

EBA/RTS/2020/08

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4 November 2020

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## Final Report

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Draft regulatory technical standards amending Commission Delegated Regulation (EU) No 1222/2014 on the specification of the methodology for the identification of global systemically important institutions

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# 1. Executive summary

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The EBA methodology for identifying global systemically important institutions (G-SIIs) closely follows the approach of the Basel Committee on Banking Supervision (BCBS) to identifying global systemically important banks (G-SIBs), as they are referred to in BCBS terminology. In July 2018, the BCBS published an update to its approach to identifying G-SIBs. This version replaced the July 2013 BCBS publication that had for the first time established an international framework for identifying G-SIBs.

Consequently, the regulatory technical standards (RTS) on the methodology for identifying G-SIIs have to be updated. In addition, Article 131 of Directive (EU) 2019/878 requires that the EBA design an additional identification methodology for G-SIIs based both on the existing international standards and on the cross-border activity of the group, excluding the group's activities across participating Member States as referred to in Article 4 of Regulation (EU) No 806/2014 of the European Parliament and of the Council. After considering a range of available alternatives, the EBA concluded that the recognition in full of the integration process concerning the European Banking Union and its Single Resolution Mechanism (SRM) is of key importance and should therefore be entirely translated into the computation of cross-jurisdictional activity indicators underpinning the methodology to identify G-SIIs. The list of EU G-SIBs identified by the BCBS and the G-SIIs identified by Member States' authorities have been identical since 2014 and are expected to remain so in future.

For practical reasons, data instructions on indicator values and detailed template specifications are included in the EBA guidelines. Annual updates to these instructions and specifications will be published on the EBA website, and they should be taken into account by all groups and institutions with an exposure measure exceeding EUR 200 billion, with insurance subsidiaries' activities included in the calculation.

## Next steps

The draft RTS will be submitted to the Commission for endorsement, following which they will be subject to scrutiny by the European Parliament and the Council before being published in the *Official Journal of the European Union*, if necessary.

The guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether they comply with the guidelines will be two months after the publication of the translations.

## 2. Background and rationale

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The EBA methodology for identifying G-SIIs closely follows the approach of the BCBS to identifying G-SIBs. In July 2018, the BCBS published an update to its approach to identifying G-SIBs. This version replaced the July 2013 BCBS publication that had for the first time established an international framework for identifying G-SIBs. Consequently, the RTS on the methodology for identifying G-SIIs have to be updated.

The list of EU G-SIBs identified by the BCBS and the G-SIIs identified by Member States' authorities have been identical since 2014 and are expected to remain so in future. This is in line with Article 131 of Directive (EU) 2019/878, which requires that the methodology take into account internationally agreed standards. In addition, this newly amended article requires that the EBA design an additional identification methodology for G-SIIs based both on the existing international standards and on the cross-border activities of the group, excluding the group's activities across participating Member States as referred to in Article 4 of Regulation (EU) No 806/2014 of the European Parliament and of the Council. In accordance with the G-SIB assessment methodology published by the BCBS, the cross-jurisdictional claims and liabilities of an institution are indicators of its global systemic importance and of the impact that its failure could have on the global financial system. Those indicators, which are to refer to 31 December, reflect specific concerns, for instance about the greater difficulty of coordinating the resolution of institutions with significant cross-border activities. The progress made in terms of the common approach to resolution resulting from the reinforcement of the Single Rulebook and from the establishment of the SRM has significantly increased the ability to resolve cross-border groups within the Banking Union in an orderly manner. Therefore, and without prejudice to the capacity of competent or designated authorities to exercise their supervisory judgement, an alternative score reflecting that progress should be calculated. Competent and designated authorities should consider that score when assessing the systemic importance of credit institutions, without its affecting the data supplied by EU authorities to the BCBS for the determination of international denominators. These EBA RTS deliver on that mandate by specifying the technical details of the additional identification methodology for identifying G-SIIs and assigning corresponding buffer rates, ensuring recognition of the integrated European resolution framework within the context of the SRM. This additional EU methodology may be used by supervisors in framing the discussions held at the BCBS for the purpose of defining the annual list of G-SIBs and related higher capital buffer requirements. The draft RTS will apply from the 2022 G-SII assessment exercise based on end-2021 information.

The RTS on the identification methodology for G-SIIs and the EBA guidelines will be under ongoing review, as the BCBS identification process results in regular reviews of the identification methodology.

