Governing Council statement on the treatment of the European banking union in the assessment methodology for global systemically important banks

27 June 2022

The Governing Council of the European Central Bank (ECB) releases the following statement after the meeting of its Macroprudential Forum on 22 June 2022:

In November 2021 the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) announced that the BCBS would review the implications of developments relating to the European banking union (EBU) in terms of the assessment methodology for global systemically important banks (G-SIBs).1 This included a targeted review of the treatment of cross-border exposures2 within the EBU on the G-SIB assessment framework.

On 27 May 2022 the BCBS completed that targeted review.3 The Basel Committee recognised the progress that had been made in the development of the EBU. It agreed to give recognition in the G-SIB assessment framework to this progress through the existing methodology, which allows adjustments to be made according to supervisory judgement.

Under this agreement, a parallel set of G-SIB scores will be calculated for EBU-headquartered G-SIBs and used to adjust their bucket allocations. These parallel scores recognise 66% of the score reduction that would result from treating intra-EBU exposures as domestic exposures under the G-SIB assessment methodology. Any downward adjustment of an EBU-headquartered G-SIB will be limited to a single bucket. This will not affect any bank’s classification as a G-SIB, or the scores or bucket allocations of banks outside the EBU.

See the annex to this statement for details of the methodology that will be used for exercising supervisory discretion regarding cross-border intra-EBU exposures in the G-SIB assessment framework.

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1 See the BCBS press release of 9 November 2021: “Basel Committee advances work on addressing climate-related financial risks, specifying cryptoassets’ prudential treatment and reviewing G-SIB assessment methodology”. See also the FSB press release of 23 November 2021: “2021 List of Global Systemically Important Banks (G-SIBs)”.

2 See here for details of the role that indicators of cross-jurisdictional activity play in the G-SIB framework.

3 See the BCBS press release of 31 May 2022: “Basel Committee finalises principles on climate-related financial risks, progresses work on specifying cryptoassets’ prudential treatment and agrees on way forward for the G-SIB assessment methodology review”.
Annex: Assessment methodology for G-SIBs in the European banking union – an Adjustment for ST ructural Regional Arrangements

The EBU methodology adds an extra step to the existing G-SIB assessment framework through a bank-specific Adjustment for ST ructural Regional Arrangements (ASTRA). This only affects EBU-headquartered banks; it does not affect the scores of non-EBU banks. A two-step approach is followed:

Step 1: The BCBS’s existing G-SIB assessment framework is used to calculate the G-SIB scores of all banks in the sample.4

Step 2: The scores of EBU-headquartered banks are adjusted to account for regional structural arrangements in the banking union. This adjustment is made by subtracting a given portion (66%) of the bank-specific ASTRA from the original score calculated in Step 1, mechanically recognising the impact that the EBU has on G-SIBs’ systemic footprints.

The ASTRA is defined as the change in the G-SIB score that an EBU-headquartered bank would face if all exposures to counterparties resident in an EBU country were regarded as domestic exposures. The alternative score – \( \text{Score}_i,\text{EBU-CJA} \) for an EBU-headquartered bank \( i \) – is calculated by changing the definitions of indicators in the cross-jurisdictional activity category only; the definitions of other types of indicator are not affected. Following those changes to the definitions of the cross-jurisdictional claims and cross-jurisdictional liabilities indicators, the \( \text{Score CJA-indicator}_i,\text{EBU} \) is calculated as:

\[
\text{Score CJA-indicator}_i,\text{EBU} = \frac{\sum_{\text{EBU-banks}} \left( 0 \times (CJE \text{ to EBU})_i + (CJE \text{ to non-EBU})_i \right) + \sum_{\text{non-EBU-banks}} (CJE \text{ to EBU})_i + (CJE \text{ to non-EBU})_i}{\sum_{\text{EBU-banks}} (CJE \text{ to EBU})_i + (CJE \text{ to non-EBU})_i}
\]

This amount is then multiplied by 10,000 in order to express the indicator score in terms of basis points. The formula above shows how bank \( i \)'s score for either cross-jurisdictional indicator is calculated, with red font denoting cross-jurisdictional exposures (CJE – claims or liabilities) that will be excluded if intra-EBU exposures are regarded as domestic.5

The ASTRA is calculated as the difference between the G-SIB score computed under the existing methodology, as denoted by \( \text{Score}_i \), and the G-SIB score

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4 The term “existing methodology” refers to the revised methodology that was approved by the BCBS in July 2018, which has been in place since the end-2021 G-SIB assessment exercise. See BCBS, “Global systemically important banks: revised assessment methodology and the higher loss absorbency requirement”, July 2018.

5 The relevant items in the current G-SIB assessment reporting template (available here) are GSIB1280 and GSIB1281 for cross-jurisdictional claims and GSIB1282 for cross-jurisdictional liabilities.
computed under the alternative methodology, i.e. $Score_{LEBU,CJA}$. More formally, the bank-specific ASTRA for bank $i$ is calculated as follows:

$$ASTRA_i = Score_i - Score_{LEBU,CJA}$$

The EBU methodology involves subtracting 66% of the bank-specific ASTRA from an EBU-headquartered bank’s G-SIB score as calculated in Step 1 above, reflecting the fact that some elements of the EBU remain to be accomplished. The resulting score is then used to determine the bank’s bucket allocation. More formally, the score that is used to determine the bucket allocation of an EBU bank – $Score_{LEBU}$ – is calculated as follows:

$$Score_{LEBU} = Score_i - 66\% \times ASTRA_i$$

The ASTRA is used solely for the purposes of the bucket allocations of EBU-headquartered banks; a bank cannot be removed from the list of G-SIBs on the basis of its ASTRA, and any downward adjustment is limited to a single bucket. If a bank is classified as a G-SIB on the basis of the existing G-SIB methodology (as described in Step 1), it remains a G-SIB even if its ASTRA would put its score below the classification threshold.

This methodology does not affect banks headquartered outside the EBU. By construction, a non-EBU bank is not impacted by regional arrangements in the EBU, so the score that is used to determine its bucket allocation is the one that is obtained under the existing G-SIB assessment framework (as described in Step 1).

The adjusted scores of all relevant EBU-headquartered banks will be published, as part of the obligations under EU law.

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9 The assessment methodology for G-SIBs involves an indicator-based approach encompassing five types of systemic importance: size, cross-jurisdictional activity, interconnectedness, substitutability/financial institution infrastructure, and complexity. The G-SIB score under the alternative methodology ($Score_{LEBU,CJA}$) is calculated by replacing the indicators of cross-jurisdictional activity with the alternative indicators described above ($Score_{CJA-indicator,EBU}$) for relevant EBU-headquartered banks; all other categories are unaffected.