

November 2017

Final Peer Review Report

Final Peer Review Report

On the peer review of the 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)

Contents

List of figures	3
1. Executive Summary	5
2. Background and rationale	7
2.1 Introduction	7
2.2 Mandate	7
2.3 Reference to the EBA Regulation	9
2.4 Methodology	9
3. Summary of the findings of the self-assessment questionnaire	12
4. Outcomes of self-assessment	13
4.1 Application of mandatory indicators for the scoring of institutions	13
4.2 Setting of optional indicators	14
4.3 Effectiveness and comprehensiveness of disclosure and notification requirements	14
4.4 Calibration of the O-SII buffer	16
4.5 Data and decision-making processes	16
5. Summary of the ‘review by peers’ phase	18
5.1 Application of mandatory indicators for the scoring of institutions	18
5.2 Setting of optional indicators	31
5.3 Effectiveness and comprehensiveness of disclosure and notification requirements	35
5.4 Calibration of the O-SII buffer	49
5.5 Data and decision-making processes	57
6. Annexes	60
ANNEX 1: Country codes and acronyms of relevant authorities	60
ANNEX 2: Questions in the self-assessment questionnaire	62
ANNEX 3: Summary table of the RAs’ self-assessment	71
ANNEX 4: Summary table of the review of the RAs’ self-assessment	73
ANNEX 5: Summary table of good practices	76
ANNEX 6: Summary table of the Review Panel’s recommendations	79

List of figures

Figure 1: Overall summary table of numbers of answers	12
Figure 2: Summary table of relevant authorities' benchmarked responses (question7)	14
Figure 3: Summary table of relevant authorities' benchmarked responses (question13a)	15
Figure 4 : Summary table of relevant authorities' benchmarked responses (question 19)	16
Figure 5: Summary table of relevant authorities' benchmarked responses (question26)	17
Figure 6: Percentage of RAs using the option to raise or lower the 350 bps threshold	18
Figure 7: Breakdown of qualitative answers of RAs on using the option to raise or lower the 350 bps threshold	19
Figure 8: Does your Authority adhere to definitions included in Table 2 of Annex 1 of the Guidelines to compute mandatory indicators?	20
Figure 9: Use of proxies	20
Figure 10: Scoring of the indicators from Annex 1 of the Guidelines used after the first step of the methodology according to their significance for the scoring of O-SIIs	22
Figure 11: Need for communication with other relevant authorities in the case of institutions spanning several countries	25
Figure 12: Outcome of benchmarked question 7	27
Figure 13: Summary table of the review of relevant authorities' benchmarked responses (question7)	27
Figure 14: Inclusion of EEA and non-EEA branches in the identification process	28
Figure 15: Identification of branches as O-SIIs	29
Figure 16: Aggregate outcome of benchmarked question 13a	35
Figure 17: Summary table of relevant authorities' benchmarked responses (question13a)	36
Figure 18: Means of raising institutions' awareness of the O-SII identification methodology	37
Figure 19: Publication of scores/O-SII buffer requirements	38
Figure 20: Sources of communication of scores and buffer requirements	39
Figure 21: Involvement of credit institutions in the process of identification of O-SIIs	40
Figure 22: Means of communication with credit institutions about the results of the scoring	42
Figure 23: Reference date of the data used in RAs' annual identification process	44
Figure 24: Publication for each bank of a brief statement indicating which optional indicators were used to inform the designation as an O-SII	45

Figure 25: Use of optional indicators by the RAs and rationale disclosed (as in the EBA Guidelines)	46
Figure 26: Summary table of the review of relevant authorities' benchmarked responses (question19)	48
Figure 27: Percentage of RAs taking into account mandatory scores of identified O-SIIs when calibrating the O-SII buffer rate	50
Figure 28: Percentage of RAs using quantified additional criteria related to identified O-SIIs when calibrating the O-SII buffer rate	50
Figure 29: Percentage of RAs using the results of identified O-SIIs when calibrating other macroprudential tools	51
Figure 30: Description of the relationship between O-SII scores and assigned O-SII/SRB/G-SII buffer rates in the EU	52
Figure 31: The number of O-SIIs as a function of the score and the buffer rate	54
Figure 32: Distribution of O-SII buffers relative to the automatic score applied	56
Figure 33: Distribution of O-SII buffers over time	56
Figure 34: Summary table of the review of relevant authorities' benchmarked responses (question 26)	58

1. Executive Summary

This final peer review report presents the outcomes of the ongoing EBA peer review exercise on the *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)*, hereinafter referred to as ‘the Guidelines’.

The report summarises the main findings arising from the review by peers and identifies good practices implemented by relevant authorities (RAs), which are either national competent authorities (CAs) or national designated authorities (NDAs) (see Annex 1 for a complete list of participants in this peer review)¹. The Review Panel considered that on-site visits would not add specific value to this particular peer review exercise. However, to better understand good practices and determine whether further actions to enforce the Guidelines were required, it was agreed that a targeted questionnaire would be circulated to some RAs. This report incorporates the findings from these additional questionnaires.

The peer review exercise concludes that the majority of RAs are compliant with the Guidelines (see Annex 4 for a complete overview of the responses to the benchmarked questions). However, the Review Panel has observed some practices deviating from the Guidelines. One RA did not contribute to this peer review exercise. Furthermore, the Council Regulation (EU) No1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (the Single Supervisory Mechanism (SSM) Regulation) assigns macro-prudential responsibilities to both the national authorities and the European Central Bank (ECB), who are thus jointly responsible for macro-prudential policy. Owing to the specific purpose of the Guidelines, the ECB/SSM could not participate in the self-assessment process, as the identification of O-SIIs is currently carried out at national level within the SSM area. A wide range of practices has been observed in areas that were expected to have been harmonised by the Guidelines. Some requirements are not consistently and comprehensively applied in all jurisdictions adversely affecting the level playing field for institutions operating in these jurisdictions and hampering the harmonisation expected in a single market.

The Review Panel therefore encourages the dissemination of the best practices observed in the course of this peer review through the publication of this report (see Annex 5 for an overview of the best practices identified) and suggests that action should be taken in areas where the Review Panel sees some merit in harmonisation, such as CAs’ notification and disclosure obligations (see Annex 6 summarising the Review Panel’s recommendations).

¹ The report refers throughout to RAs. It should be acknowledged that the legal provisions with respect to the identification of G-SIIs and O-SIIs and to the use of capital buffers are laid down in Article 131 of the CRD. Depending on the implementation of the European Directive into national law, the responsibility lies either with the CA or the NDA. The provisions in EU law are consistent with the indicator-based measurement approach of the Basel Committee on Banking Supervision for G-SIBs and D-SIBs.

Without pre-empting the results of the ongoing European Commission work on the EU macro-prudential framework in the context of the CRR/CRDIV revision, the Review Panel deems that further guidance is highly desirable to reduce variation in the calibration and use of the O-SII buffer.

2. Background and rationale

2.1 Introduction

This final peer review report presents a summary of the factual results of the first phase of the peer review, namely the self-assessment by RAs of how they have implemented the Guidelines on the criteria to determine the conditions of application of Article 131(3) of the Capital Requirements Directive (CRD) in relation to the assessment of O-SIIs. It also presents the main results of the second phase of the peer review exercise, the ‘review by peers’, including possible good practices identified through a desk-based analysis. In addition, it documents the best practices observed during the ‘review by peers’ phase based on an analysis of the responses provided by some RAs to whom a targeted questionnaire was sent. The reference date for this peer review exercise was the 2016 O-SIIs identification exercise, meaning that data from the end of 2015 have been used.

2.2 Mandate

The purpose of this peer review is to assess both the effective application across the different jurisdictions of the EU, including the three EEA countries², of the provisions set out in the Guidelines, and the processes implemented by CAs to achieve an appropriate evaluation of the conditions used to determine institutions as O-SIIs.

The peer review assesses whether RAs complied with the methodology in the Guidelines when evaluating the impact of institutions on systemic risks. In doing so, the peer review focuses on the best practices developed by some RAs, identifying them at every stage of the review with a view to sharing those practices with other RAs. The peer review also assesses how RAs made use of the options they had available to reflect the specificities of their banking sectors.

Finally, although not strictly included in the scope of the Guidelines, developing a broad understanding of different practices in using the institution-specific score for the final O-SII buffer calibration could bring significant benefits for future reviews of these Guidelines. However, this peer review tries to avoid overlapping with the ESRB work focusing on structural buffers, and contributes to further clarity on this ongoing work through the main findings of the exercise.

The Guidelines constitute the basis on which the peer review is undertaken. Consequently, RAs are assessed against all the provisions of the Guidelines, including:

- Title II – Scoring methodology for the assessment of the O-SIIs;

² IS, LI, NO.

- Title III –Supervisory assessment of O-SIIs;
- Title IV – Disclosure and notification.

It is expected that, at the end of the exercise, the Review Panel will be able to:

- issue a report with a description and comparison of supervisory approaches and their compliance with the Guidelines;
- identify best practices for supervisors;
- express an opinion on the adequacy of the current Guidelines and potential areas for improvement.

All of the 28 voting members of the EBA’s Board of Supervisors (BoS), the ECB/SSM and the observers at the EBA’s BoS from EEA countries were subject to this peer review. Owing to the specific purpose of the Guidelines, the ECB/SSM did not participate in the self-assessment, as within the SSM area, the determination of O-SIIs is carried out on the initiative of the national authorities. In addition, one RA does not apply the Guidelines and provided some reasoning to the EBA in the context of the ‘comply or explain procedure’.

On 3 March 2017, the EBA asked RAs to complete a self-assessment questionnaire containing 27 questions concerning five general areas, namely application of mandatory indicators for the scoring of institutions; setting of optional indicators; effectiveness and comprehensiveness of disclosure and notification requirements; calibration of the O-SIIs buffer; data and decision-making processes³. RAs were asked to send their completed self-assessment questionnaires to the EBA by 31 March 2017. From April to early May 2017, the sub-group WS2, composed of RA volunteers and EBA staff, reviewed the responses provided by the RAs and requested additional information where necessary. In a few cases, additional explanations led to changes in the assessment initially submitted.

A targeted questionnaire was sent to some RAs that had been observed following potential best practices. The responses received were analysed by EBA staff and contributed to greater clarity on the best practices observed.

³ The self-assessment questionnaire is reproduced in Annex 2.

2.3 Reference to the EBA Regulation

The Review Panel conducts independent peer reviews based on self-assessments provided by RAs. Consistently with the so-called ‘comply or explain’ approach, should an Authority not have implemented a given supervisory provision or practice, then it has to explain why.

Peer review exercises are conducted in accordance with the provisions of Article 30 of the EBA Regulation and the EBA decision establishing the Review Panel of the European Banking Authority (EBA DC 035). A peer review entails an assessment and comparison of the effectiveness of the supervisory activities and of the implementation of the provisions by RAs vis-à-vis those of their peers. A peer review shall include an assessment of:

- the adequacy of the resources and governance arrangements of RAs especially regarding the application of regulatory technical standards and implementing technical standards;
- the degree of convergence achieved in the application of Union law and in supervisory practices;
- the best practices developed by RAs.

At the end of the peer review, the EBA is entitled to submit an opinion to the European Commission when the peer review or any other information acquired in carrying out its tasks shows that a legislative initiative is necessary to ensure greater harmonisation of prudential rules (Article 30(3)(a) of the EBA Regulation). The EBA also has to make the best practices that can be identified from the peer review publicly available. In addition, all other results of the peer review may be disclosed publicly, subject to the agreement of the CA that is the subject of the peer review (Article 30(4) of the EBA Regulation).

2.4 Methodology

The peer review followed the EBA Review Panel methodology (EBA BoS 2012 107)⁴ approved in June 2012. In line with the methodology, each peer review has four phases:

- Phase 1 – preparatory
 - Preparation and finalisation of a self-assessment questionnaire.
- Phase 2 – self-assessment
 - RAs are asked to submit their initial self-assessments.
- Phase 3 – review by peers

⁴ [EBA Review Panel methodology for the conduct of peer reviews \(EBA BoS 2012 107\)](#)

- The Review Panel considers the questions, self-assessments and benchmarks, revising them as necessary to promote consistency of responses across RAs.
- Phase 4 – on-site visits
 - Small teams visit a number of RAs.

In accordance with the EBA's Review Panel methodology, the EBA is expected to establish a benchmark to facilitate a transparent and objective evaluation of the degree to which each RA is effectively implementing the supervisory provisions or practices subject to peer review and of the degree to which intended supervisory outcomes are being achieved. Further, the methodology requires that the benchmark be clearly set out at the beginning of each exercise. In so doing, the EBA has to use a specific grade-scale ranging from 'fully applied' to 'not applied', including two additional categories 'not applicable' and 'non-contributing', to assess the level of compliance reached by each RA. For this exercise, Review Panel members agreed to use a mixed set of benchmarking criteria, to assess both the strict application of the requirements of the Guidelines and the relevance of supervisory practices with regard to the determination of O-SIIs. Consequently, the benchmarking criteria have been defined as follows:

- **Fully comprehensive process:** a practice may be considered 'fully comprehensive' when all the assessment criteria specified in the benchmarks are met without any significant deficiencies. **Fully applied:** a provision is considered 'fully applied' when all the assessment criteria specified in the benchmarks are met without any significant deficiencies.
- **Largely comprehensive process:** a practice may be considered 'largely comprehensive' when some of the assessment criteria are met with some deficiencies, that do not raise any concerns about the overall effectiveness of the RA, and no material risks are left unaddressed. **Largely applied:** a provision is considered 'largely applied' when some of the assessment criteria are met with some deficiencies, that do not raise any concerns about the overall effectiveness of the RA, and no material risks are left unaddressed.
- **Partially comprehensive process:** a practice may be considered 'partially comprehensive' when some of the assessment criteria are met with deficiencies affecting the overall effectiveness of the RA, resulting in a situation where some material risks are left unaddressed. **Partially applied:** a provision is considered 'partially applied' when some of the assessment criteria are met with deficiencies affecting the overall effectiveness of the RA, resulting in a situation where some material risks are left unaddressed.
- **Weak process:** a practice may be considered 'weak' when the assessment criteria are not met at all or not to an important meaningful degree, resulting in a significant deficiency in the application of the provision. **Not applied:** a provision is considered 'not applied' when the assessment criteria are not met at all or not to an important meaningful degree, resulting in a significant deficiency in the application of the provision.

- ***Not applicable:*** a practice under review may be considered ‘not applicable’ when it does not apply because of the nature of a RA’s market.
- ***Non-contributing:*** a RA shall be classified as ‘non-contributing’ if it has not submitted its contribution within the prescribed deadline.

3. Summary of the findings of the self-assessment questionnaire

Overall, most RAs participating in the peer review exercise confirmed their application of the Guidelines. In a few instances, some RAs deemed that the requirements were ‘largely’ or ‘partially’ applied. The ECB/SSM considered that the Guidelines were not applicable to it as the process of identification of O-SIIs and the application of the methodology embedded in the Guidelines should be applied at national level. Furthermore, one RA notified its non-compliance and provided arguments to explain it.

Below is a summary of all the answers received.

Figure 1: Overall summary table of numbers of answers

	Fully applied / fully comprehensive process	Largely applied / largely comprehensive process	Partially applied / partially comprehensive process	Not-applied / weak process	Not applic able	Non- contributing	Total
AT	2	1	0	0	1	0	4
BE	4	0	0	0	0	0	4
BG	3	1	0	0	0	0	4
CY	3	1	0	0	0	0	4
CZ	2	0	2	0	0	0	4
DE	4	0	0	0	0	0	4
DK	3	1	0	0	0	0	4
ECB	0	0	0	0	4	0	4
EE	4	0	0	0	0	0	4
EL	3	0	1	0	0	0	4
ES	4	0	0	0	0	0	4
FI	3	1	0	0	0	0	4
FR	3	1	0	0	0	0	4
HR	2	2	0	0	0	0	4
HU	4	0	0	0	0	0	4
IE	4	0	0	0	0	0	4
IS	2	1	1	0	0	0	4
IT	4	0	0	0	0	0	4
LI	2	1	1	0	0	0	4
LT	2	2	0	0	0	0	4
LU	2	1	1	0	0	0	4
LV	4	0	0	0	0	0	4

MT	0	0	0	0	0	4	4
NL	4	0	0	0	0	0	4
NO	3	1	0	0	0	0	4
PL	3	1	0	0	0	0	4
PT	4	0	0	0	0	0	4
RO	4	0	0	0	0	0	4
SE	4	0	0	0	0	0	4
SI	3	1	0	0	0	0	4
SK	4	0	0	0	0	0	4
UK	4	0	0	0	0	0	4
Total	97	16	6	0	5	4	128

Annex 3 provides a detailed summary of all the self-assessment results from all the respondents.

4. Outcomes of self-assessment

4.1 Application of mandatory indicators for the scoring of institutions

With regard to the first step of the methodology embedded in the Guidelines, the peer review evaluated how RAs complied with the requirements when applying mandatory indicators for the scoring of institutions.

RAs were requested to self-assess their use of exemptions of institutions from the identification process (question 7).⁵ Twenty-seven RAs considered that they applied a ‘fully comprehensive process’, whilst two RAs assessed their processes as ‘largely comprehensive’ and ‘partially comprehensive’ respectively. Two RAs deemed that this question was not applicable to them and one RA did not contribute to the peer review exercise. The breakdown of responses provided by RAs is shown in the table below.

⁵ If your Authority exempts any institution(s) from the identification process, which criteria from the below does it apply to ensure that those institutions falling under this measure may not trigger any possible systemic threats? [Fully comprehensive process, Largely comprehensive process, Partially comprehensive process, Weak process] **Benchmarking criteria:** (i) Your Authority only exempts institutions from the identification process if its relative size is below 0.02% of total assets for the jurisdiction; (ii) Your Authority ensures that 100% of the banking system is assessed, regardless of any exemptions given; (iii) Your Authority has a robust estimate on how the combined indicators for the exempted institutions look like; (iv) Your Authority monitors any potential threats coming from those institutions. [FCP: 4 criteria met, LCP: 3 criteria met, PCP: 2 criteria met, WP: 0/1 criteria met]. NB: Please note that in case your Authority does not exempt any institution from the identification process, the grade should be ‘Fully comprehensive process’.

