IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 12, Issue 6 Ser. VI (Nov. – Dec. 2021), PP 57-67
www.iosrjournals.org

Domestic Systemically Important Banks In India- A Conceptual & Historical Background

Ameen Uddin Ansari
Assistant Professor
Department of Economics
Government Raza Post Graduate College
Rampur Uttar Pradesh India 244901

Dr. Sanjeev Kumar
Assistant Professor
Department of Economics
University of Lucknow
Lucknow Uttar Pradesh India -226007
Correspondence: Ameen Uddin Ansari Assistant Professor, Department of Economics Government Raza Post Graduate College Rampur Uttar Pradesh India 244901

Abstract
After the Financial crisis (2008), in 2009 an international body called Financial Stability Board (FSB) was set up to monitor global financial system. The board observed that each country has certain large banks whose failure may put at risk to the entire financial system. The Lehmon Brothers' Bankruptcy (2007) case can be taken as an example. Lessoning from the financial crisis (2008), it was experienced that the disorderly failure of these banks cannot be allowed in any case. Hence, these banks are always rescued by the government to ensure the national economy doesn't collapse and ordinary citizen –clients don't suffer. These were identified as systematically important banks. A bank is systemically important which has specific features implying that its failure would cause a significant disruption to the rest of the financial system and even to the real economy. This is of two types 1.Global SIB identified by FSB using BCBS methodology 2. Domestic SIB identified by central bank of a country using BCBS methodology compatible with G-SIB. In India, RBI using modified BCBS methodology has recognized three domestic systematically important banks at national level. These banks are SBI, ICICI and HDFC bank. This paper briefly sketches what exactly the concept is and how it is decided about the systematically important banks? How these banks are different from other banks?

Key Words: *Financial Crisis, Domestic Systemically Important Bank, Too Big To Fail, Moral Hazard, Systemic Risk, Size, interconnectedness, substitutability, complexity*
JEL Classification Code: *G20, G28, G33*

Date of Submission: 15-12-2021 Date of Acceptance: 31-12-2021

"If a domestic systematically important bank fails, there would be a significant disruption to the banking system and the overall economy" – Reserve Bank of India

Recently, in January 2021, Reserve Bank of India (RBI) has issued a list of three banks comprised of one public sector bank and two private sector banks identified as domestic systemically important banks (D-SIBs) in India for the period 2020-21. These banks are State Bank of India (SBI), Industrial Credit and Investment Corporation of India (ICICI) Bank and Housing Development and Finance Corporation of India (HDFC) Bank respectively. SBI is India's largest bank in terms of size, customer base and market share and allotted to the Bucket 3 in which it has to meet 0.60 percent as an Additional Common Equity Tier (CET) 1 requirement as a percentage of Risk Weighted Assets (RWAs) whereas the other two banks namely ICICI and HDFC bank allotted to bucket 1 in which they have to meet 0.20 percent as an Additional Common Equity Tier (CET) 1 requirement as a percentage of Risk Weighted Assets (RWAs). This is shown in the Table 1 given below.

Table 1: List of D-SIBs identified in 2020 with their allotted buckets

Bucket	Banks	Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs)
5	--	1.00 percent
4	--	0.80 percent
3	State Bank of India	0.60 percent
2	--	0.40 percent
1	ICICI Bank & HDFC Bank	0.20 percent

Sources: **RBI releases 2020 list of Domestic Systemically Important Banks (D-SIBs) January 19, 2021**

The scheme was implemented in 2014 in India after the issuance of the framework for dealing with D-SIBs in July 22, 2014. Under this scheme, SBI and ICICI bank were the first two banks which were identified to be D-SIBs in 2015 and continued to be D-SIBs since then. HDFC bank was added to the list of D-SIBs in 2017 and also continued to be D-SIBs. The additional Common Equity Tier 1 (CET1) requirements to D-SIBs are applicable from April 1, 2016 in a phased manner and became fully effective from April 1, 2019. The additional CET1 requirement is in addition to the capital conservation buffer and countercyclical capital conservation buffer.

