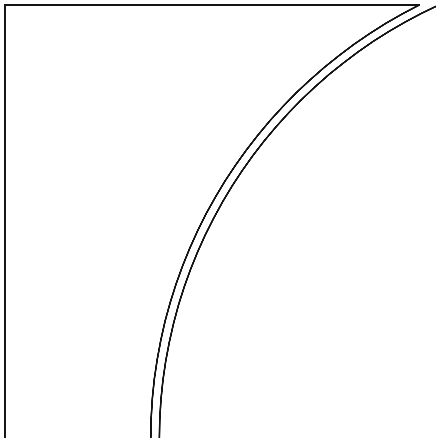
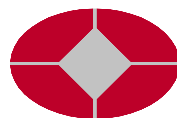
Basel Committee
on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III G-SIB framework and review of D-SIB frameworks – European Union

June 2016



BANK FOR INTERNATIONAL SETTLEMENTS

Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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Glossary

BCBS	Basel Committee on Banking Supervision
C	Compliant (grade)
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
D-SIB	Domestic systemically important bank
EBA	European Banking Authority
ECB	European Central Bank
EP	European Parliament
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euros
FSB	Financial Stability Board
G-SIB	Global systemically important bank
G-SII	Global systemically important institution
ITS	Implementing Technical Standards
LC	Largely compliant (grade)
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
O-SII	Other systemically important institution
RCAP	Regulatory Consistency Assessment Programme
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
SIB	Systemically important bank
SREP	Supervisory Review and Evaluation Process
UK	United Kingdom
US	United States

Executive summary

The Basel Committee on Banking Supervision (Basel Committee) sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report summarises the findings of the RCAP Assessment Team on the domestic adoption of the Basel global systemically important bank (G-SIB) framework in the European Union (EU). The focus of the assessment was on the consistency and completeness of the regulations in the EU with the Basel Committee's minimum requirements. An evaluation of the overall soundness and stability of the banking sector in the EU, the capital levels of individual banks and the supervisory effectiveness of the EU authorities was not in the scope of this assessment.

The report also presents a review of the EU implementation of the Committee's domestic systemically important bank (D-SIB) framework. Unlike the G-SIB assessment, this review was not graded, consistent with the high-level, principles-based nature of the Committee's D-SIB framework.

The RCAP Assessment Team was led by Mr Wayne Byres, Chairman of the Australian Prudential Regulation Authority. The Assessment Team comprised four experts drawn from the Basel Committee Secretariat, Brazil, India and Singapore. The main counterpart for the assessment in the EU was the European Banking Authority (EBA), which also collected information from the relevant supervisory authorities in the countries that are home to G-SIBs. The assessment and review of the EU SIB frameworks was conducted alongside assessments and reviews in the other four jurisdictions that are currently home to G-SIBs: China, Japan, Switzerland and the United States.[1]

The EU G-SIB framework was issued in June 2013 through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), and came into force on 1 January 2014. These laws have been supplemented by binding technical standards and Guidelines issued by the EBA during 2014. There are currently 13 G-SIBs based in the EU: four in France, one in Germany, one in Italy, one in the Netherlands, one in Spain, one in Sweden and four in the United Kingdom (UK).

The G-SIB framework in the EU is assessed as compliant with the Basel G-SIB framework. This is the highest overall grade. Both subcomponents of the G-SIB framework, higher loss absorbency and disclosure requirements, are assessed as compliant.

The Assessment Team's review of the EU D-SIB framework found it to be broadly aligned with the Basel Committee's D-SIB principles. The EU framework was finalised in June 2013 and took effect on 1 January 2016. It identifies "other systemically important institutions" (O-SIIs) using a methodology similar to the G-SIB assessment framework, employing certain country- or region-specific factors, and assigns a corresponding higher loss absorbency requirement of up to 2%. The EBA provides guidance on methodologies to be used by national authorities within the EU, including in the nine countries that are Basel Committee member jurisdictions.

The RCAP Assessment Team acknowledges the professional cooperation received from the EBA and the relevant national authorities during the assessment and review. The Assessment Team is hopeful that the RCAP exercise will contribute to the sound initiatives that have been undertaken in the EU and to strengthening further the prudential effectiveness and full implementation of these G-SIB and D-SIB frameworks.

[1] The other reports are available on the BIS website at www.bis.org/bcbs/implementation/l2.htm.

Response from the EU authorities

The EBA generally agrees with the assessment made and would like to note that the EU framework to address global systemically important institutions has been developed to mirror very closely the G-SIB regime elaborated by the BCBS.

Minor deviations highlighted within this report are basically a result of EU-specific challenges in what regards the legal infrastructure and setting. These minor deviations are by no means intended to change the spirit of the BCBS framework for dealing with G-SIBs. Moreover, in what regards findings related with Basel paragraphs 56 and 57 available on section 1.5 of this report, the EU authorities note that the EU framework lays down an automatic restriction of profits' distribution through the Maximum Distributable Amount calculation, which limits the amount of dividends, bonuses and coupon payments on Additional Tier 1 instruments that banks can distribute until the combined buffer has been fully restored.

The EBA Board of Supervisors, when approving the second level regulatory package to implement the GSII framework in the EU, has decided that the outcome of the identification process (ie banks identified as G-SIB/G-SII) should be the same as in the BCBS/FSB list but, for the sake of a level playing field in the EU, all banks above the EUR 200 billion threshold should disclose data in a similar fashion, both in scope and granularity. This makes the disclosure requirements in the EU more comprehensive than what is envisaged in the Basel framework.

1. G-SIB assessment

1.1 Context

Introduction to the Basel G-SIB framework

The Basel Committee published the G-SIB framework in 2011 and updated it in 2013. It comprises an assessment methodology for global systemic importance, the magnitude of additional loss absorbency that G-SIBs should have and arrangements for phasing in the requirements. Based on the Basel Committee's assessment methodology, the Financial Stability Board published a list of G-SIBs in 2011 and has updated it annually since.