Figure 2: Summary table of relevant authorities' benchmarked responses (question7)

RA	Assessment	RA	Assessment
AT	Not applicable	IS	Fully comprehensive process
BE	Fully comprehensive process	IT	Fully comprehensive process
BG	Fully comprehensive process	LI	Fully comprehensive process
CY	Fully comprehensive process	LT	Largely comprehensive process
CZ	Fully comprehensive process	LU	Fully comprehensive process
DE	Fully comprehensive process	LV	Fully comprehensive process
DK	Fully comprehensive process	MT	Non contributing
ECB	Not applicable	NL	Fully comprehensive process
EE	Fully comprehensive process	NO	Fully comprehensive process
EL	Partially comprehensive process	PL	Fully comprehensive process
ES	Fully comprehensive process	PT	Fully comprehensive process
FI	Fully comprehensive process	RO	Fully comprehensive process
FR	Fully comprehensive process	SE	Fully comprehensive process
HR	Fully comprehensive process	SI	Fully comprehensive process
HU	Fully comprehensive process	SK	Fully comprehensive process
IE	Fully comprehensive process	UK	Fully comprehensive process

4.2 Setting of optional indicators

This section of the self-assessment questionnaire did not contain any benchmarked questions.

4.3 Effectiveness and comprehensiveness of disclosure and notification requirements

In terms of transparency, the Guidelines require RAs to disclose the methodology applied during the identification process. In relation to the need for effective disclosure of national options,, the benchmarked question 13a focused on the publication of an outline of the methodology used for the supervisory assessment applied during the identification process ⁶.

⁶ Does your Authority publish an outline of the methodology for the supervisory assessment applied during the identification process? [Fully applied, Largely applied, Partially applied, Not applied]

Benchmarking criteria: i) Effective publication of an outline of the methodology for the supervisory assessment applied during the assessment process; ii) Regular (at least annually) update of the outline of the methodology; iii) Complete published outline taking into account information such as optional indicators where relevant; iv) Effective publication of an outline of the methodology for setting the buffer requirement; v) Publication of the reasons in case your Authority uses the option to raise or lower the threshold to designate O-SIIs, including the specificities of your Authority's banking sector and the resulting statistical distribution of the scores. [FA: 5 criteria met, LA: 4 criteria met, PA: 2/3 criteria met, NA: 0/1 criteria met]. NB: In case your authority has not used the option to raise or to lower the threshold to designate O-SIIs (referring to the last criterion), your self-assessment should be 'Fully applied' if the four first criteria are met.

Twenty-three RAs declared in their self-assessment questionnaires that the requirements of the Guidelines were fully applied in terms of disclosure. Five RAs considered that they largely applied the provisions with regard to the publication of the methodology, two RAs only partially applied them, and one RA did not apply them. One RA did not contribute to the exercise. The results of the responses are shown below.

Figure 3: Summary table of relevant authorities' benchmarked responses (question13a)

RA	Assessment	RA	Assessment
AT	Fully applied	IS	Fully applied
BE	Fully applied	IT	Fully applied
BG	Fully applied	LI	Largely applied
CY	Fully applied	LT	Largely applied
CZ	Partially applied	LU	Partially applied
DE	Fully applied	LV	Fully applied
DK	Largely applied	MT	Non-contributing
ECB	Not applicable	NL	Fully applied
EE	Fully applied	NO	Fully applied
EL	Fully applied	PL	Fully applied
ES	Fully applied	PT	Fully applied
FI	Fully applied	RO	Fully applied
FR	Fully applied	SE	Fully applied
HR	Largely applied	SI	Largely applied
HU	Fully applied	SK	Fully applied
IE	Fully applied	UK	Fully applied

Question 19 also evaluated the disclosure requirements imposed on RAs through the notifications they are required to send to the EBA in a timely and comprehensive fashion⁷. In their responses, eighteen RAs considered that they fully applied the requirements of the Guidelines regarding the notifications to the EBA, while nine RAs and three RAs deemed that they largely or partially applied those requirements, respectively. One RA regarded the requirements as not applicable and another RA did not contribute to the exercise. The breakdown of responses provided by RAs is shown in the table below.

⁷ Has your Authority been able to notify the EBA in a timely and comprehensive fashion? [Fully applied, Largely applied, Partially applied, Not applied] Benchmarking criteria: i) Your Authority notifies the EBA in due time, particularly by the 1 December each year; ii) Your Authority notifies the names of all relevant institutions identified as O-SIIs; iii) Your Authority notifies the scores for each identified institution; iv) Your Authority notifies the EBA of the indicator values for all identified O-SIIs (including the ones identified through supervisory judgement); v) Your Authority provides full information to the EBA of names and scores for all assessed institutions, including the ones that have not been identified as O-SIIs. [FA: 5 criteria met, LA: 4 criteria met, PA: 2/3 criteria met, NA: 0/1 criteria met]. NB: By assessing disclosure and notification requirements, the Review Panel may ask material evidence.

Figure 4 : Summary table of relevant authorities' benchmarked responses (question 19)

RA	Assessment	RA	Assessment
AT	Largely applied	IS	Partially applied
BE	Fully applied	IT	Fully applied
BG	Largely applied	LI	Partially applied
CY	Largely applied	LT	Fully applied
CZ	Partially applied	LU	Largely applied
DE	Fully applied	LV	Fully applied
DK	Fully applied	MT	Non-contributing
ECB	Not applicable	NL	Fully applied
EE	Fully applied	NO	Largely applied
EL	Fully applied	PL	Largely applied
ES	Fully applied	PT	Fully applied
FI	Largely applied	RO	Fully applied
FR	Largely applied	SE	Fully applied
HR	Largely applied	SI	Fully applied
HU	Fully applied	SK	Fully applied
IE	Fully applied	UK	Fully applied

4.4 Calibration of the O-SII buffer

The peer review assessed how RAs calibrated institution-specific O-SII buffers, to gain a clear view of the current situation in terms of harmonisation in the EU. Given that the calibration of the O-SII buffers did not, strictly speaking, fall within the scope of the Guidelines, no benchmarked questions relating to it were included in the self-assessment questionnaire.

4.5 Data and decision-making processes

The peer review had to take into consideration the adequacy of the resources and governance arrangements of RAs especially regarding the application of the Guidelines. Therefore, this section relates to one benchmarked question (question 26) about the involvement of the management of the RAs in the O-SII identification process⁸.

Twenty-nine RAs considered that the management was fully involved in the identification process for O-SIIs. Only one RA concluded that its management was 'largely' involved and one RA

⁸ How involved is your Authority's management in the O-SII identification process? [*Comprehensively involved; Largely Involved; Partially Involved; Not Involved*] Benchmarking criteria: (i) Your Authority's middle management is fully involved in the O-SII identification process; (ii) Your Authority's top-management is involved in the O-SII identification process at least in case of issues; (iii) The involvement of middle and top-management is based on regular updates/ meetings (at least annually and if there are important structural changes to the banking system such as merger) [*FCP: 3 criteria met, LCP: 2 criteria met, PCP: 1 criterion met, WP: 0 criterion met*].

regarded the requirements as not applicable. Another RA did not contribute to the exercise. Further details are shown below.

Figure 5: Summary table of relevant authorities' benchmarked responses (question26)

RA	Assessment	RA	Assessment
AT	Fully involved	IS	Largely involved
BE	Fully involved	IT	Fully involved
BG	Fully involved	LI	Fully involved
CY	Fully involved	LT	Fully involved
CZ	Fully involved	LU	Fully involved
DE	Fully involved	LV	Fully involved
DK	Fully involved	MT	Non-contributing
ECB	Not applicable	NL	Fully involved
EE	Fully involved	NO	Fully involved
EL	Fully involved	PL	Fully involved
ES	Fully involved	PT	Fully involved
FI	Fully involved	RO	Fully involved
FR	Fully involved	SE	Fully involved
HR	Fully involved	SI	Fully involved
HU	Fully involved	SK	Fully involved
IE	Fully involved	UK	Fully involved

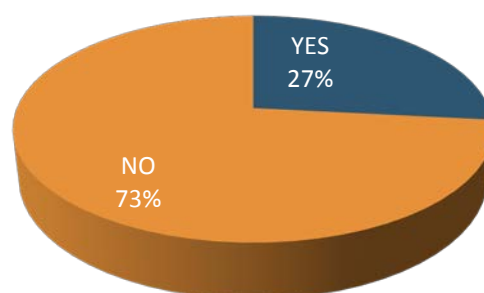
5. Summary of the ‘review by peers’ phase

The Review Panel appointed volunteers (WS2) to review the self-assessments provided by RAs with a view to ensuring the consistency of the responses and the benchmarks.

5.1 Application of mandatory indicators for the scoring of institutions

Question 1 focused on the use of the option to raise the threshold for designating institutions as O-SIIs from the general standard (350 basis points (bps)) up to 425 bps or to lower it to 275 bps to take into account the specificities of the RAs’ national banking sectors. An analysis of the answers to question 1 suggests that the current 350 bps threshold suits most EU national banking systems.

Figure 6: Percentage of RAs using the option to raise or lower the 350 bps threshold

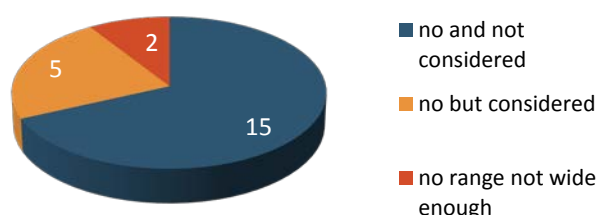


Most RAs (22) did not use the option to raise or lower the general threshold (350bps) for designating institutions as O-SIIs. The decision not to use this option has been assessed against realised scores and the majority of RAs (15) indicated that they did not consider the option of deviating from that threshold. However, some of them (5), although they have not used the option, considered doing so in light of the outcome of the identification process. The two remaining RAs claimed that the range (275-425bps) was not wide enough to accommodate the specificities of their national banking sectors. In one case, the RA observed that the national banking system was not significantly concentrated and that several institutions (although significant to the RA) could not be automatically identified through mandatory indicator scoring, as they attained an overall result below the minimum identification threshold. With a view to addressing systemic risk adequately, that RA supported lowering the threshold to 100 bps. The other RA that argued that the range was not wide enough pointed out that the option was currently not relevant to its jurisdiction, as three optional indicators were used for the

identification of O-SIIs following a political agreement at national level in 2013, rather than the EBA scoring model.

From a policy perspective, the reasons for not considering the 275-425 bps range wide enough can be seen as reasonable. Nevertheless, it should be noted that the highlighted drawbacks could be easily addressed by making use of the supervisory assessment phase provided in paragraphs 13 and 14 of the Guidelines.

Figure 7: Breakdown of qualitative answers of RAs on using the option to raise or lower the 350 bps threshold



As for the eight RAs that have used the option, one RA pointed out that the range was not wide enough to comply with the prescriptions of the Guidelines and stated that the threshold had been set at the level of 425 bps since the first identification exercise in 2015. However, raising the threshold did not affect the number of identified institutions in either 2015 or 2016.

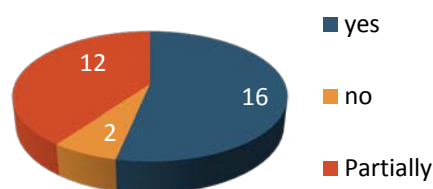
It is noteworthy that the admissible range for the threshold of between 275 bps and 425 bps was not originally intended to capture each and every possible configuration of a national banking system. Different realities and starting points from a market concentration perspective would have rendered this unachievable from the outset. A clear trade-off exists between the degree of flexibility allowed to adjust the threshold and the warranted harmonisation of the O-SII identification exercise across Member States. Whenever this match is not achieved from an RA's perspective by the mandatory indicators, supervisory assessment through the inclusion of optional indicators should be proactively considered and used to the extent needed.

In general, it was observed during this phase of the review that very few RAs exercised the option to lower or raise the recommended threshold of 350 bps. Despite the differences across national banking systems, this threshold seems to be appropriate for most jurisdictions for measuring systemic risk at the institution level. Where the option was exercised, the specificities of the

national banking systems and the statistical distribution of the scores were the main drivers behind that decision. Overall, the recommended threshold and admissible range for a change could be considered largely appropriate.

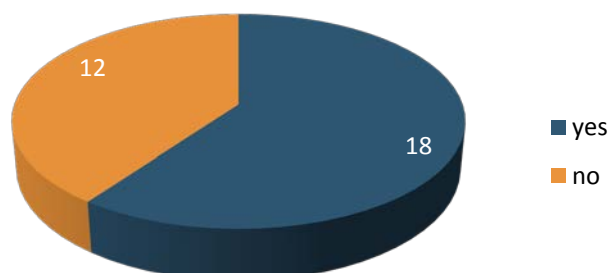
Question 2 aimed to assess how RAs' adherence to the definitions included in Table 2 of Annex 1 of the Guidelines to compute mandatory indicators. The majority of RAs adhered to these definitions either fully (16) or partially (12). Only two RAs declared that they did not follow the definitions provided in the Guidelines closely. Responses including 'Partially' and 'No' were mainly due to the unavailability of relevant FINREP data. In these cases, RAs relied mainly on national supervisory reporting or the closest alternative data source.

Figure 8: Does your Authority adhere to definitions included in Table 2 of Annex 1 of the Guidelines to compute mandatory indicators?



Question 3 assessed the use of proxies by CAs. Eighteen RAs relied on the use of proxies and 12 RAs did not. Proxies were mostly used for payments and cross-jurisdictional indicators, either for the entire banking sector (four RAs), for institutions not covered by FINREP and branches (10 RAs), or on a bank-by-bank basis (four RAs, three of which did not specify the percentage this subset of institutions represented in terms of total assets). Only four RAs out of a total of 18 disclosed the use of proxies.

Figure 9: Use of proxies



As for the implementation of IFRS 9, the answers confirmed that potential effects on the application of the scoring methodology were still difficult to forecast. Four RAs already predicted significant changes in terms of higher asset levels and/or volatility.

Question 4a asked whether RAs excluded institutions from the list of identified O-SIIs after the first automatic designation using mandatory indicators. Overall, the vast majority of RAs did not exclude institutions from the list of identified O-SIIs after the first step. However, the WS2 assessment revealed that 7% of RAs excluded institutions. One RA excluded an institution in accordance with Article 2(5) of the CRD. This RA included one financial institution in the identification exercise that was relevant for the assessment of the financial system, albeit not within the scope of the CRD. This institution was excluded from the list of designated O-SIIs despite its score exceeding the threshold. The rationale for the exclusion was that the CRD does not apply to this institution, but the initial interpretation was that it needed to be included in the aggregated amount of the indicator values. Excluding this institution from the aggregated amount of the indicator values would not have a significant impact on the scores of other relevant entities, and would not trigger the identification of additional O-SIIs or a change in buffer levels for those institutions identified as O-SIIs. The RA argued that this institution should be entirely excluded from the identification exercise from now on.

In addition, another RA excluded two institutions from the list of identified O-SIIs because the standardised scoring model in step 1 did not adequately take into account a specificity of its national banking system regarding issued bonds. Without prejudice to Article 2(5) of the CRD, the practice of excluding institutions identified as O-SIIs after computing scores from the mandatory indicators is contrary to the procedures in paragraphs 8 and 9 of the Guidelines. Paragraph 9 states that entities scoring above the threshold (either the recommended one of 350 bps or another between 275 bps and 425 bps chosen by the RA) should be identified as O-SIIs. In the future, the Review Panel may propose that the Guidelines emphasise this point to avoid any misinterpretations.

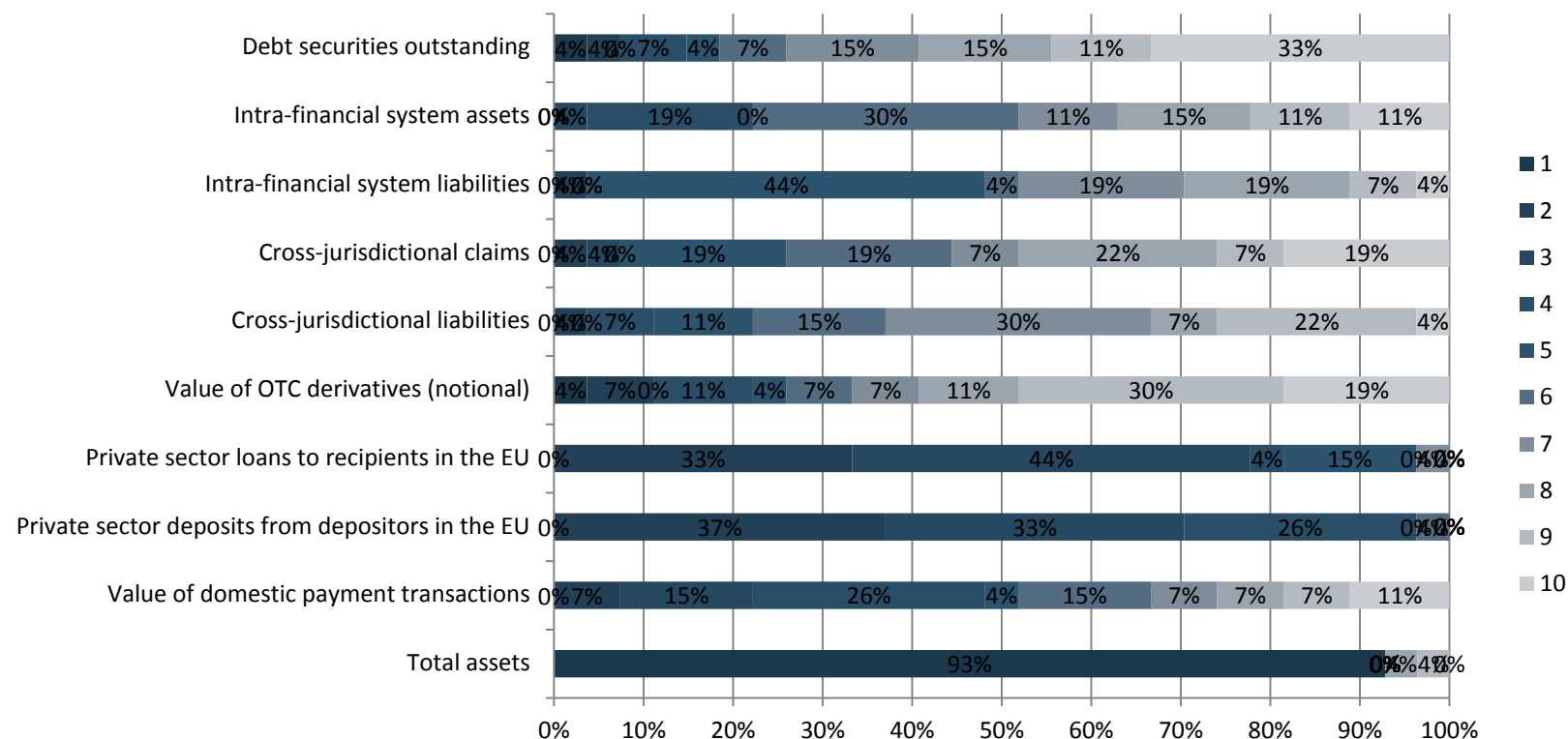
Question 4b focused on the significance of indicators for the scoring of O-SIIs.

