

Bank of England

Prudential Regulation Authority

The PRA's approach to identifying other systemically important institutions (O-SIIs)

Statement of Policy | SoP

November 2022



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1. Introduction

1.1 This statement of policy sets out the criteria and scoring methodology that the Prudential Regulation Authority (PRA) uses to identify other systemically important institutions (O-SIIs), as is required under the Capital Requirements (Capital Buffers and Macroprudential Measures) Regulations 2014, as amended (the 'Capital Buffers Regulations').

1.2 In developing its approach to the identification of O-SIIs, the PRA has taken into consideration relevant Basel principles.¹ The approach outlined in this document is consistent with these principles.

1.3 [Deleted]

2. Which firms can be identified as O-SIIs?

2.1 In line with the Capital Buffers Regulations, the framework outlined in this statement of policy is to be applied in relation to all credit institutions, investment firms, and groups that are headed by UK parent institutions, UK parent financial holding companies, or UK parent mixed financial holding companies within the domestic financial sector at their highest level of consolidation in the United Kingdom.²

2.2 The framework is not applied to: i) third-country branches of overseas firms, and ii) investment firms not regulated by the PRA. The rationale for this is as follows:

- (i) The Capital Buffers Regulations do not allow the designation of third country branches of overseas banks operating in the UK as O-SIIs. Therefore, these institutions are not considered for O-SII designation. The PRA, however, includes the activity of UK branches of overseas banks in the denominators used for calculating indicator scores.
- (ii) The framework is only applied to those investment firms designated for prudential supervision by the PRA. The Statement of Policy 'Designation of investment firms for prudential supervision by the PRA'³ outlines the PRA's designation policy, which takes into account the criteria of size, substitutability, interconnectedness, and complexity; the same criteria set out in Article 31(1) Capital Buffers Regulations. Therefore, if an investment firm has not been designated for supervision by the PRA, this means that the PRA has assessed that the investment firm is not systemically important. This assessment is sufficient to comply with the O-SII assessment methodology set out in the Capital Buffers Regulations.
- (iii) [Deleted]

¹ [A framework for dealing with domestic systemically important banks - final document \(bis.org\)](#)

² References in this statement of policy to the designation of a firm as an O-SII should be taken to include the designation of a group of firms at the highest level of consolidation in the UK.

³ March 2013: www.bankofengland.co.uk/pr/Pages/publications/designationinvestmentfirms.aspx

3. EBA's mandatory scoring methodology for O-SII identification

[This chapter has been deleted]

4. O-SII identification methodology

4.1 [Deleted]

4.2 The PRA uses a quantitative scoring methodology to inform its assessment of which firms should be designated as O-SIIs. The scoring methodology measures activities that are critical to the UK economy and financial system, in line with the PRA's focus on the risk of disruption to the continuity of supply of critical economic functions.

4.3 The scoring methodology reflects a firm's potential to affect adversely the stability of the system by failing, coming under stress, or the way it carries on its business. This effect can take place through two broad channels – the first is directly, through the impact on real economic activity or on the soundness of other participants, and so the provision of financial services to the economy as a whole. The second is indirectly, through behavioural effects where vulnerabilities within one firm affect confidence in other firms with similar business models or products.

4.4 In identifying O-SIIs, the PRA will take into consideration the list of credit institutions and investment firms classified as 'Category 1' under its internal potential impact framework. The PRA's approach to banking supervision document⁴ defines 'Category 1' firms as the most significant deposit takers and designated investment firms whose size, interconnectedness, complexity and business type give them the capacity to cause very significant disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying on their business in an unsafe manner. The scale of such adverse effects depends both on the functions a firm provides, and its significance within the financial system. Some of the critical economic functions that firms provide are: payment, settlement and clearing; retail banking; corporate banking; intra-financial system borrowing and lending; investment banking; and custody services. The scale of a firm's potential impact also depends on its size, complexity, business type and interconnectedness with the rest of the financial system.

4.5 The PRA calculates firms' scores based on the indicators set out in Table 1 of Appendix 1, in line with the calculation method outlined in Appendix 1. This score is then used in combination with supervisory judgement to determine whether to designate firms as O-SIIs.

⁴ October 2018: [PRA's approach to supervision of the banking and insurance sectors.](#)

The PRA expects to designate firms whose score exceeds 100 basis points as O-SIIs, unless those scores only exceed that point because of their activity conducted in the United Kingdom through third-country branches of overseas firms.

4.6 The PRA may designate firms as O-SIIs whose score is below 100 basis points.

(i) Firms scoring just below 100 basis points may be designated as O-SIIs if the PRA judges that they are systemically important to the UK economy.