The G-SIB framework is set out in *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement* (July 2013).[2] This document was the basis for the RCAP assessment. The RCAP Assessment Team focused on the key requirements of the G-SIB framework, namely: (i) the level and composition of the higher loss absorbency requirement and coordination with other regulatory requirements; and (ii) the reporting requirements for and public disclosure by banks.

In the Basel G-SIB framework, the higher loss absorbency requirements come into effect between 1 January 2016 and 31 December 2018, in parallel with the Basel III capital conservation and countercyclical buffers. Disclosure requirements apply from 2014. The assessed jurisdictions implemented G-SIB frameworks between 2012 and 2016, with higher loss absorbency requirements being phased in until 2019.

Status of EU implementation

Directive 2013/36/EU of the European Parliament (EP) and the Council (the Capital Requirements Directive, or CRD) and Regulation (EU) 575/2013 of the EP and the Council (the Capital Requirements Regulation, or CRR) implemented the G-SIB framework in the EU, along with many other changes to banking regulation. These instruments were published in June 2013 and came into effect on 1 January 2014. The G-SIB framework will be phased in between 1 January 2016 and 1 January 2019.

The CRD and the CRR incorporate the EU G-SIB framework at a high level. This is supplemented by more detailed standards and guidelines issued by the EBA. The EBA regulatory technical standards (RTS) Commission Delegated Regulation EU No 1222/2014, of October 2014, implemented the higher loss absorbency requirements for G-SIBs. The EBA Implementing Technical Standards (ITS) Commission Implementing Regulation EU No 1030/2014 and Guidelines EBA/GL/2014/02, issued in September and June 2014, respectively, implement the G-SIB disclosure and reporting requirements.

Regulatory system, model of supervision and binding nature of prudential regulations

Since January 2014, EU bank capital requirements have been largely implemented by comprehensive requirements at the EU level, which apply directly and uniformly across the EU. This legislation, the CRD and the CRR, replaced a system of regulatory requirements previously implemented through Member State laws and regulations. The CRR is a directly applicable, legally binding regulation that applies to banks and their supervisors in the EU. The CRD is a binding directive that requires Member States to enact legislation that conforms to the requirements of that Directive. The full implementation of the CRD and the CRR relies on the standards and guidelines issued by the EBA and consistent adoption of rules and guidance at Member State levels. The Assessment Team confined its review to EU documents when considering the implementation of the G-SIB framework in the EU.

[2] See www.bis.org/publ/bcbs255.htm.

The CRR empowers the European Commission and the EBA to issue acts of secondary legislation specifying additional detailed requirements. These acts are themselves directly binding on banks. The EBA also issues Guidelines and Recommendations, which are publicly available instruments about how requirements of EU law are to be applied by EU regulators and supervisors. Guidelines are an important tool for fostering convergence of supervisory practices across the EU. Although they are not legally binding, supervisory authorities and institutions in the EU must make every effort to comply with them. In justified instances, Member States can choose not to follow EBA Guidelines and Recommendations, though all such instances and the reasons for them must be placed on the public record. More information on the instruments in the EU legal framework is included in Annex 2 and the Committee's RCAP assessment report on the implementation of the risk-based capital framework in the EU.[3]

Under the CRD, EU Member States must designate an authority in charge of identifying global systemically important institutions (or G-SIIs, the term used in EU legislation to refer to G-SIBs). These authorities are known as "designated authorities". Supervisory authorities of the Member States ("competent authorities") are required by EU law to ensure that banks follow EU and Member State law. Either the designated authority or the competent authority has the responsibility to identify G-SIBs. The relevant national authorities for the countries that are home to G-SIBs are shown in Table 1. As of January 2016, the European Central Bank (ECB) is also a competent authority for the largest 129 banking groups operating in the euro area's 19 Member States, including the G-SIBs based in France, Germany, Italy, the Netherlands and Spain.

[3] See Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – European Union*, December 2014, www.bis.org/bcbs/publ/d300.pdf.

EU G-SIBs and relevant supervisory authorities				Table 1
	G-SIB bucket	CET1 additional higher loss absorbency	Country	Designated or competent authorities
BNP Paribas	3	2.0%	France	ECB Autorité de Contrôle Prudentiel et de Résolution
Groupe BPCE	1	1.0%		
Groupe Crédit Agricole	1	1.0%		
Société Générale	1	1.0%		
Deutsche Bank	3	2.0%	Germany	ECB Bundesanstalt für Finanzdienstleistungsaufsicht
Unicredit Group	1	1.0%	Italy	ECB Bank of Italy
ING Bank	1	1.0%	Netherlands	ECB Netherlands Bank
Santander	1	1.0%	Spain	ECB Bank of Spain
Nordea	1	1.0%	Sweden	Finansinspektionen
Barclays	3	2.0%	UK	Prudential Regulation Authority
HSBC	4	2.5%		
Royal Bank of Scotland	1	1.0%		
Standard Chartered	1	1.0%		

The G-SIBs and higher loss absorbency requirements correspond to those identified by the Financial Stability Board (FSB) in November 2015.

In November 2014, BBVA was identified as a G-SIB with a 1% higher loss absorbency requirement. BBVA was not identified as a G-SIB in November 2015 but, under the EU G-SIB framework, BBVA continues to be subject to a G-SIB surcharge until December 2016. Similarly, Royal Bank of Scotland was subject to a 1.5% G-SIB surcharge on the list published in November 2014, but only a 1% surcharge in November 2015. The 1.5% higher loss absorbency requirement remains in force until December 2016.

Sources: EBA; European Systemic Risk Board (ESRB); FSB (www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf).