The scoring of each indicator is very much dependent on the specificities of each financial sector, but some trends have been identified in the analysis conducted by WS2. Twenty-five RAs considered that 'total assets' was the most relevant indicator. For the other indicators, the results are more dispersed. Nevertheless, RAs evaluated the following indicators, ranked in the preference order provided by RAs, also very useful for the scoring of O-SIIs: private sector deposits from depositors in the EU (10 RAs ranked this indicator second in terms of relevance), private sector loans to recipients in the EU (nine RAs ranked this indicator third in terms of relevance), value of domestic payment transactions (seven RAs ranked this indicator fourth in

terms of relevance) and intra-financial system liabilities (12 RAs ranked this indicator fifth in terms of relevance)⁹.

Figure 10: Scoring of the indicators from Annex 1 of the Guidelines used after the first step of the methodology according to their significance for the scoring of O-SIIs

⁹ Please note that a few RAs refused to rank the indicators, considering them all equally relevant.



Question 5a asked RAs to specify the level of consolidation regarded as the most relevant for carrying out the O-SII identification assessment and whether RAs always assessed all institutions at the highest level of consolidation.

Out of 30 RAs, 29 assess the institutions at the highest level of consolidation in their jurisdictions. Therefore, the highest consolidation level is broadly regarded as the most relevant for conducting the O-SII identification assessment.

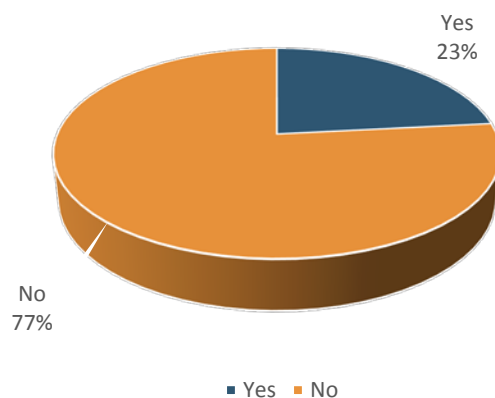
However, WS2 saw some merit in considering some complementary or alternative practices. One RA suggested clarifying Article 131(5) of the CRD since the level of application of the O-SII buffer can be a combination of solo, sub-consolidated and consolidated levels. This RA argued that there may be situations in which an O-SII buffer with different application levels would be economically justified. In addition, one RA pointed out, that in the case of a large internationally active institution that had located its assets to a large extent abroad, it might be justified to conduct the assessment at a lower than the highest consolidated level in order to assess the relevance of the institution at the domestic level. This RA argues that, otherwise, the scores might be biased and O-SIIs might not exceed the threshold. Another RA took this issue into due consideration and also monitored the sub-consolidated level of international institutions in its jurisdiction. This RA paid particular attention to how the scores would change, should it use the sub-consolidated level. It also monitored O-SII buffer levels prescribed to O-SII subsidiaries of a parent institution under its jurisdiction to consider cross-border effects. In contrast, one RA considered the individual level the most appropriate and assessed institutions on an individual basis in its jurisdiction.

Identified best practice

- ⇒ A best practice to be highlighted is considering, as the starting point for the assessment, the highest level of consolidation within each Member State, namely for the analysis against mandatory indicators, as prescribed in the Guidelines. Thereafter, each RA can slice and dice its own banking system into different layers, diving deeper into sub-consolidated and individual levels to identify any significant divergence from the scores obtained first, when conducting the assessment at the highest level of consolidation. If these differences become significant, the RA will have a clear reason for applying supervisory judgement where needed, as well as for taking more granular decisions regarding the buffer application.

Question 5b evaluated the approach taken by RAs to institutions spanning several countries. Communication in cases of cross-border groups was limited to notifications in accordance with Article 131(7) of the CRD. Four RAs mentioned that they also shared the information with supervisory colleges.

Figure 11: Need for communication with other relevant authorities in the case of institutions spanning several countries



Further analyses were conducted through a targeted questionnaire, which revealed that some RAs were organised at an early stage and on a geographical basis. Thus, Nordic and Baltic countries cooperate through the Nordic-Baltic Macroprudential Forum (NBMF),¹⁰ which is a useful supervisory tool, particularly when neighbouring countries operate integrated banking systems.

Question 5c asked RAs to explain how they cooperated with home authorities in order to assess institutions and jointly determine O-SIIs should they need to calculate a score for an institution at the highest consolidation level of the part of the group that fell within their jurisdiction, and how they cooperated with host authorities when they acted as the home authority of a group that was present in other EU jurisdictions. In the majority of cases, cooperation was not established or not necessary. The host authorities notified the home authorities in accordance with Article 131(7) of the CRD and the imposed O-SII buffer complied with Article 131(8) of the CRD. In addition, some RAs shared their intentions bilaterally and/or in supervisory colleges.

Some of the respondents to the targeted questionnaire notified the relevant host authorities through various means ranging from the official EBA/ESRB/ECB notification template, a notification letter informing the host authority of the designation decision, or a specific email ahead of the publication of the decision. However, some RAs highlighted that they did not share information about the scoring of institutions with host authorities despite publishing the results of the identification process on their websites.

Identified best practice

- ⇒ Information sharing, albeit not highly rated by RAs when answering questions 5b and 5c, should be seen as a best practice and encouraged throughout, even where supervisory colleges are not formally set up for a particular institution or banking group. Specifically,

¹⁰ For more information on the NBMF, see <http://www.fsb.org/wp-content/uploads/RCG-Europe-Nordic-experience-of-cooperation.pdf>, p.16.

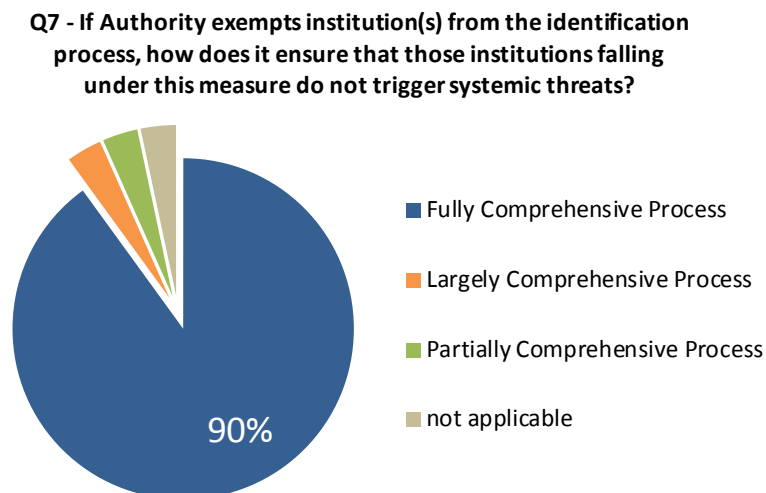
once an entity with cross-border activity is first identified as (or ceases being) an O-SII, RAs are encouraged to engage in discrete bilateral interactions with other relevant RAs. This practice is within the boundaries of the current legislative framework; however, few RAs seem to be doing this already. Therefore, a way forward could be for the RAs and the EBA to explore further avenues for information sharing across different jurisdictions.

Question 6a looked into the application of the option enabling RAs to exclude a relevant institution from the identification process if the relative size of this institution as measured by its total assets does not exceed 0.02% of total assets for the jurisdiction. The vast majority of RAs, approximately 87%, did not apply this option.

Question 6b assessed how RAs ensured that 100% of the banking system underwent the O-SII identification process if they excluded institutions using this option. Only one RA included the aggregated indicator values for the exempted institutions in the indicator denominators. In contrast, one RA conducted the assessment twice. In the latter case, the first assessment included 100% of the banking sector and the second only the institutions with a relative size of total assets exceeding 0.02%. The results were seen as completely robust and those institutions with total assets below 0.02% amounted on aggregate to less than 1% of the total assets of the banking sector.

Question 7 was a benchmarked question focusing on the criteria applied by RAs to ensure that institutions exempted from the identification process cannot possibly trigger a systemic threat. Of the RAs, 90% declared a fully comprehensive process. According to paragraph 10 of the Guidelines, Member States where the banking system contains a large number of small institutions may opt to exclude relevant entities from the identification process. When deciding on any exclusions, Member States should include an estimate of the indicator values for the excluded entity or entities. Results from the self-assessment showed that a large majority of RAs fully complied with the Guidelines, meaning that they either did not exclude any entities, or they did include in the identification process an estimate of the indicator values for the excluded entities. The strict application of the Guidelines is of utmost importance in this area, as simplified obligations may be applied to institutions that score below 25 bps in accordance with the O-SII methodology.

Figure 12: Outcome of benchmarked question 7



With a view to promoting greater harmonisation and establishing best practices, it is relevant to note that the RAs where a large number of small institutions exist clarified that no institution is exempt from the identification process. This is of particular importance if one considers that this option aimed primarily to reduce the reporting burden for very small institutions, while easing the annual identification exercise for the RAs where those very small institutions are domiciled.

Identified best practices

- ⇒ Member States and their respective RAs are encouraged to include all institutions in the annual identification process.
- ⇒ For jurisdictions exercising the option of excluding smaller entities, a best practice to follow could be running the assessment twice if appropriate, the first run including 100% of the banking system, where a virtual institution accounting for all smaller institutions below the 0.02% of total assets threshold would be included, and the second run including only institutions above that 0.02% threshold. This would guarantee that any differences arising from an increase in systemic risk scores for smaller institutions would be noticed and likely to be further assessed.

A breakdown of the responses provided by RAs is shown in the table below.

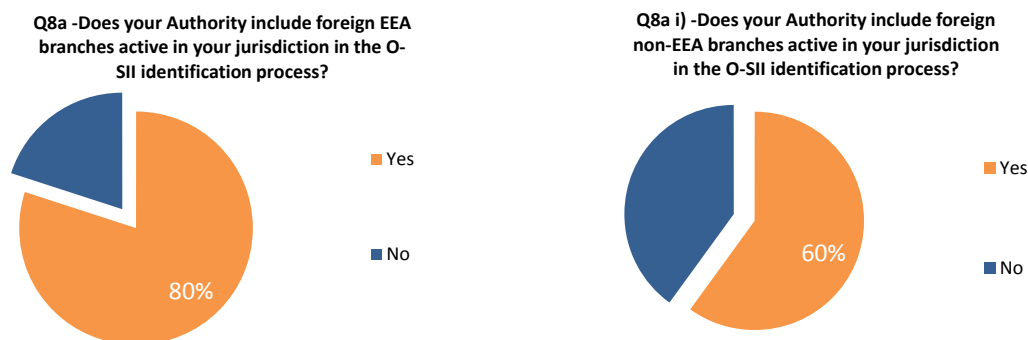
Figure 13: Summary table of the review of relevant authorities' benchmarked responses (question7)

RA	Assessment	RA	Assessment
AT	Fully comprehensive process (upgraded)	IS	Fully comprehensive process
BE	Fully comprehensive process	IT	Fully comprehensive process

BG	Fully comprehensive process	LI	Fully comprehensive process
CY	Fully comprehensive process	LT	Fully comprehensive process (upgraded)
CZ	Fully comprehensive process	LU	Fully comprehensive process
DE	Fully comprehensive process	LV	Fully comprehensive process
DK	Fully comprehensive process	MT	Non-contributing
ECB	Not applicable	NL	Largely comprehensive process (downgraded)
EE	Fully comprehensive process	NO	Fully comprehensive process
EL	Partially comprehensive process	PL	Fully comprehensive process
ES	Fully comprehensive process	PT	Fully comprehensive process
FI	Fully comprehensive process	RO	Fully comprehensive process
FR	Fully comprehensive process	SE	Fully comprehensive process
HR	Fully comprehensive process	SI	Fully comprehensive process
HU	Fully comprehensive process	SK	Fully comprehensive process
IE	Fully comprehensive process	UK	Fully comprehensive process

Question 8 examined how branches are considered in the process of identifying O-SIIs. In particular, regarding question 8a on whether foreign EEA and non-EEA branches are included in the identification process, the majority of the RAs included both. While 80% of the RAs declared that foreign EEA branches are included, a smaller proportion, 60% of the RAs include foreign non-EEA branches. However, this difference seems to be explained by the fact that six RAs do not currently have any non-EEA branches in their jurisdictions.

Figure 14: Inclusion of EEA and non-EEA branches in the identification process



Question 8b investigated whether RAs assigned an individual score to branches. Nineteen RAs responded that individual scores were assigned to branches. Of the RAs not assigning an individual score to branches, 3 responded that a virtual entity grouping together all the activities of branches was included in the assessment, to allow this virtual entity to be assigned an overall score. One RA used the concept of a virtual bank by grouping data for individual branches into a separate group and thereby incorporating them into a scoring process/list of institutions. Another

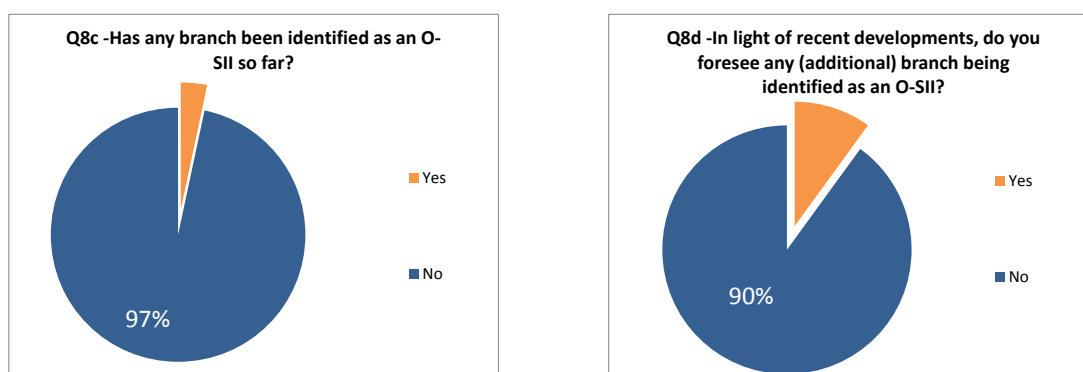
RA included all branches in the O-SII identification process on a collective basis in order to ensure that the denominator for the purpose of the scoring process reflected the overall banking sector.

Regarding RAs that do not assign an individual score to foreign branches, most of the respondents to the targeted questionnaire highlighted that this is because of the small size of those branches. They considered that those branches did not pose systemic threats to the domestic economy and pointed out that the size of foreign branches was regularly monitored, at best quarterly or at least each time the identification process was conducted. However, in some Member States, foreign branches score highly enough to be identified as O-SIIs, a fact that testifies in favour of their inclusion in the exercise, from a systemic risk analysis point of view, regardless of the limited practical effects of the designation (i.e. no capital buffer assigned).

Identified best practices

- ⇒ Member States and their respective RAs are encouraged to include foreign branches in the annual identification process.
- ⇒ Given the increasing contributions of bank branches to national banking systems, it becomes critical to monitor and assess any systemic risks brought into the system by foreign branches. Ideally, all foreign branches should be assigned an individual score. If this is not possible, foreign branches' activities should at least be grouped into a single virtual entity to which a score can be attributed. This practice will ensure that the combined systemic risk stemming from foreign branches is taken into account and monitored during the annual identification exercise.

Figure 15: Identification of branches as O-SIIs



The responses to questions 8c and 8d showed that one RA had already identified a foreign branch as an O-SII, and notably, another three RAs declared that they expected foreign branches to be identified as O-SIIs in the near future, particularly in the event of a change in the legal structure affecting what are currently foreign subsidiaries.

Question 9 assessed whether RAs used the option to exclude investment firms. The majority of RAs (18) did use it. With regard to Question 9b, relating to the methodology applied to investment firms, 11 of those RAs considered that those firms did not play a sufficiently important role in the financial system.

However, different practices were implemented. For instance, in one RA only the largest investment firms were included in the identification process “‘or the optional indicator on the balance sheet’”. In another RA, investment firms were included in the identification process when either (i) they were subsidiaries of banking groups and therefore only the highest level of consolidation was assessed; (ii) they were themselves the ultimate parent of a group and were consequently assessed, like any other institution, at the highest level of consolidation. Another RA stressed that the majority of indicators were not applicable to investment firms. Three other RAs considered that the methodology applied to institutions was not appropriate for investment firms.

Only one RA listed specific indicators used for investment firms in what could be considered a parallel framework. These include size (total assets, weighting 10%), importance (assets under management, weighting 20%), client assets (weighting 40%), and secondary markets footprint (number of memberships of exchanges/trading venues, weighting 30%).

Regarding Question 9c, only four RAs included any investment firms in the identification process. It is worth mentioning that the assessment performed by one of those RAs covered all registered and relevant investment firms, whereas in other jurisdictions only some of the operating firms were examined.

As for Question 9d, only two RAs identified investment firms as O-SIIs. None of the RAs envisaged any further investment firms being identified as O-SIIs (question 9e). Where the exemption was used, only nine RAs disclosed the information (question 9f), e.g. the data were published on the ESRB website or on the RA’s website and other RAs were notified.

From a prudential perspective, investment firms should be included in the identification exercise just like any other institution. RAs should exercise sound judgement and may opt to exclude these firms if the framework is deemed not suitable to assess the systemic risk they pose, or if ultimate scores for investment firms and non-investment firms are considered disproportionate or misleading when compared with scores obtained if the assessment is run only on non-investment firm institutions.

In response to question 9g, five RAs considered other non-CRD institutions in their assessment. For example, in one jurisdiction, all credit institutions were covered and in another ‘finance companies’ were also included in the assessment process, since their activities were similar to those of credit institutions, except that they did not collect deposits. One RA included credit unions in its assessment. Overall, the RAs assumed that examining CRD institutions enabled them to get a good overview of the risks in the financial sector.

Identified best practice

- ⇒ A best practice regarding whether investment firms are included in the assessment or not could involve making a clear statement in this regard in the outline of the methodology used to identify O-SIIs. When these firms are included, RAs should be transparent in declaring any specific methods or indicators used, if there is any difference from the framework established by the Guidelines.

5.2 Setting of optional indicators

Questions 10a and 10b looked into which additional criteria RAs applied to capture systemic risk in their domestic sector or the EU economy when assessing whether relevant institutions should be designated as O-SIIs. Fourteen RAs did not use any additional criteria to designate relevant institutions as O-SIIs. The other RAs listed the following additional criteria used in this respect:

- share of domestic loans and deposits;
- share of private sector deposits and private sector loans in the domestic banking sector ;
- intra-financial claims and obligations with domestic counterparties;
- assets under custody and assets held for trading;
- assets under management, (used by one CA for verification purposes in connection with the results of the analysis of the mandatory indicators and not as an formal additional optional indicator);
- market transaction volumes or values;
- off-balance sheet items, share in clearing and settlement systems;
- exposure at default, type of customers, number of deposit accounts, DGS, potential contagion through shareholders, potential reputational contagion, potential contagion through entities in the conglomerate, and degree of resolvability;
- importance for an institutional protection scheme (IPS) of which the entity is a member;
- geographical breakdown of the bank's activity;
- number of retail customers.