SYSTEMICALLY IMPORTANT BANK (SIB): CONCEPT, MEANING & DEFINITION

Some banks, due to their nature in respect of size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness, become systemically important as they pose systemic risks and moral hazard problem. The disorderly failure of these banks has the potential to cause significant disruption to the essential services they provide to the banking system, and in turn, to the overall economic activity. Therefore, the disorderly failure of these banks cannot be allowed and they have to be bailed out at the time of distress through public solvency support. Such banks are termed as systemically important banks (SIBs) as their continued functioning is critical for the uninterrupted availability of essential banking services to the real economy. In many literatures, they are labeled as Too Big To Fail (TBTF), that is, they are so big that they cannot be allowed to fail at the time of distress. The knowledge of this amplifies their risk taking capacities and creates moral hazard problem as they believe that they would receive government support at the time of distress. The idea of designation came after the financial crisis (2008) when the failure/collapse of a single large and complex financial institution (Lehmon Brothers in USA) jeopardized financial stability almost to the level of bringing the entire financial system on its knees. The report to G20 by IMF, BIS & FSB (October 2009) defines a bank which has specific features implying that its failure would cause a significant disruption to the rest of the financial system and even to the real economy as systemically important.

Presently there are two types of SIBs:

1. Domestic systemically important bank- Identified by central bank of a country.
2. Global systemically important bank- Identified by Banking Committee Banking Supervision and Financial Stability Board.

HISTORICAL BACKGROUND OF SYSTEMICALLY IMPORTANT BANK

The global financial crisis (2008) highlighted the fallacies and inadequacies of banking regulation, micro prudential and macro prudential policies. Moreover, the Lehman Brothers bankruptcy (2008) showed how the collapse of a single large and complex financial institution could jeopardize financial stability almost to the level of bringing the entire financial system on its knees. In this light, acknowledging the importance of macro prudential policies to preserve financial stability, it was not surprising that regulators around the World turned their attention to this issue and to the measures needed to address it.

A joint letter by Financial Stability Forum and International Monetary Fund on November 13, 2008 to the G20 Leaders and Governors concerning how the financial crisis underscored the importance of international coordination both in responding to the crisis and in developing and implementing policies for a sounder financial system. Coordination had been considered important as well across the international financial institutions and bodies that support the efforts of national governments, including the International Monetary Fund (IMF) and the Financial Stability Forum (FSF) and showed their keen interest to enhance their collaboration in conducting **early warning exercises** by the assessment of Macro-financial risks and systemic vulnerabilities. This letter was tabled in the first summit of G20 Leaders and Governors on Financial Markets and World Economy, initiated by Finance Ministers in 1999, which was held in Washington D.C. on November 15, 2008, amid serious challenges to the world economy and financial markets. This demonstrated G20 Leaders' resolve to cope with the most pressing challenges of the economic and financial crisis that escalated in the second half of 2008. According to them major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. These developments, together, contributed to excesses and

ultimately resulted in severe market disruption. Leaders and Governors set out a framework for preventing future financial crises, while securing sustainable and balanced global growth and reforming the architecture of global economic governance. They agreed on closer macroeconomic co-operation to restore growth and avoid negative spillovers. They set forth five principles for reform: *Strengthening Transparency and Accountability, Enhancing sound regulation, Promoting integrity in financial markets, reinforcing international cooperation, reforming international financial institutions.* An initial list of specific measures was also set forth in the Action Plan, including high priority actions to be completed prior to March 31, 2009. Among others, defining the scope of systemically important institutions and determining their appropriate regulation or oversight was one of them. Consequently, in the joint report by IMF, BIS & FSB (2009) to the G20 leaders and governors, they came up with conclusion that all types of financial intermediaries can potentially be systemically important to some degree and institutions may be systemically important for local, national or international financial systems and economies. Further, they were asked to develop framework and methodology to identify systemically important banks at global level and national level. In response to this, FSB endorsed a policy framework for reducing the moral hazard posed by systemically important financial institutions: FSB Recommendations and Time Lines on October 20, 2010 at Seoul Summit. Based on the policy framework of FSB (2010), the Basel Committee on Banking Supervision (BCBS) issued the Global systemically important banks: assessment methodology and the additional loss absorbency requirement Rules text November 2011– containing the assessment methodology to identify global systemically important financial institutions (G-SIFIs) to be more closely supervised and required to hold additional loss absorbency capital. At the Cannes Summit in November 2011, the G20 Leaders and Governors endorsed the Financial Stability Board (FSB)'s policy framework on systemically important financial institutions (G-SIFIs), comprising a new international standard for resolution regimes, more intensive and effective supervision, and requirements for cross-border cooperation and recovery and resolution planning as well as, from 2016, additional loss absorbency for those banks determined as global systemically important financial institutions (G-SIFIs) along with BCBS methodology(2011). Using the BCBS methodology, the FSB and BCBS identified a first list of G-SIFIs in November 2011 comprising a group of 29 globally systemically important banks, listed in alphabetical order in the **Table A1** in the ***appendix I*** and updated it one year later. This initial list is based on the methodology set out in the BCBS document Global systemically important banks: Assessment methodology and the additional loss absorbency requirement (2011) using data as of end-2009. At Cannes meeting (2011), the FSB was asked to deliver, in consultation with the BCBS, a progress report by April 2012 to the G20 Finance meeting on the definition of the modalities to extend expeditiously the G-SIFI framework to domestic systemically important banks. The Basel Committee and the FSB examined at their meetings in March 2012 a minimum framework for domestic systemically important banks (D-SIBs), based on a set of principles, covering both the methodology for assessing the systemic importance of domestic institutions, and the policy tools that national authorities could apply to contain the systemic risks they pose and tabled before the G20 Leaders and Governors in April 16, 2012 for their endorsement. The FSB (2012) issued the document in April 16, 2012 entitled as Extending the G-SIFI Framework to domestic systemically important banks. The BCBS finalized its framework for dealing with D-SIBs in October 2012. The D-SIB framework focuses on the impact that the distress or failure of banks will have on the domestic economy. As opposed to G-SIB framework, D-SIB framework is based on the assessment conducted by the national authorities, who are best placed to evaluate the impact of failure on the local financial system and the local economy. D-SIB framework is based on a set of principles, which complement the G-SIB framework, address negative externalities and promote a level-playing field. The principles developed by the BCBS for D-SIBs provide national discretion in identifying D-SIBs and additional loss absorbency requirements applicable to them. A list of BCBS principles for D-SIBs is given in ***Appendix II.***

