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नेपाल राष्ट्र बैंक

बैंक तथा वित्तीय संस्था नियमन विभाग

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सूचना

इजाजतपत्रप्राप्त "क" वर्गका बैंकहरु

महाशय,

यस बैंकबाट इजाजतपत्रप्राप्त "क" वर्गका बैंकका लागि **"Framework for Dealing with Domestic Systemically Important Banks (D-SIBs), 2025"** जारी गरिएको हुँदा सोही बमोजिम गर्नु/गराउनु हुन नेपाल राष्ट्र बैंक ऐन, २०५८ को दफा ७९ ले दिएको अधिकार प्रयोग गरी यो सूचना जारी गरिएको छ।

भवदीय,

कार्यकारी निर्देशक

Framework for Dealing with Domestic Systemically Important Banks (D-SIBs), 2025*

Nepal Rastra Bank

Banks and Financial Institutions Regulation Department

2025

* Approved by Management Committee Meeting No.12/082/83 dated 2082/07/18

1. INTRODUCTION

The collapse of several systemically important banks across various regions in the 2008 financial crisis underscored the devastating impact that the failure of a significant financial institution can have on the global economy. This led to the realization among G-20 leaders that no financial institutions should be "Too big to fail". Accordingly, the Basel Committee on Banking Supervision (BCBS) issued an assessment methodology for global systemically important banks (G-SIBs) and prescribed a higher capital surcharge in November 2011. Later in July 2013, July 2018 and November 2021, the assessment methodology was reviewed and amended.

As some institutions may not be designated as GSIBs but at the same time could be systemically important at national level, G-20 leaders requested the Financial Stability Board (FSB) to study the potential adverse effects posed by these domestic systemically important financial institutions. In October 2012, the BCBS expanded the G-SIB assessment methodology to include domestic systemically important banks (D-SIBs) by publishing a document titled "A Framework for Dealing with Domestic Systemically Important Banks" (the "Basel D-SIBs Framework"). In contrast to the G-SIBs framework, the D-SIBs framework is based on an assessment conducted by national authorities, who are best placed to assess the impact of failure on the local financial system and economy.

The D-SIBs framework is founded on a set of principles that supplement the G-SIB framework by addressing negative externalities and promoting a level playing field. The BCBS D-SIBs principles grant national authorities the discretion to identify D-SIBs and impose additional loss absorbency requirements to address the risks they pose and strengthen the resilience of the financial sector.

The Monetary Policy of 2015/16 and 2019/20 envisioned the provisions to regulate and supervise Systemically Important Banks (SIBs) based on more specific criteria. Additionally, "Strategic Pillar 2, Regulation and Supervision" of the Fourth Strategic Plan of NRB (2022–2026) includes a strategic action to develop and issue a Domestic Systemically Important Banks (D-SIBs) framework by 2025, with the objective of ensuring resiliency and systemic risk management of financial system. This framework for dealing with Domestic Systemically Important Banks has been formulated, consistent with the action of monetary policy and strategic plan.

2. OBJECTIVE

The objectives of this framework are;

- To identify Domestic Systemically Important Banks (D-SIBs) whose failure could cause significant disruption to the financial system and the overall economy.
- To safeguard the stability of the domestic financial system by addressing the risks posed by the D-SIBs.
- To enhance resilience of D-SIBs by applying higher loss absorbency (HLA) requirement.
- To ensure that all D-SIBs are subjected to appropriate supervision and regulation in order to mitigate the systemic risk by diminishing the probability of financial impairment or insolvency.

3. SCOPE OF THE FRAMEWORK

The framework shall be applicable to all "A" Class Commercial Banks licensed to conduct banking business in Nepal under the Bank and Financial Institution Act, 2017.

4. BCBS FRAMEWORK FOR DEALING WITH THE D-SIBs

The Basel Committee on Banking Supervision (BCBS) introduced a framework for dealing with Domestic Systemically Important Banks (D-SIBs) in October 2012. The framework was designed to address the risks posed by large, interconnected, and critical financial institutions that could disrupt the domestic financial system if they were to fail. The D-SIBs framework is based on the 12 principles, which complements the BCBS framework for Global Systemically Important Banks (G-SIBs) by focusing on systemically important banks at the domestic level. The framework adopts a principles-based approach, providing national authorities with the discretion to identify D-SIBs based on the specific characteristics of their domestic financial systems and tailor regulatory measures to address the risks posed by D-SIBs within their jurisdictions.

