

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

Please send this template to

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1. Notifying national authority																			
1.1 Name of the notifying authority	Banco de Portugal																		
2. Description of the measure																			
2.1 Concerned institution or group of institutions	<p>On which institution(s) is the measure applied (name and LEI code)?</p> <ul style="list-style-type: none"> • Caixa Geral de Depósitos (Lei code: TO822O0VT80V06K0FH57) • Banco Comercial Português (Lei code: U1U6S0DG9YLT7N8ZV32) • Novo Banco (Lei code: 5493009W2E2YDCXY6S81) • Santander Totta – SGPS (Lei code: 5493005RLLC1P7VSV58) • Banco BPI (Lei code: 3DM5DPGI3W6OU6GJ4N92) • Caixa Económica Montepio Geral (Lei code: 2138004FIUXU3B2MR537) 																		
2.2 Level of the buffer applied	<p>What is the level of the buffer (in %) applied to the institution(s)?</p> <p>Taking into account this preliminary decision, the O-SII's buffers shall be applicable as from 1 January 2018 and shall be phased-in over a two years period.</p> <p>Therefore, the buffer rates applied to the institutions are the following:</p> <table border="1"> <thead> <tr> <th>O-SIIs institutions</th> <th>O-SII Buffer to be required in 1 January 2018</th> <th>O-SII Buffer to be required in 1 January 2019</th> </tr> </thead> <tbody> <tr> <td>Caixa Geral de Depósitos</td> <td>0.50%</td> <td>1.00%</td> </tr> <tr> <td>Banco Comercial Português</td> <td>0.375%</td> <td>0.75%</td> </tr> <tr> <td>Novo Banco</td> <td>0.375%</td> <td>0.75%</td> </tr> <tr> <td>Banco BPI</td> <td>0.25%</td> <td>0.5%</td> </tr> <tr> <td>Santander Totta - SGPS</td> <td>0.25%</td> <td>0.5%</td> </tr> </tbody> </table>	O-SIIs institutions	O-SII Buffer to be required in 1 January 2018	O-SII Buffer to be required in 1 January 2019	Caixa Geral de Depósitos	0.50%	1.00%	Banco Comercial Português	0.375%	0.75%	Novo Banco	0.375%	0.75%	Banco BPI	0.25%	0.5%	Santander Totta - SGPS	0.25%	0.5%
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	Caixa Económica Montepio Geral	0.125%	0.25%	
2.3 Name of the EU ultimate parent institution	Please provide the name and the LEI code of the EU ultimate parent institution of the group of each of the concerned institutions, in case the EU ultimate parent institution is not the concerned institution itself. Santander Totta – SGPS is a subsidiary of the Spanish parent institution, Banco Santander S.A. (Lei code: 5493006QMFDDMYWIAM13)			
2.4 Names of subsidiaries	If any of the concerned institutions is a parent institution and the buffer is applied on a (sub) consolidated level, please name the subsidiaries of the institution that are notified as O-SIIs (please give name and LEI code). N/A			
3. Timing of the measure				
3.1 Timing of the Decision	What is the date of the official decision? <u>For SSM countries when notifying the ECB</u> : provide the date when the decision referred to in Article 5 of the SSMR shall be taken. A preliminary decision was taken by the Banco de Portugal's Board on the 31 May 2016. The formal decision was taken on 30 June 2016. The intended date for publication in Banco de Portugal's website of the final decision on the capital O-SII buffers is 29 July 2016.			
3.2 Timing of the Publication	What is the date of publication of the notified measure? The intended date is 29 July 2016.			
3.3 Disclosure	Information about the communication strategy of the notified measure to the market. Banco de Portugal will publish the final decision on its website by 29 July 2016 (after market closure) and communicate it to each institution designated as O-SII.			
3.4 Timing of Application	What is the intended date of activation (i.e. as of which date shall the measure be applicable)? 01/01/2018			
3.5 Phasing in	What is the intended timeline for the phase-in of the measure? 01/01/2018: 50% of the O-SII buffer 01/01/2019: 100% of the O-SII buffer			
3.6 Review of the measure	When will the measure be reviewed (Article 131(6) and 131(12) specify that the buffer, the identification of O-SIIs and the allocation into subcategories must be reviewed at least annually)? The list of O-SIIs and corresponding buffer requirements will be revised at least annually, as required under CRD IV. The next review exercise is foreseen to be concluded by 1 December 2016, unless in case of significant restructuring processes, namely mergers and acquisitions, where the calibration process should be reviewed after those processes.			