Structure of the banking sector

The EU banking system contains many heterogeneous credit institutions. In the seven Member States that are home to G-SIBs, there are over 4,000 banks. The 13 G-SIBs comprise around 50% of the total assets across their Member States. These banks are typically universal banks, but also have a range of business models. Some groups have subsidiaries offering insurance services (and are thus supervised as financial conglomerates) while others are groups with significant global capital market and trading operations. As at end-2015, the average total and Common Equity Tier 1 (CET1) capital ratios for the EU G-SIBs were 15.4% and 11.5%, respectively. For more financial indicators, see Annex 3.

1.2 Scope of the assessment

Scope

The RCAP Assessment Team has considered all binding documents that effectively implement the Basel G-SIB framework in the EU as of 1 April 2016 (the cut-off date for the assessment). The assessment had two dimensions:

- a comparison of domestic regulations with the Basel G-SIB framework, to ascertain that all the required provisions have been adopted (the *completeness* of EU domestic regulation); and

- whether there are any differences in substance between the domestic regulations and the Basel framework and, if so, their significance (the *consistency* of EU regulation).

Any identified deviation was assessed for its materiality (current and potential, or having an insignificant impact) by using both quantitative and qualitative information. In addition to the available data, the assessment relied on expert judgment on whether the domestic regulations met the Basel framework in letter and spirit. While informed by some aspects of supervisory practice in the EU and the nature of the banking system, the assessment did not evaluate the adequacy of capital or resilience of the banking system in the EU or of the EU G-SIBs or the supervisory effectiveness of the relevant regulatory authorities.

Assessment methodology and grading

This cross-jurisdictional assessment followed the Committee's standard RCAP assessment process.[4] Before an assessment starts, the Committee agrees the principles and process for the type of assessment and the Team Leader agrees the specific arrangements for the particular exercise with counterparts in the assessed jurisdictions. The assessment itself comprises three phases: (i) self-assessment by the relevant authorities; (ii) an assessment phase; and (iii) a post-assessment review phase.

During the assessment phase, the RCAP Assessment Team compared the domestic regulations with the corresponding Basel framework. The Assessment Team identified observations for discussion with the relevant authorities. Following feedback from the EU authorities, the list of observations was developed into a structured list of preliminary findings. The materiality of quantifiable deviations was primarily assessed in terms of their current or, where applicable, potential future impact (or non-impact) on capital ratios of the EU G-SIBs. The non-quantifiable aspects of identified deviations were reviewed in the context of the prevailing regulatory practices and processes and discussed with the EU authorities. The Assessment Team also considered the impact of the deviations on the collective G-SIB scoring mechanism.

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale (compliant, largely compliant, materially non-compliant and non-compliant), both at the level of each of the two subcomponents of the Basel G-SIB framework and for the overall assessment of compliance.[5]

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the assessment team. In doing so, the assessment team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Annex 4.

The Basel G-SIB framework builds on other parts of the Basel capital framework. For example, the higher loss absorbency requirements for G-SIBs are defined with reference to the Basel III definitions of CET1 and risk-weighted assets (RWA). All the assessed jurisdictions, including the EU, had already been assessed in terms of their implementation of the Basel risk-based capital standards. This assessment of G-SIB frameworks did not repeat those previous assessments, nor did it penalise a jurisdiction a second time where the relevant part of the capital framework was found to be less than compliant in the risk-based capital assessment. Similarly, this assessment of G-SIB frameworks relied on the previous RCAP assessments of the degree to which regulations in each jurisdiction are binding.

[4] For more information on the RCAP, see www.bis.org/publ/bcbs264.htm.

[5] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. See www.bis.org/publ/bcbs264.htm for further details.

1.3 Main findings

A summary of the main findings is given below.

Summary assessment grading — Table 2

Key components of the Basel G-SIB framework	Grade
Overall grade	C
Higher loss absorbency	C
Disclosure requirements	C

Compliance assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

Main findings by component

Higher loss absorbency

The EU implementation of the higher loss absorbency requirements for G-SIBs is judged to be compliant.

One deviation has been identified with respect to the bucketing approach in the Basel framework, particularly in the case that banks increase their systemic importance beyond current levels. The deviation is not considered material in current circumstances.

The Assessment Team has one observation on the EU implementation of the higher loss absorbency requirements, relating to the drafting of the requirements on distribution restrictions.

Disclosure requirements

The EU implementation of the disclosure requirements for G-SIBs is judged to be compliant.

One deviation has been identified with regard to the implementation of the threshold for disclosure via EBA Guidelines rather than binding legislation. However, as the disclosures are made in practice and also published by the relevant authorities, the finding is not considered material.

The Assessment Team observes that there has been a delay in the formal implementation of the EU G-SIB disclosure requirements, but this is not considered to affect the compliance of the EU framework with the Basel framework.

1.4 Detailed assessment findings

The component by component details of the assessment of compliance with the Basel Committee G-SIB framework are given below. The focus of this section is on findings that are assessed as deviating from the minimum requirements under the Basel framework and their materiality. Section 1.5 lists observations and other findings specific to the implementation practices in the EU. Observations do not indicate sub-equivalence.

