

Governing Council statement on macroprudential policies – the ECB's framework for assessing capital buffers of other systemically important institutions

20 December 2024

The Governing Council of the European Central Bank (ECB) is releasing the following statement after the meeting of its Macroprudential Forum on 27 November 2024.

The ECB will enhance the floor methodology used to assess capital buffers for other systemically important institutions (O-SIIs) so that it also takes into account the systemic importance of O-SIIs for the banking union as a whole. In December 2022 the Governing Council announced that the ECB will continue to promote the development of a common EU methodology for O-SII buffers. This will counter unwarranted heterogeneity in the way buffers are set and ensure more consistency in the required loss-absorption capacity of O-SIIs.¹ The existing ECB floor methodology, which has been in place since 2016, only takes a national perspective. The enhanced floor methodology will also include a banking union perspective for assessing the systemic importance of all O-SIIs for the banking union as a whole.

The enhanced floor methodology will lead to a more consistent treatment of O-SIIs across Member States participating in the banking union. The enhanced ECB O-SII floor methodology will contribute to financial stability within the banking union, in line with the ECB's mandate under Article 1 of the SSM Regulation,² by assessing the systemic importance of all O-SIIs for the banking union as a whole. The reduction of the unwarranted heterogeneity in buffer levels for the most systemically important banks in the banking union will make the banking system of the banking union more resilient to shocks and will increase the level playing field.

See Governing Council statement on macroprudential policies, ECB, December 2022. For other references to the current heterogeneity of O-SII buffer setting, see also the EBA report on the appropriate methodology to calibrate O-SII buffer rates, December 2020; the ECB response to the European Commission's call for advice on the review of the EU macroprudential framework, March 2022; the Review of the EU macroprudential framework for the banking sector, ESRB March 2022; the EBA advice on the review of the EU macroprudential framework, EBA, March 2022; and the summary of the Commission Expert Group on Banking, Payments, and Insurance, 7 February 2024, item 3b. For research papers see Sigmund, M., "The capital buffer calibration for other systemically important institutions-Is the country heterogeneity in the EU caused by regulatory capture?", *Scottish Journal of Political Economy*, 69(5), November 2022; and Dimitrov, D. and van Wijnbergen, S., "Macroprudential regulation: a risk management approach", *DNB Working Paper*, No 765, De Nederlandsche Bank, February 2023.

² Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

Moreover, the enhanced ECB methodology will contribute to deepening financial integration by reducing the current disparity between capital requirements for domestic and cross-border activities within the banking union. This reflects the significant progress made in the banking union. Since the inception of the ECB's O-SII floor methodology in 2016, there has been further harmonisation of regulation, supervision and resolution (although some elements of the banking union are not yet complete). This harmonisation mitigates the systemic risk arising from cross-border exposures within the banking union. Accordingly, the Basel Committee for Banking Supervision recognised in 2022 that this progress in the banking union could be embedded in the assessment framework for global systemically important banks (G-SIBs).³ Recognition of this progress is therefore also warranted in the framework used to assess the importance of all O-SIIs for the banking union as a whole. This is done by considering cross-border exposures within the banking union to be partly equivalent to domestic exposures.

The ECB will ensure that, for each O-SII at the highest level of consolidation within the banking union, the O-SII buffer should be no less than the higher of the minimum buffer rates implied by the banking union perspective and the national perspective⁴. In line with the EU legal framework, the ECB's O-SII floor implied by the national perspective is retained without changes. The enhancements to the floor methodology focus on those institutions that are most systemically important from a banking union perspective. For most O-SIIs the buffer floor implied by the national perspective is higher than that implied by the banking union perspective. The enhanced ECB O-SII methodology will be applied in line with the ECB's responsibilities under Article 5 of the SSM Regulation to assess O-SII buffer levels.

The ECB will use the enhanced floor methodology to assess O-SII buffers notified by the national authorities, starting from 1 January 2025. The framework will be capital neutral in 2025 and 2026. After that, the banking union floor will be increased in two increments and, as a result, the enhanced methodology will be fully phased in as of 1 January 2028 (see Annex). The ECB will monitor the application of the enhanced floor methodology, taking into consideration developments in the banking union and in European financial regulation.

Independently of these enhancements to the ECB floor methodology, the ECB will continue to promote the development of a common EU methodology for setting O-SII buffers. The ECB, reiterating the suggestion it made in the response to the European Commission's call for advice on the review of the EU macroprudential framework, supports mandating the European Banking Authority (EBA), in consultation with the European Systemic Risk Board, to issue guidelines on a revised methodology for O-SII identification and buffer calibration.⁵ While

³ See the Governing Council statement on the treatment of the European banking union in the assessment methodology for global systemically important banks, ECB, 27 June 2022.

⁴ In line with the EU legal framework, as per Article 131(5) CRD in conjunction with Article 131(3)(b) CRD.