In their response to question 10a, 13 RAs qualified the additional criteria. Several RAs justified the use of additional criteria, stressing that they had more relevance for the domestic financial system or that mandatory indicators did not capture all aspects of some O-SIIs' business models. In one

case, the optional indicators added substantial information about critical financial activities, which was not likely to be captured by the mandatory indicators. In another jurisdiction, if an institution (at the highest level of consolidation) exceeded 3.5% (350 bps) market share for at least one of the two indicators used (the market share of private domestic deposits, excluding regulated savings accounts, centralised at a specific national institution and the market share of private domestic loans), it was designated as an O-SII. As private deposits and loans were taken into account in the 10 mandatory indicators only at EU level, this RA complemented its domestic assessment of systemic footprint by adding these indicators computed at national level.

The purpose of using the optional indicators was broadly to assess whether institutions were systemically relevant for the national banking system in addition to those designated as systemically important in the first step of the evaluation. The optional indicators were consequently chosen with the aim of capturing the systemic risk in the RAs' domestic sectors. Amongst the RAs asked to complete the targeted questionnaire, some responded that they tailored these optional criteria by either expanding them to better reflect the specificities of their banking system or using additional criteria. One RA added that while optional criteria for the identification of O-SIIs were not applied, some of these optional criteria were effectively used when setting the buffer rate.

To illustrate how RAs might make targeted and specific use of optional indicators, an example can be given. One RA altered the optional indicators included in the Guidelines to better reflect the specificities of its national banking sector and used these revised indicators to complement the assessment performed using the mandatory indicators. The indicators used were as follows: (i) contribution made by credit institutions to financing the real economy, calculated based on the volume of loans granted to non-financial corporations and the substitutability of non-financial corporations' lending activity (private sector loans and business loans in the Guidelines); (ii) contribution made by credit institutions to financial intermediation, calculated based on the volume of deposits taken from households and non-financial corporations (retail deposits, corporate deposits, any deposits); (iii) presence of the credit institution on the interbank market and an assessment of the contagion effect (interbank claims and/or liabilities); (iv) identification of systemically important institutions within the ReGIS payment system (payment services provided to market participants or other payment services provided); (v) vulnerability to contagion in the parent bank-subsidiary relationship from the common lender perspective; (vi) potential contagion through entities in conglomerates; (vii) potential contagion through shareholders; (viii) potential reputational contagion; and (ix) connectivity with foreign banking systems, as in the Guidelines.

Other practices that might be considered by RAs are specified in the paragraphs below.

One RA used the scores for individual categories (subcategories) separately, which is in line with its domestic Credit Act and the Guidelines. The logic and proportionality of the results of the mechanical calculations based on the mandatory indicators were reviewed by examining the structure of the financial market. To quantify additional criteria, one RA used volume and transaction data and also network analytics. The additional criteria represented by five optional

indicators (off-balance-sheet items, share in clearing and settlement systems, assets under custody, interbank claims and/or liabilities, and market transaction volumes or values) were combined into a fifth category and added to the four mandatory categories. The four plus one categories were all weighted equally in the final step. The score resulting from the weighted aggregation of the mandatory and optional categories was called the 'RA's methodology' in publications and notifications.

Two respondents to the targeted questionnaire noted that they did not use optional indicators in the identification process for credit institutions but did use them for the purpose of designating investment firms as O-SIIs, as the mandatory indicators were more bank-focused. One of these RAs, therefore, used a set of additional optional indicators, such as funds guaranteed under the Investor Compensation Fund scheme (as a proxy for the optional indicator 'deposits guaranteed under deposit guarantee system') or number of retail customers and value of trading. The other RA used a range of different indicators, such as total assets (weighting 10%), assets under management (weighting 20%), client money (weighting 40%) and number of memberships of exchanges/trading venues (weighting 30%). The last was viewed as particularly relevant for analysing the potential impact of national investment firms across EU and worldwide markets.

Another RA has developed an advanced scoring model to assess possible O-SIIs based on the criteria in Annex 2 of the Guidelines:

- Total assets plus contingent liabilities, which have been added to the total assets indicator in order to include off-balance-sheet risks.
- Number of indirect participants connected via Target 2 and number of domestic payment transactions processed for non-banks. The latter has been added as an indicator, in addition to their volume. According to the RA, it is helpful to determine whether an institution processes only a few larger transactions. By including the number of indirect participants connected via Target 2 as another indicator, the institutions' infrastructural function in the Target 2 processes can be mapped.
- Claims from foreign non-banks plus liabilities to foreign non-banks plus claims from foreign banks +liabilities to foreign banks plus number of legally independent subsidiaries in the RA's jurisdiction and abroad. In this category, 'cross-border activity', cross-jurisdictional claims and liabilities have been broken down into receivables from and liabilities to foreign banks and non-banks. This creates a more differentiated picture of an institution's cross-border activities. The number of legally independent subsidiaries in the jurisdiction and abroad has been added as another indicator, to reflect the complexity of an institution's organisational structure.
- Liabilities to banks plus liabilities to insurance undertakings and other financial institutions plus claims from banks plus claims from insurance undertakings and other financial institutions in the RA's jurisdiction. In the category 'interconnectedness with the financial system', intra-financial system assets and liabilities have been broken down into

receivables from and liabilities to banks on the one hand and insurance undertakings and other financial institutions on the other hand. The distinction between banks and other financial intermediaries creates a more accurate picture of the various contagion channels within the financial system.

Regarding question 10c, on the reasons for considering further identified institutions systemically important in terms of the above particular indicators, the survey revealed a great variety of responses. Substantial market shares in domestic loans and/or deposits and substantial amounts of assets under custody reflected significant importance to the economy. Often, the indicators were deemed to adequately capture systemic risks in the banking sector and were therefore chosen to expand the quantitative assessment. The indicators might also help better approximate the systemic importance of O-SIIs and the O-SII scores calculated by weighting mandatory and optional indicators together. The additionally designated banks may play an important role in the functioning of the IPS of which they are part, as they provide technical infrastructure, monitor certain categories of risk and run selected deposit accounts on behalf of the banks united in the IPS. Those indicators weighted at 50% in the scoring process for mandatory indicators and they comprised the three highest-ranking indicators in terms of their significance.

Identified best practices

- ⇒ When making use of supervisory judgement, Member States and RAs should assess quantitative and qualitative factors that are specific to their jurisdictions. In particular, they should choose optional indicators only from Annex 2 of the Guidelines. The list of optional indicators included in Annex 2 may be expanded when the Guidelines are revisited. At one RA's request, where feasible, common definitions of these indicators might be added to the Annex, with a view to promoting greater harmonisation.
- ⇒ Use of the judgement option is encouraged if deemed fitting. However, for the sake of comparability of supervisory practices and in accordance with paragraph 14 of the Guidelines, any decision regarding adding an O-SII via the supervisory overlay option should be based solely on the information retrieved from one or more indicators included in Annex 2 of the Guidelines.

Question 11 evaluated processes applied by RAs in setting optional indicators. Five RAs reported that they had resorted to supervisory judgement, while 10 relied on quantitative assessment and one on qualitative assessment. Thirteen RAs used optional criteria from the list included in Annex 2 of the Guidelines. Two RAs were in favour of including further optional indicators in Annex 2 of the Guidelines and recommended adding assets under management to the list to reflect the private banking/wealth management business appropriately. According to one RA, the list of optional indicators should make clear that network diagnostic indicators (e.g. degree of interconnectedness) may be used if deemed relevant by the regulator. Another RA suggested streamlining the list of optional indicators.

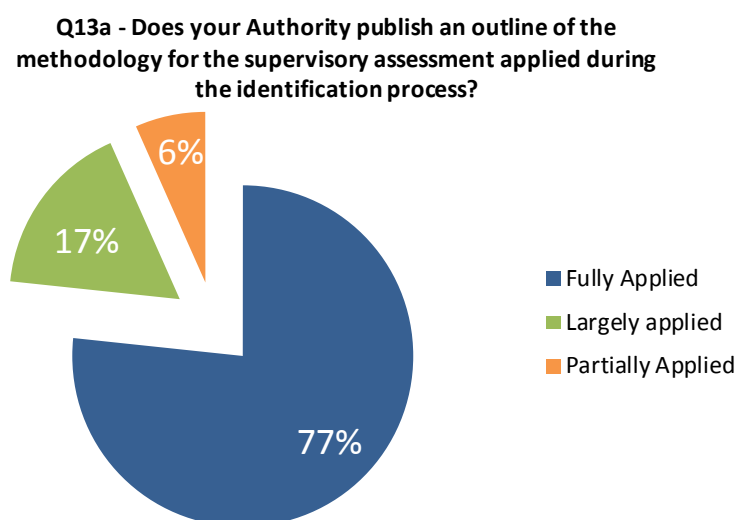
On question 12a, all RAs except one performed the identification process including optional indicators on the same level of consolidation as the mandatory indicators. One RA expected further guidance in terms of the methodology to be applied when assessing additional indicators and a clear reporting reference period to compute the listed indicators, as this would better contribute to a level playing field across countries.

On question 12b, 16 RAs published final O-SII scores based only on the results from mandatory indicators, and not on those from optional indicators.

5.3 Effectiveness and comprehensiveness of disclosure and notification requirements

Question 13a was a benchmarked question and asked whether RAs published an outline of the methodology for the supervisory assessment applied during the identification process. Of the RAs, 77% declared a fully comprehensive process. From the details given, it was possible to conclude that the great majority used some kind of communication through their official websites to provide information about the outline of the methodology. Press releases or a devoted webpage were often used. However, it was not evident if RAs updated this outline regularly, at least on an annual basis. The assumption can be made that those that declared that they had ‘Fully applied’ this provision in answer to this question had performed this annual update.

Figure 16: Aggregate outcome of benchmarked question 13a



RAs assessing themselves as ‘Largely applied’ or ‘Partially applied’ had some common features that are worth highlighting. The reason for not self-assessing as ‘Fully applied’ was not having disclosed a complete outline of the methodology, not having published the reasons for exercising

the option of raising or lowering the threshold for designating O-SIIs, or not having updated the outline of the methodology on an annual basis.

When complemented with the information collected from the responses to question 11b, the above highlights that several RAs seem to be using optional indicators in addition to those in Annex 2 of the Guidelines. This is an area where greater harmonisation and clarification of practices may be appropriate.

Identified best practice

- ⇒ Within the letter and spirit of paragraph 15 of the Guidelines, Member States should publish an annual outline of the methodology used to identify O-SIIs, including the rationale behind any adjustment to the threshold mentioned in paragraph 9 and any optional indicators selected from Annex 2 if it is motivated by any change from the previous year's methodology. The outline should include how the systemic scores obtained from the application of paragraph 8 of the Guidelines relate to the buffer requirement set by the RA.

The individual responses are shown below.

Figure 17: Summary table of relevant authorities' benchmarked responses (question13a)

RA	Assessment	RA	Assessment
AT	Fully applied	IS	Fully applied
BE	Fully applied	IT	Fully applied
BG	Fully applied	LI	Largely applied
CY	Fully applied	LT	Largely applied
CZ	Partially applied	LU	Partially applied
DE	Fully applied	LV	Fully applied
DK	Largely applied	MT	Non-contributing
ECB	Not applicable	NL	Fully applied
EE	Fully applied	NO	Fully applied
EL	Fully applied	PL	Fully applied
ES	Fully applied (upgraded)	PT	Fully applied
FI	Fully applied	RO	Fully applied
FR	Fully applied	SE	Fully applied
HR	Largely applied	SI	Largely applied
HU	Fully applied	SK	Fully applied
IE	Fully applied	UK	Fully applied

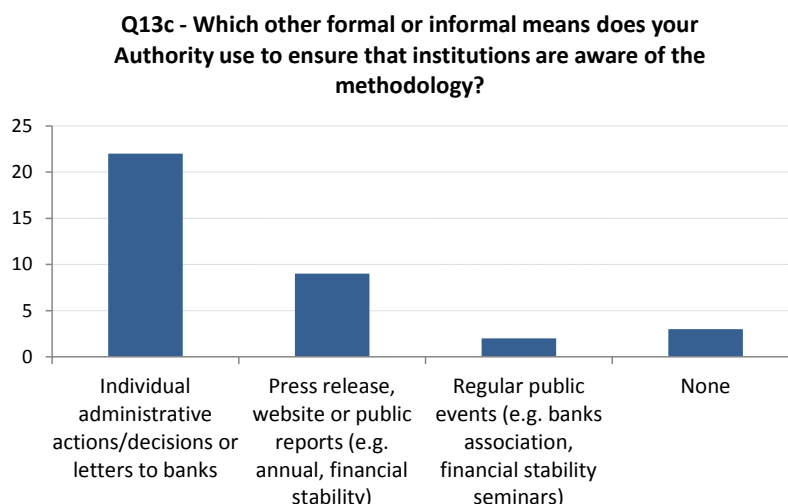
RAs named websites, devoted webpages and press releases as best and most widely used means of communicating the outline of the methodology used to identify O-SIIs. These methods were mentioned in 90% of the responses to question 13b.

Question 13c highlighted the need to involve and inform institutions about the methodology. Besides the publicly available information, 22 RAs stated that they performed individual administrative actions for each institution or submitted individual letters to the assessed institutions. In addition, two RAs stated that they held regular public events with the industry (e.g. banking association meetings, financial stability seminars).

Identified best practice

- ⇒ A best practice for the RAs to implement might involve a combination of (i) a devoted webpage and/or press release about the methodology, to be updated or issued not only when an update is warranted but also on an annual basis with a view to clarifying how each year's O-SII identification exercise will be run; (ii) press releases and/or events involving the industry to publicise key dates for the annual O-SII identification exercise; and (iii) regular public events or meetings with the industry, where applicable, where the topic of O-SII identification could be highlighted, thus raising awareness of the exercise, its main features and the possible outcomes and consequences of O-SII designation.

Figure 18: Means of raising institutions' awareness of the O-SII identification methodology



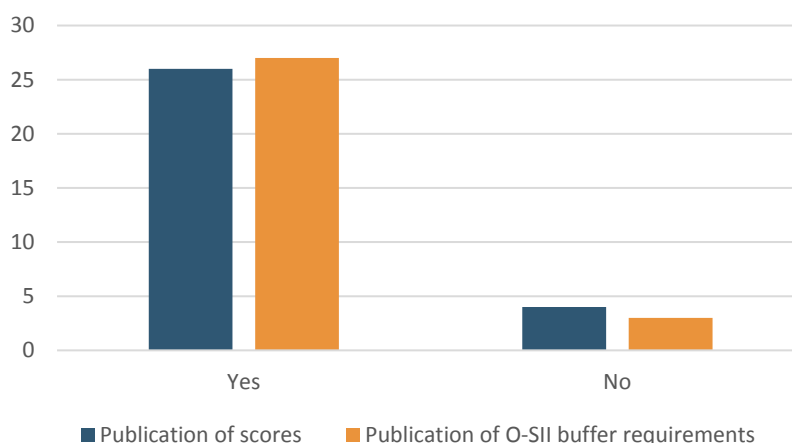
Question 13d asked RAs if there was any intention to change the level of information provided in the outline of the methodology. Twenty-nine RAs envisaged that no changes were foreseen, while one RA was planning to increase the level of information disclosed in the outline of the methodology.

Question 14a asked whether RAs published the overall scores of institutions designated as O-SIIs. The large majority of RAs did publish these scores. Only four RAs did not publish the scores,

mainly for confidentiality reasons. Three of those four RAs informed the EBA of their intention to comply with the Guidelines. However, one RA explained through the targeted questionnaire that the mandatory indicators and their weights for the identification of O-SIIs were not fully appropriate for the domestic financial sector and that the Guidelines did not leave RAs enough flexibility to adjust them in order to take account of national specificities. Consequently, publishing the resulting O-SII scores, which did not reflect the real systemic importance of identified institutions, might lead to possible misleading conclusions being drawn by the general public regarding the systemic importance of local institutions. Another RA described the difficulties it faced in calculating mandatory indicators. This RA reported that it was obliged to use proxy definitions for the vast majority of the mandatory indicators, which resulted in the RA calculating three different variants of the indicators based on the proxy information. In the opinion of this RA, publishing three different scores or an average score might be misleading. This RA stated that, in any case, all three methods had very similar outcomes in terms of individual scores and identified O-SIIs.

As the disclosure requirement is part of the Guidelines, it should be applied comprehensively by all RAs. Given this, it may be necessary to enforce its application in future. The Review Panel may wish to ensure that there is a review of non-applied requirements at a later stage to determine whether or not greater harmonisation has been achieved.

Figure 19: Publication of scores/O-SII buffer requirements

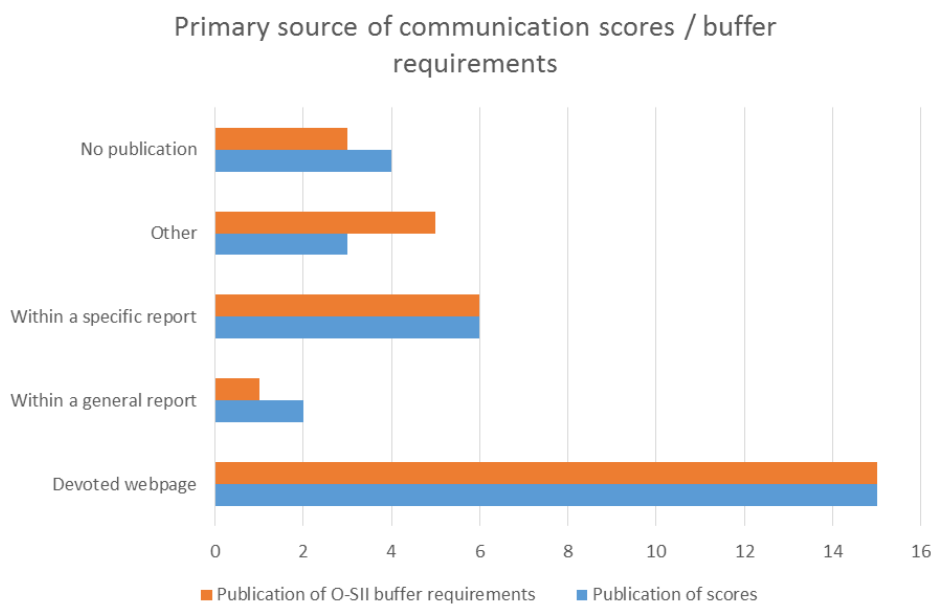


Question 14b focused on how RAs communicated these scores externally. More than half of the RAs published the O-SII scores on a devoted webpage. Seven RAs published the scores in a specific report, while only two used a general report.

