

Technical Communiqué No 5/2022-SF

Capital buffer for systemically important institutions

In accordance with powers granted to the Andorran Financial Authority (AFA), as set out in paragraph 2 of Article 54 of *Law 35/2018, of 20 December, on the solvency, liquidity and prudential supervision of banks and investment firms (Law 35/2018)*, this Authority has carried out, for the first time, the assessment of systemically important institutions (SIIIs) and has established the capital buffers required for institutions designated as such.

In accordance with Article 59.2 of *Law 35/2018*, the AFA may require each of the SIIIs to maintain on an individual, sub-consolidated and/or consolidated basis, as appropriate, an SII capital buffer of up to 2% of the total risk exposure value, calculated according to section 3 of Article 46 of the aforementioned Law. This buffer, which is composed of Common Equity Tier 1 capital, is in addition to the mentioned Common Equity Tier 1 capital.

Due to the relevant size of SIIIs within the domestic economy, the aforementioned buffer is considered an important and necessary macroprudential tool to ensure the stability and the resilience of the Andorran financial system.

Methodology

- ▲ The AFA designates the SIIIs on the basis of the EBA/GL/2014/10 Guidelines of 16 December 2014, on the criteria to determine the conditions of application of paragraph 3 of Article 131 of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions, (O-SIIIs) adopted in the Principality of Andorra through Decree 352/2021, of 3-11-2021, approving the Regulation on the adoption of additional technical standards of the European Union applicable to solvency, liquidity and prudential supervision of banks and investment firms and taking into account the following criteria set out in Article 59.1 of Law 35/2018:
 - (1) size of the institution, group or subgroup;
 - (2) importance for the economy of the Principality of Andorra;
 - (3) significance of cross-border activities;
 - (4) interconnectedness of the institution or group with the financial system.
- ▲ The AFA calibrates the capital buffer for SIIIs by adopting a buckets approach. Each of these buckets is associated with a percentage that defines the requirement of additional CET1 as capital buffer for SIIIs. Thus, it is designated as SII from a score of 350 basis points (bp).
- ▲ Buffers established by the AFA according to the score range are as follows:

Score range (in bp)	SIIIs buffer on RWA*
between 350 and 699	0,25%
between 700 and 1.049	0,50%
between 1050 and 1399	0,75%
between 1.400 and 1.749	1,00%
between 1.750 and 2.099	1,25%
between 2.100 and 2.449	1,50%
more than 2.450	2,00%

* RWA: risk-weighted assets



SII designation and capital buffer requirement for SIIIs

- ▲ With data at the end of 2021 and applying the methodology above mentioned, entities designated by the AFA as IIS and the percentages of capital buffer are detailed below:

SIIIs	SIIIs' buffer
Andorra Banc Agrícola Reig, SA	0,50%
Crèdit Andorrà, SA	0,50%
Mora Banc Grup, SA	0,25%

The detailed SII capital requirements will take effect on 1 January 2023.

The present decision has been previously communicated to the ministry in charge of finance in accordance with article 70, paragraph 2 of the *Regulation implementing Law 35/2018, of 20 December, on the solvency, liquidity and prudential supervision of banks and investment firms*.

As set out in the current legal framework, the SII designation is subject to annual review. The next decision on SII designation, with effect from 1 January 2024, will be adopted no later than 1 December 2023.

Andorra la Vella, 02 August 2022