

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

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;

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																															
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: TO82200VT80V06K0FH57) • Banco Comercial Português (Lei code: U1U6S0DG9YLT7N8ZV32) • Novo Banco (Lei code: 5493009W2E2YDCXY6S81) • Santander Totta – SGPS (Lei code: 5493005RLLC1P7VSVC58) • 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)? Taking into account this decision, the O-SII's buffers shall be applicable from 1 January 2018 and shall be phased-in over a four years period. 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> <th>O-SII Buffer to be required in 1 January 2020</th> <th>O-SII Buffer to be required in 1 January 2021</th> </tr> </thead> <tbody> <tr> <td>Caixa Geral de Depósitos</td> <td>0.25%</td> <td>0.50%</td> <td>0.75%</td> <td>1.00%</td> </tr> <tr> <td>Banco Comercial Português</td> <td>0.188%</td> <td>0.375%</td> <td>0.563%</td> <td>0.75%</td> </tr> <tr> <td>Novo Banco</td> <td>0.125%</td> <td>0.25%</td> <td>0.375%</td> <td>0.5%</td> </tr> <tr> <td>Banco BPI</td> <td>0.125%</td> <td>0.25%</td> <td>0.375%</td> <td>0.5%</td> </tr> <tr> <td>Santander Totta - SGPS</td> <td>0.125%</td> <td>0.25%</td> <td>0.375%</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	O-SII Buffer to be required in 1 January 2020	O-SII Buffer to be required in 1 January 2021	Caixa Geral de Depósitos	0.25%	0.50%	0.75%	1.00%	Banco Comercial Português	0.188%	0.375%	0.563%	0.75%	Novo Banco	0.125%	0.25%	0.375%	0.5%	Banco BPI	0.125%	0.25%	0.375%	0.5%	Santander Totta - SGPS	0.125%	0.25%	0.375%	0.5%
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	Caixa Económica Montepio Geral	0.063%	0.125%	0.188%	0.25%	
2.3 Name of the EU ultimate parent institution	<p>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.</p> <p>Santander Totta – SGPS is a subsidiary of the Spanish parent institution, Banco Santander S.A. - Lei code: 5493006QMFDDMYWIAM13.</p> <p>Banco BPI is a subsidiary of the Spanish parent institution, CriteriaCaixa (holding of Caixabank, S.A.) - Lei code: 959800DQUAMV0K08004.</p>					
2.4 Names of subsidiaries	<p>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).</p> <p>N/A</p>					
3. Timing of the measure						
3.1 Timing of the Decision	<p>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 3 of October 2017. The formal decision was taken on 31 of October 2017. The intended date for publication on Banco de Portugal’s website of the final decision on the capital O-SII buffers is 1 of December 2017.</p>					
3.2 Timing of the Publication	<p>What is the date of publication of the notified measure? The intended date is 1 of December 2017.</p>					
3.3 Disclosure	<p>Information about the communication strategy of the notified measure to the market. Banco de Portugal will publish the final decision on its website by 1 of December 2017 (after market closure) and will communicate it to each institution designated as O-SII.</p>					
3.4 Timing of Application	<p>What is the intended date of activation (i.e. as of which date shall the measure be applicable)? 1 of January 2018</p>					
3.5 Phasing in	<p>What is the intended timeline for the phase-in of the measure? 1 of January 2018: 25% of the O-SII buffer 1 of January 2019: 50% of the O-SII buffer 1 of January 2020: 75% of the O-SII buffer 1 of January 2021: 100% of the O-SII buffer</p>					
3.6 Review of the measure	<p>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)?</p> <p>The list of O-SIIs and corresponding buffer requirements will be reviewed at least annually, as required under CRD IV. The next review exercise is foreseen to be concluded by 1 December 2018, unless a significant restructuring process takes place, namely through merger and acquisitions. The calibration process should be reviewed after those restructuring processes.</p>					
4. Reason for O-SII identification and activation of the O-SII buffer						

