA assigns O-SIIs to five classes in accordance with Chapter 10 Section 8 of the Credit Institutions Act. To comply with the EBA Guidelines, no O-SII buffer requirements are imposed on credit institutions falling below the EBA's O-SII threshold (3.5%). O-SII buffer requirements are set for institutions exceeding the threshold, based on each institution's relative systemic importance. A credit institution's class is determined on the basis of its O-SII score. The classification scale is linear. The classes are separated from each other using a 3.5% threshold value.

The logic and proportionality of the results of the mechanical calculations based on the mandatory indicators, as well as the distribution of the scores, have been reviewed by examining the structure of Finland's financial markets. The linear scale of the scores (Table 1) is justified considering especially the current centralised structure of the Finnish financial sector. The results show that small changes in the O-SII threshold would not change the group of identified O-SIIs. Hence, the calibration previously used by the FIN-FSA has remained unchanged.

The FIN-FSA assesses annually whether the score thresholds need to be revised for example due to structural changes in the financial sector. In the Future, the FIN-FSA will also re-assess whether there is a need to use the EBA Guidelines' optional indicators in the identification of O-SIIs.



**Table 1. O-SII scores and buffers**

Score interval	Class	O-SII buffer
< 3.50%	1	0.00%
3.50% = < 7.00%	2	0.50%
7.00% = < 10.50%	3	1.00%
10.50 = < 14.00%	4	1.50%
14.00%	5	2.00%

**Table 2. O-SII scores and buffers of credit institutions determined as O-SIIS**

Credit institution (consolidated)	O-SII scores	O-SII buffer
Danske Bank Plc	6.86%	0.5%
Nordea Mortgage Bank Plc	5.89%	0.5%
OP Group	23.96%	2.0%
Municipal Finance Plc	8.72%	1.0%

**Taulukko 3. Luottolaitosten O-SII-pisteet, luokat ja lisäpääoma-**

O-SII scores 30 June 2017			
Credit institution (consolidated)	O-SII scores	Class	O-SII buffer
Aktia Bank Plc	1.72%	1	0.0%
Bonum Bank Ltd	0.01%	–	–
Danske Bank Plc	6.86%	2	0.5%
Evli Bank Plc	0.24%	1	0.0%
Mortgage Society of Finland Group	0.34%	1	0.0%
Nordea Mortgage Bank Plc	5.89%	2	0.5%
Nordea Finance Finland Ltd	1.82%	1	0.0%
Oma Savings Bank Plc	0.25%	1	0.0%
Amalgamation of POP Banks	0.70%	1	0.0%
S-Bank Ltd	1.03%	1	0.0%
Bank of Åland Plc	1.23%	1	0.0%
Handelsbanken Finance Plc	0.06%	–	–
Municipal Finance Plc	8.72%	3	1.0%
Amalgamation of OP Financial Group cooperative banks	23.96%	5	2.0%
Savings Banks Amalgamation	1.71%	1	0.0%



**Table 4. Impact of different criteria on credit institutions' O-SII scores**

<b>Credit institution (consolidated)</b>	<b>Size (total assets)</b>	<b>Importance</b>	<b>Complexity</b>	<b>Interconnectedness</b>
Aktia Bank Plc	1.93%	2.00%	0.99%	1.96%
Bonum Bank Ltd	0.00%	0.02%	0.00%	0.00%
Danske Bank Plc	7.00%	6.51%	8.93%	4.99%
Evli Bank Plc	0.26%	0.13%	0.29%	0.29%
Mortgage Society of Finland Group	0.62%	0.32%	0.04%	0.40%
Nordea Mortgage Bank Plc	6.24%	3.60%	4.17%	9.57%
Nordea Finance Finland Ltd	2.06%	1.27%	1.56%	2.39%
Oma Savings Bank Plc	0.53%	0.29%	0.01%	0.18%
Amalgamation of POP Banks	1.01%	1.45%	0.07%	0.27%
S-Bank Ltd	1.29%	1.90%	0.31%	0.60%
Bank of Åland Plc	1.23%	1.27%	1.30%	1.11%
Handelsbanken Finance Plc	0.11%	0.06%	0.00%	0.07%
Municipal Finance Plc	7.93%	2.60%	9.58%	14.77%
Amalgamation of OP Financial Group cooperative banks	26.76%	27.29%	22.25%	19.52%
Savings Banks Amalgamation	2.28%	2.71%	0.38%	1.48%