In order to enhance the resilience of D-SIBs, the framework requires these banks to hold higher levels of capital through additional loss absorbency requirements. These requirements aim to reduce the probability of D-SIBs failure; provide a buffer to absorb losses during periods of stress and limit the need for public sector support in case of financial distress. The additional capital is to be implemented through the Common Equity Tier 1 (CET1) capital requirement. Additionally, the enhanced supervision, and robust recovery and resolution planning to reduce systemic risks and ensure resilience strengthens financial stability and minimize the impact of D-SIBs failures, enabling tailored implementation of the framework while maintaining consistency with global regulatory standards.

The 12 BCBS principles for D-SIBs is given in Appendix 1.

5. ASSESSMENT METHODOLOGY

Keeping in view the indicator based approach outlined by the BCBS and aligning it with the local regulatory and supervisory requirements, Nepal Rastra Bank (NRB) has developed the following framework for designation and supervision of D-SIBs.

Indicator-based measurement approach

Indicator	Sub Indicator	Weightage
Size	Total Exposure	40 %
Interconnectedness	Intra-financial system assets	10 %
	Intra-financial system liabilities	10 %
	Securities outstanding	10 %
Substitutability	Value and Volume of Payment made in NPR	10 %
	Trading Volume	5 %
Complexity	Level 2 Assets	5 %
	Cross Jurisdictional Activities	5 %
	Trading and available for sale securities	5 %

Size

The activities of larger size banks are more challenging to replace quickly by other banks as their failure or distress would cause severe disruption in the financial market. Additionally, the distress or failure of a large bank is more likely to erode confidence in the financial system as a whole. Therefore, size serves as a critical indicator of systemic importance. This indicator is reflected in the measure of total exposures which is used for the calculation the Basel III leverage ratio.

Interconnectedness

The chain effect of financial distress increases with higher degree of interconnectedness (contractual obligation) with other banks and financial institutions (BFIs), impacting both sides of a bank's balance sheet. A bank's systemic impact is typically positively correlated with its level of interconnectedness with other banks and financial institutions. To measure the interconnectedness, three key indicators are considered:

(i) Intra-financial system assets

(ii) Intra-financial system liabilities

(iii) Securities outstanding

Substitutability

The systemic impact of a bank's distress or failure is expected to be inversely related to its degree of substitutability as both a market participant and a client service provider; i.e. the greater the bank's role in providing critical financial infrastructure, the more likely its distress will have a significant systemic effect. To measure substitutability, the following sub-indicators are used:

(i) Value and Volume of Payment made in NPR

(75 per cent weightage to value of transactions and 25 per cent weightage to volume of transactions)

(ii) Trading Volume

Complexity

Higher the complexity in bank's business, structure and operational activity, the higher will be time, cost and effort required to resolve problem. For the purpose of assessing complexity, following indicators are used:

(i) Level 2 assets

(ii) Trading and available for sale securities

(iii) Cross jurisdictional activities

6. SCORE CALCULATION

The systemic score will be computed on the basis of data reported by the "A" class commercial banks in the Reporting Portal of Nepal Rastra Bank. However, all commercial banks should provide the data as required by Nepal Rastra Bank in the process of computing systemic score for the identification of D-SIBs.

Each reported value of the bank will be divided by corresponding total and multiplied by 10000 to express in basis points. Overall systemic score will be calculated as weighted average score of all indicators. The "A" class commercial banks scoring above the threshold score will be classified as D-SIBs and will be further designated into different buckets. Designated D-SIBs shall be required to meet the Higher Loss Absorbency (HLA) requirement in the form of additional Common Equity Tier 1 (CET1) capital.

7. REGULATORY/SUPERVISORY JUDGEMENTS

The indicator-based approach provides a structure for assessment of systemic significance of banks. However, regulatory/supervisory judgements and assessments based on the qualitative information can also be used to capture the information that cannot be quantified in the form of an indicator. In such cases, the "A" class commercial banks can also be designated as D-SIBs based on the qualitative supervisory judgements.

8. HIGHER LOSS ABSORBENCY (HLA) REQUIREMENT

A bank designated as D-SIBs shall hold and maintain capital buffer to meet the HLA requirement:

- at the level of both standlone and consolidated level
- in the form of CET1 capital

Based on the annual assessment, the HLA will be allocated in different bucket based on score and regulatory/supervisory judgements.

Bucket	HLA Requirement (Additional CET1 requirement as a percentage of RWA)
5 (Empty)	1.00%
4	0.80%
3	0.60%
2	0.40%
1	0.20%

In future, if bucket 5 gets populated, a new bucket will be added.

