



### **13 October 2021: Recommendation to maintain the O-SII capital buffer (AFMS/2021/2)**

In its meeting on 13 October 2021, the Financial Stability Council (FSC) recommended pursuant to Article 33b(2)(d) of the Financial Market Supervision Act (FMAG) that the FMA retain the buffer for Other Systemically Important Institutions (O-SII), based on an annual calibration and buffer review of the FMA, at 2% of the total risk exposure amount on a consolidated as well as individual basis. This recommendation in particular considers the Guidelines of the European Banking Authority<sup>1</sup> (EBA) and was issued on the basis of the planned revision of the Banking Act (BankG) to implement CRD V, which - subject to the approval of the Liechtenstein Parliament - is expected to come into force in Liechtenstein in spring 2022. The new capital buffer provisions, as set forth in this AFMS recommendation, are to apply as of the entry into force of the revised Bank Act.

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 center 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

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<sup>1</sup> Guidelines on criteria for determining the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) as regards the assessment of other systemically important institutions (O-SII) (EBA/GL/2014/10)



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institution as an O-SII, given a total score of 10'000 basis points for the entire banking sector of a Member State. Since systemic risks can manifest themselves on both a consolidated and an individual basis, and capital allocation is not flexible in a crisis, especially within a cross-border banking group, the O-SII buffer is to be prescribed on both the consolidated and individual basis. The following scores and buffer rates have been calculated for the Liechtenstein institutions:

*Table 1: O-SIIs in Liechtenstein and the O-SII buffer rates (consolidated basis)*

<b>Banking group</b>	<b>Total points</b>	<b>O-SII buffer in percent of the total risk exposure amount</b>
LGT Group	5'240	2%
Liechtensteinische Landesbank Gruppe	2'470	2%
VP Bank Group	1'447	2%

*Table 2: O-SIIs in Liechtenstein and the O-SII buffer rates (individual basis)*

<b>Banking group</b>	<b>Total points</b>	<b>O-SII buffer in percent of the total risk exposure amount</b>
LGT Bank AG	5'649	2%
Liechtensteinische Landesbank AG	1'815	2%
VP Bank AG	1'599	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). Liechtenstein's banking sector is highly concentrated around the three systemically important banks, as is apparent from their aggregated total score of 9,157 and 9'063 (out of a possible 10'000 basis points). Given that all three identified O-SIIs have a total score of more than 1'000 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 retain the O-SII buffer at 2% of the total risk exposure amount for all three mentioned banks on a consolidated and individual basis.