

Policy Statement | PS6/16

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

February 2016



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY



Prudential Regulation Authority  
20 Moorgate  
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.  
Registered in England and Wales No: 07854923



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This policy statement contains feedback to CP39/15 'The PRA's approach to identifying other systemically important institutions (O-SIIs)', a statement of policy and the PRA's 2015 list of UK firms designated as O-SIIs.



## 1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to Consultation Paper (CP) 39/15, 'The PRA's approach to identifying other systemically important institutions (O-SIIs)'.<sup>1</sup>

1.2 The appendices to this PS contain the final statement of policy on the PRA's approach to identifying O-SIIs (Appendix 1). Also published alongside this PS is the 2015 list of UK firms designated as O-SIIs (Appendix 2).

1.3 In CP39/15 the PRA set out the criteria and scoring methodology it proposed to use to identify O-SIIs. These criteria and methodology are derived from Article 131(3) of the Capital Requirements Directive (2013/36/EU) (CRD IV) – which requires O-SIIs to be identified<sup>2</sup> - and follow the European Banking Authority (EBA) Guidelines on the criteria to determine the conditions of application of Article 131(3) CRD IV in relation to the assessment of O-SIIs.<sup>3</sup> In particular, the PRA consulted on the following areas:

- which firms can be identified as O-SIIs;
- application of discretion afforded within the EBA's mandatory scoring methodology for O-SII identification;
- application of a supervisory overlay to adequately capture systemic risk in the UK banking sector, and proposals to use the methodology of the PRA's existing potential impact framework to inform this assessment; and
- the timetable for O-SII identification, and publications related to O-SII identification.

1.4 This PS is relevant to all credit institutions, investment firms, EEA parent institutions, EEA parent financial holding companies and EEA parent mixed financial holding companies within the domestic financial sector at their highest level of consolidation in the United Kingdom. The proposals contained in this consultation do not apply to EEA and third-country branches operating in the UK. The content of this policy statement does not apply to EEA and third-country branches operating in the UK.

1.5 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on the impact of rules on mutuals where the final rule differs from the draft of the proposed rule.<sup>4</sup> While the PRA is not implementing new rules, in its opinion the impact of this policy on mutuals is not significantly different from the impact on other firms and has not changed from the proposals contained in CP39/15.

1.6 CP39/15 contained a cost benefit analysis of the proposals, consideration of the impact on competition and an account of the PRA's consideration of the regulatory principles set out in Section 3B of FSMA. The PRA also had regard to the need to eliminate discrimination and to promote equality of opportunity as set out in the Equality Act 2010. As the PRA's policy is unchanged, this analysis remains valid.

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1 PRA Consultation Paper 39/15 'The PRA's approach to identifying other systemically important institutions (O-SIIs)', October 2015: [www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp3915.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp3915.aspx).

2 Article 131(3) of the CRD is implemented in the UK by the Capital Requirements (Capital Buffers and Macroprudential measures) Regulations 2014 (SI 2014/894)

3 EBA/GL/2014/10

4 Section 138K of FSMA.

1.7 The PRA has had regard to any representations made to the proposals in the consultation and publishes an account below, in general terms, of those representations and its response to them. No material changes have been made to this policy as a result of the consultation. Chapter 2 sets out feedback to responses received during the consultation.

## **2 Feedback to responses**

2.1 This section sets out feedback to responses received to proposals set out in CP39/15 for the PRA's approach to identifying O-SIIs.

2.2 Respondents supported the PRA's proposals to align its scoring methodology for O-SIIs with the EBA methodology and the potential impact framework.

2.3 Respondents also expressed support for the proposal to exclude from the identification process firms which hold less than 0.02% of the total assets of credit institutions and investment firms authorised in the United Kingdom.

2.4 Clarification was sought on the sources of the data used in the calculation of the mandatory score. In keeping with the EBA Guidelines, the PRA will use data provided through financial reporting (FINREP) submissions to calculate these scores. In the case that a firm is not required to submit the FINREP forms, proxies derived from other regulatory data will be used to estimate the values of the firm's indicator scores.

2.5 Concern was expressed that the publication of a list of O-SIIs may lead to markets treating those institutions differently. The PRA acknowledges this concern but, as set out above, the identification of O-SIIs is a CRD IV requirement.

2.6 No comments were made on the other elements of the consultation outlined above.

## Appendices

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- 1** **Statement of Policy - The PRA's approach to identifying other systemically important institutions (O-SIIs), available at:**  
**[www.bankofengland.co.uk/pr/Pages/publications/sop/2016/approachtosii.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/sop/2016/approachtosii.aspx)**
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- 2** **2015 list of UK firms designated as other systemically important institutions (O-SIIs), available at:** **[www.bankofengland.co.uk/pr/Pages/crdiv/updates.aspx](http://www.bankofengland.co.uk/pr/Pages/crdiv/updates.aspx)**
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