



## Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

Please send this template to

- [notifications@esrb.europa.eu](mailto:notifications@esrb.europa.eu) when notifying the ESRB;
- [macropru.notifications@ecb.europa.eu](mailto:macropru.notifications@ecb.europa.eu) when notifying the ECB;
- [notifications@eba.europa.eu](mailto:notifications@eba.europa.eu) when notifying the EBA.


Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority			
<b>1.1 Name of the notifying authority</b>	The Financial and Capital Market Commission (FCMC)		
2. Description of the measure			
<b>2.1 Concerned institution or group of institutions</b>	<b>Bank name</b>	<b>LEI code</b>	
	ABLV Bank AS	549300IHUJ7SCANBWN17	
	"Swedbank" AS	549300FXBIWVGK7T0Y98	
	AS "SEB banka"	549300YW95G1VBBGGV07	
	Akciju sabiedrība "Rietumu Banka"	2138007F5HA5FFJROB80	
	Akciju sabiedrība "Citadele banka"	2138009Y59EAR7H1UO97	
	AS DNB banka	213800JDOTKJMCUB1M79	
The O-SII buffer requirement applied to the identified O-SIIs listed above is to be met by CET1 capital instruments and shall be maintained at the highest consolidation level in Latvia			
<b>2.2 Level of the buffer applied</b>	<b>Bank name</b>	<b>O-SII buffer from 30 June 2017</b>	<b>O-SII buffer from 30 June 2018</b>
	ABLV Bank AS	1%	2%
	"Swedbank" AS	1%	2%
	AS "SEB banka"	1%	2%
	Akciju sabiedrība "Rietumu Banka"	0.75%	1.75%
	Akciju sabiedrība "Citadele banka"	0.75%	1.5%
	AS DNB banka	0.75%	1.5%
<b>2.3 Name of the EU ultimate parent institution</b>	<b>Bank name</b>	<b>Parent company name</b>	<b>Parent company LEI code</b>
	"Swedbank" AS	Swedbank AB	M312WZV08Y7LYUC71685
	AS "SEB banka"	Skandinaviska Enskilda Banken AB	F3JS33DEI6XQ4ZBPTN86
	AS DNB banka	DNB Bank ASA	549300GKFG0RYRRQ1414

2.4 Names of subsidiaries	N/A
<b>3. Timing of the measure</b>	
3.1 Timing of the Decision	The FCMC is expected to take its final decision on 26 October 2016
3.2 Timing of the Publication	The decision will be published within 10 working days after the decision is taken.
3.3 Disclosure	The decision will be published on the website of the FCMC and letters will be sent to the identified O-SIIs informing them of this decision
3.4 Timing of Application	30.06.2017
3.5 Phasing in	See 2.2
3.6 Review of the measure	The list of the identified O-SIIs and the O-SII buffer rates will be reviewed on an annual basis.
<b>4. Reason for O-SII identification and activation of the O-SII buffer</b>	
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	The relevant information is provided in the Excel file below the notification.
4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	<p>Please provide information on:</p> <ul style="list-style-type: none"> <li>a. whether you followed the EBA guidelines on the assessment of O-SIIs <b>Yes, we followed the EBA guidelines on the assessment of O-SIIs</b></li> <li>b. which threshold score has been set to identify O-SIIs <b>425 bps</b></li> <li>c. which overall score is attributed to the O-SIIs <b>N/A</b></li> <li>d. which of the optional indicators have been used to justify supervisory assessment decisions, if any, and what are the scores <b>No optional indicators have been used</b></li> <li>e. why these optional indicators are relevant for the Member State <b>N/A</b></li> <li>f. why the bank is systemically important in terms of those particular optional indicators <b>N/A</b></li> <li>g. whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process <b>No, they have not been excluded</b></li> <li>h. names and scores of all relevant entities not excluded from the identification process (could be sent in a separate excel file, see 4.1) <b>The Excel file is attached below the notification</b></li> <li>i. whether non-bank institutions have been included in the calculations <b>No, they have not been included</b></li> </ul>