4. Reason for O-SII identification and activation of the O-SII buffer	
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	Please see the attached Excel file.
4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	<p>The EBA methodology has been applied to compute the scores for all the institutions operating in Portugal using consolidated data in accordance to this methodology.</p> <p>In order to perform the methodology we used the following indicators:</p> <ul style="list-style-type: none"> - Size: Total assets; - Importance (including substitutability / financial system infrastructure: value of domestic payments transactions (based on TARGET 2 data), private sector deposits from depositors in the EU, private sector loans to recipients in the EU. In addition, we have also used an optional indicator: geographical breakdown of banks activities (deposits and loans); - Complexity / Cross-border activity: value of OTC derivatives (notional), cross-jurisdictional liabilities, cross-jurisdictional claims; - Interconnectedness: intra-financial system liabilities, intra-financial system assets, debt securities outstanding. <p>In the cases in which FINREP data were unavailable, proxies were used - taken from each bank's financial statements (dated December 2014), supplemented by additional data available in Banco de Portugal.</p> <p>Institutions with a score equal or higher than 350 basis points were designated as O-SII.</p>
4.3 Supervisory judgement	As mentioned in 4.2 we have also used an optional indicator: geographical breakdown of banks activities (deposits and loans) as allowed for in Title III of EBA Guidelines.

4.4 Calibrating the O-SII buffer

In order to calibrate the O-SII capital buffer for these institutions, BdP has applied the clusters methodology. This calibration approach was also adopted by the BCBS (2013) to calibrate the buffer rates for Global Systemically Important Banks (G-SIBs) and also used by other countries that have already identified the O-SIIs and calibrated the O-SII buffer. O-SII buffer will be applied from 1 January 2017. This date was selected to allow enough time (one year) to the banking groups to adjust to the new capital requirements.

Against this background, and taking into account the scores obtained in the June 2015 identification process, we set up five buckets as follows:

- i. Bucket 1 encompasses scores from 350 to 699 basis points;
- ii. Bucket 2 encompasses scores from 700 to 1399 basis points;
- iii. Bucket 3 encompasses scores from 1400 to 2099 basis points;
- iv. Bucket 4 encompasses scores from 2100 to 2799 basis points;
- v. Bucket 5 encompasses scores above or equal 2800 basis points.

Given the scores underlying each PT O-SII, bucket 5 corresponds to an empty bucket, in the sense that no PT O-SII will be allocated to it. By considering an empty bucket, the competent authority signalizes the market and the O-SIIs that the latter could be asked to comply with a higher rate in the future if they become more systemically relevant, as presented in the following table:

O-SIIs distribution by buckets and respective buffers:

<u>Buckets</u>		<u>Buffers</u>
5	>= 2800	2.00%
4	2100-2799	1.00%
3	1400-2099	0.75%
2	700-1399	0.50%
1	350-699	0.25%

4.5 Effectiveness and proportionality of measure

According to Banco de Portugal, the O-SII buffer is a suitable instrument to address the macroprudential policy intermediate objective that aims at preventing the building up of systemic risks arising from misaligned incentives and moral hazard.

The identification of systemically important institutions (both global and domestic) and the application of stricter capital requirements is based on the following rationale: in adopting rational decisions to maximize profits, which can be viewed as optimal at the individual level, systemically important institutions do not internalize the negative externalities these decisions may cause to the financial system. Negative externalities comprise the impact of the failure or impairment of large, complex and interconnected financial institutions that may origin and amplify shocks throughout the financial system and have serious i) cross-border