Higher loss absorbency

Section grade	Compliant
Summary	One deviation has been identified with respect to the bucketing approach in the Basel framework. It is not considered material.
Basel paragraph number	47
Reference in the domestic regulation	Directive 2013/36/EU of the EP and of the Council of 26 June 2013, Article 131 (9) Commission Delegated Regulation EU No 1222/2014, Recital (1), Article 5
Findings	The Basel framework adopted the bucketing approach for G-SIB higher loss absorbency requirements to provide incentives for banks to avoid becoming more systemically important. To this end, the bucket thresholds are set initially such that the top bucket (currently the fifth bucket) is empty. Should it be populated, a new bucket will be added. Each new bucket will be equal in size (in terms of scores) to each of the initially populated buckets and the minimum higher loss absorbency requirement for the new buckets will increase in increments of 1% of RWA. While the EU regulations state that there should be at least five subcategories of G-SIIs, it does not provide for the addition of further buckets, nor the associated higher loss absorbency requirements. This falls short of the Basel G-SIB framework, but the Assessment Team notes that the addition of a sixth bucket is not required at the time of assessment and considers it unlikely to be required in the short to medium term.
Materiality	Not material

Disclosure requirements

Section grade	Compliant
Summary	One deviation has been identified with regard to the implementation of the threshold for disclosure via EBA Guidelines. As the disclosures are made in practice and also published by the relevant authorities, the finding is not considered material.
Basel paragraph number	42
Reference in the domestic regulation	Art 3(1) and 3(2) of Regulation (EU) No 1222/2014 EBA Guidelines on disclosure of indicators of global systemic importance -Title I, point 2; Title II, point 3
Findings	The Basel G-SIB framework establishes a EUR 200 billion threshold for the disclosure of indicators by financial institutions. This threshold is implemented by way of EBA Guidelines. EBA Guidelines follow a "comply or explain" principle (as explained in Section 1.1). However, in practice, disclosure is made by the institutions above the EUR 200 billion threshold. Also, Regulation 1222/2014 requires that the relevant authority publishes the indicators. Therefore, although disclosure might not be legally binding for the financial institutions, the data are always published because it is mandatory for the relevant authority.
Materiality	Not material

1.5 Observations specific to implementation practices in the EU

The following list describes the Assessment Team's observations regarding EU implementation of the Basel G-SIB framework. These observations are consistent with the Basel framework and are provided here for background information only.

Higher loss absorbency

Basel paragraph number	56 and 57
Reference in the domestic regulation	Directive 2013/36/EU of the EP and of the Council of 26 June 2013 Articles 141 and 142
Findings	The Basel G-SIB framework restricts distributions from subsequent earnings of the G-SIB where it breaches the buffer requirements. Earnings are defined as distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. These elements include dividends, share buybacks and discretionary bonus payments (paragraphs 131 and 132 of the Basel III standards). Article 141 (7) states, "The restrictions imposed by this Article shall only apply to payments that result in a reduction of Common Equity Tier 1 capital or in a reduction of profits, and where a suspension of payment or failure to pay does not constitute an event of default or a condition for the commencement of proceedings under the insolvency regime applicable to the institution." Read in isolation, this may imply that, while CET1 and profits of a bank's balance sheet are kept intact, distributions may be made from the current year's profits without reducing retained earnings and CET1. Further, as dividends are an appropriation from profit after tax, even the payments from current-year profits may not technically be a reduction of CET1. This arises from the interpretation of the phrase "reduction of profits". A distribution by way of a dividend, technically, does not result in a "reduction of profits", because profits are calculated before any appropriation or distributions are made. However, the Assessment Team concluded that, when these paragraphs are read in conjunction with the other implementing provisions, in particular Article 141 (3), (4), (5), (9) and (10), the EU implementation of the distribution restrictions is compliant with the Basel framework. This is consistent with the conclusion reached in the RCAP assessment of the EU implementation of the Basel risk-based capital requirements.[6]

Disclosure requirements

Basel paragraph number	63
Reference in the domestic regulation	Article 7
Findings	The Basel G-SIB framework requires the implementation of G-SIB disclosure and reporting requirements by 1 January 2014. The implementing EU regulation was issued for consultation on 12 December 2013, but was not in force by 1 January 2014. The EU authorities reported some delays in disclosure, particularly during 2014 (for disclosures based on end-2013 data). In that year, some institutions disclosed their data within four months of their financial year-ends, but several others only disclosed after that date. The EBA collated most disclosures and published these on 29 September 2014, although a couple of jurisdictions were unable to contribute due to the slower adoption into national frameworks of the EU G-SIB framework. During 2015 (using end-2014 data), the timeliness of reporting and disclosure improved. Most EU institutions above the threshold published within four months of their financial year-ends. The EBA collated and published data on all EU institutions within the scope of the EBA Guidelines on 28 July 2015. The EU G-SIB framework is fully phased in from 1 January 2016 and reporting by institutions is within the required time frame.

[6] See Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – European Union*, December 2014, www.bis.org/bcbs/publ/d300.pdf.

2. D-SIB review

2.1 Context

Introduction to the Basel D-SIB framework

The Basel Committee published its D-SIB framework in 2012.[7] The D-SIB framework comprises a set of principles on the assessment methodology and the higher loss absorbency requirement for D-SIBs. These principles allow appropriate national discretion to accommodate structural characteristics of domestic financial systems, including the possibility for countries to go beyond the minimum D-SIB framework. The Committee considers that it would be appropriate for banks identified as D-SIBs by their national authorities to be required by those authorities to comply with the principles from January 2016 (in line with the phase-in arrangements for the G-SIB framework).

Status of EU implementation

The EU equivalent of a D-SIB in the Basel framework is an "other systemically important institution" (O-SII). The O-SII framework was implemented by Article 131 (1) of the CRD, which was issued in June 2013 and took effect from 1 January 2016. The CRD has been supplemented by EBA Guidelines, EBA/GL/2014/10, issued in December 2014 and applicable from 1 January 2015. The status of the CRD and the EBA Guidelines are discussed in Section 1.1.

Each of the 28 EU Member States are asked to run an O-SII identification exercise on an annual basis. As of 1 April 2016, the EBA had received compliance notifications from the competent authorities of 25 of 28 EU Member States, including the nine Basel Committee member jurisdictions.

Significance of D-SIBs

There are currently 70 designated O-SIIs in the nine EU Member States whose supervisors are members of the Basel Committee. These are show in Table 3. An O-SII can be a bank or an investment firm.

