



BANCA NAȚIONALĂ A ROMÂNIEI

LIVIU VOINEA
Viceguvernator

To: Francesco Mazzaferro
Head of the Secretariat
European Systemic Risk Board
Sonnemannstrasse 22
60314 Frankfurt am Main, Germany

Subject: Notification of O-SII buffer according to article 131 (5) and (8) of Directive 2013/36/EU

Dear Sirs,

In accordance with Article 131 (5) of *Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC*, we hereby inform that the National Committee for Financial Stability recommended to the National Bank of Romania to require each systemically important credit institution in Romania to maintain on a consolidated, sub-consolidated or individual basis, as applicable, an O-SII buffer of 1% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013 as from 1 January 2016, taking into account the criteria for the identification of the O-SII. The O-SII buffer shall consist of and shall be supplementary to Common Equity Tier 1 capital.

The level of O-SII buffer of 1% of total risk exposure amount is in accordance with Article 131 (8) of *Directive 2013/36/EU* stating that, without prejudice to Article 133 and Article 131 (5), where an O-SII is a subsidiary of either a G-SII or an O-SII which is an EU parent institution and subject to an O-SII buffer on a consolidated basis, the buffer that applies at individual or sub-consolidated level for the O-SII shall not exceed the higher of:

- (a) 1 % of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013; and
- (b) the G-SII or O-SII buffer rate applicable to the group at consolidated level.

The identity of O-SIIs together with the level and motivation for these buffer requirements is provided in Annex I (O-SII buffer) to this letter pursuant to Articles 131 (7) in CRD IV.

Yours sincerely,

Liviu Voinea

Deputy Governor

Template for notifying the intended use of an O-SII buffer

1. Notifying national authority (if several designated authorities, please mention all of them)	
1.1 Name of the notifying authority	National Bank of Romania
2. Buffer levels and the institution to which they apply	
2.1 Categorisation of measures	Implementation of O-SII buffer.
2.2 Concerned institution or group of institutions	Banca Comercială Română S.A. – score 1801 basis points BRD – Groupe Societe Generale S.A. – score 1430 basis points UniCredit Bank S.A. – score 1075 basis points Raiffeisen Bank S.A. – score 963 basis points Banca Transilvania S.A. – score 937 basis points Alpha Bank Romania S.A. – score 473 basis points Garanti Bank S.A. – score 405 basis points CEC Bank S.A. – score 359 basis points Bancpost S.A. – score 328 basis points
2.3 Level of the buffer applied	Banca Comercială Română S.A.: 1% BRD – Groupe Societe Generale S.A.: 1% UniCredit Bank S.A.: 1% Raiffeisen Bank S.A.: 1% Banca Transilvania S.A.: 1% Alpha Bank Romania S.A.: 1% Garanti Bank S.A.: 1% CEC Bank S.A.: 1% Bancpost S.A. – 1% The O-SII buffer should consist of Common Equity Tier 1 capital. The buffer is applicable from 1 January 2016.
2.4 Firm level at which the buffer is applied	Consolidated, sub-consolidated and individual level, as applicable.
2.5 Information on other buffers already in application	The requirement for the capital conservation buffer equal to 0,625% of total risk exposure amount from 1 January 2016. The countercyclical capital buffer is activated at 0 percent from 1 January 2016, given that the analysis of excessive credit growth and leverage of non-governmental sector do not indicate pressures in terms of leverage of the private sector.

	The Systemic Risk Buffer is not applicable to the systemically important institutions.
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2.6 Annual review of the O-SII (Articles 131.6 and 131.12)	The O-SII buffer will be reviewed annually.
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3. Rational for activation of the O-SII buffer

3.1 Description of the G-SII (Article 131.2)	Not applicable.
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3.2 Indicators used for designation of the G-SII (Article 131.2 and 131.9)	Not applicable.
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3.3 Description of the O-SII (Article 131.3)	The evaluation is based on the mandatory indicators recommended by the methodology in the <i>EBA 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)</i> published on 16 December 2014.	
	Criterion	Indicators Weight
	Size	Total assets 25.00%
	Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions 8.33%
		Private sector deposits from depositors in the EU 8.33%
		Private sector loans to recipients in the EU 8.33%
	Complexity/cross-border activity	Value of OTC derivatives (notional) 8.33%
		Cross-jurisdictional liabilities 8.33%
		Cross-jurisdictional claims 8.33%
	Interconnectedness	Intra-financial system liabilities 8.33%
Intra-financial system assets 8.33%		
Debt securities outstanding 8.33%		
For the evaluation performed in 2015, the National Bank of Romania used the threshold of 275 basis points, based on discretions provided by the <i>EBA Guidelines on the criteria to determine the conditions of application of Article</i>		

<p>3.4 Indicators used for designation of the O-SII (Article 131.3)</p>	<p><i>131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) for the national competent authorities.</i> The threshold of 275 basis points takes into account the specificities of the Romanian banking sector and the resulting statistical distribution of the scores, thereby ensuring the homogeneity of the group of O-SIIs designated based on the O-SIIs' systemic importance.</p> <p>In order to calculate the mandatory indicators, the harmonized definitions are used according the specifications in Table 2 of Annex 1 in the <i>EBA 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)</i> based on FINREP reports compiled according the implementing technical standard on an EU-wide common supervisory reporting framework.</p>
<p>3.5 Calibrating the O-SII buffer</p>	<p>The requirement of O-SII buffer is 1% of the total risk exposure amount for each systemically important credit institution identified in 2015 using the <i>EBA 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)</i>.</p> <p>The level of 1% of O-SII buffer is calibrated according the provisions of Article 131(5) of CRD IV (i.e. up to 2 % of the total risk exposure amount) and Article 131(8) of CRD IV (i.e. where an O-SII is a subsidiary of either a G-SII or an O-SII which is an EU parent institution and subject to an O-SII buffer on a consolidated basis, the buffer that applies at individual or sub-consolidated level for the O-SII shall not exceed the higher of: (a) 1 % of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013; and (b) the G-SII or O-SII buffer rate applicable to the group at consolidated level).</p>