Where RAs publish buffer requirements but do not disclose the scores leading to those decisions, room for improvement and greater harmonisation of practices may be warranted. A level playing field for institutions across the EU/EEA is unlikely to be achieved if the basis for the O-SII designation is not made public and explained in the light of known criteria. In addition, if no link is made publicly known between the O-SIIs score and O-SII buffer rate decisions, the framework

could be deemed incomplete or considered not to fulfil the intended goals of the legislature. Transparency and comparability of practices across different jurisdictions are key aspects of these Guidelines. Providing clarity about outcomes to market investors, the broader community, and, importantly, the assessed institutions is therefore crucial.

Figure 20: Sources of communication of scores and buffer requirements



Question 14c asked whether RAs published a category/indicator breakdown of the scores. Twenty-three RAs did not publish breakdowns of the scores, while seven RAs provided detailed information. As a large number of RAs submitted those details using the EBA/ESRB notification templates and the ESRB published these templates, detailed scoring results could be found on the ESRB's website. Three RAs that published breakdowns published a full account of the scoring. The vast majority of RAs published in either a limited or a summarised way.

Identified best practice

- ⇒ A best practice that could be followed is the publication of the individual scores broken down by the four existing categories of systemic risk dimension. This harmonisation would create full comparability within the Single Market while partly addressing the shortcomings identified in the responses to question 14b.
- ⇒ If an RA uses proxies in one or several indicators or categories, it should select the scores resulting from the proxy or proxies that are considered the best fit for the assessment, for both identification and public disclosure purposes.

Question 14d asked whether RAs published O-SII buffer requirements. Twenty-seven RAs had O-SII buffer requirements in place and every RA published them. In three jurisdictions, the systemic

risk buffer (SRB) was the relevant requirement, and no O-SII buffer was set in two countries. One jurisdiction did not publish O-SII buffer requirements.

In general, O-SII buffer requirements were published alongside O-SII the scores. More than half of the RAs communicated the requirements using a devoted webpage. Three of the four RAs that did not publish the scores made the O-SII buffer requirements publicly available. The fourth RA did not activate the O-SII buffer. All RAs indicated that they would review and, if applicable, publish or update O-SII scores, buffer requirements and the methodology annually.

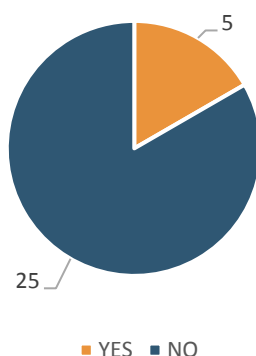
Identified best practice

- ⇒ A best practice might be, therefore, publishing the O-SII buffer requirements along with the scores. In addition, one RA reported updating the information during the year if important structural changes had taken place in its banking system. This could also be considered a best practice to be followed by all RAs as necessary.

Question 14e asked whether RAs considered that there would be any changes to the level of information provided regarding bank-specific scores. The responses showed that no RA foresaw any changes to the level of information provided. Considering the responses to questions 14a to 14d, this could be seen as a suboptimal outcome and one that merits further actions to harmonise the current framework.

Question 15a asked whether credit institutions were involved in the identification process. The vast majority of RAs (25 out of 30) do not involve institutions in this process. For the remaining five RAs, it seems that the degree of involvement of credit institutions varies widely. They might provide specific data; provide access to documents and information during the scoring process; check indicators and/or comment on data used, the scoring or the calculation; or make representations on a proposed identification decision.

Figure 21: Involvement of credit institutions in the process of identification of O-SIIs



Question 15b aimed to assess how RAs informed institutions of the results of the scoring.

In most cases, the relevant information was mostly communicated to each institution concerned by individual letters and/or emails (in 27 jurisdictions) and the public was informed of relevant and useful information on O-SIIs through the RA's website. One RA informed the institution concerned in writing about its score only at the institution's request. Another RA did not issue individual letters but instead issued a public letter (i.e. the institutions were informed at the same time as the public by the publication of a 'public letter' on the RA's and Ministry of Finance's websites). Two RAs emphasised that they also disclosed the information in their official gazette. In some countries, this decision was an official legal act and was communicated – only on the first identification – by a letter to the credit institutions in question.

Only two RAs did not have recourse to letters or emails. They communicated the results of the scoring during the normal course of their supervisory activities to the relevant institutions in discussions and/or meetings. This approach was also followed by other RAs, thus maintaining regular contact between the supervisory teams and the institutions concerned. One of these RAs added that it had only 22 banks in its jurisdiction, that meetings and discussions took place regularly between the RA's top managers and these banks, and that consequently there was no need for additional letters.

Some RAs also used their publications to report this information, mostly the annual financial stability report.

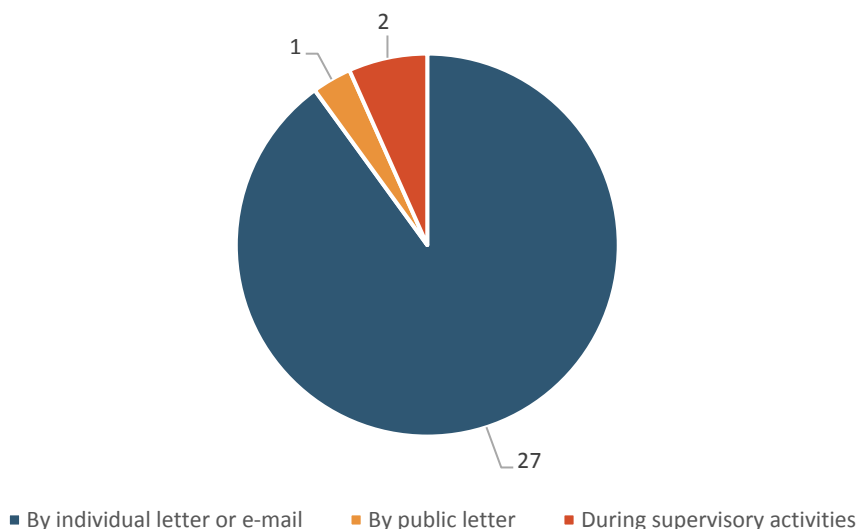
The targeted questionnaire showed that a few RAs organised a debate with the concerned institutions through either a physical hearing or official letters. This is viewed as an opportunity for the bank to express its opinion on the results of the identification process and to submit an explanation of the demands and information that may have an effect on the decision.

The amount of information provided through this method of communication was significant. Most of the RAs informed concerned institutions of the results of the scoring annually, also making reference to the methodology and the applicable O-SII buffer.

Identified best practice

- ⇒ A best practice might be to urge RAs to communicate in an open and transparent fashion with credit institutions about the results of the scoring as performed in certain jurisdictions. For example, when an RA's decision-making process is complete and it becomes certain that an institution will be identified as an O-SII, the RA should contact the institution concerned, at least in an official e-mail or letter, informing it of the result of the identification exercise.

Figure 22: Means of communication with credit institutions about the results of the scoring



Question 15c asked whether RAs experienced difficulties when designating an institution as an O-SII and informing it about its scores. Only one RA reported having experienced difficulties with two institutions that objected to their designation as O-SIIs after having been informed about their scores during the formal administrative identification process.

Question 16 asked about the reference date of the data used in RAs' annual identification process. The vast majority of RAs (24) reported using the data provided at the end of December of the previous year in their annual identification process. Among those 24 RAs, two did not exclude the possibility of applying another reference date if structural changes in the market were to occur.

Four RAs used the data provided at the end of June of the current year as the reference date. These RAs considered those data the most recent and appropriate data available. Another RA mentioned using the data provided at the end of June in its annual identification process, that is, June 2015 for the O-SII buffer applicable in 2016 and June 2016 for the O-SII buffer applicable from 1 March 2017.

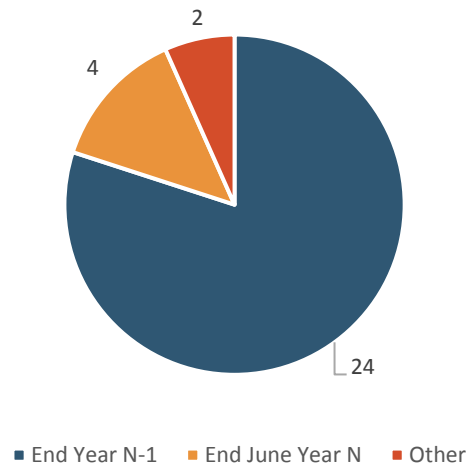
With a view to ensuring that the assessments did not vary significantly across quarters, another RA used an average of the data from four quarters (Q3 of the previous year to Q2 of the current year) for each institution to identify O-SIIs. As the O-SII score was calculated annually in Q3, the recent data from 30 June and from the previous three quarters was used in order to avoid any material fluctuations in the data and to mitigate any incentives for financial institutions to decrease their O-SII scores from 30 June of each year.

In this area, the WS2 analysis also revealed different practices. Greater harmonisation should be sought through follow-up actions after the finalisation of this peer review exercise.

Identified best practices

- ⇒ A best practice might be to use the year-end data of the year preceding the identification assessment of systemic risk dimensions, while allowing some flexibility for the use of other reference periods to account for structural changes to the composition of the banking system, to inform supervisory judgement or to account for year-end reference dates that may be of relevance to the jurisdiction.
- ⇒ In addition, the maintenance of a reasonable lag should be encouraged between the moment when an institution knows it has been identified as an O-SII and potentially envisages an O-SII buffer requirement being set, and the actual date from which that buffer requirement applies. By using year-end data to run the identification exercise throughout the following months, it is expected that the identification process and any consequent buffer decision could be finished ahead of the 1 December deadline for notification of the EBA.
- ⇒ As an example, for the 2018 O-SII identification exercise, a good practice that could be expected is for data from the end of 2017 to be considered for the assessment, ideally for all institutions comprising the system. The exercise would naturally take a few months to be performed and concluded by the RAs, up to the point of an official sign-off declaring which O-SIIs are to be identified and which buffer rates apply as a consequence. This decision-making process, sign-off, external disclosure and official notification of the EBA are expected to be accomplished no later than 1 December 2018. The assigned buffer rate requirement could then enter into force on 1 January 2020, allowing for at least one year of implementation and planning for the institutions identified as O-SIIs. Since a buffer requirement might be new to an institution, or it might have been fine-tuned by the RA, it is appropriate to allow the institution to plan and project its capital and funding items accordingly and with a reasonable time lag.

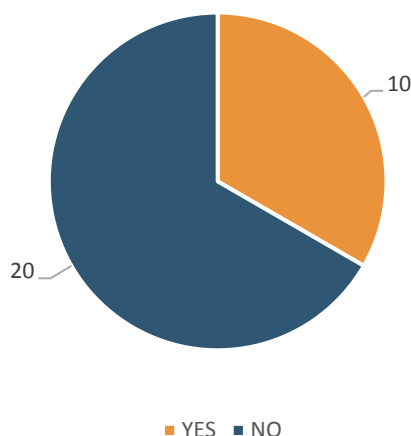
Figure 23: Reference date of the data used in RAs' annual identification process



Question 17a evaluated whether RAs published the list of institutions identified as O-SIIs scoring below the threshold, including the automatic score, where applicable. Very few RAs publish this list of institutions. Among the other 24 RAs, five RAs expressly mentioned that they did not publish a list, as no O-SIIs that scored below the threshold were identified. Question 17b assessed whether RAs published, for each bank, a brief statement specifying:

- a) Which optional indicators were used to inform the designation of institutions as O-SIIs. Two-thirds of the respondent CAs (20) responded that they did not publish a brief statement indicating which optional indicators were used. Among these, 15 CAs did not use any optional indicators. Among the 10 RAs publishing this information, one mentioned that it published the main indicators (including the optional ones, where applicable) and another that it published a quantitative aggregation of mandatory and optional indicators.

Figure 24: Publication for each bank of a brief statement indicating which optional indicators were used to inform the designation as an O-SII



b) Why this indicator was relevant in the Member State. Only eight RAs explained why the optional indicators they used were relevant to their Member State. Of the vast majority of RAs (22) that did not publish a brief statement explaining why optional indicators were relevant to them, 15 RAs did not publish one because they did not use optional indicators.

c) Why the institution was systemically important in terms of the particular indicators. Only eight RAs explained why the institution was systemically important in terms of the particular indicators. Among the vast majority of RAs (22) that did not publish a brief statement with such an explanation, 15 RAs did not publish one because they did not use optional indicators.

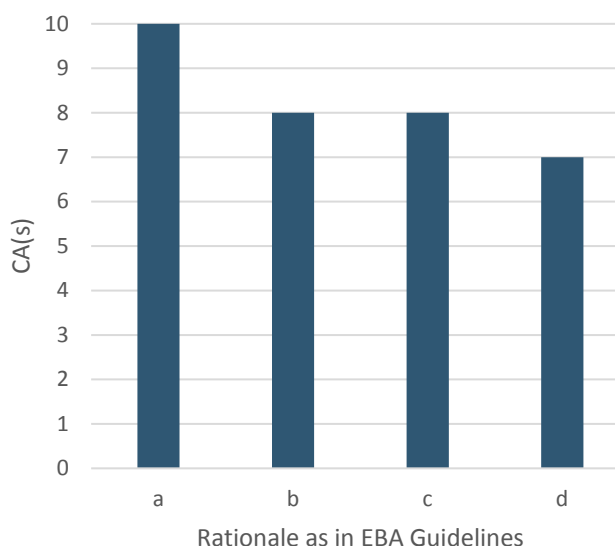
d) Quantified information about the optional indicators. Only seven RAs provided quantified information about the optional indicators. Among the vast majority of RAs (23) that did not publish a brief statement providing such information, 15 RAs did not publish one because they did not use optional indicators. With respect to the 11 RAs that responded 'Yes' to question 17b, only three RAs published a brief statement with each of the four motivations referred to in sections (a) to (d) of question 17b, whereas 6 RAs published one with three of the four motivations, one RA published one with the motivations referred to in sections (a) and (b) and one RA published one with the motivation referred to in section (c).

It appears that the motivation in section (a) of question 17b (optional indicators used) was the most common motivation and was published by 10 RAs (of the 11 that replied 'Yes' to question 17b). The motivations in sections (b) and (c) (the relevance of the optional indicator(s) for a Member State and the systemic importance of an institution in terms of particular

indicators) were each published by only eight RAs, while the motivation in section (d) (quantified information about the optional indicator(s)) was published by even fewer RAs (seven out of the expected 11 RAs).

Given the variety of practices, this is clearly an area in which the Review Panel should seek to bring greater harmonisation, possibly through a follow-up exercise after the finalisation of this review.

Figure 25: Use of optional indicators by the RAs and rationale disclosed (as in the EBA Guidelines)¹¹



Questions 18 and 19 concerned the notification requirements. Question 18 sought to assess whether RAs used the uniform notification template provided by the EC/ESRB/EBA. The assessment of the responses showed that the EBA notification template was used by all respondent RAs but one.

Question 19 also evaluated the disclosure requirements imposed on RAs through the notifications they are required to send to the EBA in a timely and comprehensive fashion¹². Among the RAs

¹¹ (a) Optional indicator(s) are used to inform designation as an O-SII; (b) relevance of this indicator in the Member State; (c) systemic importance of the institution in terms of the particular indicator(s); and (d) quantified information about the optional indicator(s).

¹² Has your Authority been able to notify the EBA in a timely and comprehensive fashion? [Fully Applied, Largely Applied, Partially Applied, Not Applied] Benchmarking criteria: i) Your Authority notifies the EBA in due time, particularly by the 1st December each year; ii) Your Authority notifies the names of all relevant institutions identified as O-SIIs; iii) Your Authority notifies the scores for each identified institution; iv) Your Authority notifies the EBA of the indicator values for all identified O-SIIs (including the ones identified through supervisory judgment); v) Your Authority provides full information to the EBA of names and scores for all assessed institutions,

that responded, 18 considered that they fully applied the requirements of the Guidelines regarding the notification to the EBA, while nine RAs and three RAs deemed that they applied those requirements largely or partially, respectively. One RA regarded the requirements as not applicable and another RA did not contribute to the exercise.

The peer assessment of this specific question raised some concerns. The Review Panel circulated a request for further information aimed at identifying elements specifically indicating compliance with the last benchmarking criterion, regarding the information on the names and scores of all assessed institutions to be provided to the EBA, including for institutions that have not been identified as O-SIIs. It appears that some CAs have interpreted the notification requirements in different ways. Some CAs voiced concerns about a lack of clarity about whether the reference to all assessed institutions in paragraph 19 of the EBA's Guidelines meant each supervised institution, including the smallest ones, or all those institutions considered by the CA the most relevant for the purposes of the identification exercise.

In addition, the differences between RAs' practices also derive from a lack of complete clarity in the ESRB/EBA/ECB notification template. Further clarification of the template is desirable to allow a fully consistent interpretation. This would enable the EBA to collect the full set of information necessary for maintaining an up-to-date methodology and ensure supervisory convergence and comparability across all EU jurisdictions.

The Review Panel agreed that the last criterion would be disregarded for the purpose of assessing compliance. Consequently, 24 RAs were graded 'Fully applied', three 'Largely applied' and three 'Partially applied'.

It should also be noted that the national legal framework may to some extent make the RAs' tasks more difficult in some jurisdictions. Indeed, in one jurisdiction, national legislation requires a formal decision by the RA to be made only when changes to buffers are intended. As the analysis carried out in 2016 indicated that changes to buffers were not necessary, no formal decision was made. Consequently, some RAs argued that no notification of the EBA regarding the results of the identification process was deemed necessary, which seems contrary to Article 131(12) of the CRD.

In addition, one RA was downgraded because criterion iv referring to the notification of the indicator values for all identified O-SIIs was not met. RAs should notify to the EBA the names and scores of all relevant entities that are not excluded pursuant to paragraph 10 and the indicator values for institutions subject to supervisory judgement. The RA argued that this was the result of a misinterpretation due to inconsistent instructions in the Guidelines and the ESRB/EBA/ECB template. Indeed, this RA interpreted the provision above as requiring indicator values to be provided only for institutions subject to supervisory judgement. Since no entities are subject to supervisory judgement in its jurisdiction, this RA did not provide this information.

including the ones that have not been identified as O-SIIs. [FA: 5 criteria met, LA: 4 criteria met, PA: 2/3 criteria met, NA: 0/1 criteria met] NB: By assessing disclosure and notification requirements, the Review Panel may ask material evidence.

Unlike the above-mentioned case related to RAs' notification obligations regarding the names and the scores of all assessed institutions, this specific requirement was misinterpreted by one RA. The Guidelines cannot therefore be deemed insufficiently clear on this point.

