

# Bank of England PRA

The PRA's approach to identifying Global Systematically Important Institutions (G-SIIs) and setting G-SII buffers

## Statement of policy

September 2024

Draft for consultation



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# 1: Introduction

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- 1.1 This statement of policy sets out the Prudential Regulation Authority's (PRA) approach to identifying Global Systemically Important Institutions (G-SIIs) – the UK equivalent term for Global Systemically Important Banks (G-SIBs) – and set G-SII buffers.
- 1.2 In setting its approach, the PRA has followed the Basel Committee on Banking Supervision (BCBS) G-SIB framework.

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## 2: Which firms can be identified as G-SIIs?

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- 2.1 The framework outlined in this statement of policy applies to PRA-authorised UK headquartered banks, building societies, PRA-designated UK headquartered investment firms, and their qualifying parent undertakings.
- 2.2 In line with the Basel framework, the PRA carries out the G-SII assessment at group consolidated level. The PRA has set out in relevant rules<sup>1</sup> the criteria for determining the firms in scope of reporting supplementary information for the purposes of the annual G-SII assessment.

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## 3: G-SII buffer capital implications

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- 3.1 The G-SII buffer is a firm-specific capital buffer (ie its amount may vary from firm to firm). The buffer is set to reflect a firm's global systemic importance, using the methodology set out in Chapter 4. It is set as a proportion of a firm's worldwide risk-weighted exposures and each firm will be required to ensure that it is met solely with Common Equity Tier 1 capital.
- 3.2 Where it has decided to impose a G-SII buffer, the PRA will invite that firm to apply for a requirement to be imposed on it under section 55M of FSMA in order to set the G-SII buffer. Where firms do not apply, the PRA would consider imposing such a requirement on its own initiative. The requirement would have the effect of increasing the size of the combined buffer a firm must meet to avoid restrictions on distributions. This is in line with the approach taken for the PRA's implementation of the other systemically important institutions (O-SII) buffer, which is also a firm-specific buffer, set for some firms that are systemically important for the UK financial system, and is set using the PRA's powers under section 55M FSMA.
- 3.3 Firms that are subject to the G-SII buffer will be prevented from using capital maintained to meet the G-SII buffer to meet any other capital requirements or buffers. Where a firm

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<sup>1</sup> Chapter 11 of Reporting (CRR) Rules.

that is subject to a G-SII buffer is subject to both an O-SII buffer and a G-SII buffer on the same basis of consolidation, the higher of the two shall apply.

- 3.4 As indicated in SS45/15 – The UK leverage ratio framework,<sup>2</sup> firms that are subject to a non-zero G-SII buffer will also be subject to an additional leverage ratio buffer (ALRB) rate.

## 4: G-SII identification and buffer setting methodology

- 4.1 BCBS has established and maintains a framework for the identification of G-SIBs, which involves an assessment of a firm's activities relative to the overall activity of the largest firms globally.<sup>3</sup> The PRA, as a BCBS member, contributed to the development of the BCBS methodology and contributes to its ongoing monitoring and review, as well as to the annual G-SIB assessment exercise.
- 4.2 The BCBS framework enables regulators worldwide to collect and process firm data across multiple jurisdictions to assess the relative global systemic importance of individual firms and, where applicable, to set capital buffers to reflect their greater potential to affect adversely the stability of the global financial system if they experience distress or failure. The PRA judges that contributing to this framework through its design, maintenance, and annual G-SIB assessment exercise, and implementing its outcome for UK firms, best supports its primary objective of advancing safety and soundness.
- 4.3 The PRA aligns its approach to identifying UK G-SIIs and setting G-SII buffers with the BCBS framework and methodology and follows its outcome for the purposes of identifying UK G-SIIs and setting G-SII buffers. In line with the BCBS framework, the approach involves a quantitative assessment (described in paragraphs 4.4-4.6 and Appendix 1) and, under certain conditions, the use of supervisory judgement (described in paragraphs 4.8-4.10). The PRA identifies G-SIIs and sets G-SII buffers on an annual basis.

### Quantitative assessment methodology

- 4.4 The PRA follows the indicator-based measurement approach set out in the BCBS framework for the quantitative assessment of a firm's global systemic importance. Global systemic importance is measured in terms of the impact that a firm's failure can have on the global financial system and wider economy, rather than the likelihood that a failure could occur. The approach consists of a quantitative assessment of five categories indicative of global systemic importance, each drawing on data relating to

<sup>2</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss>.

