

Main features of the method for the identification of other systemically important institutions (O-SIIs)

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- The German version is legally binding -

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Supervisory rules for systemically important institutions

As of 1 January 2016, an additional capital requirement may be imposed on institutions that are systemically important in their home jurisdiction. The intention is to enhance the institutions' ability to absorb losses. A further intention is to encourage institutions to reduce their systemic importance. This aims at mitigating negative effects on the financial system that could result from a threat to these institutions' continued existence or from their default. In Germany, the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin) and the Deutsche Bundesbank as national supervisors decide, in agreement with each other, which institutions should be classified as domestic systemically important institutions. The identified institutions are referred to as other systemically important institutions (O-SIIs). The assessment is based on a method in line with international and national provisions, whose main features are described below. At the end of the process, BaFin, as the competent authority, may set an O-SII capital buffer for O-SIIs of up to 3.0% of their total risk exposure amount. Subject to European Commission authorisation, BaFin may require each O-SII to maintain an O-SII buffer higher than 3 % of the total risk exposure amount. (cf. annex 1)

Assessment of institutions' systemic importance

In agreement with the Deutsche Bundesbank, BaFin determines which institutions are classified as O-SIIs at least on an annual basis. To this end, the Deutsche Bundesbank and BaFin have jointly developed a method that implements the requirements of section 10g (2) of the German Banking Act (*Kreditwesengesetz* – KWG). This method takes into account the principles-based requirements of the Basel Committee on Banking Supervision (BCBS) for dealing with domestic systemically important banks as well as the guidelines issued by the European Banking Authority (EBA) on the assessment of other systemically important institutions (EBA/GL/2014/10).

The approach for the identification of O-SIIs comprises two steps. In Step I, a standardised, indicator-based scoring model developed by the EBA is used to determine the systemic importance of the institutions. This is intended to ensure that the O-SIIs in all EU member states are identified in a comparable and transparent way. In Step II, national supervisory authorities may classify further institutions as O-SIIs (supervisory assessment). This scope for discretion on the part of national supervisory authorities is intended to ensure that greater allowance is made for specific aspects of the respective national banking system when assessing the systemic importance of institutions. This second step is again divided into the expanded national scoring model and the subsequent expert judgement.

Data used

All institutions domiciled in Germany¹ are included in the analysis. The institutions' data are calculated at the highest level of consolidation in Germany that is relevant for the purposes of banking supervision and are mostly taken from the banking supervisory reporting system. Where possible, 31 December of the previous year is the reference date. If values are not available for particular indicators as a result of the accounting policies applied, substitute indicators (proxies) are used.

Determination of the overall score for systemic importance

Step I: Scoring model with EBA standard indicators

In Step I, the EBA's standardised, indicator-based scoring model is used to calculate an overall score for the systemic importance of each institution. The model applies indicators from the following categories: size, economic importance for the European Economic Area and Germany, cross-border activities and interconnectedness with the financial system (see Table 1).

Table 1: Indicators for identifying other systemically important institutions (O-SIIs)

Category	Step I: Mandatory indicators	Step II: Nationally expanded indicators
Size	<ul style="list-style-type: none">• Total assets	<ul style="list-style-type: none">• Total assets + contingent liabilities
Economic importance (including substitutability/ financial institution infrastructure)	<ul style="list-style-type: none">• Value of domestic payment transactions• Private sector deposits in Germany• Loans to the private sector in Germany	<ul style="list-style-type: none">• Value of domestic payment transactions processed for non-payment service providers²• Number of domestic payment transactions processed for non-payment service providers³

¹ All institutions within the meaning of section 1 (1b) KWG are included. Due to an amendment to the KfW Regulation, which declares the relevant provisions to be applicable according to section 3 nos. 4 and 5, KfW has also been included since 2023. Section 10 f of the KWG also applies to large securities institutions as defined in section 2 (18) of the Investment Firms Act (WpIG) pursuant to Section 4 WpIG. However, the assessment of other systemic importance for large securities institutions is carried out separately. (See note 12 of the European Banking Authority (EBA) Guidelines on the assessment of other systemically important institutions, EBA/GL/2014/10).

² Transactions executed by non-payment service providers as clients of domestic payment service providers [PSPs] are included.

³ Transactions executed by non-payment service providers as clients of domestic payment service providers [PSPs] are included.

