

## Annual disclosure regarding the designation of and capital surcharges on Belgian O-SIIs (1 January 2016)

The NBB has recently designated domestic systemically important banks, referred to in EU legislation as “other systemically important institutions”, or O-SIIs. The NBB has also decided upon capital surcharges to be applied to the Belgian O-SIIs. Given that systemically important banks are defined as institutions whose failure would have a significant impact on the financial system or the real economy, additional capital requirements for such institutions have two principal motivations: (1) to reduce the probability of default of the institution, given the high economic and social costs of such a default; (2) to impose surcharges on the institution that reflect the negative externalities that its failure would generate. Both the O-SII designation and the capital surcharges take effect on 1 January 2016.

### *O-SII identification*

The NBB has identified the O-SIIs in accordance with the methodology specified in the EBA guidelines on the identification of O-SIIs<sup>1</sup>. This methodology consists of two steps, the first of which involves automatic designation of O-SIIs on the basis of a calculated score and the second of which allows for discretionary designation of additional banks as O-SIIs.

In the first step of the methodology, scores must be calculated for banks using a mandatory set of indicators in the categories of size, complexity, interconnectedness and substitutability. The value of each indicator for each bank is its share of the total value for all Belgian banks. Each indicator thus represents a type of market share, and the total score for a bank is calculated as a weighted average of the individual indicator values. Any bank whose score lies above a given threshold value is automatically designated as an O-SII. The indicators and their weights in the overall score are as follows:

<b>Criterion</b>	<b>Indicators</b>	<b>Weight</b>
<b>Size</b>	Total assets	25.00%
<b>Importance (including substitutability/financial system infrastructure)</b>	Value of domestic payment transactions	8.33%
	Private sector deposits from depositors in the EU	8.33%
	Private sector loans to recipients in the US	8.33%
<b>Complexity/cross-border activity</b>	Value of OTC derivatives (notional)	8.33%
	Cross-jurisdictional liabilities	8.33%
	Cross-jurisdictional claims	8.33%
<b>Interconnectedness</b>	Intra-financial system liabilities	8.33%
	Intra-financial system assets	8.33%
	Debt securities outstanding	8.33%

<sup>1</sup> EBA 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).

In the second step of the methodology, authorities may make use of other indicators, or place different weights on the mandatory indicators, to designate additional banks as O-SIIs.

The application of this methodology has resulted in eight Belgian banks being designated as O-SIIs: BNP Paribas Fortis, KBC Group, ING Belgium, Belfius Bank, Axa Bank Europe, Euroclear, The Bank of New York Mellon, and Argenta. The first seven of these banks qualified automatically as O-SIIs according to their scores in the EBA methodology, and Argenta was designated as an O-SII in the second step, through supervisory discretion.

The scores of the eight banks that were obtained in the first step of the methodology are reported below. EBA recommends using a threshold score of 3.5% for the automatic designation of O-SIIs, although this threshold may be raised or lowered slightly with appropriate supervisory motivation.

<b>Institution</b>	<b>O-SII score</b>
BNPP Fortis	23.6%
KBC Group	21.8%
Belfius Bank	18.6%
ING Belgium	14.1%
Euroclear	6.4%
Axa Bank Europe	4.2%
The Bank of New York Mellon	3.6%
Argenta	2.7%

The additional indicators considered in the second step of the identification methodology were banks' shares of deposits in Belgium, of loans in Belgium, and of intra-financial system liabilities and assets with respect to Belgian counterparts. The rationale for considering these additional indicators is that indicators with domestic scope are considered to be more appropriate for identifying domestic systemically important institutions than are some of the indicators with European or global scope that are employed in the first step. Particular weight was placed on the indicator of Belgian deposit shares. In fact, the key explanation for Argenta's designation as O-SII is its important market share in Belgian retail deposits.

### ***O-SII buffers***

Imposing additional capital requirements on banks that are judged to be systemically important contrasts with past regulation, whereby all banks faced the same rules regarding minimum capital requirements (simply proportional to their risk-weighted assets). O-SII buffers mean that capital requirements increase more than proportionally, based on the idea that the failure of larger, more systemically important banks would give rise to greater-than-proportional social costs. As foreseen by the CRD IV and the Belgian Banking Law<sup>2</sup>, the NBB Board has decided to apply capital surcharges to each of the eight O-SIIs. Several criteria were taken into account in the O-SII buffer calibration, including the institution's systemic importance as measured by its size and O-SII score, historical losses in the Belgian banking sector, stress test results, and level playing field considerations with respect to the O-SII buffer levels and total capital requirements for O-SIIs in other EU jurisdictions.

In order to account for proportionality with respect to systemic importance, each O-SII is allocated into one of two buckets, where the first bucket is composed of banks with a lower degree of

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<sup>2</sup> Art. 131 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. Art. 14 of Annex IV to the Belgian Banking Law.

systemic importance and the second bucket contains banks with higher systemic importance. The levels of the CET1 capital surcharges will be as follows:

<b>O-SII</b>	<b>Bucket</b>	<b>O-SII buffer rate</b>
BNPP Fortis	2	1,5%
KBC Group	2	1,5%
Belfius Bank	2	1,5%
ING Belgium	2	1,5%
Euroclear	1	0.75%
Axa Bank Europe	1	0.75%
The Bank of New York Mellon	1	0.75%
Argenta	1	0.75%

These capital surcharges will be phased in over a three-year period, from 1 January 2016 to 1 January 2018.<sup>3</sup> This implies that the buffer applied in 2016 will be 0.5% for the banks in Bucket 2 and 0.25% for the banks in Bucket 1. These buffer rates for 2016 will be followed in 2017 and 2018 by yearly increments of, respectively, 0.5 percentage points and 0.25 percentage points.

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<sup>3</sup> NBB Regulation of 10 November 2015 determining the method for designating domestic systemically important institutions and for setting the level of their CET1 capital buffer.