<p>3.6 In case of O-SII: Suitability, effectiveness and proportionality of measure (Article 131.7)</p>	<p>Please provide.</p> <p>a) the justification for why the O-SII buffer is considered likely to be effective and proportionate to mitigate the risk;</p> <p>The use of O-SII buffer as macroprudential instrument is effective in achieving the intermediate objective of "limiting the systemic impact of</p>
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misaligned incentives with a view to reducing moral hazard", contributing to strengthening the resilience of large institutions and ensuring the continuity of their critical functions which promotes the consolidation of the resilience of the financial system as a whole.

The objectives of imposing additional capital requirements for systemically important institutions consist of: (i) increasing their capacity to absorb losses, with positive effects on lowering the systemic risk generated by the size of institutions, i.e. the likelihood of entering financial difficulties or lower the severity of their potential negative impact; (ii) correcting the advantages that the entities considered "too big to fail" enjoy due to implicit government guarantees. Therefore, the O-SII buffer may be accounted as a proportional measure as it ensures an equal treatment of all the banks in the domestic market.

Macroprudential instrument consisting in higher capital requirements for the systemically important institutions (O-SII buffer) takes into account the structural dimension of systemic risk, i.e. the distribution of the risk in the financial system. In the case of large institutions, the systemic risk arises from asset size and varies insignificantly over the economic cycle. Weaknesses in risk management strategies can be mitigated to some extent by additional capital requirements applicable using the criteria of systemic dimension.

b) an assessment of the likely positive or negative impact of the O-SII buffer on the internal market, based on information which is available to the State.

The higher capital requirements following the implementation of the O-SII buffer will increase the resilience of systemically important banks in Romania which will positively affect both the stability of the financial system as a whole and the real economy at domestic level.

In respect of the impact on the internal market, is to be mentioned that 95% of total exposures in the balance sheet of the Romanian banks are of a domestic nature. From this perspective, we estimate a limited impact on the internal market of the above mentioned measures.

Secondly, seven out of nine systemically important banks in Romania are subsidiaries of large EU foreign banks which are G-SIIs or O-SIIs in their home country and therefore they are subject of G-SII/O-SII buffers.

Thirdly, as the capitalization of large Romanian banks is comfortable, the activation of O-SII buffer will not require new capital contributions from the shareholders. Albeit the O-SII buffer is activated, the banks will have still enough capital reserves to be able to resume lending to the real economy.

Is to be mentioned that activation of O-SII buffer is substantiated by the provisions of CRD IV/CRR which is applicable in all the EU member states and therefore a level playing field both domestically and at EU level is ensured.

3.7 In Case of O-SII, assessment of spillovers and likely impact on the internal market (Article 131.6)	<p>See above. The activation of O-SII buffer is substantiated by the provisions of CRD IV/CRR which is applicable in all the EU member states and therefore a level playing field both domestically and at EU level is ensured.</p>
3.8 Assessment of leakages	<p>The scope for leakages is expected to be limited both domestically and at EU level accounting for the scope of the O-SII buffer and the specific traits of the Romanian banking system:</p> <ul style="list-style-type: none"> (i) according CRD IV, the O-SII buffer should be maintained at individual, sub-consolidated and consolidated level, as applicable, therefore preventing the shifts of activities within groups ; (ii) given that 90% of the total assets of the Romanian banking system are hold by foreign EU banks, no significant leakages are expected to manifest as the same requirements are applicable to the parent bank; (iii) the capitalization of large banks is comfortable, hence the institutions are not bound to reduce or transfer their activities.
3.9 Other relevant information	<p>Not applicable.</p>
4. Combinations and timing of the G-SII or O-SII notified	
4.1 Combinations between G-SII and OSII buffers (Article 131.14)	<p>Not applicable. The Romanian banking system does not include G-SIIs.</p>
4.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	<p>Not applicable. If both O-SII buffer criteria and systemic risk buffer criteria applies to one bank, only O-SII buffer requirements are applicable. Systemic risk buffer is not applicable to systemically important institutions in 2016.</p>
4.3 Combined buffer requirement (Article 131.16 and Article 131.17)	<p>For the systemically important institutions, a combined buffer requirements consisting of (i) the capital conservation buffer equal to 0,625% of total risk exposure amount and (ii) O-SII buffer of 1% of total risk exposure amount is applicable from 1 January 2016.</p>
4.4 O-SII requirement for a subsidiary (Article 131.8)	

4.5 Timing of the measure	The intended date of activation is 1 January 2016.
4.6 Review of the measure	The O-SII buffer will be reviewed annually.
5. Miscellaneous	
5.1 Disclosure	The intended date of publication is 1 January 2016. The National Bank of Romania will comply with the notification requirements to ESRB, EC, EBA and national authorities concerned. The measures will be published on the National Bank of Romania's website (www.bnro.ro).
5.2 Contact person(s) at notifying authority	Eugen Rădulescu, +4021 3130653, eugen.radulescu@bnro.ro
5.3 Any other relevant information	