# 3. Draft regulatory technical standards on the identification of global systemically important institutions

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**COMMISSION DELEGATED REGULATION (EU) .../..**

**of XXX**

**[...]**

**amending Delegated Regulation (EU) No 1222/2014 supplementing  
Directive 2013/36/EU of the European Parliament and of the Council with regard to  
regulatory technical standards for the specification of the methodology for the  
identification of global systemically important institutions and for the definition of  
subcategories of global systemically important institutions**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to 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, and in particular Article 131(18) thereof,

Whereas:

(1) In July 2018, the Basel Committee on Banking Supervision published a revised methodology for assessing global systemically important banks and assigning higher loss absorbency requirements, which is the first revision to the framework for global systemically important financial institutions established by the Financial Stability Board following the report *Reducing the moral hazard posed by systemically important financial institutions – FSB Recommendations and Time Lines*. It is of the utmost importance that the identification methodology specified by Delegated

Regulation (EU) No 1222/2014<sup>1</sup> be kept up to date, to reflect current developments in the global banking system and to take into account updated international standards.

(2) The updated international standards, as published by the Basel Committee on Banking Supervision in July 2018, introduce one new indicator to measure systemic importance. This new indicator relates to trading volume and is included in the category measuring the substitutability of services or of the financial infrastructure provided by a banking group. Despite the introduction of a new indicator, this category retains its previous relative weight of 20% in the overall score for each entity. The relative weight assigned to the new trading volume indicator is 3.33%, which is offset by a reduction in the relative weight of underwritten transactions in the debt and equity markets indicator, from 6.67% to 3.33%. The updated international standards also included insurance activities in the indicators-based measurement approach used to assess the systemic importance of banking groups.

(3) Directive (EU) 2019/878 of the European Parliament and of the Council<sup>2</sup> introduced an additional overall score for each entity with cross-border activities within the Member States participating in the Single Resolution Mechanism to reflect the ability to resolve cross-border groups within the Banking Union in an orderly manner. It is therefore appropriate to amend the definition of the cross-border activity indicators to reflect this change.

(4) Directive (EU) 2019/878 of the European Parliament and of the Council further enabled relevant authorities to use sound supervisory judgement to reallocate a global systemically important institution (G-SII) from a higher subcategory to a lower subcategory on the basis of the additional overall score that accounts for the specificities of the European Banking Union and the Single Resolution Mechanism within cross-border activity indicators. The possibility of reallocating a G-SII with cross-border activities within the Member States participating in the Single Resolution Mechanism from a higher subcategory to a lower subcategory should, however, be limited to a maximum decrease of one subcategory from the original subcategory allocation resulting from the initial G-SII overall score, to mitigate the potential adverse effects of a sharp reduction in a G-SII's allocated systemic importance, in line with the international standards. Moreover, in order to ensure consistency with the views of the Basel Committee on Banking Supervision, any supervisory judgement leading to a reallocation of a G-SII to a lower subcategory should adequately take into account its views.

(5) The data collection in accordance with the revised international standards, which include the newly added trading volume indicator, will start in the first quarter of 2022. G-SIIs will therefore be identified on the basis of the revised framework for the first time in the last quarter of 2022. In order to align the application of the provisions of the revised identification methodology set out in this Regulation with the relevant dates of application of the revised international standards, the provisions of this Regulation that reflect the changes in those international standards will apply from 1 December 2021.

(6) Delegated Regulation No 1224/2014 should therefore be amended accordingly.

(7) The EBA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits, and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

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<sup>1</sup> Commission Delegated Regulation (EU) No 1222/2014 of 8 October 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards for the specification of the methodology for the identification of global systemically important institutions and for the definition of subcategories of global systemically important institutions (OJ L 330, 15.11.2014, p. 27).

<sup>2</sup> Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (OJ L 150, 7.6.2019, p. 253).

HAS ADOPTED THIS REGULATION:

*Article 1*

*Amendments to Delegated Regulation (EU) No 1222/2014*

Delegated Regulation (EU) No 1222/2014 is amended as follows:

(1) In Article 2, point (1) is replaced by the following:

‘(1) ‘Relevant entity’ means a group headed by an EU parent institution, an EU parent financial holding company or an EU parent mixed financial holding company, or an institution that is not a subsidiary of an EU parent institution, an EU parent financial holding company or an EU parent mixed financial holding company;’

(2) Article 3, paragraph 2 is replaced by the following:

‘2. The relevant authority shall report the indicator values of each relevant entity with a total exposure measure, calculated in accordance with Article 429(4) of Regulation (EU) No 575/2013, above EUR 200 billion that is authorised within its jurisdiction to the EBA not later than 31 July of each year. The indicator values shall be collected by the relevant authority taking into account the further specifications of the underlying data as set out in any guidelines developed by the EBA pursuant to Article 16 of Regulation (EU) No 1093/2010. The relevant authority shall ensure that the indicator values are identical to those submitted to the Basel Committee on Banking Supervision.’