In October 2010, the Financial Stability Board (FSB) had already recommended that all member countries needed to have in place a framework to reduce risks attributable to Systemically Important Financial Institutions (SIFIs) in their jurisdictions. The framework is based on assessment by local authorities, who are best placed to identify which banks are systemic within their borders. In response to the call, the RBI issued a press release Framework for Dealing with Domestic Systemically Important Banks (D-SIBs) on July 22, 2014 comprising of complete methodology to identify domestic systemically important banks in India. Based on the modified methodology adopted by India, RBI issued a first list of banks identified as D-SIBs in August 2015 which included SBI and ICICI banks. HDFC bank was added to the list in 2017. All of these three banks are continued to be identified as D-SIBs in India in 2021.

ASSESSMENT METHODOLOGY FOR IDENTIFICATION OF G-SIBS

The BCBS developed a methodology for assessing the systemic importance of G-SIBs. The methodology is based on an indicator-based measurement approach. The indicators capture different aspects that generate negative externalities, and make a bank systemically important and its survival critical for the stability of the financial system. The selected indicators are size, global (cross-jurisdictional) activity, and

interconnectedness, lack of substitutability or financial institution infrastructure, and complexity of the G-SIBs. The advantage of the multiple indicator-based measurement approach is that it encompasses many dimensions of systemic importance; it is relatively simple and more robust than currently available model-based measurement approaches and methodologies that rely on only a small set of indicators or market variables. The methodology gives an equal weight of 20% to each of the five categories of systemic importance indicators. Except the size category, the BCBS has identified multiple indicators in each of the other four categories, with each indicator equally weighted within its category. That is, where there are two indicators in a category, each indicator is given a weight of 10%; where there are three, the indicators are each weighted 6.67% (i.e. 20/3). For each bank, the score for a particular indicator is calculated by dividing the individual bank amount (expressed in EUR) by the aggregate amount for the indicator summed across all banks in the sample. The indicator-based measurement approach is based on a large sample of banks, which works as a proxy for the global banking sector. The banks fulfilling any of the following three criteria are included in the sample:

I. 75 largest global banks (based on the Basel III leverage ratio exposure measure at the end of the financial year);

II. Banks that have been designated as G-SIBs in the previous year (unless supervisors agree that there is a compelling reason to exclude them); and

III. Banks that have been added to the sample by national supervisors using their supervisory judgment.

The banks with score that exceeds a cutoff level set by the BCBS are classified as G-SIBs. Supervisory judgment may also be used to add banks with scores below the cut-off to the list of G-SIBs. This judgment will be exercised according to the principles set out by BCBS. Based on the scores produced using the end-2011 data supplied by the sample banks, the tentative cutoff point set by the BCBS and use of supervisory judgment, 29 banks were classified as G-SIBs in November 2011 by the FSB. The FSB had identified 28 banks as G-SIBs in November 2012 and updates every year.

