

Procedure for Identification of Domestic Systemically Important Banks (D-SIBs)

Introduction

The Central Bank of the Republic of Uzbekistan (CBU) identifies domestic systemically important banks (D-SIBs) to ensure the stability of the banking system, which is a key objective of its mandate¹. Additionally, the CBU assesses systemic risks and works to prevent them. The identification of D-SIBs is carried out in accordance with the Regulation on the Procedure for Identifying Systemically Important Banks². In drafting this regulation, the CBU considered the Basel Committee on Banking Supervision's guidelines on D-SIBs³, as well as the experiences of other countries and the unique characteristics of Uzbekistan's banking system.

A bank is classified as a D-SIB if the stability of the banking system relies on its operations⁴. The failure of such a bank can trigger systemic risks, potentially destabilizing the entire banking system or specific parts of it. This, in turn, can lead to adverse consequences for the real economy.

I. Criteria for identifying D-SIBs

Four criteria are used to identify D-SIBs:

- ❖ Size
- ❖ Interconnectedness
- ❖ Substitutability
- ❖ Complexity

Nine generalized indicators, along with their corresponding weights, are used to identify D-SIBs.

¹ Law of the Republic of Uzbekistan No. LRU-582 of November 11, 2019 "On the Central Bank of the Republic of Uzbekistan".

² Approved by Resolution No. 4/13 of the Board of the Central Bank of the Republic of Uzbekistan dated February 18, 2023.

³ BCBS. (2012, October). A framework for dealing with domestic systemically important banks.

⁴ Law of the Republic of Uzbekistan No. LRU-580 of November 5, 2019 "On Banks and Banking Activities".

Indicators for identifying D-SIBs and their weights

Criterion	Indicator	Weight	Subtotal weight
Size	Assets and off-balance sheet liabilities	30%	30%
Interconnectedness	Assets held in other banks	8%	23%
	Liabilities to other banks	15%	
Substitutability	Local payments and transfers	4%	37%
	Loan portfolio by economic sectors	4%	
	Individual deposits	15%	
	Corporate deposits	7%	
	Service points of the bank	7%	
Complexity	Cross-border liabilities	10%	10%

II. Calculation

All indicators are normalized to the range [0; 1] using the following formula:

$$K'_i = \frac{K_{ij} - \min(K_i)}{\max(K_i) - \min(K_i)}$$

where:

K'_i is the normalized value of the i -th indicator K ;

K_{ij} is the actual value of indicator K_i of bank j ;

$\min(K_i)$ and $\max(K_i)$ are the minimum and maximum values of indicator K_i across all banks.

The normalized indicators are multiplied by their weights, and their weighted values are summed to obtain the final result. The generalized score of the indicators is calculated as follows:

$$X = \sum_{i=1}^9 V_i * K'_i$$

where:

X is the generalized score of indicators;

K'_i is the normalized value of the i -th indicator K ;

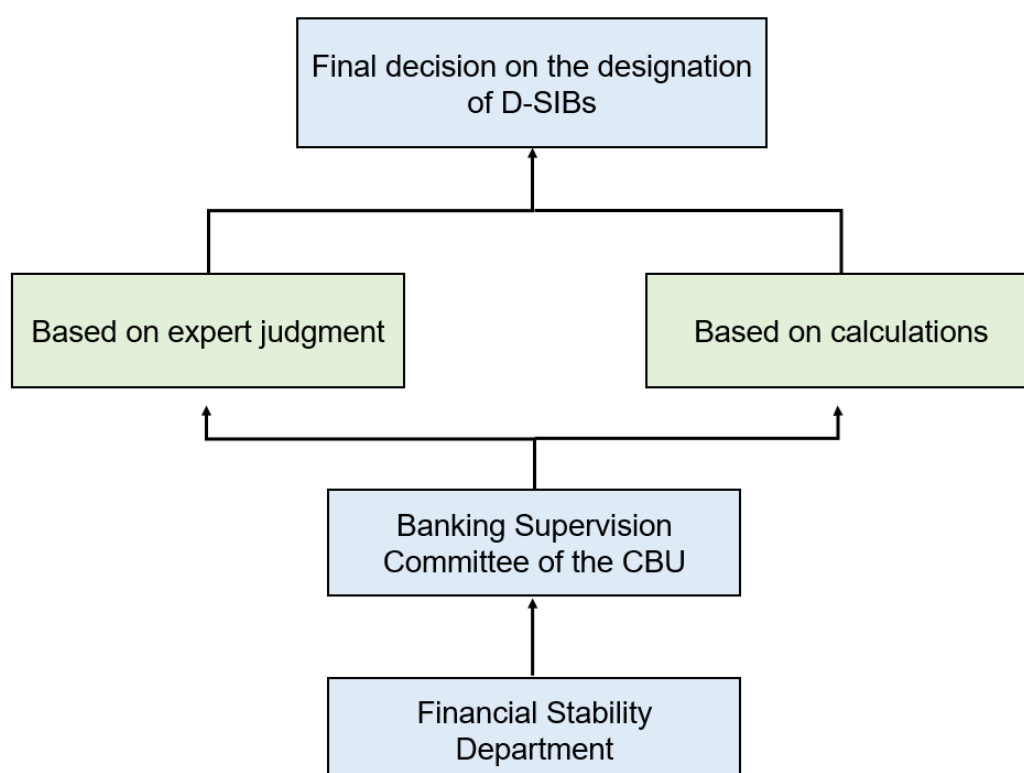
V_i is the weight of the i -th indicator K .

III. Rules for designating a bank as systemically important

At the end of each quarter, an assessment is conducted to determine the systemic importance of banks. A bank is considered systemically important in a particular quarter if its generalized score exceeds the sum of the average generalized score for all banks and one standard deviation.

The CBU identifies D-SIBs annually, designating them as such for the upcoming year. The Financial Stability Department submits the calculation results for the last four consecutive quarters to the Banking Supervision Committee of the CBU by November 1st of the reporting year for review.

Process for designating D-SIBs



According to the calculation results, a bank will be categorized as systemically important if it satisfies at least one of the following criteria:

- ❖ It is identified as systemically important based on data from three of the last four consecutive quarters;
- ❖ It is identified as systemically important based on data from the last two consecutive quarters.

Furthermore, the Banking Supervision Committee may apply expert judgment in assessing the systemic importance of a bank. To be classified as systemically important, a bank must meet at least one of the following conditions:

- ❖ It is identified as systemically important in one or two of the last four consecutive quarters.
- ❖ The generalized score of the bank as of October 1st of the reporting year is below the sum of the average generalized score of all banks and one standard deviation, but above the average generalized score of all banks.
- ❖ As of October 1st, at least one of the bank's indicators is greater than the sum of the average value for all banks and one standard deviation.

The Banking Supervision Committee designates D-SIBs for the forthcoming year through a combination of calculations and expert judgment. The list of D-SIBs is published on the CBU's official website.