(3) Article 4 is replaced by the following:

**‘Article 4**

**Identification procedure**

1. The relevant authority shall calculate the scores of the relevant entities that are included in the sample notified by the EBA and which are authorised in its jurisdiction not later than 1 September of each year.

2. Where the relevant authority, in the exercise of sound supervisory judgement, reallocates a G-SII from a lower subcategory to a higher subcategory or designates a relevant entity as a G-SII in accordance with points (a) or (b) of Article 131(10) of Directive 2013/36/EU, respectively, the relevant authority shall communicate a detailed statement in written form on the reasons for its assessment to the EBA not later than 1 November of each year.

3. Where the relevant authority, in the exercise of sound supervisory judgement, reallocates a G-SII from a higher subcategory to a lower subcategory in accordance with point (c) of Article 131(10) of Directive 2013/36/EU, the relevant authority shall communicate a detailed statement in written form on the reasons for its assessment to the EBA not later than 30 September of each year.

4. The identification of a relevant entity as a G-SII and the allocation to a higher subcategory shall take effect as of 1 January of the second year following the calendar year

when the denominators have been notified to the relevant authorities in accordance with Article 3. When a G-SII is allocated to a lower subcategory than in the previous year's identification process, the lower G-SII buffer requirement shall take effect from 1 January of the first following year, unless the relevant authority exerts its supervisory judgement to delay the application of the requirement to the date referred to in the first sentence of this paragraph.

5. The identification of a relevant entity as a G-SII by the relevant authority shall include the Legal Entity Identifiers (LEIs) of all legal entities included in the prudential scope of consolidation of the G-SII. The relevant entity identified by the relevant authority shall disclose by 1 March of the first following year its group structure by providing the LEIs, where available, of all consolidated entities in the group. The relevant entity shall ensure that its group structure as disclosed through the LEIs is permanently updated.'

(4) Article 5 is amended as follows:

(a) The following paragraph 1a is inserted:

'1a. By way of derogation from paragraph 1, the values of the indicators referred to in paragraph 1, points (a) and (b) of paragraph 2, and points (a) and (b) of paragraph 4 of Article 6 shall also include insurance subsidiaries.'

(b) Paragraph 2 is replaced by the following:

'2. The relevant authority shall determine the score of each relevant entity in the sample as the simple average of the category scores subject to a maximum category score of 500 basis points for the category measuring substitutability.

Each category score, except for the category measuring the substitutability of the services and of the financial infrastructure provided by the group, shall be calculated as the simple average of the values resulting from dividing each of the indicator values of that category by the denominator of the indicator notified by the EBA.

The score for the category measuring the substitutability of the services and of the financial infrastructure provided by the group shall be calculated as the weighted average of the indicator values of that category. For this purpose, the full indicator values for assets under custody and for payments activity referred to in points (a) and (b), respectively, of Article 6(3) and half of the indicator values for underwritten transactions in debt and equity markets and for trading volume referred to in points (c) and (d), respectively, of Article 6(3) shall be computed.

The scores shall be expressed in basis points and shall be rounded to the nearest whole basis point.'

(b) The following paragraph 5a is inserted:

'5a. The relevant authority shall determine an additional overall score for each relevant entity with cross-border activities across participating Member States as referred to in Article 4 of Regulation (EU) No 806/2014 of the European Parliament and of the Council as follows:

(a) The relevant authority shall follow the process set out in paragraph 2 of this Article, replacing the relevant entity's indicator values referred to in points (a) and (b) of Article 6(5) measuring the cross-border activity of the group with those calculated in accordance with



point (b) of this paragraph and the corresponding denominators with the revised denominators provided by the EBA;

(b) For the purposes of point (a), the relevant authority shall consider as domestic all claims and liabilities vis-à-vis counterparties domiciled in participating Member States as referred to in Article 4 of Regulation (EU) No 806/2014 of the European Parliament and of the Council;

(c) For all other categories, the relevant authority shall consider the same unchanged indicator values reported by the relevant entity and denominators notified by the EBA;

(d) The following paragraph 5b is inserted:

‘5b. On the basis of the additional overall score referred to in paragraph 5a, a decision to reallocate a G-SII from a higher subcategory to a lower subcategory, in the exercise of sound supervisory judgement in accordance with point (c) of Article 131(10) of Directive 2013/36/EU, shall be based on an assessment of whether its failure would have a lower negative impact on the global financial market and the global economy including, where appropriate, consideration of any views or reservations adopted by the Basel Committee on Banking Supervision in accordance with its publicly available methodology for assessing the systemic importance of global systemically important banks.