The banks identified as G-SIBs are plotted in four different buckets depending upon their systemic importance scores in ascending order and they are required to maintain additional capital in the range of 1% to 2.5% of their risk weighted assets depending upon the order of the buckets. The additional capital (higher loss absorbency requirement) is to be met with Common Equity Tier 1 (CET1) capital. An empty bucket at the top (fifth bucket) with a CET1 capital requirement of 3.5% has been provided to discourage the bank when their systemic importance scores increase in future beyond the boundary of the fourth bucket. If this bucket gets populated in the future, a new bucket will be added. The bucketing system provides disincentive for adding to the systemic importance scores and incentives for banks to avoid becoming systemically more important. The higher loss absorbency (HLA) capital requirement is phased-in parallel with the capital conservation buffer and countercyclical capital buffer. The implementation of these measures helps reduce the probability and impact of failure of a SIB on the real economy and also create a level playing field between the SIBs and non-SIBs by reducing competitive advantages of SIBs in funding markets. These policies thus endeavor to curb amplification of risk taking and reduce competitive distortions.

ASSESSMENT METHODOLOGY ADOPTED BY RBI TO IDENTIFY D-SIBS IN INDIA

The BCBS developed a methodology for assessing the systemic importance of G-SIBs which were extended to assess the systemic importance of D-SIBs in April 2012. RBI adopted it with some modifications in July 2014. The process of assessment of systemic importance of banks is a three-step process.

First Step: - Selection of Sample of banks to be assessed for their systemic importance

The banks are selected for computation of systemic importance based on the analysis of their size (based on Basel III Leverage Ratio Exposure Measure) as a percentage of GDP. Banks having a size beyond 2% of GDP are selected in the sample. For this purpose, latest GDP figure at market prices, released by National Statistical Office, Government of India is used.

Second Step: - Assessment methodology for systemic importance score (SIS)

The methodology to be used to assess the systemic importance is largely based on the indicator based measurement approach being used by Basel Committee on Banking Supervision (BCBS) to identify Global Systemically Important Banks (G-SIBs). The indicators to be used to assess domestic systemic importance of the banks are as follows:

I. Size

II. Interconnectedness

III. Lack of readily available substitutes or financial institution infrastructure

IV. Complexity.

The BCBS methodology for identification of G-SIBs gives equal weight for each of the indicators used to compute systemic importance with a cap assigned to the weight of substitutability indicator. However, the methodology adopted by RBI gives, in contrast, more weight to the size as it is felt that size is the most important indicator of systemic importance. Interconnectedness, substitutability and complexity indicators are

divided further into multiple indicators. Details of the data requirements for computation of systemic importance scores are given in the Table B2 in ***Appendix III***. A description of indicators, sub-indicators and their relative weights is as under:

Table 2: Indicator based measurement approach for Identification of D-SIBs

S. No.	**Indicator**	**Sub-Indicator**	**Weight**	**Sub weight**
1	Size (total exposure as defined for use in Basel III Leverage Ratio)		40 percent	40 percent
2	Interconnectedness	Intra-financial System assets	20 percent	6.67 percent
		Intra-financial system liabilities		6.67 percent
		Securities outstanding		6.67 percent
3	Substitutability	Assets Under Custody	20 percent	6.67 percent
		Payments made in INR using RTGS and NEFT systems		6.67 percent
		Underwritten transactions in debt and equity markets		6.67 percent
4	Complexity	Notional amount of OTC Derivatives	20 percent	6.67 percent
		Cross Jurisdictional Liabilities		6.67 percent
		Securities in Held For Trading and Available for Sale categories		6.67 percent

Sources: RBI Document Framework for Dealing with Domestic Systemically Important Banks (D-SIBs) July 22, 2014

I. Size Indicator

The failure of a bank will more likely damage the domestic economy if its activities constitute a greater portion of domestic banking activities. Therefore, there is a greater chance that failure of a larger bank causes greater damage to the financial system and domestic real economy. The failure of a bank with large size is also more likely to damage public confidence in the banking system as a whole. Size is a more important measure of systemic importance than any other indicators and therefore, size indicator is assigned more weight than the other indicators. The size indicator takes into account both on- and off-balance sheet items. In order to be consistent with the BCBS methodology, size of a bank is measured by using the same definition for total exposure measure used for calculation of leverage ratio of Basel III capital framework. The score for each bank is calculated as its amount of total exposure divided by the sum total of exposures of all banks in the sample.