	<p>impacts on the global financial system and economy, in the case of G-SIIs, or ii) impact on the domestic financial system and economy, in the case of O-SIIs.</p> <p>The introduction of the O-SII buffer (by CRD IV / CRR) is thereby suggested as a risk-mitigating measure, aiming at enhancing the resilience of the financial system by imposing stricter capital requirements to banking groups identified as systemically important at the domestic level.</p> <p>The total assets of Portuguese O-SII reached, in 2014, 79% of the total assets of the Portuguese banking sector and represented 202% of the Portuguese GDP, showing a clear picture of their relevance in the domestic banking system, as well as of the systemic risk that they may pose to the Portuguese economy.</p> <p>In what regards the time to comply with the buffer Banco de Portugal has decided for a phase-in process, considering the following reasons: i) the need to ensure the level playing field across SSM jurisdictions, in terms of the decisions on the O-SII buffer, as also discussed at the ECB-SSM level; ii) the ongoing restructuring process of the Portuguese banking system; and iii) credit conditions remain weak regarding households and non-financial companies sectors, which may be affected by higher capital requirements, thus a phase-in process to comply with the buffer rates is crucial to credit and economic recovery.</p>
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)	<p>The banking system in Portugal is essentially focused on the domestic market. Therefore we do not expect material negative spillovers for the internal market.</p>
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>The scope for “leakages” is limited in the sense that:</p> <ul style="list-style-type: none"> • This measure will be applied on a consolidated basis; • In Portugal the non-banking part of the financial system has a relatively small dimension and we do not expect a material shift to other bank and non-bank institutions.
6. Combinations and interactions with other measures	
6.1 Combinations between G-SII and OSII buffers (Article 131.14)	<p>In case both G-SII and O-SII criteria applied to the same institution at the consolidated level, which of the two buffers is the highest?</p> <p>N/A</p>
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	<p>No Portuguese O-SII is subject to a systemic risk buffer.</p>
6.3 Combined buffer requirement (Article 131.16 and Article 131.17)	<p>a. Does the combined buffer requirement apply to the institution?</p> <p>At the time of the previous notification, the Portuguese institutions had to comply with the Capital Conservation Buffer of 2.5% as of 1 January 2016 on a consolidated and individual basis, given the Banco de Portugal’s decision to frontload this buffer to a level of 2.5%. Due to the change in the ECB-SSM’s policy stance, leading to an uneven playing field among SSM jurisdictions, Banco de Portugal has decided to repeal the former decision, opting for returning to a phase-in period as envisaged in CRD IV.</p>

	<p>b. Is the combined buffer requirement above the sum of the buffers described in Article 131-16 and Article 131-17?</p> <p>Given the previous answer this is not applicable.</p>
<p>6.4 O-SII requirement for a subsidiary (Article 131.8)</p>	<p>In case the O-SII is a subsidiary of an EU parent institution which is subject to a G-SII or O-SII buffer on a consolidated basis, what is the G-SII or O-SII buffer rate on a consolidated basis of the parent institution?</p> <p>Santander Totta - SGPS is a subsidiary of a Spanish parent institution (Banco Santander, S.A.). The proposed O-SII buffer (0.5% on a sub-consolidated basis as of 1 January 2019) complies with Article 131.8 of CRD IV, since the (indicative) G-SII buffer required for the same period to the Spanish parent institution is 1% (see the Financial Stability Board 2015 update of list of global systemically important banks), assuming that the decision regarding the G-SII buffer rate will remain unchanged.</p> <p>(http://www.fsb.org/wp-content/uploads/FSB-communication-G-SIIs-Final-version.pdf)</p>
<p>6.5 Interaction with other measures</p>	<p>How does the buffer requirement interact with other measures addressing the same risk (e.g. with other supervisory measures)?</p> <p>N/A</p>
<p>7. Miscellaneous</p>	
<p>7.1 Contact person(s) at notifying authority</p>	<p>Contact person(s) for further inquiries (name, phone number and e-mail address)</p> <p>Graça Damião (Deputy Head of the Financial Stability Department) mgdamiao@bportugal.pt +351 211 597 002</p> <p>Fátima Silva (Head of the Macroprudential Policy Unit) mfsilva@bportugal.pt +351 211597024</p>
<p>7.2 Any other relevant information</p>	<p>N/A</p>