[7] See Basel Committee on Banking Supervision, *A framework for dealing with domestic systemically important banks*, October 2012, www.bis.org/publ/bcbs233.pdf.

Designated O-SIIs

By jurisdiction, as of 1 April 2016 — Table 3

Country	Designated O-SIIs	
Belgium	ABE	Bank of New York Mellon
	Argenta	Euroclear Bank
	Belfius	KBC
	BNPP Fortis	ING
France	BNP Paribas	GCM
	Groupe BPCE	LBP
	Groupe Crédit Agricole	Société Générale
Germany	Bayerische Landesbank (Bayern LB)	Landesbank Berlin Holding (LBB)
	Commerzbank	Landesbank Hessen-Thüringen (Helaba)
	Deka Bank	Landwirtschaftliche Rentenbank
	Deutsche Bank	Norddeutsche Landesbank Girozentrale (NordLB)
	DZ Bank	NRW Bank
	HSH Nordbank	UniCredit
	ING-Diba	Volkswagen Financial Services (VW FS)
	Landesbank Baden-Württemburg (LBBW)	WGZ Bank
Luxembourg	Banque et Caisse d'Epargne de l'Etat Luxembourg	CACEIS Bank Luxembourg
	Banque Internationale à Luxembourg	Deutsche Bank Luxembourg
	BGL BNP Paribas SA	Société Générale Bank & Trust
Netherlands	ABN AMRO	Rabobank
	BNG Bank	SNS Bank
	ING Bank	
Italy	Intesa Sanpaolo	UniCredit
	Monte dei Paschi di Siena	
Spain	Bankia	Popular
	BBVA	Sabadell
	Caixabank	Santander
Sweden	Nordea	Svenska Handelsbanken
	Skandinaviska Enskilda Banken	Swedbank
UK	Barclays Plc	Merrill Lynch International
	Citigroup Global Markets Limited	Morgan Stanley International Limited
	Credit Suisse International	Nationwide Building Society
	Credit Suisse Investments (UK)	Nomura Europe Holdings Plc
	Goldman Sachs Group UK Limited	Royal Bank of Scotland Group Plc
	HSBC Holdings Plc	Santander UK Plc
	JPMorgan Capital Holdings Limited	Standard Chartered Plc
	Lloyds Banking Group Plc	UBS Limited

Banks that are also G-SIBs subject to consolidated supervision in the designated jurisdiction are shaded.

Sources: Bank of England; Bank of Italy; Netherlands Bank; Bank of Spain; EBA; ESRB; Finansinspektionen.

2.2 Scope and methodology of the review

The review of the D-SIB framework was done in parallel with the G-SIB assessment, but was not performed on a graded basis. Instead, the Assessment Team collected information on the implementation of D-SIB frameworks in the EU (as well as China, Japan, Switzerland and the US) and developed a qualitative narrative. This approach is consistent with the Basel Committee's objectives: valuable information is collected on implementation, while respecting the high-level, principles-based nature of the D-SIB framework.

The RCAP Assessment Team considered all binding documents that effectively implement the Basel D-SIB framework in the EU as of 1 April 2016 (the cut-off date for the assessment and review). These documents were compared to the Basel Committee's D-SIB principles.[8] The Assessment Team confined its review to EU documents when considering the implementation of the D-SIB framework in the EU. The EU framework applies in 28 EU Member States, nine of which are members of the Basel Committee: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the UK.[9]

Differences between the principles and the EU framework were considered and discussed with the EBA and some national supervisory authorities. The Assessment Team did not assess the materiality of these differences.

As for the G-SIB assessment, the D-SIB review did not evaluate the adequacy of capital or resilience of the banking system in the EU or of the EU D-SIBs or the supervisory effectiveness of the European regulatory authorities.

2.3 Results of the review

Assessment methodology

The CRD requires the EBA to produce and publish a methodology for competent authorities to identify O-SIIs. O-SIIs are identified at the domestic level, thus capturing all systemically important institutions in the EU. Banks in the Single Supervisory Mechanism area (ie those for which the ECB is also a competent authority) are identified as O-SIIs by the national authority, in consultation with the ECB.

The CRD and the EBA Guidelines require that O-SIIs be assessed on their importance to the EU-wide economy or to that of the relevant Member State. However, the (mandatory) scoring methodology outlined in the EBA Guidelines scales each individual indicator by the sum of those values for all institutions in each Member State, effectively using the domestic economy as the point of reference. At the same time, a regional perspective is incorporated in the numerator of the scoring methodology, as the "importance" criteria is computed, inter alia, on the basis of deposits from and loans to counterparties within the EU.

The CRD sets the unit of analysis for an O-SII on a consolidated or sub-consolidated or individual basis, as applicable. Similarly, the EBA Guidelines require national authorities to calculate bank scores at the highest level of consolidation within its jurisdiction. This captures each jurisdiction's role as both home authority, ie at the globally consolidated level, and as host authority, ie consolidated to include any downstream subsidiaries whether or not these entities are domiciled in the jurisdiction. In addition, the EBA Guidelines require authorities to include values for foreign branches, regardless of the parent institution's domicile. Branches may be excluded or included by means of aggregation, taking into account data quality or availability issues. Some entities may be excluded from the scope of consideration (eg investment firms, small institutions) based on criteria outlined in the Guidelines.

[8] See Basel Committee on Banking Supervision, *A framework for dealing with domestic systemically important banks*, October 2012, www.bis.org/publ/bcbs233.htm.

[9] The EU O-SII framework also applies in Iceland, Liechtenstein and Norway, as members of the European Economic Area.

The CRD identifies four criteria against which O-SIIs must be assessed: (i) size; (ii) importance, including substitutability / financial system infrastructure; (iii) complexity / cross-border activity; and (iv) interconnectedness. The EBA Guidelines further require that domestic authorities compute scores based on all four criteria. While the CRD prevails as the legal requirement, a country using any data other than the four indicators prescribed by the EBA Guidelines would need to declare non-compliance with the EBA Guidelines.

