

128 DOMESTIC SYSTEMICALLY IMPORTANT BANKS (DSIBs)

It is the thrust of the Bangko Sentral to ensure that its capital adequacy framework is consistent with the Basel principles. Hence, the Bangko Sentral is adopting policy measures for DSIBs, which are essentially aligned with the documents issued by BCBS on global systemically important banks (GSIBs) and DSIBs. The broad aim of the policies is to reduce the probability of failure of DSIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of DSIBs on the domestic/real economy.

The guidelines shall apply on a consolidated basis to all UBs and KBs, including branches of foreign banks established under R.A. No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes).

The framework for dealing with domestic systemically important banks consists of three parts, as follows:

a. *Assessment methodology*

The impact of a DSIB's failure to the domestic economy shall be assessed based on bank-specific factors, to wit: (a) size; (b) interconnectedness; (c) substitutability/financial institution infrastructure; and (d) complexity. Ten (10) indicators related to these categories shall be used to identify DSIBs. These indicators reflect the factors or criteria which makes a bank significant for the stability of the financial system and the economy.

b. *Higher Loss Absorbency (HLA) and interaction with other elements of Basel III framework*

Banks that will be identified as DSIBs shall be required to have HLA. The HLA requirement is aimed at ensuring that DSIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a DSIB is expected to have a greater impact on the domestic financial system and economy.

To determine banks' compliance with the additional CET1 requirement for DSIBs, the minimum ratio should be complied with by the parent bank and its subsidiary banks and quasi-banks on both solo and consolidated bases.

c. *Intensive supervisory approach*

Banks identified as DSIBs shall include in their Internal Capital Adequacy Assessment Process (ICAAP) document concrete and reasonable recovery plans which shall be implemented in case

the bank breaches the HLA capital requirement. The recovery plans shall include guidelines and action plans to be taken to restore the DSIB's financial condition to viable level in cases of significant deterioration in certain scenarios. This shall include specific initiatives appropriate to the bank's risk profile such as capital raising activities, streamlining of businesses, restructuring and disposal of assets, to improve capital position.

The guidelines on the framework for dealing with DSIBs and recovery plan of a DSIB are shown in *Appendices 110 and 111*, respectively.