



Principles for determining global systemically important credit institutions (G-SII/Bs) and setting additional capital requirements (G-SII/B buffers)

1 Background

Global systemically important credit institutions are those that pose a systemic risk so great that, if realised, it would endanger the stability of the global financial system.

Global systemically important financial institutions are typically large relative to other financial institutions, functionally complex, and they have significant connections, directly or indirectly, with the international financial system and economy. As a result, the solvency and liquidity problems of these financial institutions easily spread to the rest of the financial system.

Efforts are made to mitigate the risks of global systemically important credit institutions for the financial sector and the economy by strengthening the institutions' loss absorbency, thereby reducing the probability of their failure. The objective of additional capital requirements imposed for G-SII/Bs (G-SII/B buffers) is to prevent macroprudential risks arising from structural factors in the financial markets.¹

The Financial Stability Board (FSB) recommends annually which credit institutions the national authorities should define as G-SII/Bs and what additional capital requirements should be applied to them. The recommendation is based on the guidelines and preparation of the Basel Committee on Banking Supervision (BCBS). In Finland, the Board of the Financial Supervisory Authority (FIN-FSA) determines the G-SII/Bs and the additional capital requirements to be set for them, pursuant to the Credit Institutions Act and the Commission Delegated Regulation (EU) No 1222/2014.

2 Regulatory framework relating to global systemically important financial institutions

2.1 Credit Institutions Act (Chapter 10 Section 7)

The Financial Supervisory Authority shall divide G-SII/Bs domiciled in Finland into six subcategories, the G-SII/B buffers of which shall be calculated according to the following table as a percentage of the total risk exposure of the credit institution:

Subcategory	G-SII/B buffer
1	1.0 %
2	1.5 %
3	2.0 %
4	2.5 %
5	3.0 %

The EU Commission Regulation lays down the principles to be applied in identifying such credit institutions.

¹ Global systemically important institution/bank



2.2 EU Commission Regulation (1222/2014) for the specification of the methodology for the identification of global systemically important institutions

The EU Commission Regulation is based on standards developed by the Basel Committee on Banking Supervision for assessing global systemically important banks.

The importance for the system of each bank, as measured by indicators, is expressed as a single overall score relative to the other entities of the sample. Based on the overall score, banks are identified as G-SII/Bs and allocated to subcategories that determine the size of the G-SII/B buffer. A credit institution's importance for the financial system is assessed on the basis of the credit institution's i) size, ii) interconnectedness, iii) substitutability, iv) complexity and v) scope of cross-border activity.

The FIN-FSA shall calculate, by no later than 15 December each year, the scores of the relevant entities operating in Finland that are included in the G-SII/B sample notified by European Banking Authority. Each entity shall be given an overall score that facilitates the allocation of the G-SII/B into subcategories in accordance with the Credit Institutions Act and the EU Commission Regulation. The subcategories shall be the same as the subcategories used by the Basel Committee on Banking Supervision. A G-SII/B shall maintain a G-SII/B buffer corresponding to the subcategory to which the G-SII/B has been allocated. The buffer shall be based on Common Equity Tier 1 capital (CET1) and applied at the consolidation group level.

The lowest cut-off score shall be 130 points. The subcategories shall be allocated as follows:

- a) subcategory 1 shall encompass scores from 130 to 229 points
- b) subcategory 2 shall encompass scores from 230 to 329 points
- c) subcategory 3 shall encompass scores from 330 to 429 points
- d) subcategory 4 shall encompass scores from 430 to 529 points
- e) subcategory 5 shall encompass scores from 530 to 629 points

The FIN-FSA shall determine the score of each relevant entity as the simple average of the category scores subject to a maximum category score of 500 points for the category measuring the substitutability. Each category score shall be calculated as the simple average of the values resulting from dividing each of the indicator values of that category by the denominator of the indicator notified by the European Banking Authority. The scores shall be rounded to the nearest whole point.

The categories and indicators are:

1. Size of the group – one indicator, corresponding to the group's total exposure
2. Interconnectedness of the group – consists of the following indicators:
 - a) intra-financial system assets
 - b) intra-financial system liabilities
 - c) securities outstanding
3. Substitutability of the services or the financial infrastructure provided by the group – consists of the following indicators:
 - a) assets under custody
 - b) payments activity
 - c) underwritten transactions in debt and equity markets
4. Complexity of the group – consists of the following indicators:



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- a) notional amount of OTC derivatives
- b) level 3 assets in the fair value hierarchy in accordance with Commission Regulation (EU) No 1255/2012
- c) Trading and available-for-sale securities
- 5. Cross-border activity of the group – consists of the following indicators:
 - a) cross-jurisdictional claims
 - b) cross-jurisdictional liabilities.

3 Finnish credit institutions' G-SII scores and buffers

The FSB publishes annually a list of global systemically important credit institutions. There are 30 credit institutions on the list published in November 2017.² The list published by the FSB is based on scores received by credit institutions and an overall assessment by their competent supervisor. Nordea-group is positioned in bucket one of the list. The decision on the additional capital requirement is ultimately made by the competent national supervisor.

The FIN-FSA shall identify a credit institution as a G-SII/B where the score of that entity is equal to or higher than the lowest cut-off score. The FIN-FSA may re-allocate a G-SII/B from a lower subcategory to a higher subcategory exercising supervisory judgment. This shall be based on an assessment of whether the entity's failure would have negative effects on the global financial market and the global economy. The decision referred to above may be supported by ancillary indicators, which shall not be indicators of the probability of the relevant entity's failure.

Based on the calculations made, the Nordea Group's score is 114 using end-2016 data. Since the application of the G-SII/B standard, Nordea Group has been classified as a G-SII/B without it having changed its business model significantly. Cross-border activity forms a significant part of the group's activities and the group is particularly dependent on market funding. In addition, the group is systemically important in a number of countries. A potential failure of the group would have significant negative effects on the global financial market and the global economy, as a consequence of which the FIN-FSA, exercising its supervisory judgement, has identified it as a G-SII/B in subcategory 1 (additional capital requirement 1.0%).

² 2017 list of global systemically important banks (G-SIBs) <http://www.fsb.org/wp-content/uploads/P211117-1.pdf>