The additional overall score may determine the allocation of the G-SII to a lower subcategory in accordance with paragraph 3 of this Article. The reallocation of the G-SII to a lower subcategory shall be limited to a maximum of one subcategory level.’

(d) Paragraph 6 is replaced by the following:

‘6. The decisions referred to in paragraphs 4, 5 and 5b shall be supported by ancillary indicators, which shall not be indicators of the probability that the relevant entity will fail. Such decisions shall be based on well-documented and verifiable quantitative and qualitative information.’

(5) In Article 6(3), a new point (d) is inserted:

‘(d) Trading volume.’

(6) Article 7 is deleted.

## *Article 2*

### *Entry into force and application*

1. This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.
2. This Regulation shall apply from [insert: date of entry into force as per paragraph 1] with the exceptions listed in paragraph 3.
3. The following points shall apply from 1 December 2021:

(a) Points (4)(a) and (b), as regards the inclusion of insurance subsidiaries' activity in the indicator value and score calculations;

(b) Point (5), as regards the inclusion of the trading volume indicator;

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission  
The President*

*[For the Commission  
On behalf of the President*

*[Position]*

## 4. Accompanying documents

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### 4.1 Cost–benefit analysis/impact assessment

This analysis provides the reader with an overview as regards problem identification, possible options to address the problem and their potential impacts. The quantitative analysis relies on information collected by the EBA for the identification and classification of G-SIIs. This makes it possible to evaluate the impact in terms of the score computed at bank level under the new methodology.

#### A. Problem identification

The current methodology for the identification of G-SIIs relies on the evaluation of five broad aspects of the banks: size, interconnectedness, substitutability, cross-jurisdictional activity and complexity.

The cross-jurisdictional indicator aims to cover the additional burden in the event of a bank's distress or failure arising from coordination difficulties between different countries, potentially with different legislative frameworks. The rationale is that the international impact of a bank's failure would be higher the greater the bank's global reach is, given the difficulties involved in coordinating its resolution.

Currently, all cross-border activities carried out by European banks in Member States of the EU or in the European Banking Union (EBU) – the latter being constituted by the Member States that have joined the SRM – contribute to the cross-jurisdictional indicator, as prescribed by the internationally agreed methodology for identifying G-SIBs. By comparison, activities that US banks carry out in states other than the home state are not included in the indicator.

The BCBS was asked to analyse the possibility of considering the EBU as a single jurisdiction in the G-SIB methodology. This could have been justified by the fact that the EBU benefits from a single regulatory framework in terms of capital requirements and banking resolution. This uniform regulation is established by a single supervisor and a single resolution authority. In its July 2018 revision, the BCBS decided, however, not to modify the G-SIB methodology in this regard.

During the three-year review period of the G-SIB framework, the BCBS verified that treating the EBU as a single jurisdiction would reduce cross-jurisdictional claims and liabilities for EBU banks. Consequently, the cross-jurisdictional activity indicator would most likely be lower for EBU banks and, as a result of the impact on denominators, higher for non-EBU banks.

## B. Policy objectives

Article 131 of Directive (EU) 2019/878 requires that the EBA develop an additional methodology for the identification of G-SIIs that excludes the cross-border activities of European banks in EBU Member States. The rationale behind this request is to recognise the efforts made in recent years to create harmonised European banking regulation and a common approach to resolution. This initiative was also intended to contribute to ensuring a level playing field with banks in other jurisdictions where different states are not considered different jurisdictions. It would also remove possible barriers to the expansion of cross-border banking activities among EBU countries.

The introduction of an additional methodology has some advantages, although it also brings the disadvantage of representing a potential deviation from the BCBS standard.

## C. Baseline scenario

The analysis is incremental: the assessments are formulated in differential terms with respect to a baseline scenario, namely maintaining the status quo. The costs and benefits are therefore strictly connected to the changes that the regulatory option entails.

Although the ‘no policy change’ scenario is not feasible given the clear mandate in the regulation, it is the natural basis for comparison of the impacts of the policy options.

## D. Options considered

Three options were considered, although the no-change option is not available in practice due to the legislator’s explicit mandate:

0. no change;
1. adopt the proposed methodology, either with a cap that could be formulated in absolute or relative terms or without a cap;
2. adopt the proposed methodology taking into account the impact of different foreign exchange (FX) conversion methods.