Category	Step I: Mandatory indicators	Step II: Nationally expanded indicators
		<ul style="list-style-type: none"> • Private sector deposits in the EU • Private sector loans in the EU
Cross-border activities (including complexity)	<ul style="list-style-type: none"> • Cross-jurisdictional liabilities • Cross-jurisdictional claims • Notional value of OTC derivatives 	<ul style="list-style-type: none"> • Claims to foreign non-banks • Liabilities from foreign non-banks • Claims to foreign banks • Liabilities from foreign banks • Number of financial subsidiaries in Germany and abroad • Notional Value of OTC derivatives • Current amount of OTC derivatives
Interconnectedness	<ul style="list-style-type: none"> • Intra-financial system liabilities • Intra-financial system assets • Debt securities outstanding 	<ul style="list-style-type: none"> • Liabilities from banks • Liabilities from insurers and other financial institutions • Claims to banks • Claims to insurers and other financial institutions • Debt securities outstanding

Source: BaFin and Deutsche Bundesbank

The overall score for systemic importance is calculated in the scoring model as follows:

- The score for each indicator is calculated as the indicator value of the respective institution in proportion to the aggregated total of the corresponding indicator values of all institutions.
- The resulting indicator score is multiplied by 10,000 in order to express it in terms of basis points.
- The score of the respective institution in one category is calculated on the basis of the simple average of the indicator scores in that category.
- The overall score of the respective institution is calculated on the basis of the simple average of its four categories scores.

Institutions are ranked according to systemic importance on the basis of their overall scores. Institutions with an overall score that is equal to or above 350 basis points (bp) under Step I are automatically classified as O-SIIs. This threshold value corresponds to the EBA rules. In Step II all other institutions with an overall score of more than 4.5 bp but less than 350 bp may additionally be classified as O-SIIs by supervisory assessment.

Step II: Scoring model with scope for national discretion

In Germany, the quantitative analysis in Step II is based on an expanded indicator-based scoring model (see Table 1). It also reflects the requirements for supervisory assessments from the EBA guidelines. Some of the mandatory indicators specified by the EBA are analysed in greater detail. Furthermore, suitable indicators from Annex 2 of the EBA guidelines are included in the analysis in order to adequately reflect the specificities of the German banking sector.

Institutions are again ranked according to systemic importance on the basis of this expanded national scoring model. All institutions with a score equal to or above 100 bp under Step II are classified as O-SIIs, in addition to the institutions already classified in Step I.

The plausibility of the result is then checked by BaFin and the Deutsche Bundesbank (expert judgment). In particular, this check focuses on whether additional institutions should be regarded as systemically important for Germany and designated as O-SIIs even though their threshold value is below 100 bp. Here, too, the focus is on the possible effects on the German or the European financial system of a threat to the respective institution's continued existence or default.



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Annex 1 to the main features of the method for the identification of other systemically important institutions (O-SIIs)

Definition of the thresholds of
the capital buffer buckets by
BaFin

Setting the capital buffer by BaFin

According to section 10g (1) KWG, a capital buffer of up to 3.00% can be ordered by BaFin for O-SIIs. A capital buffer of more than 3.00 % is possible according to Section 10g (1a) KWG with the consent of the European Commission. The capital buffers increase in steps of 0.25 percentage point, starting with 0.25% up to 3.0%. In this way, 12 capital buffer buckets are formed to which the identified O-SIIs are allocated based on their overall score.

The capital buffer bucket thresholds are reviewed for appropriateness at least every three years or on an ad hoc basis and adjusted if necessary. The method for calibrating the O-SII buffers has been adjusted in the course of the 2023 method review to address the effects of the Brexit-related relocations of major foreign banks and the inclusion of KfW in the population.

The following bp threshold values were set by BaFin for the different capital buffer buckets (see Table A.1):

Table A.1: Threshold values for capital buffer classes

Capital buffer buckets	Range of scores in bp	Capital buffer requirement as a % of the total risk exposure amount
12	≥ 4,040	3.00 % CET1
11	3,390 – 4,039	2.75 % CET1
10	2,740 – 3,389	2.50 % CET1
9	2,090 – 2,739	2.25 % CET1
8	1,490 – 2,089	2.00 % CET1
7	1,060 – 1,489	1.75 % CET1
6	760 – 1,059	1.50 % CET1
5	540 – 759	1.25 % CET1
4	390 – 539	1.00 % CET1
3	280 - 389	0.75 % CET1
2	200 - 279	0.50 % CET1
1	100 - 199	0.25 % CET1

Source: BaFin.