(ii) The quantitative elements of the O-SII assessment methodology are applied at the highest level of consolidation in the UK, but some subsidiaries of overseas groups do not have a single consolidation in the UK. Where one of the subsidiaries has been designated as an O-SII, the PRA can use supervisory judgement to designate any of its sister subsidiaries in the UK as O-SIIs, if interdependencies between the subsidiaries mean that the resilience of the O-SII could be threatened by the failure of a sister subsidiary.

(iii) The PRA otherwise judges as part of its supervisory activities that a firm is systemically important to the UK economy or financial system.

4.7 [Deleted]

4.8 The PRA notes that O-SII designation does not automatically result in higher loss absorbency requirements in the form of an O-SII buffer or otherwise. An O-SII buffer can only apply to O-SIIs or part of an O-SII that are ring-fenced bodies (RFBs) or large building societies. The Financial Policy Committee (FPC) maintains the framework for setting O-SII buffer rates,⁵ according to which, O-SII buffer rates are determined based on firms' UK leverage exposure measure.⁶ The PRA sets O-SII buffer rates annually based on the FPC's framework. The PRA has separately set out its approach in applying the FPC's framework.⁷

5. O-SII identification timetable and publication

5.1 The PRA will conduct the O-SII identification annually and publish the list of firms designated as O-SIIs by 1 December each year.

⁵ May 2016: [The Financial Policy Committee's framework for the O-SII buffer](#).

⁶ As per updated FPC framework, effective from 2023. Prior to this, rates were determined based on firms' total assets.

⁷ December 2020: [The PRA's approach to the implementation of the O-SII buffer](#).

Appendices

1 The O-SII identification scoring methodology

2 Statement of Policy updates

Appendix 1: The O-SII identification scoring methodology

A firm's score is calculated based on its significance in a number of categories (eg 'retail banking'). A firm's significance in each category is measured as the firm's share of PRA-regulated firms' activity. A number of indicators (eg 'value of retail deposits') measure a firm's activity within each category. The market shares in each indicator are averaged within categories using the weights outlined in the fourth column of Table 1. Subsequently, the overall score is calculated by averaging across the categories using the weights in the second column of Table 1.

Table 1: Categories and indicators to be used in O-SII scoring

Category	Category weight (%)	Indicators	Weight within category (%)
Retail Banking	150	Value of Retail Deposits	44
		Value of Retail Lending	23
		Number of Retail Customers	33
Corporate Banking	100	Value of Corporate Deposits	40
		Value of Corporate Lending	60
Intra-financial Banking	100	Intra-financial Liabilities (Deposits, Repos, Derivatives)	50
		Intra-financial Assets (Loans, Reverse Repos, Derivatives)	50
Payment, Settlement & Clearing services	100	Daily Average Value of CHAPS transactions	20
		Daily Average Value of BACS transactions	20
		Daily Average Value of CREST transactions	20
		Daily Average Value of LCH transactions	20
		Daily Average Value of Faster Payments transactions	20
Custody Services	100	Custody Assets	100
Investment Banking	100	Trading Assets	33
		Trading Liabilities	33
		Volume of all debt instruments traded	34

The PRA calculates each relevant entity's score by:

- (i) dividing the indicator value of each individual relevant entity by the aggregate amount of the respective indicator values summed across all institutions in scope of this framework, authorised in the UK (the 'denominators');
- (ii) multiplying the resulting percentages by 10,000 to express the indicator scores in terms of basis points;
- (iii) calculating the category score for each relevant entity by taking an average of the indicator scores in that category, calculated based on the indicator weights in the fourth column of Table 1; and
- (iv) calculating the overall score for each relevant entity by taking an average of its six category scores, calculated based on the category weights in the second column of Table 1.

Therefore, the final score can be interpreted as a firm's weighted average market share across the activities contributing to systemic importance, measured in basis points.

Third-country branches of overseas banks operating in the UK are not assessed as part of this framework but estimates of their activity are included in the denominators.

Appendix 2: Statement of Policy updates

This annex details changes made to this Statement of Policy following its initial publication in February 2016.

2022

29 November 2022

This SoP was updated in 2022 following the publication of [PS9/22 – ‘Amendments to the PRA's approach to identifying other systemically important institutions \(O-SIIs\)’](#). It was updated to:

- remove the EBA’s scoring methodology from the O-SII identification process, such that the scores used to inform O-SII identification are based solely on the PRA’s scoring methodology;
- update specific indicators and weights in the PRA’s scoring methodology for O-SII identification; and
- remove the PRA’s intention to publish scores and the rationale for any use of supervisory judgement.

2020

28 December 2020

This SoP was updated in 2020 following the publication of [PS26/20 – ‘Capital Requirements Directive V \(CRD V\)’](#). It was updated to remove references to the SRB and replace with the O-SII buffer. This reflects that the PRA, in line with CRDV, will now require additional loss absorbency of RFBs and large building societies via the O-SII buffer.