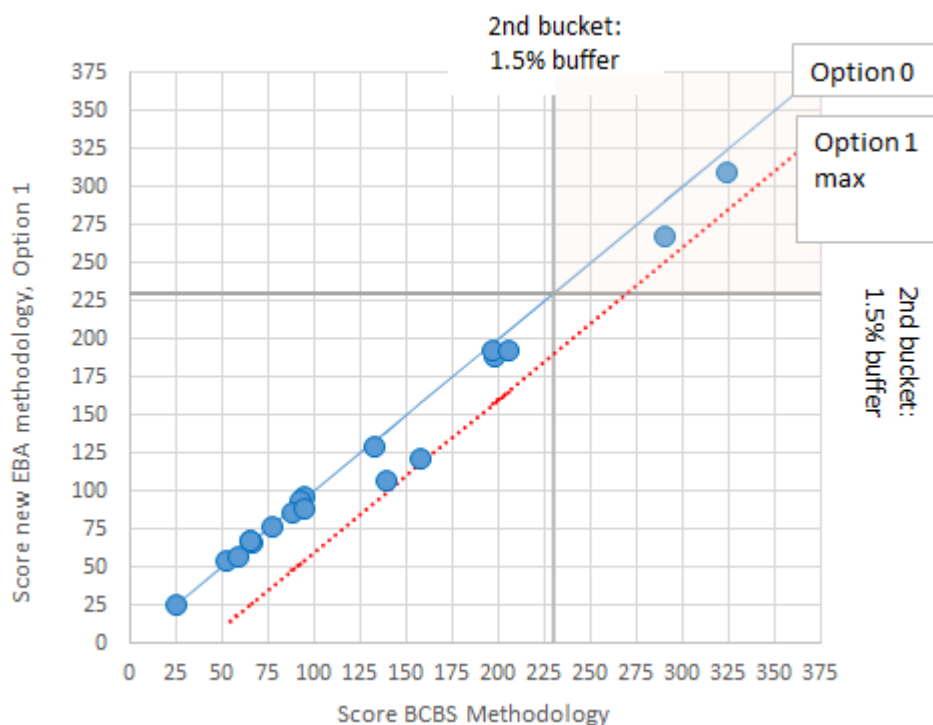
## E. Cost–benefit analysis

The proposed methodology and the possible correction for the impact of FX conversion do not involve additional data collection, so no additional material/administrative costs for banks are expected and neither of the two options would result in making reporting more complicated.

The figure below compares the scores computed for the European banks following the basic BCBS methodology and the proposed methodology. The data refers to end-2018. As expected, in terms

of the computation of the G-SII score, the result is a reduction on the G-SIB score under the BCBS framework. For the 12 European banks identified as G-SIIs, the average variation in the score is about –8 basis points. For half of the banks contributing to the G-SII annual identification exercise, the score variation is practically nil, while the highest variation reduction is close to –40 basis points. The evidence therefore suggests that, notwithstanding any future mergers or acquisitions, no EBU G-SII is currently in a condition to benefit from the additional EU methodology for assigning G-SII buffer rates.

Since the new methodology envisages sterilising any variation in the score that would induce the buffer to fall below 1%, it makes sense to focus only on banks associated with a buffer higher than 1%. It is possible to see that only two banks are classified in this bucket and that the new methodology would not alter their classification. Even applying to these banks the highest variation observed, their classification would still not change based on the latest available exercise.



Sources: EBA (bank-specific information) and Bank for International Settlements (global denominators)

The impacts of the proposed methodology are mitigated by setting a maximum admissible variation in the score (a cap). Thus, only banks with a score already close to a bucket threshold would be affected.

The table below shows some theoretical examples of how the proposed methodology could impact the final allocation of identified G-SIIs, considering a cap of 10 basis points (bps).

Pure G-SIB score	Bucket allocation (Basel text)	Impact of EBU cross-border exposures	Maximum score reduction of 10 bps	Revised G-SIB score according to additional EU methodology	Potential bucket allocation (after EU methodology)
245 bps	2nd bucket: 1.5% CET1 G-SIB buffer	-17 bps	-10 bps	235 bps	2nd bucket: 1.5% CET1 G-SIB buffer
261 bps	2nd bucket: 1.5% CET1 G-SIB buffer	-36 bps	-10 bps	251 bps	2nd bucket: 1.5% CET1 G-SIB buffer
242 bps	2nd bucket: 1.5% CET1 G-SIB buffer	-31 bps	-10 bps	232 bps	2nd bucket: 1.5% CET1 G-SIB buffer
235 bps	2nd bucket: 1.5% CET1 G-SIB buffer	-4 bps	-4 bps	231 bps	2nd bucket: 1.5% CET1 G-SIB buffer
233 bps	2nd bucket: 1.5% CET1 G-SIB buffer	-6 bps	-6 bps	227 bps	1st bucket: 1% CET1 G-SIB buffer

An additional correction to the proposed methodology could take into consideration different exchange rate conversion methodologies. On the grounds of the data used for the identification and classification of G-SIBs used by the BCBS for the past three years (2016, 2017 and 2018), it can be observed that the average variation in the score arising this correction would be nil. The highest impact on the score observed during the three years is a reduction of 11 points. Focusing on EBU banks only, the average variation in the score would still be zero, but with lower dispersion; in practice, the impacts are contained between 0 and 3 points.