<p>4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)</p>	<table border="1"> <thead> <tr> <th data-bbox="574 203 906 264">Bank Name</th> <th data-bbox="906 203 1059 264">Final Score</th> </tr> </thead> <tbody> <tr> <td data-bbox="574 264 906 327">Caixa Geral de Depósitos</td> <td data-bbox="906 264 1059 327">2546</td> </tr> <tr> <td data-bbox="574 327 906 389">Banco Comercial Português</td> <td data-bbox="906 327 1059 389">1885</td> </tr> <tr> <td data-bbox="574 389 906 452">Novo Banco</td> <td data-bbox="906 389 1059 452">1274</td> </tr> <tr> <td data-bbox="574 452 906 515">Santander Totta - SGPS</td> <td data-bbox="906 452 1059 515">1176</td> </tr> <tr> <td data-bbox="574 515 906 577">Banco BPI</td> <td data-bbox="906 515 1059 577">703</td> </tr> <tr> <td data-bbox="574 577 906 640">Caixa Económica Montepio Geral</td> <td data-bbox="906 577 1059 640">485</td> </tr> </tbody> </table>	Bank Name	Final Score	Caixa Geral de Depósitos	2546	Banco Comercial Português	1885	Novo Banco	1274	Santander Totta - SGPS	1176	Banco BPI	703	Caixa Económica Montepio Geral	485
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<p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</p>	<p>The EBA methodology has been applied to compute the scores for all the institutions operating in Portugal using consolidated data in accordance with 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>When FINREP data were unavailable, proxies were used - taken from each bank's financial statements (dated December 2016), 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>														
<p>4.3 Supervisory judgement</p>	<p>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.</p>														