<sup>3</sup> [https://www.bis.org/basel\\_framework/chapter/SCO/40.htm?inforce=20211109&published=20211109](https://www.bis.org/basel_framework/chapter/SCO/40.htm?inforce=20211109&published=20211109).

between one and four indicators (listed in Table A and described in Appendix 1). These five categories receive equal weight in the computation of the score that each firm receives in terms of its relative global systemic importance.

**Table A: Weighting of indicators in G-SII methodology**

| Category   | Indicator   | Weighting in overall score |
|--|---|----------------------------|
| <b>Size</b>  | Total exposures, as per Basel III leverage ratio      | 20%                        |
| <b>Interconnectedness</b>                                      | Intra-financial system assets                         | 6.67%                      |
|  | Intra-financial system liabilities                    | 6.67%                      |
|  | Securities outstanding                                | 6.67%                      |
| <b>Substitutability / financial institution infrastructure</b> | Payments activity                                     | 6.67%                      |
|  | Assets under custody                                  | 6.67%                      |
|  | Underwritten transactions in debt and equity markets  | 3.33%                      |
|  | Trading volume  | 3.33%                      |
| <b>Complexity</b>  | Notional amount of over-the-counter (OTC) derivatives | 6.67%                      |
|  | Trading and available-for-sale securities             | 6.67%                      |
|  | Level 3 assets  | 6.67%                      |
| <b>Cross-jurisdictional activity</b>                           | Cross-jurisdictional claims                           | 10%                        |
|  | Cross-jurisdictional liabilities                      | 10%                        |

- 4.5 The quantitative assessment is a relative one, meaning that firm scores are calculated based on their level of activity relative to all other firms that take part in the exercise. This requires the calculation of 'denominators' (ie the sum of all firms' values) for each indicator. For consistency and avoidance of duplication, the PRA uses the denominators calculated by the BCBS for the purposes of calculating scores for UK firms. Firms' scores are calculated by converting the values reported by firms in their reporting currency to euros, using exchange rates published by the BCBS.
- 4.6 The PRA does not provide detailed definitions of each of the indicators in the quantitative assessment methodology. This is to minimise administrative burden both for the PRA and firms. The PRA intends to use the indicator definitions as set out by BCBS in the annual reporting instructions.
- 4.7 In order to carry out this quantitative assessment, the PRA requests firms to provide relevant data, in line with the annual reporting template and reporting instructions published by the BCBS. The PRA shares firms' completed reporting templates with the BCBS. This data, along with data submitted by other jurisdictions worldwide, is then used to calculate firms' scores relative to the overall activity of the largest firms globally.

## G-SII scores and buffers

4.8 In line with the BCBS methodology, the PRA designates as G-SIIs those firms with scores from the quantitative assessment above a cut-off threshold of 130 basis points. The PRA sets G-SII buffer rates in line with where firms' scores sit in relation to 'buckets', defined by the BCBS methodology. G-SII buffers range from 1.0% of risk-weighted assets for the lowest bucket, up to 3.5% of risk-weighted assets for the top (fifth) bucket.

**Table 2: G-SII buffer rate bucket thresholds**

|                 | Score range (basis points) | G-SII buffer rate (% RWAs) |
|-----------------|----------------------------|----------------------------|
| <b>Bucket 1</b> | 130-229                    | 1.0%                       |
| <b>Bucket 2</b> | 230-329                    | 1.5%                       |
| <b>Bucket 3</b> | 330-429                    | 2.0%                       |
| <b>Bucket 4</b> | 430-529                    | 2.5%                       |
| <b>Bucket 5</b> | 530-629                    | 3.5%                       |

## Supervisory judgement

4.9 The PRA may also use supervisory judgement to deviate from the results of the quantitative assessment. The PRA expects to use supervisory judgement only in exceptional cases. In any such use of supervisory judgement, the PRA expects to follow the conditions set out in the BCBS framework.<sup>4</sup>

4.10 In the exercise of supervisory judgement, the PRA may:

- a) determine that a firm is a G-SII, notwithstanding the fact that the firm is not recognised as a G-SII in accordance with the PRA's quantitative assessment; or
- b) allocate a G-SII to a higher sub-category to that indicated by its score under the quantitative assessment.