Shifts in bucket allocation, and thus in lower buffer requirements, would be possible to observe only for banks with a score already close to a bucket threshold.

Revised G-SIB score according to additional EU methodology	Potential bucket allocation after EU methodology	FX conversion methods impact (average change compared with baseline)	Revised G-SIB score according to additional EU methodology (with FX impact factor)	Potential bucket allocation after EU methodology (with FX impact factor)
235 bps	2nd bucket: 1.5% CET1 G-SIB buffer	+3 bps	238 bps	2nd bucket: 1.5% CET1 G-SIB buffer
251 bps	2nd bucket: 1.5% CET1 G-SIB buffer	+2 bps	253 bps	2nd bucket: 1.5% CET1 G-SIB buffer
232 bps	2nd bucket: 1.5% CET1 G-SIB buffer	+2 bps	234 bps	2nd bucket: 1.5% CET1 G-SIB buffer
231 bps	2nd bucket: 1.5% CET1 G-SIB buffer	-3 bps	228 bps	1st bucket: 1% CET1 G-SIB buffer
227 bps	1st bucket: 1% CET1 G-SIB buffer	-2 bps	225 bps	1st bucket: 1% CET1 G-SIB buffer

## F. Preferred option

Option 1 envisages a mechanism aimed at limiting the deviation from the baseline methodology; however, banks receiving a buffer equal to 1% would not benefit from any effect due to the proposed methodology, itself emerging from the co-legislators' mandate given to EBA. Introducing a cap to the score variation seems to meet the need to balance the desire to recognise the EBU as a homogeneous jurisdiction and the need to not introduce excessive differences from the BCBS approach.

Based on the evidence gathered in recent years, modifying the methodology to take into consideration different exchange rate conversion methodologies could have a limited impact, such that the increase in complexity might not be justified.

In conclusion, option 1 appears to be the most suitable solution to address the problem of finding a compromise between recognising an advantage that European banks have as a result of the Banking Union and avoiding diverging significantly from the BCBS methodology. In order to better reflect the progress made in establishing the EBU and expected developments in the near future, the calibration of the cap could ultimately be set at the bucket level, thus avoiding problems arising from too rigid a calibration of the buffer rate. This calibration approach means that any decision on the basis of sound supervisory judgement will allow supervisors to allocate to the immediately lower subcategory any identified G-SII that has been automatically allocated to a subcategory higher than the first. For example, if a G-SII is automatically allocated to bucket 3, its supervisor could consider allocating it to bucket 2, on the basis of sound supervisory judgement and in the light of an additional EU score suggesting that allocation.

## 4.2 Feedback on the public consultation and the opinion of the Banking Stakeholder Group

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for five months and ended on 5 August 2020. Five responses were received, all of which were published on the EBA website.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments, and the actions taken to address them if deemed necessary.

In many cases, several industry bodies made similar comments or the same body repeated its comments in response to different questions. In such cases, the comments and the EBA's analysis are included in the section of this paper where the EBA considers them most appropriate.

Changes to the draft RTS and final guidelines have been incorporated as a result of the responses received during the public consultation.

The EBA's Banking Stakeholder Group was consulted and did not put forward any objections to the proposed draft RTS and EBA guidelines.

### Summary of key issues and the EBA's response

Respondents replying to this consultation commented on three general points in addition to the questions included in the Consultation Paper. These points concern (i) the implementation date of the revised methodology (including both the BCBS-driven changes and the additional EU methodology); (ii) the potential need for a decision taken at EU or Member State level to be subject to discussion or approval by the BCBS; and (iii) the requirement for identified G-SIIs to disclose their entire group structure by providing the LEIs of all consolidated entities in the group.