<p><b>4.3 Supervisory judgement</b></p>	<p>Has any of the institutions listed in 2.1 been identified through supervisory judgement as laid down in EBA guidelines on the assessment of O-SIIs? If yes, please list the respective institutions.</p> <p><b>No</b></p>																																																		
<p><b>4.4 Calibrating the O-SII buffer</b></p>	<p>The calibration was based on the <i>equal expected impact</i> method wherein the size of the O-SII buffers is set with aim to equalize the expected impact of an O-SIIs' financial distress with an expected impact of a non-O-SII reference institution's financial distress.</p> <p>In line with the chosen threshold used for O-SII identification, systemic importance score of 425 basis points was used to define a non-O-SII reference institution. For purposes of calibrating the O-SII buffer, the systemic importance scores were calculated by employing an adjusted EBA Guidelines' methodology which takes into account the specificities of national financial sector (see table below).</p> <table border="1" data-bbox="513 721 1428 1422"> <thead> <tr> <th>Criterion</th> <th>Indicators</th> <th>EBA Guidelines weight</th> <th>Adjusted methodology for buffer calibration weight</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Size</td> <td>Total assets</td> <td>25%</td> <td>25%</td> </tr> <tr> <td>Risk weighted assets</td> <td></td> <td>15%</td> </tr> <tr> <td rowspan="6">Importance (including substitutability/financial system infrastructure)</td> <td>Value of domestic payment transactions</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Private sector deposits from depositors in the EU</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Private sector loans to recipients in the EU</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Private sector deposits from Latvian residents</td> <td></td> <td>5%</td> </tr> <tr> <td>Private sector loans to Latvian residents</td> <td></td> <td>5%</td> </tr> <tr> <td>Credit risk stress test – additional provisions (% of total provisions needed in banking sector)</td> <td></td> <td>5%</td> </tr> <tr> <td rowspan="3">Complexity/cross-border activity</td> <td>Value of OTC derivatives (notional)</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Cross-jurisdictional liabilities</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Cross-jurisdictional claims</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td rowspan="3">Interconnectedness</td> <td>Intra-financial system liabilities</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Intra-financial system assets</td> <td>8.33%</td> <td>5%</td> </tr> <tr> <td>Debt securities outstanding</td> <td>8.33%</td> <td>5%</td> </tr> </tbody> </table> <p>In order to achieve an equal expected impact of financial distress, the probability of default (PD) of financial distress of O-SII must be lower than that of non-O-SII, as financial distress of O-SIIs leads to higher associated economic costs. These costs are decreased by applying O-SII buffers that lower PDs of O-SIIs.</p> <p>Quarterly data for period of 2004-2015 on return on risk weighted assets (RORWA) of banks operating in Latvia were used to determine the PD of a reference non-O-SII.</p>	Criterion	Indicators	EBA Guidelines weight	Adjusted methodology for buffer calibration weight	Size	Total assets	25%	25%	Risk weighted assets		15%	Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions	8.33%	5%	Private sector deposits from depositors in the EU	8.33%	5%	Private sector loans to recipients in the EU	8.33%	5%	Private sector deposits from Latvian residents		5%	Private sector loans to Latvian residents		5%	Credit risk stress test – additional provisions (% of total provisions needed in banking sector)		5%	Complexity/cross-border activity	Value of OTC derivatives (notional)	8.33%	5%	Cross-jurisdictional liabilities	8.33%	5%	Cross-jurisdictional claims	8.33%	5%	Interconnectedness	Intra-financial system liabilities	8.33%	5%	Intra-financial system assets	8.33%	5%	Debt securities outstanding	8.33%	5%
Criterion	Indicators	EBA Guidelines weight	Adjusted methodology for buffer calibration weight																																																
Size	Total assets	25%	25%																																																
	Risk weighted assets		15%																																																
Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions	8.33%	5%																																																
	Private sector deposits from depositors in the EU	8.33%	5%																																																
	Private sector loans to recipients in the EU	8.33%	5%																																																
	Private sector deposits from Latvian residents		5%																																																
	Private sector loans to Latvian residents		5%																																																
	Credit risk stress test – additional provisions (% of total provisions needed in banking sector)		5%																																																
Complexity/cross-border activity	Value of OTC derivatives (notional)	8.33%	5%																																																
	Cross-jurisdictional liabilities	8.33%	5%																																																
	Cross-jurisdictional claims	8.33%	5%																																																
Interconnectedness	Intra-financial system liabilities	8.33%	5%																																																
	Intra-financial system assets	8.33%	5%																																																
	Debt securities outstanding	8.33%	5%																																																
<p><b>4.5 Effectiveness and proportionality of measure</b></p>	<p>The higher capital requirements will increase the resilience of the systemically important institutions in Latvia. The total assets of the identified O-SIIs account for around 70% of Latvian banking sector assets and approximately 90% of Latvian GDP as of 2016Q2 – financial distress of these institutions would negatively affect financial stability and economy of Latvia.</p> <p>As of 2016Q2, identified O-SIIs either already fulfil the total capital and buffer requirements with the CET1 capital that they voluntarily hold above current requirements or are planning to increase their capital base during the two year phasing-in period to be able to fulfil them, therefore the decision to implement the O-SII buffer should not cause any disruptions to the local financial system or</p>																																																		