Figure 26: Summary table of the review of relevant authorities' benchmarked responses (question19)

RA	Assessment	RA	Assessment
AT	Fully applied	IS	Largely applied
BE	Fully applied	IT	Fully applied
BG	Fully applied	LI	Partially applied
CY	Fully applied	LT	Fully applied
CZ	Partially applied	LU	Fully applied
DE	Fully applied	LV	Fully applied
DK	Fully applied	MT	Non-contributing
ECB	Not applicable	NL	Fully applied
EE	Fully applied	NO	Largely applied
EL	Fully applied	PL	Fully applied
ES	Fully applied	PT	Fully applied
FI	Largely applied	RO	Fully applied
FR	Fully applied (upgraded)	SE	Largely applied (downgraded)
HR	Fully applied	SI	Fully applied
HU	Fully applied	SK	Fully applied
IE	Fully applied	UK	Fully applied

⇒ The Review Panel recommends clarifying both the paragraph 19 of the Guidelines and the ESRB/EBA/ECB notification template and clearly specifying that the names and scores of all assessed institutions must be notified to the EBA¹³.

¹³ While the need for the EBA to receive this information is warranted, that may not be the case for other organisations (i.e. the ESRB). In this case, staggered submissions of the same notification template may be needed in order to enclose different levels of granularity in each submission depending on the addressee. The notification template must include all individual bank scores when submitted to the EBA and should be submitted separately to other addressees if the RA wishes not to include this level of detail in that notification.

5.4 Calibration of the O-SII buffer

As explained in section 1.2 of this report, the ECB did not participate in this peer review, as the identification of O-SIIs was being carried out by national authorities. Indeed, CRD IV entrusts national authorities with the task of applying additional capital buffer requirements to O-SIIs. However, as with other measures enshrined in European legislation, the ECB can subsequently ‘top up’ those buffer requirements by imposing stricter requirements under Article 5 of the SSM Regulation. The ECB, in line with its macroprudential mandate and responsibilities, analyses the proposed O-SII buffers to ensure that relevant systemic or macroprudential risks are addressed in a consistent manner within and across the SSM Member States. To this end, the ECB – in collaboration with national authorities – has developed a common methodology to set a floor for the O-SII capital buffers of systemically important institutions in the SSM area¹⁴.

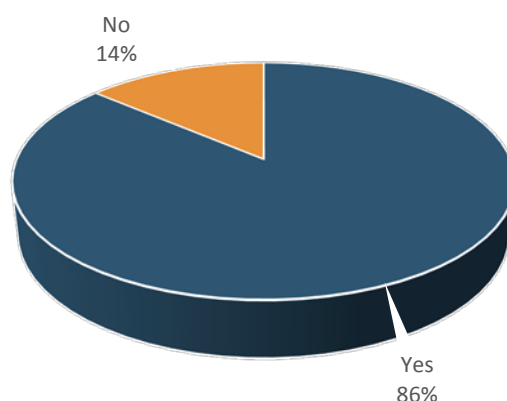
Question 20 dealt with the level of consolidation used for setting the O-SII buffer. On question 20a, only four RAs reported that they had set the O-SII buffer at a different consolidation level than that for which the scores had been computed. All of those four RAs simply decided to set the buffer at both the level at which the identification process took place and other levels as well. In one case, the O-SII buffer was set at all levels of consolidation. Two RAs choose the individual level for all the O-SIIs. Three RAs did not set the O-SII buffer at all. In conclusion, WS2 noted that there were widely varying practices that might indicate a need for greater harmonisation.

On question 20b, a majority of the EEA countries declared that it was the consolidated level that was most appropriate. Nevertheless, there were some exceptions that deserve particular attention. For one RA, the individual level was the most suitable, while another RA considered individual and sub-consolidated levels more appropriate. In one case, when a designated O-SII is a subsidiary, the buffer is applied at individual or sub-consolidated levels. A similar solution is applied in another country (i.e. all consolidation levels for the O-SII buffer), except in the case of insurance subsidiaries.

Question 21 focused on the application of mandatory scores to calibrate the O-SII buffer. The results showed that 86% of the authorities took into account the mandatory scores when calibrating the O-SII capital buffer. Only four RAs stated that mandatory scores were not taken into account when calibrating the O-SII capital buffer. Of these, two applied the SRB instead of the O-SII buffer and another set the O-SII buffer at 0%. The fact that the maximum rate of this buffer is currently capped at 2% is also judged by a few RAs (five) as a constraint discouraging the application of the O-SII buffer and further capital strengthening through this macroprudential tool.

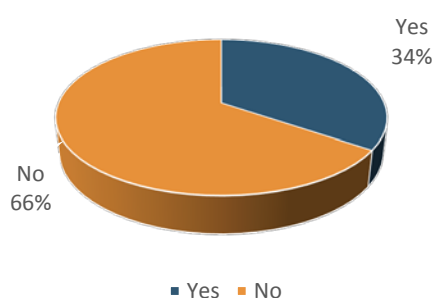
¹⁴ This methodology has been published on the ECB’s website, <https://www.ecb.europa.eu/pub/pdf/other/ecb.mpbu201706.en.pdf?17e3669a97c412f8035d7dc9d9c366c2>

Figure 27: Percentage of RAs taking into account mandatory scores of identified O-SIIs when calibrating the O-SII buffer rate



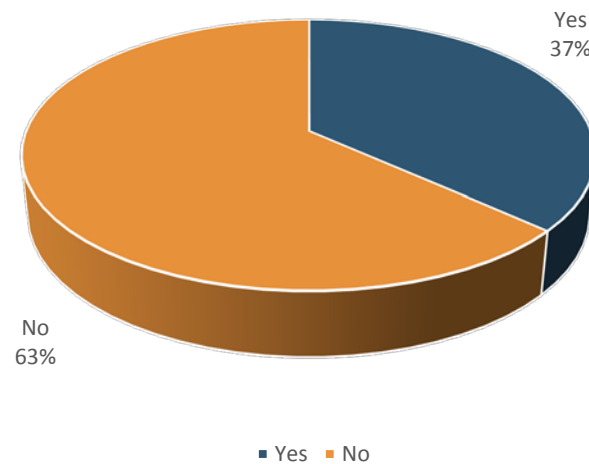
Moreover, of 29 RAs, 10 considered additional criteria when calibrating the O-SII buffer. While 13 authorities quantified additional criteria for the identification of O-SII, six RAs used the additional criteria in the O-SII buffer calibration. In addition, some RAs, when calibrating buffer rates, took into account other considerations, such as the restrictions specified in Article 131(8) of the CRD on the capital buffer for subsidiaries of EU parent institutions that are subject to a G-SII or O-SII buffer on a consolidated basis.

Figure 28: Percentage of RAs using quantified additional criteria related to identified O-SIIs when calibrating the O-SII buffer rate



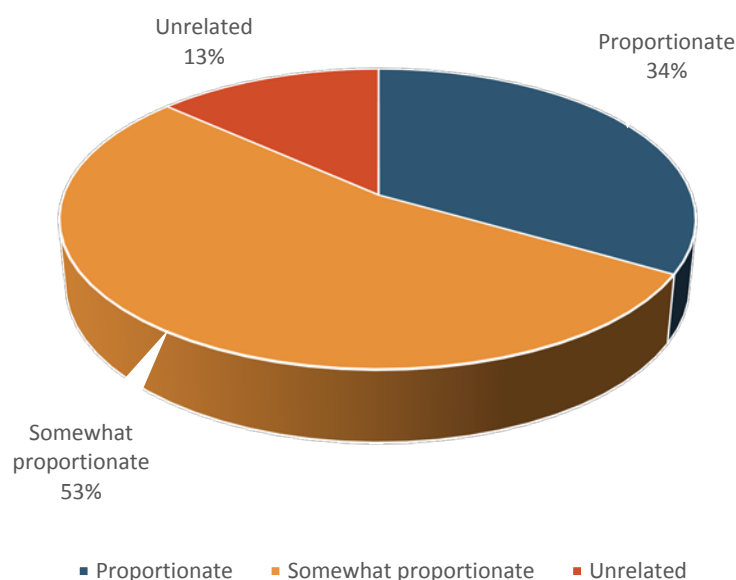
The responses to question 21 also revealed that 63% of RAs did not take into account the individual scores of identified O-SIIs when calibrating other macroprudential tools. In contrast, a few RAs considered the results of identified O-SIIs explicitly when calibrating the SRB. Additional reasons to take into due account the results of O-SII identification were to ensure consistency with other measures that may address similar risks, for example the G-SII buffer, and to consider the overall capital requirement of individual institutions.

Figure 29: Percentage of RAs using the results of identified O-SIIs when calibrating other macroprudential tools



A small majority of RAs (53%) considered that O-SII scores were somewhat proportionate to the assigned O-SII, SRB and G-SII buffers. Because capital buffer calibration is not harmonised in the EU, each Member State applies its own approach. In some cases, the SRB is applied to address risks posed by the systemic importance of an individual institution. Many RAs specifically referred to the SRB being used instead of the O-SII buffer, the latter being purely an institution-specific buffer as opposed to the former, which is broadly aimed at addressing long-term systemic risks not covered elsewhere by other macroprudential tools provided for the CRR/CRD. At the same time, only 34% of RAs considered that O-SII scores and capital buffers were proportionate.

Figure 30: Description of the relationship between O-SII scores and assigned O-SII/SRB/G-SII buffer rates in the EU



Question 21d assessed how RAs matched individual O-SII scores used to designate an institution as an O-SII and the ultimate O-SII buffer calibration for the same institution. As the answers were quite diverse with respect to length, content and granularity, the main research was also carried out on the basis of the information that was revealed by the EEA countries in their official notification templates under Article 131 of the CRD. With regard to the method of matching the scores of particular banks with O-SII buffer rates, two different approaches were identified across EEA countries:

- the buffer rate is independent of the score;
- the buffer rate depends on the score somewhat proportionally.

The first approach has been applied in a few countries. One RA used a hybrid approach in which all the banks whose score exceeded a certain threshold were assigned a buffer rate of 2%. Smaller banks were added to the O-SII group with a buffer rate of 0.2%. Three RAs did not set the O-SII buffer at all. In those three cases, RAs applied an SRB. In all other countries, a proportional method was applied, that is, the buffer rate increases with the score of the bank. If the score exceeds a certain threshold, then the buffer rate steps up to the next level. Banks are thus divided into a few buckets. However, a one-size-fits-all approach is not relevant for all RAs. Among the CRs that disclosed detailed information, various approaches were implemented:

- In one RA, there are three buckets, and a buffer rate of 1% begins when the score reaches 275 bps, while one of 2% begins when the score reaches 1 000 bps.

- In another RA, there are five buckets, and a buffer rate of 1% begins when the score reaches 1 000 bps, while one of 2% begins when the score reaches 3 000 bps.
- In another RA, there are five buckets, and a buffer rate of 1% begins when the score reaches 2 000 bps, while one of 2% begins when the score reaches 3 500 bps.
- In another RA, there are five buckets, and a buffer rate of 1% begins when the score reaches 1 400 bps, while one of 2% begins when the score reaches 1 750 bps.
- In another CR, there are five buckets, and a buffer rate of 1% begins when the score reaches 2 100 bps, while one of 2% begins when the score reaches 2 800 bps.
- In another RA, there are four buckets, and a buffer rate of 1% begins when the score reaches 3 650 bps; there is no 2% buffer rate.

All these different practices listed above testify to the current state of play, which cannot be considered one in which harmonised practices, or even comparable ones, exist.

Pursuant to Article 131(8) of the CRD, for countries where subsidiaries of EU parent companies operate, an O-SII buffer rate at a sub-consolidated level cannot exceed the higher of either 1% or the G-SII or the O-SII buffer rate that has been set for the EU parent company on a consolidated basis¹⁵. That legal restriction should be taken into consideration by the relevant host countries.

The analysis below covers those countries that provided data on both the score and the buffer rate. Nineteen RAs altogether met those criteria. The intervals for the scores were chosen freely, even though they were related to the multiplicities of the basic threshold of 350 bps. Figure 31 shows buffer rates that have actually been set, rather than those that could have been considered by particular RAs¹⁶. Only O-SII buffer rates are included in the chart, regardless of their possible interactions with SRB rates.

¹⁵ The actual meaning of the Article 131(8) of the CRD is the following:

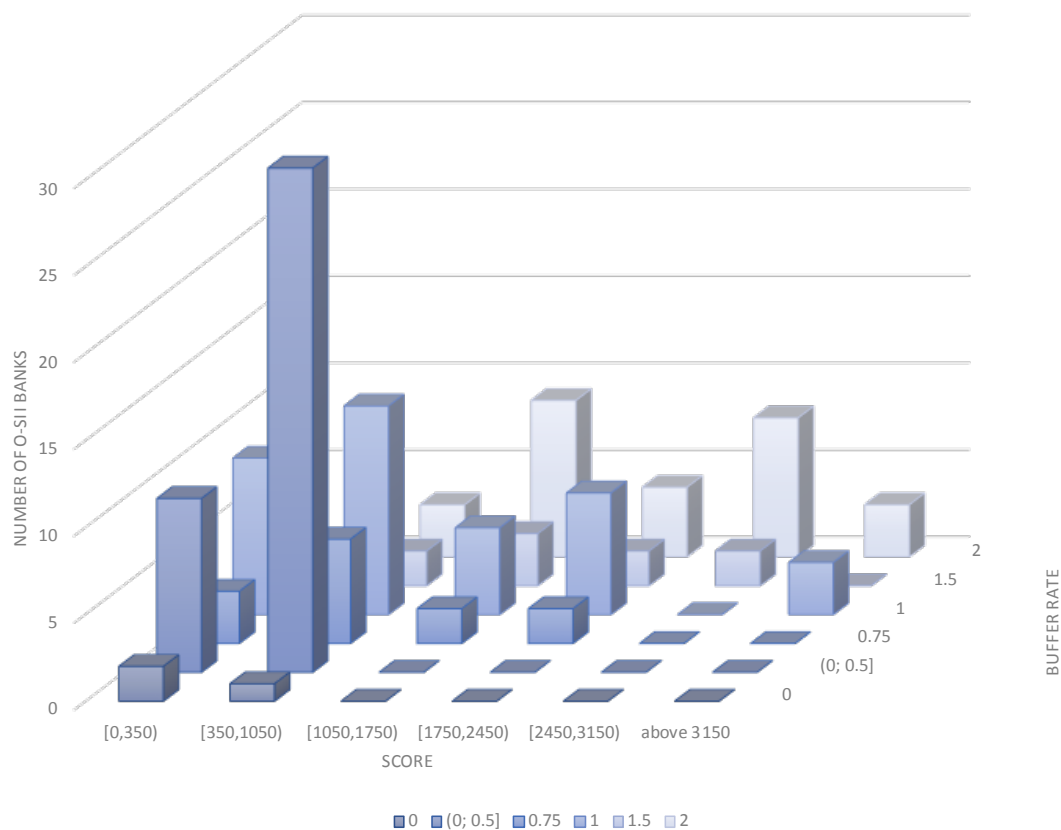
Without prejudice to Article 133 and paragraph 5 of this Article, where an O-SII is a subsidiary of either a G-SII or an O-SII which is an EU parent institution and subject to an O-SII buffer on a consolidated basis, the buffer that applies at individual or sub-consolidated level for the O-SII shall not exceed the higher of:

- (a) 1% of the total risk exposure amount calculated in accordance with Article 32(3) of Regulation (EU) No 575/2013, and
- (b) The G-SII or O-SII buffer rate applicable to the group at consolidated level,

which means that 'buffer' (expressed in, for example, euros) is compared with 'buffer rate', which is expressed as a percentage (e.g. 0.5%). A generally accepted interpretation of Article 131(8) is based on comparison of buffer rates only, rather than buffers themselves. It means that: 'For countries where subsidiaries of EU parent companies operate, an O-SII buffer rate at sub-consolidated level or individual level cannot exceed the higher of either 1% or the G-SII or the O-SII buffer rate that has been set for the EU parent company on a consolidated basis.'

¹⁶ Because of the cap of 2%, as well as the cap for subsidiaries that is mentioned in Article 131 (5) and (8) of the CRD, respectively.

Figure 31: The number of O-SIIs as a function of the score and the buffer rate



Source: own calculations based on RAs' data.

This chart in particular shows that two banks operating in two different EEA countries might be given the same buffer rate even if their scores were different (or banks with the same score might have very different buffer rates). Nevertheless, there is a statistically significant relationship¹⁷ between the score and the buffer rate, meaning that banks with a higher score usually have a higher buffer rate.

The targeted questionnaire enabled the Review Panel to gather more detail on how RAs ensure the adequacy of the calibration buffer with respect to the scoring results.

RAs broadly use a similar approach to ensure consistency in the application of the O-SII buffer. After the calculation of the score of a designated institution through the methodology set out in the Guidelines, they might adjust it by quantified optional indicators weighted together with standard indicators to achieve a more country-specific scoring for calibration.

¹⁷ Chi-squared test. A chi-squared test is broadly used in statistics to test significance. In this case, a null hypothesis states that there is no correlation between the two variables, namely the scores and the buffer rates. The results of the computations show that this hypothesis has to be rejected as the value of the chi-squared statistic is higher than the critical value.

RAs group similar institutions together in order to apply the same buffer rate to banks with similar degrees of systemic importance. RAs rank the different groups and apply buffer rates. The calibration of buffer rates is set differently across jurisdictions.

In most cases, the capital buffer rates increase proportionately to the scores of group members, with at least a 0.5 percentage point step for each group, and the smallest group is assigned a non-zero buffer rate and the largest the maximum 2% as a principle. Most of the RAs build four capital buffer buckets (0.5%; 1.0%, 1.5% and 2.0%). To capture the specificities of their domestic financial sectors, in particular where large gaps in the total O-SII scores may exist, other RAs implement alternative approaches. For example, one RA assigns O-SIIs to two buckets, to which different buffer values are assigned.

Regarding the bucketing of institutions designated as O-SIIs, the thresholds between buckets may be slightly different, thus reflecting the specificities of national financial sectors. For instance, one RA sets a linear classification scale in which the classes are separated from each other using a 3.5% threshold value, i.e. 3.5%-7%, 7%-10.5%, 10.5%-14% and more than 14%. The applicable linear scale is considered appropriate for the present structure of the domestic financial sector. Another RA uses a non-linear scale, i.e. 0%-5%, 5%-10%, 10%-20%, 20%-30% and 30%-100%. The last bucket is left empty – in line with what is done by the FSB in relation to G-SIB designation – so that banks in the penultimate bucket still have an incentive not to increase their systemic footprint.

Some RAs also carry out a comparison between the domestic buffer rates applied in their jurisdictions and peer institutions across Europe to better assess the consistency of their results. Some other RAs incorporate additional criteria into the O-SII buffer calibration. Several RAs, for instance, also check historical losses in the domestic banking sector, stress test results and level playing field considerations when calibrating the buffer rate.