Question 1 raised in the consultation sought opinions on how an additional EU score taking into account cross-border activities within the Banking Union should function. Options 1 and 2 provided as part of this question proposed an absolute and a relative cap to be applied to the additional EU score. A third option proposed a subcategory level cap, which would allow national authorities greater flexibility to use the additional EU score when exercising sound supervisory judgement. In question 2, the consultation sought comments on whether the different foreign exchange conversion methods that have an impact on G-SII scores should be mitigated or not, for the purposes of computing the additional EU score. In question 3, the EBA requested respondents' views on whether the proposed implementation of disclosure requirements in Article 441 of the Capital Requirements Regulation (CRR) fitted the purpose of the underlying regulation and the mandate given in Article 131 of the revised Capital Requirements Directive (CRD V).



## Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>Schedule for the implementation of the revised identification methodology</p>	<p>Most respondents mentioned the need to adjust the date of implementation, and queries regarding practical aspects of the revised identification methodology were raised based on the one-year delay announced by the BCBS on 3 April 2020 to alleviate the impact of COVID-19.</p> <p>It was also suggested that the changes concerning the recognition of cross-border activities within the EBU, in line with Article 131 of CRD V, should enter into force in January 2021, following the publication of the RTS.</p>	<p>The EBA Consultation Paper, published on 5 March 2020, envisaged the implementation of the revised methodology for identifying G-SIIs as of end-2020, underpinning the G-SII identification exercise to be conducted during 2021 and in alignment with the BCBS expectation at the time of the consultation launch. In the light of circumstances related to the COVID-19 outbreak, the EBA is of the view that the introduction of the revised methodology should occur with the 2022 exercise, based on end-2021 data, in full alignment with the BCBS framework.</p> <p>Concerning the changes introduced to the framework specific to the EU due to the consideration of intra-EBU cross-border activities, the EBA is of the opinion that the same schedule as that for the BCBS-driven changes could be followed. However, when considering the date of implementation of CRD V, it should enter into force as soon as the RTS are published in the Official Journal of the EU, in practice affecting the 2021 exercise based on end-2020 data.</p>	<p>Amendment to Article 5 of the RTS to reflect the date of implementation of CRD V.</p>
<p>Discussion by the BCBS of the assessment process in Europe</p>	<p>Two respondents suggested that the proposed changes to the assessment process in Europe should not be submitted to the BCBS for approval or discussion.</p>	<p>The EBA is of the opinion that Article 131 of CRD V remains very clear regarding the intention of the EU co-legislators to adhere to the international standards, by stating 'taking into account any internationally agreed standards'. These international standards refer to the BCBS G-SIB framework, which presently gives no consideration to intra-EBU cross border activities.</p> <p>It is important to mention that the G-SIB international standards envisage that cases where a supervisor seeks to exercise sound supervisory judgement will be scrutinised by the BCBS, regardless of the ultimate decision by the relevant authority presenting the case. This will be the case whether the proposed application of supervisory judgement seeks to upgrade or downgrade the bucket allocation and related G-SII buffer rate. Importantly, according to the text of the BCBS rules, proposals to downgrade buffer rates for identified G-SIBs will face a higher level of scrutiny than those aiming either to upgrade buffer rates or add banks to the G-SIB list. From the foregoing, it is clear that the decision on whether the BCBS will scrutinise such events is not within reach of the EBA or the EU co-legislators. This scrutiny and peer-reviewing mechanism form one of the main purposes of the Basel standards,</p>	<p>None.</p>

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		<p>which, to ensure financial stability and address too-big-to-fail concerns, is of paramount importance. The intention to downgrade an identified G-SIB is expected, within the spirit of the text of the BCBS rules, to be justified and explained to the BCBS to a much greater extent than a decision to upgrade an identified G-SIB (or to add a bank to the G-SIB list), since the latter reflects a prudent approach on the part of the supervisor.</p> <p>Despite this, the BCBS rules are of a non-binding nature and will naturally not supersede a decision that any EU Member State may take in the context of EU regulation.</p> <p>For the above reasons, the EBA is of the view that no amendments to the proposal are needed and reiterates its intention to preserve the EU’s full adherence to the international standards.</p>	
<p>Disclosure of the LEIs of all consolidated entities in the group as part of the disclosure requirements</p>	<p>One respondent suggested that the EBA require entities in the scope of these technical standards to disclose their group structure by providing the LEIs of all consolidated entities in the group as part of the disclosure requirements.</p>	<p>The EBA fully supports and strongly encourages the use of the LEI by all institutions, financial holding companies and mixed financial holding companies, but particularly by very large institutions such as those identified as G-SIIs.</p>	<p>Inclusion of paragraph 5 in Article 4 of the RTS in order to request G-SIIs to disclose their group structure by providing the LEIs of all consolidated entities in the group. This disclosure should be kept up to date.</p>
<p><b>Responses to questions in Consultation Paper EBA/CP/2020/03</b></p>			
<p>Question 1.</p>	<p>Respondents answering this question disagreed with the proposed options (a) and (b). The main argument presented related to the excessive limitations arising from options (a) and (b), which respondents saw as curtailing the extent</p>	<p>The view of the EBA is that there should be no material deviation in the EU from the international standards, even considering the fact that, to a large degree, the text of the BCBS rules should account for the significant progress achieved in the EBU integration process, namely regarding the two key pillars of supervision and resolution.</p> <p>While the EU co-legislators clearly expressed the desire to see the advances of the EBU integration process reflected in the capital buffer rate requirements that G-SIIs are</p>	<p>Amendment to paragraph 5b of Article 5 of the RTS in order to limit the downgrading in the subcategory to which</p>

