Banca Națională a Moldovei

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Methodology for the identification of O-SII in the Republic of Moldova

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I. Preamble

Pursuant to Article 63 paragraph (7) of Law on the activity of banks No 202 of 06.10.2017, the National Bank of Moldova (BNM), as the competent authority, identifies banks that are systemically important institutions (hereinafter O-SII). Subsequently, identified banks will be subject to the requirement to maintain the O-SII capital buffer.

In developing this methodology for the identification of O-SIIs in the Republic of Moldova, the NBM has relied on the provisions of the Guidelines of the European Banking Authority on the Criteria to determine the conditions of application of Article 131 paragraph (3) of the Directive 2013/36/EU (CRD IV) in relation to the assessment of other systemically important institutions.

II. Purpose

The purpose of this methodology is to lay down the framework for the identification of O-SIIs in the Republic of Moldova as well as the method of score calculation for the criteria described below.

III. Selected criteria and indicators

The banks' assessment in view of identifying systemically important institutions shall be performed by calculating a score based on selected indicators (*Table 1*), at the highest consolidation level, for entities falling under the jurisdiction of the NBM, including their foreign subsidiaries. The calculated score shall reflect the systemic importance of each entity.

Table 1. O-SII assessment criteria and indicators

Criterion	***Indicator***	***Share (β)***
Size	Total assets	20,00%
Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions	6,67%
	Deposits from the private sector in Moldova	6,67%
	Loans granted to borrowers from the private sector in Moldova	6,67%
Scope of cross-border activity	Value of OTC derivatives (notional)	6,67%
	Cross-jurisdictional liabilities	6,67%
	Cross-jurisdictional claims	6,67%
Interconnectedness	Debts to other financial system operators	6,67%
	Assets as counterparty of other financial system operators	6,67%
	Debt instruments in circulation	6,67%
Optional	Volume of retail loans	6,67%
	Volume of retail deposits	6,67%
	Number of subsidiaries	6,67%

Financial and accounting reports drown up in accordance with the technical standards for the implementation of the reporting framework in the Republic of Moldova for supervisory purposes at the highest level of consolidation shall be used to calculate the indicators.

IV. Application of the systemic relevance coefficient for each indicator

The systemic relevance coefficient aims to ensure that only indicators that are relevant in terms of size and concentration at the banking sector level shall be included in the calculation of scores.

For each indicator listed in Table 1, the systemic relevance coefficient shall be estimated as follows:

$\gamma_{i,t} = 100 * (1 - (IHH_{i,t} * \alpha_{i,t})$, where

i – indicator within the Methodology;

t – reporting period;

γ – systemic relevance coefficient calculated for indicator i at period t;

IHH –Herfindahl-Hirschman indicator calculated for indicator i at period t;

α – the penalty coefficient for indicator i at period t.

The coefficient α is the penalty factor for indicators with a total low balance compared to the total balance of assets (liabilities), calculated as follows:

$\alpha_{i,t} = 1 - (\frac{S_{i,t}}{Y_t})$, where

S – Total balance of indicator i at period t.

Y – Total balance of assets (liabilities), according to indicator i, at period t.

The following indicators are not subject to the systemic relevance coefficient:

1. Total assets indicator (Size criterion);
2. Value of domestic payment transactions (Importance criterion (including substitutability/financial system infrastructure));
3. Number of subdivisions indicator (Optional criterion).

The minimum threshold for the systemic relevance coefficient shall be set at the 95th percentile of the distribution of observations related to the coefficient for the time horizon starting with the first quarter of 2018 to the reporting date.

Indicators, whose systemic relevance coefficient were below the systemic relevance threshold, shall be excluded from the calculation of the overall score by assigning a weight (β) equal to 0 (zero) to the irrelevant indicator at the level of all banks included in the study.

V. Calculation of the overall score for each bank

The overall score associated with each assessed bank shall be calculated as the weighted average of the ratio of the bank-specific indicator and the total indicator value by sector, based on the weights associated with each indicator according to Table 1 and the systemic relevance ratio, expressed in basis points, as follows:

$Sistemic\ score_{n,t} = \sum_i^1 \left(\frac{S_{n,i,t}}{\sum_n^1 S_{n,i,t}}\right) * \beta_{i,t} * 10000$, where

β – weight of indicator i over period t;

S – balance of indicator i for bank n at period t.

VI. Identification of the systemically important institutions

Banks that accumulate an overall score higher than 425-basis point threshold will be classified as O-SIIs, and subsequently subject to maintain the systemically important capital buffer.

At the same time, the National Bank of Moldova, as supervisory authority, may recognize systemically important institutions considering both the bank's overall score and other relevant factors and indicators, established based on arguments regarding their necessity and influence on the final decision, when recognizing or not recognizing banks that are/are not O-SIIs institutions.

The buffer level shall be set by the National Bank of Moldova based on the overall score, applied in accordance with the levels of systemic importance, as well as other relevant factors, if any.