The scoring process has two steps.

1. O-SII identification is based on 10 indicators aggregated in four categories and weighted as described in Table 4. These are similar, but not identical, to those used in the Basel G-SIB assessment methodology.[10]
2. Relevant authorities calculate the score by:
   a. dividing the indicator value of each relevant entity by the aggregate amount of the respective indicator values summed across all institutions in the Member State (the "denominators");
   b. multiplying the resulting percentages by 10,000 to express the indicator scores in terms of basis points;
   c. calculating the category score for each relevant entity by taking a simple average of the indicator scores in that category; and
   d. calculating the overall score for each relevant entity by taking a simple average of its four category scores.

The weighting of indicators in the EU's O-SII assessment methodology — Table 4

Category	Weighting	Individual indicator
Size	25%	Total assets
Importance (including substitutability/financial system infrastructure)	8.33%	Value of domestic payment transactions
	8.33%	Private sector deposits from depositors in the EU
	8.33%	Private sector loans to recipients in the EU
Complexity / cross-border activity	8.33%	Value of over-the-counter derivatives (notional)
	8.33%	Cross-jurisdictional claims
	8.33%	Cross-jurisdictional liabilities
Interconnectedness	8.33%	Intra-financial system liabilities
	8.33%	Intra-financial system assets
	8.33%	Debt securities outstanding

[10] Details on the indicators may be found in Table 2 of Annex 1 of the EBA Guidelines. As an example of the differences, the importance category contains a payments indicator but not the other two indicators in the Basel G-SIB substitutability / financial system infrastructure category; instead, the EBA Guidelines include indicators on both assets and liabilities within the broader EU. In addition, while the Basel D-SIB framework does not consider cross-jurisdictional activity to be as relevant for D-SIBs as for G-SIBs, the EBA Guidelines include two indicators on cross-jurisdictional activity as mandatory for O-SII identification. These are combined with one indicator that measures an O-SII's complexity. Thus, the EU O-SII assessment methodology effectively covers all five categories in the Basel G-SIB assessment methodology.

In the first step, institutions with a score equal to or higher than 350 basis points should be automatically designated as O-SIIs. Relevant authorities may raise this threshold to 425 basis points or decrease it to 275 basis points to take into account the specificities of the Member State's banking sector and the resulting statistical distribution of the scores, thereby ensuring the homogeneity of the group of O-SIIs designated in this way based on the O-SIIs' systemic importance.

In the second step, authorities should assess whether further institutions are so systemically relevant that they should be designated as O-SIIs. When applying this supervisory judgment, authorities should select the indicators among the ones mentioned above or in a list of optional indicators[11] that they consider to adequately capture systemic risk in their domestic sector or the economy of the Union. No weightings are prescribed for these optional indicators. As these are used to inform supervisory judgment, there is no mandatory consistency in application. However, institutions with a score that does not exceed 4.5 basis points should not be designated as O-SIIs.

Both the CRD and the EBA Guidelines require the assessment process and buffer decision to be conducted annually, which the EU authorities consider an appropriate frequency to capture all important structural changes.

Domestic authorities must publish an outline of their methodology for the supervisory assessments, including optional indicators and any other use of optionality in the EBA Guidelines, eg to raise or lower thresholds for designation. Authorities must also publish annually the score of designated O-SIIs and the related higher loss absorbency requirement. Where supervisory judgment is used to designate an entity as an O-SII, authorities must publish a statement explaining this for each relevant bank.

Higher loss absorbency

The CRD permits an O-SII capital buffer between 0 and 2% of risk exposures. The competent authority or designated authority may require each O-SII, on a consolidated or sub-consolidated or individual basis, to maintain an O-SII buffer of up to 2% of the total risk exposure. Any determination of the O-SII buffer must consider the impact on the EU internal market. No documentation or further guidance on the calibration of the 2% cap on the higher loss absorbency requirement has been provided. The EBA Guidelines require that authorities to disclose information used to make the policy decision behind the supervisory judgment and setting of the higher capital requirement (see above).

The EU framework does not prescribe the links between a bank's O-SII score and the corresponding higher loss absorbency requirement. As the EBA Guidelines detail a relative scoring methodology, this implies that the results will show differing degrees of systemic importance. However, the competent authority or designated authority may develop a different methodology for setting higher loss absorbency requirements for O-SIIs. Such a methodology would not have to be approved by the EBA, but is subject to notification requirements.[12]

Both the CRD and the EBA Guidelines allow authorities to assess institutions at the appropriate level of consolidation. Where an O-SII is a subsidiary of either a G-SII (G-SIB) or an O-SII which is an EU parent institution and subject to an O-SII buffer on a consolidated basis, the CRD limits the O-SII buffers at the sub-consolidated level to be the higher of: (i) 1% of total risk exposures; and (ii) the G-SII (G-SIB) or O-SII buffer rate at the consolidated level. The CRD further notes that, if a systemic risk buffer is in force,

[11] See Annex 2 of the EBA Guidelines.

[12] Before setting or re-setting an O-SII buffer, the competent authority or the designated authority must notify the Commission, the ESRB, the EBA and the competent and designated authorities of the Member States concerned one month before the publication of the decision on the O-SII buffer. The notification must describe: (i) the justification for why the O-SII buffer is considered likely to be effective and proportionate to mitigate the risk; (ii) an assessment of the likely positive or negative impact of the O-SII buffer on the internal market, based on information available to the Member State; and (iii) the O-SII buffer rate that the Member State wishes to set.

then the higher of the total set of buffers would apply, at both consolidated and sub-consolidated levels. Relationships with third countries are addressed via the CRD. Coordination and cooperation is also conducted via supervisory colleges.

