

## **28 October 2019: Recommendation on adjustment of the O-SII capital buffer (AFMS/2019/2)**

In its meeting on 28 October 2019, the Financial Stability Council (FSC) recommended pursuant to Article 33b(2)(d) of the Financial Market Act (FMAG) that the FMA set the level of the buffer for other systemically important institutions (O-SIIs) to 2% of the total risk exposure amount on a consolidated basis. This recommendation takes account in particular of the Guidelines of the European Banking Authority (EBA).<sup>1</sup>

The O-SII buffer is applied to financial institutions that pose substantial systemic risks to the banking system. By specifying an additional buffer consisting of Common Equity Tier 1 capital, the O-SII buffer primarily aims to reduce the probability of default of systemically important institutions, but at the same time it also compensates for the negative effects of an implicit state guarantee. In addition, the buffer is intended to strengthen market confidence in the identified banks by increasing their loss-absorbing capacity.

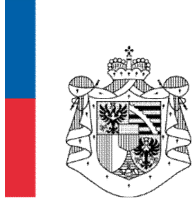
O-SIIs are identified on a yearly basis, following a two-step procedure established under the EBA Guidelines and taking into account ten indicators. In the first step, a score is calculated for each relevant institution at least at the highest consolidation level. The score reflects the systemic importance of the institution and includes the following core criteria:

- size,
- importance for the economy of the Member State, capturing substitutability/financial institution infrastructure,
- complexity, including the additional complexities from cross-border activity, and
- interconnectedness of the institution with the financial system.

All four criteria are weighted equally. The systemic importance of an institution in the financial centre follows from the relative weight of the institution to the other institutions in the Liechtenstein banking system. The threshold of 350 basis points as specified in the EBA Guidelines is used to designate an institution as an O-SII, given a total score of 10 000 basis points for the entire banking sector of a Member State. The second step consists in a supervisory assessment by the national

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<sup>1</sup> 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) (EBA/GL/2014/10).



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authorities, in which further optional indicators may be used to assess systemic importance. This serves to identify all systemically important banks as O-SIIs, even if they were not identified as such in the first step.

The following scores and buffer rates have been calculated for the Liechtenstein institutions:

	Total score	O-SII buffer rate in % of total risk exposure amount
LGT Bank AG	5284	2%
Liechtensteinische Landesbank AG	2488	2%
VP Bank AG	1219	2%

The three identified O-SIIs are systemically important to the Liechtenstein banking sector in terms of all four core criteria (i.e. size, importance for the Liechtenstein economy, complexity, and interconnectedness with the real economy). The Liechtenstein banking sector is highly concentrated around the three systemically important banks, as is apparent from their aggregated total score of 8991 (out of a possible 10 000 basis points). Given that all three identified O-SIIs have a total score of more than 1000 points, and hence far exceed the defined threshold of 350 basis points for the identification of a systemically important bank, the FSC recommends that the FMA set the O-SII buffer at 2% of the total risk exposure amount.

This results in an increase in the O-SII buffer rate from 0% to 2% of the total risk exposure amount. When implementing CRD IV in 2015, Liechtenstein chose to cover the additional capital requirements for the three systemically important banks via the systemic risk buffer. Following the formal incorporation of CRD IV into the EEA Agreement by Decision of the EEA Joint Committee No 79/2019 of 29 March 2019, the fundamental provisions on capital buffers are being adjusted to the European understanding in autumn 2019. The systemic risk buffer is also being recalibrated in this context.