	economy.												
<b>5. Cross-border and cross-sector impact of the measure</b>													
<b>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</b>	The cross-border effects and impact on the internal market is expected to be nonmaterial as the EU parent institutions of local subsidiaries identified as O-SIIs are required to hold at least as large O-SII buffers on the consolidated level as FCMC is planning to set in Latvia, and cross-border activities within EU of identified O-SIIs are limited.												
<b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	As the measure is institution-specific, possibility of any leakages is minimal.												
<b>6. Combinations and interactions with other measures</b>													
<b>6.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b>	N/A												
<b>6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)</b>	N/A												
<b>6.3 O-SII requirement for a subsidiary (Article 131.8)</b>	<table border="1"> <thead> <tr> <th>Bank name</th> <th>Parent company name</th> <th>O-SII buffer rate of parent company</th> </tr> </thead> <tbody> <tr> <td>"Swedbank" AS</td> <td>Swedbank AB</td> <td>2%</td> </tr> <tr> <td>AS "SEB banka"</td> <td>Skandinaviska Enskilda Banken AB</td> <td>2%</td> </tr> <tr> <td>AS DNB banka</td> <td>DNB Bank ASA</td> <td>2%</td> </tr> </tbody> </table>	Bank name	Parent company name	O-SII buffer rate of parent company	"Swedbank" AS	Swedbank AB	2%	AS "SEB banka"	Skandinaviska Enskilda Banken AB	2%	AS DNB banka	DNB Bank ASA	2%
Bank name	Parent company name	O-SII buffer rate of parent company											
"Swedbank" AS	Swedbank AB	2%											
AS "SEB banka"	Skandinaviska Enskilda Banken AB	2%											
AS DNB banka	DNB Bank ASA	2%											
<b>6.4 Interaction with other measures</b>	N/A												

<b>7. Miscellaneous</b>	
<b>7.1 Contact person(s) at notifying authority</b>	Arnis Jankovskis (Senior regulations expert, Regulations Division, +371 6777 904, <a href="mailto:arnis.jankovskis@fktk.lv">arnis.jankovskis@fktk.lv</a> )
<b>7.2 Any other relevant information</b>	<div style="text-align: center;">   Annex_LV_FCMC_No tification_O-SII_indet </div> <p>Excel file referred in 4.1 and 4.2:</p> <p>N.B. The information in this file can be shared with other authorities but should</p>

	not be made publicly available.
--	---------------------------------