The CRD requires that the O-SII buffer be met with CET1, and, further, that these funds cannot be used to meet other regulatory requirements simultaneously. The O-SII buffer is part of a combined buffer requirement. Therefore, where an institution fails to meet fully the requirement, it is subject to the restrictions on distributions as described in paragraph 147 of the Basel III standards.

In addition, the EBA Guidelines on the Supervisory Review and Evaluation Process (SREP) automatically categorise systemically important institutions as "Category 1" institutions. This is the highest level and means that SIBs are subject to intensified supervision. It includes an annual assessment of all SREP elements, compared to once every two to three years for other institutions. This status is reviewed every year.

Since 1 January 2014, the EU framework has also provided a systemic risk buffer (SRB) which may be introduced by Member States, inter alia for a subset of institutions with a view to preventing and mitigating systemic risks not covered by the CRR. The SRB has to be met with CET1. The CRD does not provide a methodology for the identification of banks and for determining the applicable SRB rate. However, the application of the SRB is subject to other modalities, eg it must not entail disproportionate adverse effects on the whole or parts of the financial system of other Member States or of the EU as a whole and it has to be reviewed at least every second year. The level of the SRB is not capped but is subject to differing procedural requirements, depending on the level of the buffer rate and the impact on other Member States.

Annexes

Annex 1: RCAP Assessment Team, Review Team and Peer Review Board

Assessment Team Leader

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Assessment Team Members

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Review Team

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Mr Brad Shinn	Office of the Superintendent of Financial Institutions, Canada
Mr Rob Urry	South Africa Reserve Bank
Mr Sunny Yung	Hong Kong Monetary Authority

Peer Review Board

Mr Pascual O'Dogherty	Bank of Mexico
Mr Arthur Yuen	Hong Kong Monetary Authority
Mr Aditya Narain	International Monetary Fund

Annex 2: Local regulations issued by the EU to implement the Basel G-SIB framework

Overview of G-SIB rules and issuance dates

Table A.1

Domestic regulations	Version and date
Directive 2013/36/EU of the EP and Council (CRD)	Issued on 26 June 2013
Regulation (EU) 575/2913 of the EP and Council (CRR)	Issued on 26 June 2013
Commission Delegated Regulation EU No 1222/2014 (Regulatory Technical Standards)	Issued on 8 October 2014
Commission Implementing Regulation EU No 1020/2014 (Implementing Technical Standards)	Issued on 29 September 2014
EBA/GL/2014/02 (Guidelines)	Issued on 5 June 2014

Source: EBA.

Hierarchy of EU laws and regulatory instruments

Table A.2

Level of rules (in legal terms)	Type
Laws	Enacted by the EP and the Council
Regulations	Regulatory technical standards and implementing technical standards (often collectively referred to as "binding technical standards", or BTS) are legal acts drafted by the EBA and adopted by the European Commission by means of Regulations or Decisions.
Other regulatory documents	Issued by the EBA

Source: Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – European Union*, December 2014, www.bis.org/bcbs/publ/d300.pdf.

The RCAP assessment of the EU's implementation of the Basel capital standards considered the binding nature of regulatory documents in the EU. The findings of that assessment are given in Annex 7 of the previous RCAP assessment report.[13] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous RCAP findings.

[13] See Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – European Union*, December 2014, www.bis.org/bcbs/publ/d300.pdf.

Annex 3: Financial indicators of the EU banking system and G-SIBs

Overview of the banking system in the seven EU Member States that are home to G-SIBs

As of 31 December 2015 | Table A.3

Size of banking system (at consolidated level, EUR billions)	
Total assets of all banks operating in the jurisdiction (including off-balance sheet exposures)	33,263
Total assets of all G-SIBs	16,965
Number of banks	
Number of banks operating in the EU	4,484
Number of G-SIBs	13
Number of designated D-SIBs	70
Capital adequacy of G-SIBs (EUR billions, per cent)	
Total regulatory capital	914
Total CET1 capital	683
Total RWA	5,952
Capital adequacy ratio (weighted average)	15.4%
CET1 ratio (weighted average)	11.5%
CET1 ratio (minimum amongst sample)	10.2%
CET1 ratio (maximum amongst sample)	15.7%

G-SIBs and D-SIBs correspond to G-SIIs and O-SIIs in the EU's terminology.

The figures for G-SIBs reported pertain to the seven EU Member States that are home to G-SIBs identified in the list published by the Financial Stability Board in November 2015: France, Germany, Italy, the Netherlands, Spain, Sweden and the UK. The number of D-SIBs includes the D-SIBs designated in those seven Member States as well as D-SIBs designated in Belgium and Luxembourg.

In November 2014, BBVA was identified as a G-SIB with a 1% higher loss absorbency requirement. BBVA was not identified as a G-SIB in November 2015 but, under the EU G-SIB framework, BBVA continues to be subject to a G-SIB surcharge until December 2016. BBVA is not counted as a G-SIB for the purpose of the figures in this table.

No data is presented on the capital adequacy of D-SIBs because the population of banks that report to the EBA does not cover all D-SIBs at the level of consolidation at which they are designated. For example, some D-SIBs are subsidiaries of larger groups who report at the consolidated level.

Indicators of systemic importance

As of 31 December 2014, in EUR billions and percentage of global totals — Table A.4

Total exposures	19,434	26.3%
Intra-financial system assets	2,407	30.6%
Intra-financial system liabilities	2,801	31.6%
Securities outstanding	3,044	24.9%
Total payments	524,820	24.6%
Assets under custody	21,333	18.4%
Underwriting activity	1,671	31.4%
Notional amount of over-the-counter derivatives	246,147	38.6%
Trading and available-for-sale securities	842	25.7%
Level 3 assets	165	25.1%
Cross-jurisdictional claims	7,838	45.5%
Cross-jurisdictional liabilities	6,857	43.7%

The indicators of systemic importance are based on the total sample used for the Basel Committee and Financial Stability Board's G-SIB identification data collection exercise in the seven EU Member States that are home to G-SIBs. This comprises all banks with a leverage ratio exposure measure exceeding EUR 200 billion or which were designated as G-SIBs in the previous year's G-SIB assessment.