II. Interconnectedness Indicator

Another important indicator is Interconnectedness. The failure of a bank may have the potential to increase the probability of failure of other banks if there exists a high degree of interconnectedness (contractual obligations) with other banks. This chain effect operates on both sides of the balance sheet, that is, there may be interconnections on the funding side as well as on the asset side of the balance sheet. The larger the number of linkages and size of individual exposures, the greater is the potential for the systemic risk getting magnified. Interconnectedness indicator is divided into three sub-indicators: intra-financial system assets held by the bank, intra-financial system liabilities of the bank and total marketable securities issued by the bank. Intra-financial system assets comprise lending to financial institutions (including undrawn committed lines), holding of securities issued by other financial institutions, gross positive current exposure of Securities Financing Transactions and exposure value of those OTC derivatives which have positive current market value. Intra-financial system liabilities comprise deposits by other financial institutions (including undrawn committed lines), gross negative current exposure of Securities Financing Transactions and exposure value of those OTC derivatives which have negative current market value. The total marketable securities issued by the bank comprise debt securities, commercial paper, certificate of deposit and equity issued by the bank. The total marketable securities issued by the bank with the data on maturity structure of these securities will give an indication of the reliance of the bank on wholesale funding markets. This may also be one of the indicators of the interconnectedness.

III. Substitutability/financial institution infrastructure indicator

The failure of a bank inflicts greater damage to the financial system and real economy if certain critical services provided by the bank cannot be easily substituted by other banks. The greater the role of a bank as a service provider in underlying market infrastructure, e.g., payment systems, the larger the disruption it is likely to cause in terms of availability and range of services and infrastructure liquidity following its failure. Also, the costs to

be borne by the customers of a failed bank to seek that same service at another bank would be much higher if the failed bank had a larger market share in providing that particular service.

The BCBS methodology for G-SIB identification has three sub-indicators for substitutability indicator: assets under custody; payment activity and total amount of debt and equity instruments underwritten. The indicators used for this category in RBI's methodology are assets under custody, the payment made by a bank in INR using Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems and value of underwritten transactions in debt and equity markets over a period of last one year.

IV. Complexity Indicator

Complexity of a bank is also an indicator of systemic importance. The more complex a bank is, the higher are the costs and time needed to resolve its problems. Three indicators of complexity have been considered to measure complexity of a bank: I. notional amount of over-the-counter (OTC) derivatives; II. Cross jurisdictional liabilities; and III. Available for trading and sale of securities. This indicator is given a weight of 20 percent and each sub indicator is equally weighted.

The point is noteworthy here that the multiple indicator based approach provides a general structure for assessment of systemic importance of banks. However, it is not a precise quantitative instrument and the final decision for designating a bank as D-SIB is also factor qualitative regulatory and supervisory judgments'. The computation of systemic importance scores of all the banks in the sample is performed annually based on the end-March data in the months of June-July every year.

Step Third: - Allocation of banks into buckets based on their SISs

Based on the data received from banks in the sample on the above indicators, systemic importance score (SIS) is calculated. For each bank, the score for a particular indicator is calculated by dividing the individual bank amount by the aggregate amount for the indicator summed across all banks in the sample. The score for each category is multiplied by 1000 in order to express the indicator scores in the basis points. The overall systemic importance of a bank is computed as weighted average scores of all indicators. Thus, the systemic importance score of a bank represents its relative importance with respect to the other banks in the sample. Banks that has scores above a threshold score set by RBI is classified as D-SIBs. However, the process of classification of a bank as D-SIB is also be guided by qualitative analysis and regulatory/supervisory insights about different banks. Banks are allocated to different buckets based on their systemic importance score.

Table 3: Additional CET1 requirement (as a percentage of risk weighted assets)

Bucket	Additional CET1 requirement (as a percentage of risk weighted assets)
5 (Empty)	
4	0.80 percent
3	0.60 percent
2	0.40 percent
1	0.20 percent

Sources: RBI Document Framework for Dealing with Domestic Systemically Important Banks (D-SIBs) July 22, 2014

The systemic importance score is calibrated in such a manner that the bucket 5 does not have any banks initially. An empty bucket with higher CET1 requirement is in placed to discourage D-SIBs with higher scores to increase their systemic importance in future. In the event of the fifth bucket getting populated, an additional empty (sixth) bucket would be added with same range and same differential additional CET1.