Question 22 asked whether RAs considered that further guidance would be desirable in addition to some degree of harmonisation of the O-SII buffer rate calibration. Despite the consideration by a majority of RAs that there was no relationship between the O-SII score and the assigned O-SII/SRB/G-SII buffer rates, 47% of RAs would appreciate being provided with further guidance, in particular to achieve greater harmonisation on the O-SII buffer rate calculation. In addition, 55% of the authorities that considered the abovementioned relationship somewhat proportionate or unrelated supported further guidance and harmonisation on the O-SII buffer rates. For the most part, those RAs were concerned by an increase in the heterogeneity of the design and calibration of the O-SII buffer, which might hamper consistency, transparency and comparability. However, some RAs applying the SRB were against further guidance and harmonisation, as were some RAs where the O-SII buffer tends to be at a low level compared with other RAs that gave institutions the same O-SII score.

One RA suggested that the implementation of the buffer might be accelerated in the event of merger and acquisition operations.

Question 23 sought information about the phasing in of the O-SII buffer. The wide range of automatic scores led, according to several RAs, to a great variety of situations in the application of the buffer. Consequently, no clear trend appears from an analysis of the results.

Figure 32: Distribution of O-SII buffers relative to the automatic score applied¹⁸

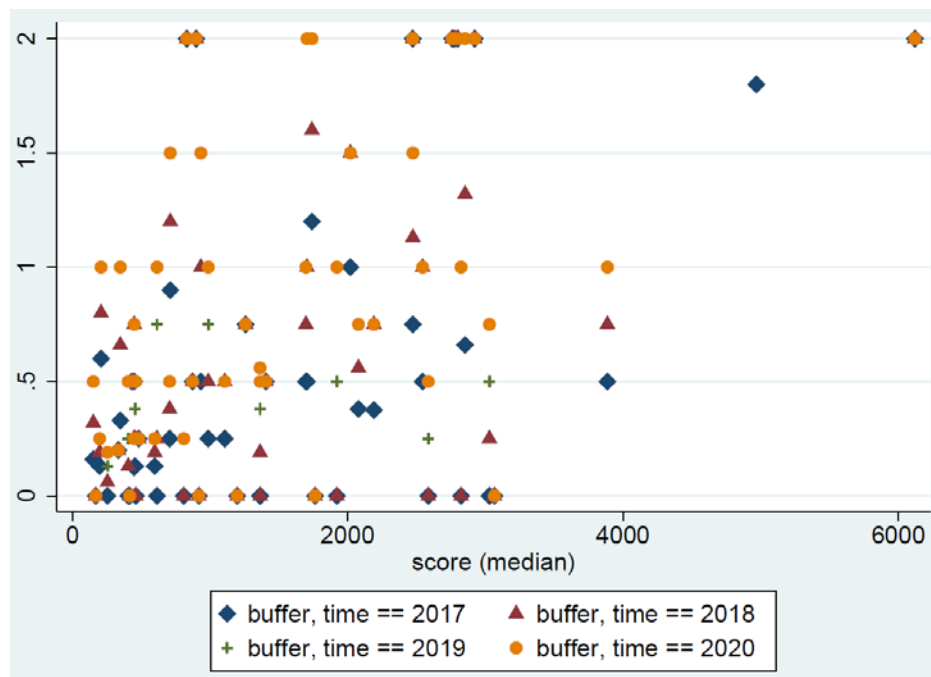
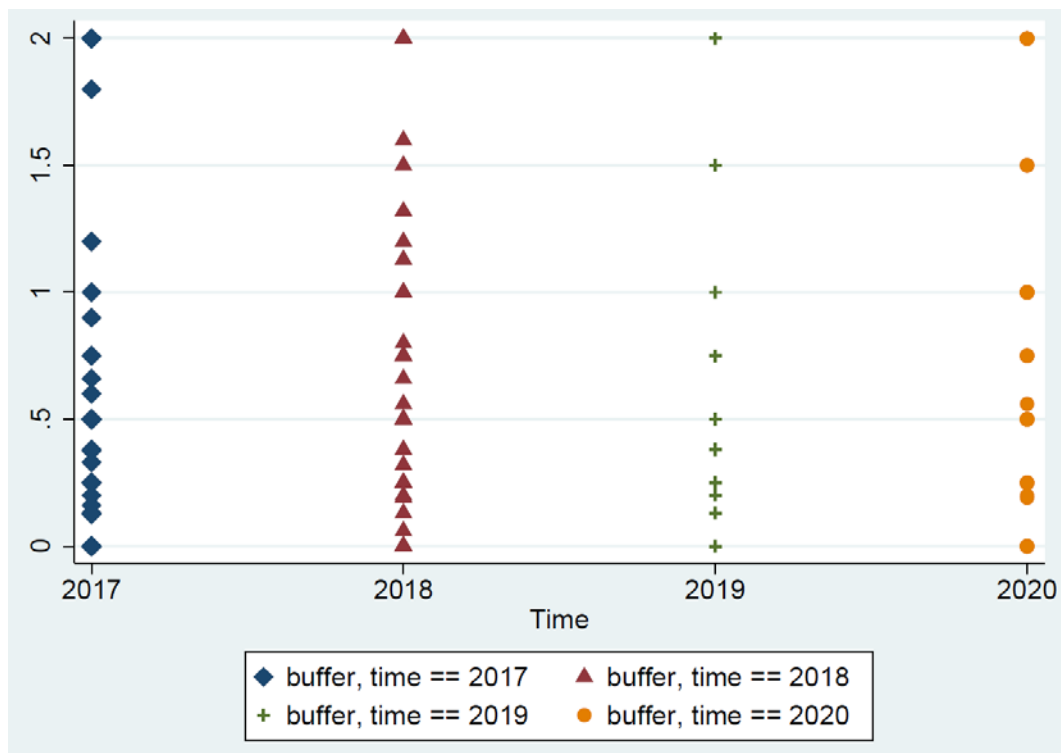


Figure 33: Distribution of O-SII buffers over time

¹⁸ The median score is the median of the interval of the lowest and highest data point for a bucket and for a given bank.



5.5 Data and decision-making processes

Question 24 assessed how RAs carried out the identification process with regard to O-SII assessment, in a centralised or a decentralised manner¹⁹. Twenty-four RAs described their decision/identification process as centralised and six as decentralised, as more than one authority is involved in the process. In one case, the RA conducts the assessment and submits an advice to the Ministry of Finance, which takes the ultimate decision. In another jurisdiction, three different authorities, including the Ministry of Finance, are involved in the identification process.

Among the other authorities involved in the identification process, the assessment revealed that a variety of entities is included in the process, such as:

- The Macprudential Council established by the RA, the Financial and Capital Market Commission and the Ministry of Finance;
- The Financial Stability Committee, which issues a recommendation and an opinion on the systemic importance of designated O-SIIs;
- The RA and the central bank, as the two are clearly distinguished;

¹⁹ A 'Centralised' process involves a single decision-making entity and a 'decentralised' process involves two or more decision-making entities.

- The Financial Market Stability Board (composed of members of the Ministry of Finance, the Fiscal Advisory Council, the CA and the central bank).

Question 25 evaluated how RAs managed the identification process. Thirty RAs stated that they were responsible for managing the identification process with regard to O-SII assessment. Only one RA reported that it conducted the assessment and sent advice to the Ministry of Finance, which ultimately took a decision, noting that the Ministry of Finance did not intervene in the identification process itself but took the ultimate decision based on the results of the assessment.

SSM countries, in line with Article 5 of the SSM Regulation, have to notify the ECB of their intention to apply requirements for capital buffers to be held by credit institutions at the relevant level. According to Article 5 of the SSM Regulation, 10 working days prior to taking the decision to apply requirements for capital buffers, in addition to own funds requirements, an RA must duly notify its intention to the ECB. If the ECB objects, it must state its reasons in writing within five working days. The authority concerned must duly consider the ECB's reasons prior to proceeding with the decision, if appropriate. Before the formal notification, an early interaction or informal notification may take place, usually four weeks before taking the decision.

The peer review is mandated to assess the adequacy of the resources and governance arrangements of RAs, especially regarding the application of the Guidelines. Therefore, this section encompasses one benchmarked question (question 26) about the involvement of the RAs' management in the O-SII identification process²⁰.

Thirty RAs considered that their management was comprehensively involved. One RA regarded the requirements as not applicable. Another RA did not contribute to the exercise. Details of the responses are provided below.

Figure 34: Summary table of the review of relevant authorities' benchmarked responses (question 26)

RA	Assessment	RA	Assessment
AT	Comprehensively involved	IS	Comprehensively involved
BE	Comprehensively involved	IT	Comprehensively involved
BG	Comprehensively involved	LI	Comprehensively involved
CY	Comprehensively involved	LT	Comprehensively involved
CZ	Comprehensively involved	LU	Comprehensively involved

²⁰ How involved is your Authority's management in the O-SII identification process? [*Comprehensively involved; Largely Involved; Partially Involved; Not Involved*].

Benchmarking criteria: i) Your Authority's middle management is fully involved in the O-SII identification process; ii) Your Authority's top-management is involved in the O-SII identification process at least in case of issues; iii) The involvement of middle and top-management is based on regular updates/ meetings (at least annually and if there are important structural changes to the banking system such as merger) [*FCP: 3 criteria met, LCP: 2 criteria met, PCP: 1 criterion met, WP: 0 criterion met*].

DE	Comprehensively involved	LV	Comprehensively involved
DK	Comprehensively involved	MT	Non-contributing
ECB	Not applicable	NL	Comprehensively involved
EE	Comprehensively involved	NO	Comprehensively involved
EL	Comprehensively involved	PL	Comprehensively involved
ES	Comprehensively involved	PT	Comprehensively involved
FI	Comprehensively involved	RO	Comprehensively involved
FR	Comprehensively involved	SE	Comprehensively involved
HR	Comprehensively involved	SI	Comprehensively involved
HU	Comprehensively involved	SK	Comprehensively involved
IE	Comprehensively involved	UK	Comprehensively involved

Question 27 looked into whether RAs used any elements of the Guidelines for another aspect of the supervisory process. Most of the RAs (19) did not use the Guidelines for another aspect of the supervisory process. However, some RAs (11) did so, for various purposes:

- for proportionality consideration and for determining the credibility and feasibility of banks' recovery plans (C&F tests) as necessary;
- for the regular assessment of risks and vulnerabilities of the banking system;
- O-SIIs are included in the design of early warning systems, financial stability indicators and risk dashboards/heatmaps;
- for the assessment of institutions that are not eligible for the simplified obligations referred to Article 4(1) of the BRRD;
- in relation to O-SIIs that are subject to more intensive supervision (significant branches) and for targeting risk-based supervisory efforts;
- as an input to decide SREP category identification and for planning SREP exercises in general;
- for the purpose of certain corporate governance requirements;
- for recommendations on dividend distribution policy.

In light of the above, one conclusion that could be drawn is that these 11 RAs are indeed following what is worth disseminating as a best practice. Considering that they account for more than one third of RAs, it is worth encouraging these best practices and flagging them up to the wider community of RAs.

6. Annexes

ANNEX 1: Country codes and acronyms of relevant authorities

Country code	Country	Relevant authority
AT	Austria	Finanzmarktaufsicht (Financial Market Authority, FMA), Oesterreichische Nationalbank (OeNB)
BE	Belgium	National Bank of Belgium (NBB)
BG	Bulgaria	Българска народна банка (Bulgarian National Bank)
CY	Cyprus	Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)
CZ	Czech Republic	Ceska Narodni Banka (Czech National Bank, CNB)
DE	Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority, BaFin), Deutsche Bundesbank
DK	Denmark	Finanstilsynet (Danish Financial Supervisory Authority, Danish FSA)
EE	Estonia	Eesti Pank (National Bank of Estonia)
EL	Greece	Τράπεζα της Ελλάδος (Bank of Greece)
ES	Spain	Banco de España (Bank of Spain)
FI	Finland	Finanssivalvonta (Finnish Financial Supervisory Authority)
FR	France	Autorité de Contrôle Prudentiel et de Résolution (Prudential Supervisory and Resolution Authority – ACPR)
HR	Croatia	Hrvatska Narodna Banka (Croatian National Bank)
HU	Hungary	Magyar Nemzeti Bank (National Bank of Hungary)
IE	Ireland	Central Bank of Ireland
IT	Italy	Banca d'Italia (Bank of Italy)
IS	Iceland	Fjármálaeftirlitið (Icelandic Financial Supervisory Authority – FME)
LI	Liechtenstein	Finanzmarktaufsicht – FMA (Financial Market Authority)
LT	Lithuania	Lietuvos Bankas (Bank of Lithuania)
LU	Luxembourg	Commission de Surveillance du Secteur Financier (Commission for the Supervision of the Financial Sector – CSSF)
LV	Latvia	Finansu un Kapitāla Tirgus Komisija (Financial and Capital Market Commission)
MT	Malta	Malta Financial Services Authority
NL	Netherlands	De Nederlandsche Bank (Dutch Central Bank – DNB)
NO	Norway	Finanstilsynet (Norwegian Financial Supervisory Authority)
PL	Poland	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority – KNF)
PT	Portugal	Banco de Portugal (Bank of Portugal)
RO	Romania	Banca Națională a României (National Bank of Romania) Autoritatea de Supraveghere Financiară (Financial Supervisory Authority)
SE	Sweden	Finansinspektionen (Swedish Financial Supervisory Authority)
SI	Slovenia	Banka Slovenije (Bank of Slovenia)
SK	Slovakia	Narodna Banka Slovenska (National Bank of Slovakia)

Country code	Country	Relevant authority
UK	United Kingdom	Prudential Regulation Authority (PRA)

ANNEX 2: Questions in the self-assessment questionnaire

Application of mandatory indicators for the scoring of institutions

Q1: Has your Authority used the option to raise the threshold to designate institutions as O-SIIs from the general standard (350 basis points) up to 425 basis points or to decrease it to 275 basis points to take into account specificities of your national banking sector? [drop-down list with the following responses: 'Yes', 'No but have considered in light of scores outcome', 'No and it has not been considered in light of scores outcome', 'No because range given is not wide enough', 'Yes but the range given is not wide enough to comply with the prescriptions of the GL (Par. 9.)', 'Yes but without designating new O-SIIs']

Q2: Does your Authority adhere to definitions included in Table 2 of Annex 1 of the Guidelines on O-SIIs to compute mandatory indicators? [Yes/Partially/No] If partially/no, which definitions does your Authority diverge from? Where applicable, please specify alternative data sources used for computing any mandatory indicator(s). Please explain the reason(s) for divergence: ['Data unavailability', 'Divergence from the Notes in the definitions in Table 2 of Annex 1 for cross-jurisdictional indicators (e.g. using only FINREP definitions without adhering to the prescriptions in the Notes)', 'More accurate representation of systemic importance', 'Other reason(s)']

Q3:

- a) Does your Authority use proxies? [Yes/No]
- b) Are these proxies used on an individual bank-by-bank basis or is it only for a specific type/group of institutions (e.g. branches)? If the latter, please specify which types/groups of institutions?
- c) How much is the percentage of total assets for each proxy being used by indicator (i.e. please specify how much the use of proxy(ies) weights in each indicator, as measured by banks' total assets)?
- d) Does your Authority disclose publicly the results of the proxy selection? [Yes/No] If so, how is it communicated? [Free text for the answer in case some relevant authorities use proxies]
- e) Does your Authority foresee any changes due to the implementation of IFRS 9? Please specify.

Q4:

- a) Does your Authority exclude institutions from the list of identified O-SIIs after the first step (i.e. automatic designation using mandatory indicators)? Please specify.

- b) From your Authority's experience, please rank the indicators used from Annex 1 in order according to their significance for the scoring of O-SIIs (1 for most meaningful to 10 for least meaningful – please use each rank only once).

Q5:

- a) Which level of consolidation is regarded as the most relevant to carry out the O-SII identification assessment? Please specify. Without prejudice to other sub-consolidation levels, does your Authority always assess all institutions within your jurisdiction at the highest consolidation level? Please elaborate.
- b) In case of institutions spanning several countries, whether through branches or subsidiaries, was communication with other relevant authorities necessary? [Yes/No]. If yes, please elaborate.
- c) In case your Authority has to calculate a score for an institution at the highest consolidation level of the part of the group that falls under its jurisdiction, how does your Authority, acting as host Authority, cooperate with home Authorities, in order to assess banks and to jointly determine O-SIIs? How does your Authority cooperate with host Authorities when it acts as the home Authority of a group that is present in other EU jurisdictions? Please elaborate.

Q6:

- a) Does your Authority apply the option enabling it to exclude a relevant institution from the identification process if the relative size of this institution measured by its total assets does not exceed 0.02%? [Yes/No] If yes, please explain.
- b) If excluding institutions using this option, how is your Authority ensuring that 100% of the banking system still undergoes the O-SII identification process? *[Please add the overall score of the exempted entities, if known]*

Q7: *[Process assessment]*

If your Authority exempts any institution(s) from the identification process, which criteria from the below does it apply to ensure that those institutions falling under this measure may not trigger any possible systemic threats? *[Fully comprehensive process, Largely comprehensive process, Partially comprehensive process, Weak process]*

Benchmarking criteria:

- Your Authority only exempts institutions from the identification process if its relative size is below 0.02% of total assets for the jurisdiction;
- Your Authority ensures that 100% of the banking system is assessed, regardless of any exemptions given;

- Your Authority has a robust estimate on how the combined indicators for the exempted institutions look like;
- Your Authority monitors any potential threats coming from those institutions.

⇒ [FCP: 4 criteria met, LCP: 3 criteria met, PCP: 2 criteria met, WP: 0/1 criteria met]

NB: Please note that in case your Authority does not exempt any institution from the identification process, the grade should be ‘Fully Comprehensive Process’.

Q8:

- a) Does your Authority include foreign EEA branches active in your jurisdiction in the O-SII identification process? [Yes/No]. Does your Authority include foreign non-EEA branches active in your jurisdiction in the O-SII identification process? [Yes/No]
- b) Are branches assigned an individual score like other institutions? [Yes/No] If not, why not?
- c) Has any branch been identified as an O-SII so far? Please explain.
- d) In light of recent developments, do you foresee any (additional) branch being identified as an O-SII? Please elaborate.

Q9:

- a) Does your Authority use the option to exclude investment firms? [Yes/No]
- b) If your Authority considers that the methodology applied to institutions is not appropriate for investment firms, which set of indicators or which sample of institutions does your Authority use? Please specify.
- c) How many investment firms has your Authority regarded as O-SIIs and included in the identification process? [*In relative value compared to the total population of financial institutions included*]
- d) Has any investment firm been identified as an O-SII so far? [Yes/No]
- e) In light of recent developments, do you foresee any (additional) investment firm being identified as an O-SII? [Yes/No]
- f) If the exemption is used, does your Authority disclose any information about it? [Yes/No]
- g) Does your Authority consider any other non-CRD institutions under its assessment? [excluding branches, e.g. leasing companies, specialised institutions, etc.] [Yes/No] If yes, please specify.