Annex 4: Materiality assessment

The assessment of materiality distinguished between quantifiable and non-quantifiable gaps. The Assessment Team attempted to quantify the impact of all quantifiable gaps for each G-SIB. In total, two gaps were assessed based on information provided the EU authorities. The Assessment Team also considered the impact of the deviations on the collective G-SIB scoring mechanism.

In those cases where the computation of the impact was not straightforward, the computation erred on the conservative side. Where no data were available to quantify gaps, the Assessment Team relied on expert judgment. Following this approach, the Assessment Team determined whether gaps were likely to be "not material", "potentially material" or "material".

Number of gaps by component — Table A.5

Component	Not material	Potentially material	Material
Higher loss absorbency	1	0	0
Disclosure requirements	1	0	0

Annex 5: EBA summary of the EU Pillar 2 supervisory review process, as applied to G-SIBs and D-SIBs

EBA Guidelines on common procedures and methodologies for the Supervisory Review and Evaluation Process (SREP Guidelines)[14] set out the common framework for the SREP to be applied from 1 January 2016 on a proportionate basis to all institutions across the EU. The SREP Guidelines cover all aspects of ongoing supervision of an institution, bringing together outcomes of all activities supervisors would perform (including off- and on-site analysis) into a comprehensive supervisory view considering the overall viability of an institution given its risk profile, business model and capital and liquidity, and threats to the viability.

The common SREP framework is built around four main elements: (i) business model analysis; (ii) assessment of internal governance and institution-wide control arrangements; (iii) assessment of risks to capital and adequacy of capital to cover these risks; and (iv) assessment of risks to liquidity and adequacy of liquidity resources to cover these risks.

In order to support the assessment of these major blocks, supervisors are also expected to perform regular (quarterly) monitoring of financial and non-financial indicators. Findings from all of these assessments are summarised into the overall SREP assessment, which in its turn serves as a basis for the decision on the application of supervisory measures, including additional capital and/or liquidity requirements, and may also lead to the decision on the application of more "intrusive" early intervention measures. Should the outcomes of the assessment suggest that there is a direct threat to the viability of an institution, and it cannot meet legal requirements for its continuing authorisation, or there are objective elements to suggest that in the near future it will not meet the requirements, then the supervisor would consider whether conditions for resolution are met and resolution proceedings should be initiated.

The frequency and intensity of the assessment of SREP elements depends on the size, complexity and systemic impact of an institution, determined by a category to which it is assigned. To this end, competent authorities are required to assign all institutions under their supervision to four categories reflecting their size, structure, internal organisation and scope, and the nature and complexity of their activities, with the largest and most complex institutions assigned to Category 1 and smallest domestic non-complex institutions to Category 4. Category 1 would automatically include all institutions identified as G-SIB or D-SIBs, which would mean that these institutions should be subject to at least the following (under the minimum supervisory engagement model specified in the SREP Guidelines): (i) quarterly monitoring of financial and non-financial indicators; (ii) annual assessment of all SREP elements (business model and strategy, internal governance, risks to capital and liquidity, capital and liquidity adequacy); (iii) annual update of the overall SREP assessment and, where relevant, decisions on supervisory measures; and (iv) ongoing engagement with the institutions' management at technical and senior levels within the assessment of individual SREP elements. In addition to this minimum level of engagement, competent authorities may determine the need for additional engagement based on the outcomes of the SREP assessments.

Based on this minimum engagement model and using the methodologies and processes specified in the SREP Guidelines, competent authorities are expected to:

- assess the viability of the institution's current business model and the sustainability of its strategic plans;

[14] See EBA, *Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)*, December 2014, EBA/GL/2014/13.

- assess internal governance and institution-wide control arrangements with a view to ensuring that internal governance, including the internal audit function, and institution-wide controls are adequate for the institution’s risk profile, business model, size and complexity, and assess the degree to which the institution adheres to the requirements and standards of good internal governance and risk controls arrangements;
- assess material risks to capital (eg credit, market, operational, concentration risk) and liquidity and funding that the institution is or might be exposed to, focusing on both the assessment of the risk exposure and the quality of management and controls employed to mitigate the prudential impacts of the risks;
- determine the quantity and composition of additional own funds required to cover for risks not covered or not fully covered by Pillar 1 minimum requirements of the combined buffer requirements, and assess the institution’s ability to meet the Pillar 1 and Pillar 2 capital requirements over the economic cycle; and
- determine whether the liquidity held by the institution ensures appropriate coverage of risks to liquidity and funding. Competent authorities should determine whether the imposition of specific liquidity requirements is necessary to capture risks to liquidity and funding to which an institution is or may be exposed.

Having conducted the assessment of the above SREP elements, competent authorities should form a comprehensive, holistic view on the risk profile and viability of the institution – the overall SREP assessment – and summarise this view in the summary of the overall SREP assessment. This summary should reflect any supervisory findings made over the course of the previous 12 months and any other developments that have led the competent authority to change its view of the institution's risks and viability. The outcome of the overall SREP assessment should be the basis for taking any necessary supervisory measures, including early intervention measures, to address concerns.

It should be noted, that in case an institution is exposed to risks that are not covered or not fully covered by Pillar 1 or the combined buffer requirements, eg concentration risk or interest rate risk in the banking book, competent authorities should impose Pillar 2 capital requirements irrespective of the outcomes of the assessment of other SREP elements.