⁵ As mandated in the CRD, the EBA reported to the Commission on the appropriate methodology for the design and calibration of O-SII buffer rates. See EBA report on the appropriate methodology to calibrate O-SII buffer rates, 22 December 2020 and the ECB response to the European Commission's call for advice on the review of the EU macroprudential framework, March 2022.

promoting a common EU methodology, such guidelines would need to be flexible to ensure that national specificities, institutional and structural developments, and insights gained since the EBA published the current guidelines in 2014 can be reflected appropriately.

Annex: Details of the enhanced ECB O-SII methodology

The methodology used to assess the level of capital buffers for O-SIIs from a banking union perspective is determined as follows. The banking union perspective introduces two new features into the scoring methodology. First, for each bank identified as an O-SII by the national designated authorities,⁶ the banking union score is computed in accordance with the EBA Guidelines ⁷ and by using the consolidated banking sector of all Member States participating in the banking union as the reference banking system. The second new feature treats cross-border exposures within the banking union as partly equivalent to domestic exposures, in line with the Adjustment for Structural Regional Arrangements (ASTRA) approach adopted for G-SIBs.⁸ The O-SIIs are allocated to nine buckets, depending on their systemic importance for the banking union (see Table 1).

The implications of the enhanced ECB floor methodology will depend on the evolution of banks' systemic footprint and future decisions taken by national authorities when setting the O-SII and G-SII buffers.⁹ Based on end-2023 data and buffer rates notified to the ECB by the end of November 2024, applying the enhanced ECB methodology would have resulted in an increase of between 25 and 50 basis points in the O-SII buffers for five O-SIIs. The transition period, together with the solid capitalisation and profitability of the BU banks is expected to allow the affected banks to meet the potentially higher O-SII buffer floors from 1 January 2028 and rule out potential procyclical effects (see Table 2).

The ECB will publish the banking union scores of all individual O-SIIs on an annual basis: publication will take place after all national competent or designated authorities have completed their O-SII buffer-setting process. The list of implemented macroprudential measures that the ECB has been notified of in countries participating in European banking supervision is available on the ECB's website.

⁶ The banking union perspective will not be applied to subsidiaries of banking groups headquartered in the banking union, as long as the parent entity of this group is identified as an O-SII.

⁷ See the Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs), EBA, 16 December 2014 (EBA/GL/2014/10).

⁸ See the Governing Council statement on the treatment of the European banking union in the assessment methodology for global systemically important banks, ECB, 27 June 2022.

⁹ When a credit institution is considered to be a G-SII as well as an O-SII, the higher of the two buffers (G-SII or O-SII) applies.

Table 1

Enhanced ECB methodology: minimum O-SII buffer rates for the combination of the scores computed under the national and the banking union perspectives after the full implementation of the banking union perspective.

		ECB methodology applicable since 1 January 2024	Score: banking union perspective (fully applicable as of 1 January 2028)								
			below 80	80-209	210- 339	340- 469	470- 604	605- 734	735- 864	865- 999	1,000 and above
Score: national perspective	below 750	0.25%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	n.a.	n.a.
	750- 1,299	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%
	1,300- 1,949	0.75%	0.75%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%
	1,950- 2,699	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%
	2,700- 4,449	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.50%	1.75%	2.00%	2.25%
	4,450 and above	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.75%	2.00%	2.25%

Notes: The scores under the national perspective are computed by national authorities on the basis of EBA/GL/2014/10. Scores falling on one of the boundaries are assigned to the higher-scoring bucket. "n.a." indicates score combinations which are not possible, as the banking union score cannot be higher than the national O-SII score. Banks are designated as O-SIIs by national authorities. All O-SIIs identified by national authorities are expected to have an O-SII buffer of at least 0.25%.

Table 2

Minimum O-SII buffer rates from the banking union perspective during the phase-in period

	Minimum buffer rate (%)						
	1 January 2025 – 31 December 2026	1 January – 31 December 2027	From 1 January 2028				
Banking union score range (bps)	Capital-neutral	50% phase-in	Full phase-in				
below 80	0.25%	0.25%	0.25%				
80-209	0.25%	0.375%	0.50%				
210-339	0.50%	0.625%	0.75%				
340-469	0.75%	0.875%	1.00%				
470-604	1.00%	1.125%	1.25%				
605-734	1.25%	1.375%	1.50%				
735-864	1.50%	1.625%	1.75%				
865-999	1.50%	1.75%	2.00%				
1,000 and above	1.75%	2.00%	2.25%				

Note: The national perspective has been fully phased in as of 1 January 2024 and remains unchanged throughout the phase-in period of the banking union perspective.

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The cut-off date for the data included in this report was xxxxx.

For specific terminology please refer to the ECB glossary (available in English only).