Setting of optional indicators

Q10:

- a) When assessing whether further relevant institutions should be designated as O-SIIs, which additional criteria does your Authority apply to capture systemic risk in their domestic sector or the economy of the EU? Does your Authority quantify additional criteria? If yes, what is your Authority's approach (e.g. use only volume or transaction data or other measurements such as network analytics, use only market-share-based indicators, weight additional criteria with mandatory indicators)? Please specify.
- b) Why does your Authority deem that those criteria are relevant for its jurisdiction? Please explain.
- c) Why are further identified institutions systemically important in terms of those particular indicators? Please explain.

Q11:

- a) Which processes does your Authority apply to conduct the abovementioned assessment? Please elaborate.
- b) Are these optional indicators selected from the list included on Annex 2 of the Guidelines on O-SIIs? [Yes/No] If not, please explain why.
- c) Would your Authority like to include further optional indicators to Annex 2 of the Guidelines on O-SIIs? [Yes/No] If yes, please specify the indicators needed.

Q12:

- a) Has the identification including optional indicators been taken at a different consolidation level than the identification with mandatory indicators? [Yes/No] If yes, please specify.
- b) Does your Authority publish final O-SIIs scores based only on results from mandatory indicators or also based on optional indicators (where relevant)? Please specify.

Effectiveness and comprehensiveness of disclosure and notification requirements

Q13: [Compliance assessment]

- a) Does your Authority publish an outline of the methodology for the supervisory assessment applied during the identification process? [Fully applied, Largely applied, Partially applied, Not applied]

Benchmarking criteria:

- Effective publication of an outline of the methodology for the supervisory assessment applied during the assessment process;
- Regular (at least annually) update of the outline of the methodology;
- Complete published outline taking into account information such as optional indicators where relevant;
- Effective publication of an outline of the methodology for setting the buffer requirement;
- Publication of the reasons in case your Authority uses the option to raise or lower the threshold to designate O-SIIs, including the specificities of your Authority's banking sector and the resulting statistical distribution of the scores.

⇒ [FA: 5 criteria met, LA: 4 criteria met, PA: 2/3 criteria met, NA: 0/1 criteria met]

NB: In case your authority has not used the option to raise or to lower the threshold to designate O-SIIs (referring to the last criterion), your self-assessment should be 'Fully Applied' if the four first criteria are met.

- b) If yes, by which means does your Authority publish the outline? Please specify.
- c) Which other formal or informal means does your Authority use to ensure that institutions are aware of the methodology? Please specify.
- d) Is your Authority considering any changes to the level of information provided in this outline? [*Yes, we will increase level of provided details; Yes, we will decrease level of provided details; No, we do not foresee changes to the level of information provided*]

Q14:

- a) Does your Authority publish the overall scores of institutions designated as O-SIIs? [Yes/No]
- b) How does your Authority communicate these scores externally? [*within a general report; within a specific report; devoted webpage; other; no publication*]
- c) Does your Authority publish category/indicator breakdown of the scores? [Yes/No] If yes, how detailed is this breakdown? [*Complete, Summarised, Limited*]
- d) Does your Authority publish the O-SII buffer requirements? [Yes/No] If yes, by which means? [*Within a general report; within a specific report; devoted webpage; other – please specify*] At which frequency does your Authority publish/update the O-SII score, the O-SII buffer and the methodology? [*Annually, Bi-annually, Quarterly, Monthly, Where relevant*]

- e) Is your Authority considering any changes to the level of information provided regarding bank-specific scores? [*Yes, we will increase level of provided details; Yes, we will decrease level of provided details; No, we do not foresee changes to the level of information provided*]

Q15:

- a) Do institutions take part of the process of identification? [*Yes/No*] If yes, by which means?
- b) Please explain how your Authority informs institutions on the results of the scoring.
- c) Has your Authority experienced difficulties when designating an institution as an O-SII after informing it about its scores? [*Yes/No*] If yes, please describe commenting on this specific automatic score.

Q16: What is the reference date of the data used in your Authority's annual identification process? [*End-December of the previous year; another date*]

Q17:

- a) Does your Authority publish the list of institutions identified as O-SII scoring below the threshold, including the automatic score, where applicable? [*Yes/No*]
- b) Does your Authority publish, for each bank, a brief statement with the following motivation: a) which optional indicator(s) are used to inform the designation as O-SII; b) why this indicator is relevant in the Member State; c) why the institution is systemically important in terms of the particular indicator(s); d) quantified information about the optional indicator(s).

Q18: With regard to the notification to the EBA, has your Authority used the uniform notification template provided by the EC/ESRB/EBA? [*Yes/No*]

Q19: [*Compliance assessment*]

Has your Authority been able to notify the EBA in a timely and comprehensive fashion? [*Fully applied, Largely applied, Partially applied, Not applied*]

Benchmarking criteria:

- Your Authority notifies the EBA in due time, particularly by the 1 December each year;
- Your Authority notifies the names of all relevant institutions identified as O-SIIs;
- Your Authority notifies the scores for each identified institution;

- Your Authority notifies the EBA of the indicator values for all identified O-SIIs (including the ones identified through supervisory judgement);
- Your Authority provides full information to the EBA of names and scores for all assessed institutions, including the ones that have not been identified as O-SIIs.

⇒ [FA: 5 criteria met, LA: 4 criteria met, PA: 2/3 criteria met, NA: 0/1 criteria met]

NB: By assessing disclosure and notification requirements, the Review Panel may ask material evidence.

Calibration of the O-SIIs buffer

[Despite not being included formally in the Guidelines on O-SIIs, the assessment of the process on how Authorities calibrate the O-SIIs buffer is considered important to identify best practices and take stock of processes implemented by CAs in view of the revision of the Guidelines]

Q20:

- a) Is the O-SII buffer set at a different consolidation level than the one for which scores are computed? [Yes/No]
- b) Which level of consolidation is regarded as the most relevant to set the buffer? Please elaborate.

Q21:

- a) Were mandatory scores of identified O-SIIs taken into account when calibrating the O-SII buffer rate? [Yes/No] Were quantified additional criteria of identified O-SIIs taken into account when calibrating the O-SII buffer rate? [Yes/No]
- b) Were results of identified O-SIIs taken into account when calibrating other macroprudential tools? [Yes/No] If yes, please elaborate.
- c) How would you describe the relationship between the O-SIIs scores and the assigned O-SII/SRB/G-SII buffer rates in the EU? [*Proportionate; Somewhat proportionate; Unrelated; {Free text box for further comments}*]
- d) How does your Authority manage to match the score to designate an O-SII and the O-SII buffer calibration? Please specify.

Q22: Would your Authority consider that further EBA guidance and some degree of harmonisation on the O-SII buffer rate calibration is desirable? [Yes/No] Please specify.

Q23: Please complete the following table:

Name of the institution	O-SIIs automatic score (based on 2015 data)	O-SII Buffer level 1 January 2017	Planned O-SII buffer level 1 January 2018	Planned O-SII buffer level 1 January 2019	Planned O-SII buffer level 1 January 2020

NB: In case your Authority has fully implemented the O-SII buffers without a phase-in period, there is no need to give the planned O-SII buffer level for 2018, 2019 and 2020.

Data and decision-making processes

Q24: Has your Authority set a centralised/decentralised identification process with regards to O-SIIs assessment? [*centralised; decentralised*]²¹ Please explain the whole procedure from the launch of the process to the disclosure of the result.

Q25: Is your Authority the competent authority managing the identification process? [Yes/No] If not, please provide information on the designated Authority which intervenes in the identification process. For SSM countries, please explain the interplay with the ECB/SSM with regard to the identification process.

Q26: [*Process assessment*]

How involved is your Authority's management in the O-SII identification process?
[*Comprehensively involved; Largely involved; Partially involved; Not involved*]

Benchmarking criteria:

- Your Authority's middle management is fully involved in the O-SII identification process;
- Your Authority's top-management is involved in the O-SII identification process at least in case of issues;

²¹ 'Centralised' process refers to a single decision-making entity; 'decentralised' process refers to a process split in two or more decision-making entities.

- The involvement of middle and top-management is based on regular updates/meetings (at least annually and if there are important structural changes to the banking system such as merger);

⇒ *[FCP: 3 criteria met, LCP: 2 criteria met, PCP: 1 criterion met, WP: 0 criterion met]*

Q27: Do you use any elements of the Guidelines on O-SIIs for another aspect of supervisory process? *[Yes/No]* If yes, please elaborate.

ANNEX 3: Summary table of the RAs' self-assessment

RA	Q7	Q13a	Q19	Q26
AT	Not applicable	FA	LA	FI
BE	FCP	FA	FA	FI
BG	FCP	FA	FA	FI
CY	FCP	FA	LA	FI
CZ	FCP	PA	PA	FI
DE	FCP	FA	FA	FI
DK	FCP	LA	FA	FI
ECB/SSM	Not applicable	Not applicable	Not applicable	Not applicable
EE	FCP	FA	FA	FI
EL	PCP	FA	FA	FI
ES	FCP	FA	FA	FI
FI	FCP	FA	LA	FI
FR	FCP	FA	LA	FI
HR	FCP	LA	LA	FI
HU	FCP	FA	FA	FI
IE	FCP	FA	FA	FI
IS	FCP	FA	LA	FI
IT	FCP	FA	FA	FI
LI	FCP	LA	PA	FI
LT	LCP	LA	FA	FI
LU	FCP	PA	LA	FI
LV	FCP	FA	FA	FI
MT	Non-contributing	Non-contributing	Non-contributing	Non-contributing
NL	FCP	FA	FA	FI
NO	FCP	FA	LA	FI
PL	FCP	FA	FA	FI
PT	FCP	FA	FA	FI
RO	FCP	FA	FA	FI
SE	FCP	FA	FA	FI
SI	FCP	LA	FA	FI
SK	FCP	FA	FA	FI
UK	FCP	FA	FA	FI

Key

Green: fully comprehensive process (FCP) or fully applied (FA) or fully involved (FI).

Yellow: largely comprehensive process (LCP) or largely applied (LA) or largely involved (LI).

Orange: partially comprehensive process (PCP) or partially applied (PA) or partially Involved (PI).

Red: weak process (WP) or not applied (NA) or not involved (NI).

ANNEX 4: Summary table of the review of the RAs' self-assessment

MS	Q7	Q13a	Q19	Q26
AT	FCP (upgraded)	FA	FA	CI
BE	FCP	FA	FA	CI
BG	FCP	FA	FA	CI
CY	FCP	FA	LA	CI
CZ	FCP	PA	PA	CI
DE	FCP	FA	FA	CI
DK	FCP	LA	FA	CI
ECB/SSM	Not applicable	Not applicable	Not applicable	Not applicable
EE	FCP	FA	FA	CI
EL	PCP	FA	FA	CI
ES	FCP	FA	FA	CI
FI	FCP	FA	LA	CI
FR	FCP	FA	FA (upgraded)	CI
HR	FCP	LA	FA	CI
HU	FCP	FA	FA	CI
IE	FCP	FA	FA	CI
IS	FCP	FA	LA	FI
IT	FCP	FA	FA	CI
LI	FCP	LA	PA	CI
LT	FCP (upgraded)	LA	FA	CI
LU	FCP	PA	FA	CI
LV	FCP	FA	FA	CI
MT	Non-contributing	Non-contributing	Non-contributing	Non-contributing
NL	LCP (downgraded)	FA	FA	CI
NO	FCP	FA	PA (downgraded)	CI
PL	FCP	FA	FA	CI
PT	FCP	FA	FA	CI
RO	FCP	FA	FA	CI
SE	FCP	FA	FA	CI
SI	FCP	LA	FA	CI
SK	FCP	FA	FA	CI
UK	FCP	FA	FA	CI

ANNEX 5: Summary table of good practices

Guidelines section	Good practice
Application of mandatory indicators for the scoring of institutions	<p>Considering, as the starting point for the assessment, the highest consolidation level within each Member State, namely for the analysis against mandatory indicators, as prescribed in the Guidelines. Thereafter, each RA can slice and dice its own banking system into different layers, diving deeper into sub-consolidated and individual levels to identify any significant divergence from the scores obtained first, when conducting the assessment at the highest level of consolidation. If these differences become significant, the RA will have a clear reason for applying supervisory judgement where needed, as well as for taking more granular decisions regarding the buffer application.</p>
	<p>Information sharing, albeit not highly rated by RAs when answering questions 5b and 5c, should be seen as a best practice and encouraged throughout, even where supervisory colleges are not formally set up for a particular institution or banking group. Specifically, once an entity with cross-border activity is first identified as (or ceases being) an O-SII, RAs are encouraged to engage in discrete bilateral interactions with other relevant RAs. This practice is within the boundaries of the current legislative framework; however, few RAs seem to be doing this already. Therefore, a way forward could be for the RAs and the EBA to explore further avenues for information sharing across different jurisdictions.</p>
	<p>Member States and their respective RAs are encouraged to include foreign branches in the annual identification process.</p>
	<p>Given the increasing contributions of bank branches to national banking systems, it becomes critical to monitor and assess any systemic risks brought into the system by foreign branches. Ideally, all foreign branches should be assigned an individual score. If this is not possible, foreign branches' activities should at least be grouped into a single virtual entity to which a score can be attributed. This practice will ensure that the combined systemic risk stemming from foreign branches is taken into account and monitored during the annual identification exercise.</p>
	<p>Member States and their respective RAs are encouraged to include all institutions in the annual identification process.</p> <p>For jurisdictions exercising the option of excluding smaller entities, a best practice to follow could be running the assessment twice if appropriate, the first run including 100% of the banking system, where a virtual institution accounting for all smaller institutions below the 0.02% of total assets threshold would be included, and the second run including only institutions above that 0.02% threshold. This would guarantee that any differences arising from an increase in systemic risk scores for smaller institutions would be noticed and likely to be further assessed.</p>

Guidelines section	Good practice
	<p>A best practice regarding whether investment firms are included in the assessment or not could involve making a clear statement in this regard in the outline of the methodology used to identify O-SIIs. When these firms are included, RAs should be transparent in declaring any specific methods or indicators used, if there is any difference from the framework established by the Guidelines.</p>
Setting of optional indicators	<p>When making use of supervisory judgement, Member States and RAs should assess quantitative and qualitative factors that are specific to their jurisdictions. In particular, they should choose optional indicators only from Annex 2 of the Guidelines. The list of optional indicators included in Annex 2 may be expanded when the Guidelines are revisited. At one RA's request, where feasible, a common definition of these indicators might be added to the Annex, with a view to promoting greater harmonisation.</p>
	<p>Use of the judgement option is encouraged if deemed fitting. However, for the sake of comparability of supervisory practices and in accordance with paragraph 14 of the Guidelines, any decision regarding adding an O-SII via the supervisory overlay option should be based solely on the information retrieved from one or more indicators included in Annex 2 of the Guidelines.</p>
Effectiveness and comprehensiveness of disclosure and notification requirements	<p>Within the letter and spirit of paragraph 15 of the Guidelines, Member States should publish an annual outline of the methodology used to identify O-SIIs, including the rationale behind any adjustment to the threshold mentioned in paragraph 9 and any optional indicators selected from Annex 2 if it is motivated by any change from the previous year's methodology. The outline should include how the systemic scores obtained from the application of paragraph 8 of the Guidelines relate to the buffer requirement set by the RA.</p>
	<p>A best practice for the RAs to implement might involve a combination of (i) a devoted webpage and/or press releases about the methodology, to be updated or issued not only when an update is warranted but also on an annual basis with a view to clarifying how each year's O-SII identification exercise will be run; (ii) press releases and/or events involving the industry to publicise key dates for the annual O-SII identification exercise; and (iii) regular public events or meetings with the industry, if any, where the topic of O-SIIs identification could be highlighted, thus raising awareness of the exercise, its main features, and the possible outcomes and consequences of O-SII designation.</p>
	<p>A best practice that could be followed is the publication of the individual scores, broken down by the four existing categories of systemic risk dimension. This harmonisation would create full comparability within the Single Market, while partly addressing the shortcomings identified in the responses to question 14b.</p>
	<p>If an RA uses proxies in one or several indicators or categories, it should select the scores resulting from the proxy or proxies that are considered the best fit for the assessment, for both identification and public disclosure purposes.</p> <p>A best practice might be, therefore, publishing the O-SII buffer requirements along with the scores. In addition, one RA reported updating the information during the year if important structural changes had taken place in its banking system. This could also be considered a</p>

Guidelines section	Good practice
	<p>good practice to be followed by all RAs as necessary.</p> <p>A best practice might be to urge RAs to communicate in an open and transparent fashion with credit institutions about the results of the scoring as performed in certain jurisdictions. For example, when an RA's the decision-making process is complete and it becomes certain that an institution will be identified as an O-SII, the RA should contact the institution concerned, at least in an official email or letter, informing it of the result of the identification exercise.</p> <p>A best practice might be to use the year-end data of the year preceding the identification assessment of the systemic risk dimension, while allowing some flexibility for the use of other additional reference periods to account for structural changes to the composition of the banking system, to inform supervisory judgement or to account for year-end reference dates that may be of relevance to the jurisdiction.</p> <p>In addition, the maintenance of a reasonable lag should be encouraged between the moment when an institution knows it has been identified as an O-SII and potentially envisages an O-SII buffer requirement being set, and the actual date from which that buffer requirement applies. By using year-end data to run the identification exercise throughout the following months, it is expected that the identification process and any consequent buffer decision could be finished ahead of the 1 December deadline for the notification of the EBA.</p> <p>As an example, for the 2018 O-SII identification exercise, a best practice that could be expected is for data from the end of 2017 data to be considered for the assessment, ideally for all institutions comprising the system. The exercise would naturally take a few months to be performed and concluded by the RAs, up to the point of an official sign-off declaring which O-SIIs are to be identified and which buffer rates apply as a consequence. This decision-making process, sign-off, external disclosure and official notification of the EBA are expected to be accomplished no later than 1 December 2018. The assigned buffer rate requirement could then enter into force on 1 January 2020, allowing for at least one year of implementation and planning for the institutions identified as O-SIIs. Since a buffer requirement might be new to an institution, or it might have been fine-tuned by the RA, it is appropriate to allow the institution to plan and project its capital and funding items accordingly and with a reasonable time lag.</p>

ANNEX 6: Summary table of the Review Panel's recommendations

Topics	Review Panel's recommendations
Setting of optional indicators	The Review Panel recommends expanding the list of optional indicators included in Annex 2 with a view to aligning these indicators with CAs' practices and requests.
Effectiveness and comprehensiveness of disclosure and notification requirements	The Review Panel recommends clarifying both paragraph 18 of the Guidelines and the ESRB/EBA/ECB notification template to clearly specify that the names and scores of all assessed institutions must be notified to the EBA.