<sup>4</sup> The BCBS has four principles for the use of supervisory judgement: (1) the bar for judgemental adjustments to the scores should be high: in particular, judgement should only be used to override the indicator-based measurement approach in exceptional cases; (2) the process should be focused on factors pertaining to a firm's global systemic impact ie the impact of the firm's distress or failure and not the probability of distress or failure; (3) the quality of the policy or resolution framework within a jurisdiction should not play a role in this process; and (4) the judgemental overlay should comprise well documented and verifiable quantitative as well as qualitative information.

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The PRA does not expect to use supervisory judgement to allocate a firm to a lower bucket to that indicated by its score under the quantitative assessment methodology, or to not designate a firm a G-SII where it meets the threshold.

- 4.11 Any use of supervisory judgement would be subject to international peer review and take into account the views of the BCBS as a group.

## 5: G-SII buffers publication and application

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- 4.12 The PRA identifies G-SIIs and sets G-SII buffers annually. The PRA expects to publish the list of G-SIIs and their respective scores and G-SII buffers by 1 December each year.
- 4.13 The PRA requires institutions to apply G-SII buffers on an ongoing basis by 1 January of the second year following the calendar year when the rates were announced. For example, the G-SII buffer rates announced in late 2024 would take effect as of 1 January 2026. The PRA may adapt this timeline, where appropriate, in light of its objectives and statutory responsibilities.

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# Appendices

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## 1 G-SIB framework categories and indicators

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# Appendix 1: G-SIB framework categories and indicators

As part of post-financial crisis reforms, the PRA worked with regulators worldwide through the BCBS to design and implement the G-SIB framework, which aims to reduce the probability of distress or failure of G-SIBs.

The BCBS quantitative framework assesses five categories indicative of global systemic importance: (1) size, (2) interconnectedness, (3) substitutability/financial institution infrastructure, (4) cross-jurisdictional activity, and (5) complexity.

## (1) Size

A firm's distress or failure is more likely to damage the global economy or financial markets if its activities comprise a large share of global activity. The larger the firm, the more difficult it is for its activities to be quickly replaced by other firms and therefore the greater the chance that its distress or failure would cause disruption to the financial markets in which it operates. The distress or failure of a large firm is also more likely to damage confidence in the financial system as a whole. This category is comprised of a single indicator:

1. Total exposures, as per Basel III leverage ratio.

## (2) Interconnectedness

Financial distress at one institution can materially increase the likelihood of distress at other institutions given the network of contractual obligations in which these firms operate. A firm's systemic impact is likely to be positively related to its interconnectedness vis-à-vis other financial institutions. Three indicators are used to measure interconnectedness:

1. intra-financial system assets;
2. intra-financial system liabilities; and
3. securities outstanding.

## (3) Substitutability / financial institution infrastructure

The systemic impact of a firm's distress or failure is expected to be negatively related to its degree of substitutability as both a market participant and client service provider. For example, the greater a firm's role in a particular business line, or as a service provider in underlying market infrastructure (eg payment systems), the larger the disruption will likely be following its failure, in terms of both service gaps and reduced flow of market and infrastructure liquidity. At the same time, the cost to the failed firm's customers in having to seek the same service from another institution is likely to be higher for a failed firm with relatively greater market share in providing the service. Four indicators are used to measure substitutability/financial institution infrastructure:

1. assets under custody;

2. payments activity;
3. underwritten transactions in debt and equity markets; and
4. trading volume.

#### **(4) Cross-jurisdictional activity**

The objective of this indicator is to capture firms' global footprint. The idea is that the international impact of a firm's distress or failure would vary in line with its share of cross-jurisdictional assets and liabilities. The greater a firm's global reach, the more difficult it is to coordinate its resolution and the more widespread the spillover effects from its failure.

Two indicators in this category measure the importance of the firm's activities outside its home (headquarter) jurisdiction relative to overall activity of other firms in the sample:

1. cross-jurisdictional claims; and
2. cross-jurisdictional liabilities.

#### **(5) Complexity**

The systemic impact of a firm's distress or failure is expected to be positively related to its overall complexity – that is, its business, structural and operational complexity. The more complex a firm is, the greater are the costs and time needed to resolve the firm. Three indicators are used to measure complexity, the first two of which include insurance subsidiaries:

1. notional amount of OTC derivatives;
2. Level 3 assets; and
3. trading and available-for-sale securities.