One of the recommendations of the FSB in their October 2011 paper was that all national supervisory authorities should have the power to apply differentiated supervisory requirements and intensity of supervision to SIFIs based on the risks they pose to the financial system. The banks designated as D-SIBs will be subjected to more intensive supervision in the form of higher frequency and higher intensity of on- and offsite monitoring. It is also important that these banks should adopt sound corporate governance of risk and risk management culture. The assessment methodology for assessing the systemic importance of banks and identifying D-SIBs will be reviewed on a regular basis. However, this review will be at least once in three years. The review will take into consideration the functioning of the framework during the last three years, theoretical developments internationally in the field of systemic risk measurement and the experience of other countries in implementing the D-SIB framework and the methodology adopted by them.

The higher capital requirements applicable to D-SIBs are applicable from April 1, 2016 in a phased manner and would become fully effective from April 1, 2019. The phasing-in of additional common equity requirement will be as follows:

Table 4: Additional Common Equity Requirement for Different Buckets

Bucket	April 1, 2016	April 1, 2017	April 1, 2018	April 1, 2019
5 (Empty)	0.25 percent	0.50 percent	0.75 percent	1.00 percent
4	0.20 percent	0.40 percent	0.60 percent	0.80 percent
3	0.15 percent	0.30 percent	0.45 percent	0.60 percent
2	0.10 percent	0.20 percent	0.30 percent	0.40 percent
1	0.05 percent	0.10 percent	0.15 percent	0.20 percent

Sources: **RBI releases 2017 list of Domestic Systemically Important Banks (D-SIBs) September** 4, 2017

List of D-SIBs identified so far in India

Based on the Framework for dealing with Domestic Systemically Important Banks (D-SIBs) issued on July 22, 2014 and the assessment methodology adopted by RBI to identify the D-SIBs in India, the names of banks designated as D-SIBs are issued every year in August starting from August 2015. Based on the methodology provided in the D-SIB Framework and data collected from banks as on March 31, 2015, the banks identified as D-SIBs and associated bucket structure are as under:

Table 5: First List of D-SIBs identified by RBI

Bucket	**Banks**	**Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs)**
5	--	1.00 percent
4	--	0.80 percent
3	State Bank of India	0.60 percent
2	--	0.40 percent
1	ICICI Bank	0.20 percent

Sources: **RBI releases list of Domestic Systemically Important Banks (D-SIBs) August 31, 2015**

The additional Common Equity Tier 1 (CET1) requirements applicable to D-SIBs are applicable from April 1, 2016 in a phased manner and become fully effective from April 1, 2019. The additional CET1 requirement is in addition to the capital conservation buffer.

Besides, the SBI and ICICI Bank, which is continued to be identified as Domestic Systemically Important Banks (DSIBs), the Reserve Bank of India had also identified HDFC Bank as a D-SIB in 2017, under the same bucketing structure as in the list of 2015 and 2016 of D-SIBs. It was decided that D-SIB surcharge for HDFC Bank will be applicable from April 1, 2018 under the new bucketing structure.

Table 6: Second Updated List of D-SIBs identified by RBI

Bucket	**Banks**	**Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs) for 2017-18**	**Additional Common Equity Tier 1 requirement applicable from April 1, 2018 (as per phase-in arrangement)**
5	--	1.00 percent	0.75 percent
4	--	0.80 percent	0.60 percent
3	State Bank of India	0.60 percent	0.45 percent
2	--	0.40 percent	0.30 percent
1	ICICI Bank	0.20 percent	0.15 percent

Source: **RBI releases 2017 list of Domestic Systemically Important Banks (D-SIBs) September 4, 2017**

Table 7: Third Updated List of D-SIBs identified by RBI

Bucket	**Banks**	**Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs) for 2018-19**	**Additional Common Equity Tier 1 requirement applicable from April 1, 2019 (as per phase-in arrangement)**
5	--	0.75 percent	1.00 percent
4	--	0.60 percent	0.80 percent
3	State Bank of India	0.45 percent	0.60 percent
2	--	0.30 percent	0.40 percent
1	ICICI Bank & HDFC Bank	0.15 percent	0.20 percent

Source: **RBI releases 2018 list of Domestic Systemically Important Banks (D-SIBs) March 14, 2019**

Presently, the list of D-SIBs and their bucketing structure as follows:

Table 8: Fourth Updated List of D-SIBs identified by RBI

Bucket	Banks	Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs)
5	--	1.00 percent
4	--	0.80 percent
3	State Bank of India	0.60 percent
2	--	0.40 percent
1	ICICI Bank & HDFC Bank	0.20 percent

Sources: **RBI releases 2020 list of Domestic Systemically Important Banks (D-SIBs) January 19, 2021**