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	<p>to which the additional EU G-SII score could be used.</p> <p>Respondents expressed a preference for option (c), as it was seen as the best compromise between the benefit that EBU banks are expected to gain from the recognition of intra-EBU cross-border activities and the EBA's strong desire to fully adhere to Basel international standards.</p>	<p>requested to meet, at the same time they acknowledged the importance of the international standards and the need for the EU to uphold and support a multilateral and cooperative approach at the global level. For this reason, the EBA was requested to draft an EU-specific methodology that would allow for the allocation of G-SIIs to eventually lower subcategories when considering intra-EBU cross-border activities. In fact, when doing so, the EU co-legislators confirmed, in Article 131 of CRD V, their desire to remain closely aligned to the international standards, by specifying that identified G-SIIs cannot be removed from the G-SIIs list by their relevant authority and cannot be assigned a capital buffer rate requirement lower than 1%.</p> <p>The EBA is of the view that both options (a) and (b) could have been further explored and further calibrated to better reflect the progress of the EBU integration process; however, in the light of the above, the EBA agrees with the suggestion that option (c) reaches the best compromise between the different views expressed.</p>	<p>a G-SII is allocated to one subcategory only.</p>
<p>Question 2.</p>	<p>Respondents noted that the use of the average FX rate for the year has been a previous industry position and that it remains the case at present. One particular advantage of this method is that the effects of FX fluctuations occurring towards year-end are mitigated, thus removing possible advantages or disadvantages of different currencies.</p>	<p>The EBA is of the view that the additional EU methodology should be agnostic not only to considerable FX fluctuations occurring at year-end but also to the chosen treatment of FX in the text of the BCBS rules.</p> <p>It is clear that the revised text of the BCBS rules, as of July 2018, does not alter the way in which FX rates are accounted for in the G-SIB framework, namely regarding the reporting currency and method used. However, the BCBS consultation of 2017 on the draft proposal for the revised framework has shown that this methodological aspect is relevant for the industry and, to some extent, for the credibility and robustness of the framework. The EBA's intention is therefore not to modify or supersede methodological options taken by the BCBS in this regard but instead to prevent, as far as possible, the additional EU methodology from taking into account potentially large year-end FX fluctuations that often do not have profound economic meaning. These large fluctuations, should they occur and influence the additional EU score, could determine the allocation of a G-SII to a different subcategory.</p> <p>When balancing the need to take into account the impact of different FX conversion methods (itself subject to modifications over time in the text of the BCBS rules) and the need to keep the framework as simple and transparent as possible, the EBA decided on</p>	<p>None.</p>

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		this occasion not to introduce any adjustment to correct undesired effects from different FX conversion methods.	
Question 3.	<p>Respondents agreed that there should be no duplication of efforts between Pillar 3 disclosure and G-SII disclosure. Further, it was noted that some institutions disclose their Pillar 3 information at the beginning of March, while the deadline for G-SII data disclosure is 30 April.</p> <p>Respondents argued that there was no benefit in disclosing the previous year's information with Pillar 3 disclosures. Respondents suggested that a link to the most up-to-date indicators would be sufficient.</p>	<p>According to Article 434 of the CRR, 'Institutions shall disclose all the information required under Titles II and III in electronic format and in a single medium or location. The single medium or location shall be a standalone document that provides a readily accessible source of prudential information for users of that information or a distinctive section included in or appended to the institutions' financial statements or financial reports containing the required disclosures and being easily identifiable to those users.'</p> <p>Following these provisions, the signposting of Pillar 3 information is not permitted by the CRR. This means that the template with all the information on G-SIIs indicators as of the disclosure reference date has to be included by the G-SIIs in their Pillar 3 report for that reference date. G-SIIs may republish this template in their next Pillar 3 report if they need to restate figures to reflect final data submitted to the competent authority; this will be clarified in the final draft implementing technical standards on Pillar 3 disclosures.</p>	None.