<p>4.4 Calibrating the O-SII buffer</p>	<p>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 2018 aligned with the information provided in point 2.2.</p> <p>Against this background, and taking into account the scores obtained in the identification process, we set up five buckets as follows:</p> <ul style="list-style-type: none"> 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. <p>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 signals 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:</p> <p>O-SIIs distribution by buckets and respective buffers:</p> <table border="1" data-bbox="703 1021 1386 1317"> <thead> <tr> <th></th> <th><u>Buckets/Scores</u></th> <th><u>Capital Buffers</u></th> </tr> </thead> <tbody> <tr> <td>5</td> <td>>= 2800</td> <td>2.00%</td> </tr> <tr> <td>4</td> <td>2100-2799</td> <td>1.00%</td> </tr> <tr> <td>3</td> <td>1400-2099</td> <td>0.75%</td> </tr> <tr> <td>2</td> <td>700-1399</td> <td>0.50%</td> </tr> <tr> <td>1</td> <td>350-699</td> <td>0.25%</td> </tr> </tbody> </table>		<u>Buckets/Scores</u>	<u>Capital 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%
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<p>4.5 Effectiveness and proportionality of measure</p>	<p>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.</p> <p>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 be at the origin and/or amplify shocks throughout the financial system and have serious i) cross-border impact 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. 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 these six institutions amounted, in 2016, to 80% of the total assets of the Portuguese banking sector and represented 169% of the Portuguese GDP. Therefore, the relevance of these institutions in the domestic banking system and the magnitude of the systemic risk that they may pose to the Portuguese economy is clear. Thus, the need for a capital buffer targeted to these institutions is largely justified.</p> <p>The level of the buffer remains unchanged. In what regards the time to comply with the buffer, Banco de Portugal has decided for an extension of the phase-in period from 2 years to 4 years, maintaining the starting date (2018-2021).</p> <p>This decision was taken considering the challenges that the Portuguese banking system faces in the short term, against the background of a protracted period of low short term interest rates.</p> <p>The aforementioned challenges, which are clearly interlinked with the capital ratios and requirements faced by banks, comprise (i) the need to continue the process of cleaning up the balance sheets from non-performing loans; (ii) the impact of the forthcoming adoption of IFRS 9 (2018); (iii) the gradual phasing out of transitional provisions laid down in the CRR and CRD IV (2018); and (iv) the need to access financial markets to comply with the new regulatory requirements, namely the minimum requirements for own funds and eligible liabilities (MREL). The latter requirements should be seen in a context characterized by a relatively high cost of issuance, where access to capital markets by Portuguese banks is still constrained.</p>
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5. Cross-border and cross-sector impact of the measure	
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<p>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</p>	<p>In order to perform the assessment of the potential cross-border effects leakages and regulatory arbitrage of the macroprudential measure at hand we use the framework and the indicators, whenever available, set out in the Chapter 11 of the ESRB Handbook.</p> <p>Regarding inward spillovers (cross-border effects of the implementation of macroprudential measures that affect the activating authorities) through risk adjustment and network and contagion channels, the cross-border credit granted through foreign branches does not exceeded 1% of the total assets of the domestic Portuguese banking system. Additionally in terms of total assets and liabilities, the share of foreign branches does not reach 5%.</p> <p>Considering the potential outward spillovers (cross-border effects that impact the Single Market), it is noticed that the cross-border credit of domestic institutions only reaches 6% of the total assets of those institutions and 0.1% of the total credit granted in the remaining EU Member-States. Therefore, it is not expected that Portuguese domestic banks would significantly change their exposures to other EU Member-States.</p> <p>Summing up, the potential for cross-border spillovers from macroprudential measures taken by the Portuguese authority is rather limited.</p> <p>Moreover, being an institution's specific buffer this measure does not need voluntary reciprocity under Recommendation ESRB/2015/2.</p>
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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 financial entities.
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>The O-SIIs identified are subject to the Capital Conservation Buffer 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>Following previous answer this is not applicable.</p>
6.4 O-SII requirement for a subsidiary (Article 131.8)	<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.) which is a G-SII in Spain whereas Banco BPI is a subsidiary of a Spanish parent institution CriteriaCaixa (holding of Caixabank, SA) which is a O-SII in Spain.</p> <p>The proposed O-SII buffers (0.5% on a sub-consolidated basis as of 1 January 2021) comply with Article 131.8 of CRD IV, since they are below the limits foreseen in this Article.</p> <p>In the case of Santander the (indicative) G-SII buffer required for the same period to the Spanish parent institution is 1% (see the Financial Stability Board 2016 update of list of global systemically important banks - http://www.fsb.org/wp-content/uploads/2016-list-of-global-systemically-important-banks-G-SIBs.pdf) assuming that the decision regarding the G-SII buffer rate will remain unchanged.</p> <p>In what regards CriteriaCaixa (holding of Caixabank, SA), the institution has to comply with an O-SII buffer of 0.25% (as of 1 January of 2019) which is below the buffer ascribed to Banco BPI (see point 2.2). In this case, the 1% limit is applied.</p>
6.5 Interaction with other measures	<p>How does the buffer requirement interact with other measures addressing the same risk (e.g. with other supervisory measures)?</p> <p>The introduction of the Bank Recovery and Resolution Directive (BRRD), which establishes new rules to resolve and manage crisis of financial institutions addresses in some extent the same risks, given that this new framework aims to mitigate the</p>

	assumption of (implicit) government guarantees mainly associated to systemically important institutions.
7. Miscellaneous	
7.1 Contact person(s) at notifying authority	<p>Contact person(s) for further inquiries (name, phone number and e-mail address)</p> <p>Ana Cristina Leal (Head of the Financial Stability Department)</p> <p>aleal@bportugal.pt</p> <p>+351 211 597 083</p> <p>Fátima Silva (Head of the Macroprudential Policy Unit)</p> <p>mfsilva@bportugal.pt</p> <p>+351 211597024</p>
7.2 Any other relevant information	N/A