DIFFERENCES IN ASSESSMENT METHODOLOGY OF G-SIB AND D-SIBS ADOPTED BY RBI IN INDIA

The major difference between BCBS methodology for G-SIB identification and RBI Methodology for D-SIB identification is as follows:

S. No	Basis of difference	BCBS G-SIB identification methodology	RBI D-SIB identification methodology
1	Sample of banks	75 largest global banks based on financial year end Basel III Leverage ratio exposure measure. National supervisors have the discretion to add any bank in the sample apart from 75 largest banks.	Banks having size (Basel III leverage ratio exposure measure) as a percentage of GDP equal to or more than 2%. Additionally five largest foreign banks, based on their size, are also added in the Sample.
2	Indicators	Five broad indicators: 1. Cross jurisdictional activity 2. Size 3. Interconnectedness 4. Substitutability and 5. Complexity	Four broad indicators as mentioned in BCBS's framework for D-SIBs are used: 1. Size 2. Interconnectedness 3. Substitutability and 4. Complexity
3	Indicator weights	All indicators given equal weight with a cap to substitutability category weight.	Size is given a weight of 40 percent and other three indicators is given a weight of 20 percent each.
4	Sub-indicators	Three sub-indicators for Complexity indicator: 1. Notional amount of OTC derivatives 2. Level 3 assets and 3. Trading and Available For Sales Securities	Level 3 assets for complexity indicator dropped and instead cross jurisdictional liabilities are added.

CONCLUSION

Amidst the dynamicity of global and domestic financial markets and economy, it is pre requisite to recognize Domestic Systematically important banks to provide safeguard to the economy in general and the citizen-clients in particular so that they should not suffer due to the crisis in the global market and to avoid the complicacy at the time of distress about which bank is to be bailed out. These banks can help economy from collapsing with the help of government support and restrictions implemented on them by the RBI in their operational functioning. They have to follow norms and guidelines of RBI. Till date we have only three banks identified as domestic systematically important banks.

Bibliography & References

[1]. Masciantonio, Sergio (2013), Identifying Ranking and Tracking Systemically Important Financial Institutions from a global, EU and Eurozone perspective, Banca d'Italia, April 2013 available at https://mpra.ub.uni-muenchen.de/46788/

[2]. International Monetary Fund and Financial Stability Forum 2008, "IMF and FSF Joint Letter to the G20 Ministers and Leaders" November 13,2008

[3]. Declaration of the Washington summit of G20 (2008) available at:

[4]. https://www.oecd.org/g20/summits/washington-dc/declarationofthesummitonfinancialmarketsandtheworldeconomy.htm

[5]. Declaration on strengthening the financial system –London summit, 2 April 2009

[6]. International Monetary Fund, Bank for International Settlements, Financial Stability Board (IMF/BIS/FSB), 2009, "Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations", Report to the G-20 Finance Ministers and Central Bank Governors, October 2009.

[7]. International Monetary Fund, Bank for International Settlements, Financial Stability Board (IMF/BIS/FSB), 2009, "Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations- Background Paper", Report to the G-20 Finance Ministers and Central Bank Governors, October 2009.

[8]. FSB report (2010): Reducing the moral hazard posed by systemically important financial institutions: FSB Recommendations and Time Lines on October 20, 2010 at Seoul Summit.

[9]. Basel Committee on Banking Supervision (2011): Global systemically important banks: assessment methodology and the additional loss absorbency requirement Rules text November 2011

[10]. A revised version of this document was published in July 2013. http://www.bis.org/publ/bcbs255.htm