Newly identified D-SIBs and those progressing to a higher HLA requirement bucket must meet the additional HLA requirement by the end of the fiscal year.

Failure to comply will result in penalties as per Clause No. 6 of Directive No. 1 of the Unified Directive for ‘A’, ‘B’ and ‘C’ class Banks and Financial Institutions.

If a D-SIB’s score declines, leading to a lower HLA requirement, a one-year cooling period will apply. This means the D-SIBs will remain subject to its current HLA requirement for one year before the adjustment takes effect.

9. OPERATIONAL TIMELINE

The assessment for identifying D-SIBs will be done annually within the following time frame:

Date	Task
August End	Assess the data required for systemic score computation
September End	Compute the systemic score and Identify the DSIBs
October End	Publish the list of D-SIBs with subsequent HLA requirement

If any of commercial bank goes through the merger/acquisition with any licensed BFIs, the bank should present data for calculation of D-SIBs Score within 3 months of its joint operation.

D-SIBs should maintain the required HLA within the end of same fiscal year and are subject to full scope on subsequent inspection.

This framework for dealing with D-SIBs will be reviewed at least once in every three years to incorporate revisions and amendments in the Basel Committee for Banking Supervision (BCBS) frameworks.

The Higher Loss Absorbency (HLA) requirement to D-SIBs will be applicable from mid-July, 2027.

10. DISCLOSURE REQUIREMENTS

The D-SIBs shall submit comprehensive report on Capital Plan including Internal Capital Adequacy Assessment Process (ICAAP) to the concerned supervision department.

Appendix 1

The BCBS has developed a set of principles that constitutes the D-SIB framework. The 12 principles can be broadly categorized into two groups: the first group (Principles 1 to 7) focuses mainly on the assessment methodology for D-SIBs while the second group (Principles 8 to 12) focuses on HLA for D-SIBs. The 12 principles are as follows:

Assessment methodology

Principle 1: National authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context.

Principle 2: The assessment methodology for a D-SIBs should reflect the potential impact of, or externality imposed by, a bank's failure.

Principle 3: The reference system for assessing the impact of failure of a D-SIBs should be the domestic economy.

Principle 4: Home authorities should assess banks for their degree of systemic importance at the consolidated group level, while host authorities should assess subsidiaries in their jurisdictions, consolidated to include any of their own downstream subsidiaries, for their degree of systemic importance.

Principle 5: The impact of a D-SIBs failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors:

(a) Size;
(b) Interconnectedness;
(c) Substitutability/financial institution infrastructure (including considerations related to the concentrated nature of the banking sector); and
(d) Complexity (including the additional complexities from cross-border activity).

In addition, national authorities can consider other measures/data that would inform these bank-specific indicators within each of the above factors, such as size of the domestic economy.

Principle 6: National authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions to ensure that their assessment reflects the current state of the relevant financial systems and that the interval between D-SIBs assessments not be significantly longer than the G-SIB assessment frequency.

Principle 7: National authorities should publicly disclose information that provides an outline of the methodology employed to assess the systemic importance of banks in their domestic economy.

Higher loss absorbency

Principle 8: National authorities should document the methodologies and considerations used to calibrate the level of HLA that the framework would require for D-SIBs in their jurisdiction. The level of HLA calibrated for D-SIBs should be informed by quantitative methodologies (where available) and country-specific factors without prejudice to the use of supervisory judgement.

Principle 9: The HLA requirement imposed on a bank should be commensurate with the degree of systemic importance, as identified under Principle 5.

Principle 10: National authorities should ensure that the application of the G-SIB and D-SIBs frameworks is compatible within their jurisdictions. Home authorities should impose HLA requirements that they calibrate at the parent and/or consolidated level, and host authorities should impose HLA requirements that they calibrate at the sub-consolidated/subsidiary level. The home authority should test that the parent bank is adequately capitalized on a standalone basis, including cases in which a D-SIBs HLA requirement is applied at the subsidiary level. Home authorities should impose the higher of either the D-SIBs or G-SIB HLA requirements in the case where the banking group has been identified as a D-SIBs in the home jurisdiction as well as a G-SIB.

Principle 11: In cases where the subsidiary of a bank is considered to be a D-SIBs by a host authority, home and host authorities should make arrangements to coordinate and cooperate on the appropriate HLA requirement, within the constraints imposed by relevant laws in the host jurisdiction.

Principle 12: The HLA requirement should be met fully by Common Equity Tier 1 (CET1). In addition, national authorities should put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIBs.

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