[11]. Global systemically important banks: Updated assessment methodology and the additional loss absorbency requirement July 2013
[12]. This standard has been integrated into the consolidated Basel Framework: https://www.bis.org/basel_framework/
[13]. Global systemically important banks: Revised assessment methodology and the additional loss absorbency requirement July 2018
[14]. FSB (2011); Policy Measures to Address Systemically Important Financial Institutions November 04, 2011.
[15]. FSB (2012); Progress Report to G-20 Ministers and Governors "Extending the G-SIFI Framework to domestic systemically important banks" April 16, 2012
[16]. FSB (2012); Update of group of global systemically important banks (G-SIBs) November 01, 2012
[17]. FSB (2013); Update of group of global systemically important banks (G-SIBs) November 11, 2013
[18]. FSB (2014); Update of group of global systemically important banks (G-SIBs) November 06, 2014
[19]. FSB (2015); Update of group of global systemically important banks (G-SIBs) November 03, 2015
[20]. FSB (2016); List of global systemically important banks (G-SIBs) November 21, 2016
[21]. FSB (2017); List of global systemically important banks (G-SIBs) November 21, 2017
[22]. FSB (2018); List of global systemically important banks (G-SIBs) November 16, 2018
[23]. FSB (2019); List of global systemically important banks (G-SIBs) November 22, 2019
[24]. FSB (2020); List of global systemically important banks (G-SIBs) November 11, 2020
[25]. RBI releases Framework for dealing with Domestic Systemically Important Banks (D-SIBs) July 22 2014 Reserve Bank of India - Press Releases (rbi.org.in)
[26]. Available at Reserve Bank of India - Database (rbi.org.in)
[27]. RBI releases list of Domestic Systemically Important Banks (D-SIBs); August 31,2015 Reserve Bank of India - Press Releases (rbi.org.in)
[28]. RBI releases 2016 list of Domestic Systemically Important Banks (D-SIBs); August 25, 2016.
[29]. RBI releases 2017 list of Domestic Systemically Important Banks (D-SIBs); September 04, 2017.
[30]. RBI releases 2018 list of Domestic Systemically Important Banks (D-SIBs); March 14, 2019
[31]. RBI releases 2020 list of Domestic Systemically Important Banks (D-SIBs); January 19, 2021

Appendices

Table A1: First List of G-SIFIs (2011) in alphabetical order for which the resolution-related requirements will need to be met by end-2012

Bank of America	Credit Suisse	JP Morgan Chase	Société Générale
Bank of China	Deutsche Bank	Lloyds Banking Group	State Street
Bank of New York Mellon	Dexia	Mitsubishi UFJ FG	Sumitomo Mitsui FG
Banque Populaire CdE	Goldman Sachs	Mizuho FG	UBS
Barclays	Group Crédit	Morgan Stanley	Unicredit Group
BNP Paribas	Agricole	Nordea	Wells Fargo
Citigroup	HSBC	Royal Bank of Scotland	
Commerzbank	ING Bank	Santander	

Sources: FSB (2011); Policy Measures to Address Systemically Important Financial Institutions November 04, 2011

Appendix II: BCBS Principles for dealing with Domestic Systemically Important Banks

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-SIB 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-SIB 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-SIB's 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-SIB 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-SIB 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 stand-alone basis, including cases in which a D-SIB HLA requirement is applied at the subsidiary level. Home authorities should impose the higher of either the D-SIB or G-SIB HLA requirements in the case where the banking group has been identified as a D-SIB 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-SIB 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-SIB.

Table B2: Data Requirements for computing the systemic importance score

I. ize	On-Balance sheet and Off-balance sheet size (same as exposure measure used for computing the Basel III leverage ratio)		
II. nterconnectedness	Intra-Financial System Assets	Lending to financial institutions (including undrawn committed lines)	All funds deposited with other financial institutions
			Undrawn committed lines extended to other financial institutions
		Holding of securities issued by other financial institutions	Debt Securities
			Commercial Paper
			Certificate of Deposit
			Equity holdings
		Gross Positive current exposure of Securities Financing Transactions(SFTs)	
		OTC derivatives with financial institutions	Gross Positive Fair Value
			Potential Future Exposure
			Fair Value of Collateral that is held with other financial institutions
	Intra-Financial System Liabilities	Deposits by financial institutions (including undrawn committed lines)	All funds deposited by banks
			All funds deposited by non-bank financial institutions
			Undrawn committed lines obtained from other financial institutions
		Gross Negative current exposure of SFTs	
		OTC derivatives with financial institutions	Gross Negative Fair Value
			Potential Future Exposure
			Fair Value of collateral that is provided by other financial institutions
	Total Marketable Securities issued by the bank (segregated for residual maturity less than one year and more)	Debt Securities	
		Commercial Paper	
		Certificate of Deposit	
		Equity	
III. Substitutability	Assets under Custody		
	Payments made in INR using RTGS and NEFT systems		

	Value of underwritten transactions in the debt and equity markets		
IV. Complexity	OTC Derivatives notional value segregated based on cleared through CCP and bilaterally cleared		
	Value of securities held for trading, available for sale and designated as fair value		
	Cross jurisdictional liabilities.		

Sources: Framework for dealing with Domestic Systemically Important Banks (D-SIBs) July 22 2014

Ameen Uddin Ansari, et. al. "Domestic Systemically Important Banks In India- A Conceptual & Historical Background." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 12(06), 2021, pp. 57-67.