

## PROCEDURE FOR DETERMINING DOMESTIC SYSTEMICALLY IMPORTANT BANKS

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### ARTICLE INFO

### ABSTRACT:

#### ARTICLE HISTORY:

Received: 20.05.2025

Revised: 21.05.2025

Accepted: 22.05.2025

#### KEYWORDS:

Indicators for determining domestic systemically important banks, Basel Committee, Central Bank of the Republic of Uzbekistan.

The article studies the procedure for identifying domestic systemically important banks. In particular, the opinions and scientific research of economists on this issue are studied. At the same time, The main emphasis is on the methodology for identifying systemically important banks. In particular, analytical data from the USA, Germany, Great Britain, Japan and others were studied.

**INTRODUCTION.** The Central Bank of the Republic of Uzbekistan (hereinafter referred to as the Central Bank) identifies systemically important banks in order to ensure the stability of the banking system,[1] as well as to assess and prevent systemic risks, which is one of the goals of its activities. Systemically important banks are designated by the Central Bank in accordance with the Regulation "On the Procedure for Determining Systemically Important Banks"[2]. In formulating this regulation, the Basel Committee on Banking Supervision's Guidelines on the "Conditions for Determining Domestic Systemically Important Banks"[3], the experience of foreign countries, and the specific characteristics of the Uzbek banking system were taken into account.

A bank on whose operations the stability of the banking system depends is considered a systemically important bank.[4] The failure of a systemically important bank can create systemic risks. These systemic risks can lead to the failure of the entire banking system or parts of it, resulting in negative consequences for the real economy. Supervisory authorities and international organizations are developing a list of systemically important banks to

establish additional requirements for banks' capital, liquidity, and risk management in order to prevent crises and ensure financial stability.

### **Analysis of literature on the topic**

Experts and practitioners in the field view "systemically important banks" as key financial entities that play a strategic role in the stability of the financial system. These banks are often considered the "pillars" of the financial infrastructure, and their stability is important for the overall well-being of the economy.[5] Such banks are subject to additional regulation and supervision by financial regulators and international organizations to prevent crises and maintain the stability of the financial system. In addition, it is becoming increasingly important to require them to adhere to clear standards for capital, liquidity, and risk management. In general, systemically important banks are considered to be reliable in ensuring the stability of a country's economy.[6]

By the resolution of the Board of the Central Bank of the Republic of Uzbekistan dated February 18, 2023, the Regulation on the Procedure for Determining Systemically Important Banks was approved. This regulation is a follow-up to the Basel Committee on Banking Supervision's Guidelines on the Criteria for Determining Local Systemically Important Banks, developed taking into account the experience of foreign countries and the specifics of the national banking system. According to the regulation, Systemically important banks that can significantly affect the stability of the banking system of the republic are determined based on 4 criteria. In particular, banks:[7]

**bank size** – the share of the volume of bank assets and off-balance sheet items in the total volume of total assets and off-balance sheet items of all banks;

**the bank's relationship with banking system participants** – the share of the bank's assets placed in other banks and its liabilities to other banks in the total assets of all banks in other banks and liabilities to other banks;

**coverage of the bank** – the shares of the bank's volume and number of local payments and transfers, the volume of loans allocated across sectors of the economy, the volume of deposits of individuals and legal entities in the bank in the relevant total indicators of the banking system, and the number of bank service points;

**complexity of banking transactions** – is assessed based on the share of the bank's cross-border (international) liabilities in the total cross-border liabilities of all banks in the republic.

Based on this Regulation, systemically important banks are identified, and from there, proportionate supervision over the activities of these banks is established, and their remote

monitoring is carried out. It is used to establish control measures, such as assigning supervisors (curators). In accordance with Article 38 of the Law of the Republic of Uzbekistan "On Banks and Banking Activities", the issues of establishing additional margins (buffers) to prudential standards will be considered.[8]

Nine generalized indicators and their corresponding weights are used to identify systemically important banks under these criteria.

#### Indicators and their weights used to identify systemically important banks

Criterion	Indicators	Weight	Generalized weight
Volume	Apart from assets and balance sheet obligations	30%	30%
Interdependence	Placed in other banks assets	8%	23%
	Before other banks obligations	15%	
Coverage	Local payments and transfers	4%	37%
	In the section of economic sectors loan portfolio	4%	
	Individuals deposits	15%	
	Deposits of legal entities	7%	
	Bank service points	7%	
Complexity	Cross-border obligations	10%	10%

#### Calculation of systemically important banks

All indicators are standardized and converted to a [0; 1] scale using the following formula:

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

$$i \max(K_i) - \min(K_i)$$

in which:

$K'_i$  –  $i$ - the standardized value of the numerical  $K$ -index;

$K_{ij}$  –  $j$ - the actual value of the bank's  $K_i$ -indicator;

$\min(K_i)$  va  $\max(K_i)$  – Minimum and maximum values of the  $K_i$ -indicator for all banks.

The standardized indicators are multiplied by the appropriate weighting factors and then the aggregate result of the indicators is calculated by calculating their sum.[9]

The generalized result of the indicators is found using the following formula:

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

bunda:

$X$  – the summary result of the indicators;

$K'_i$  –  $i$ - the standardized value of the numerical  $K$ -index;

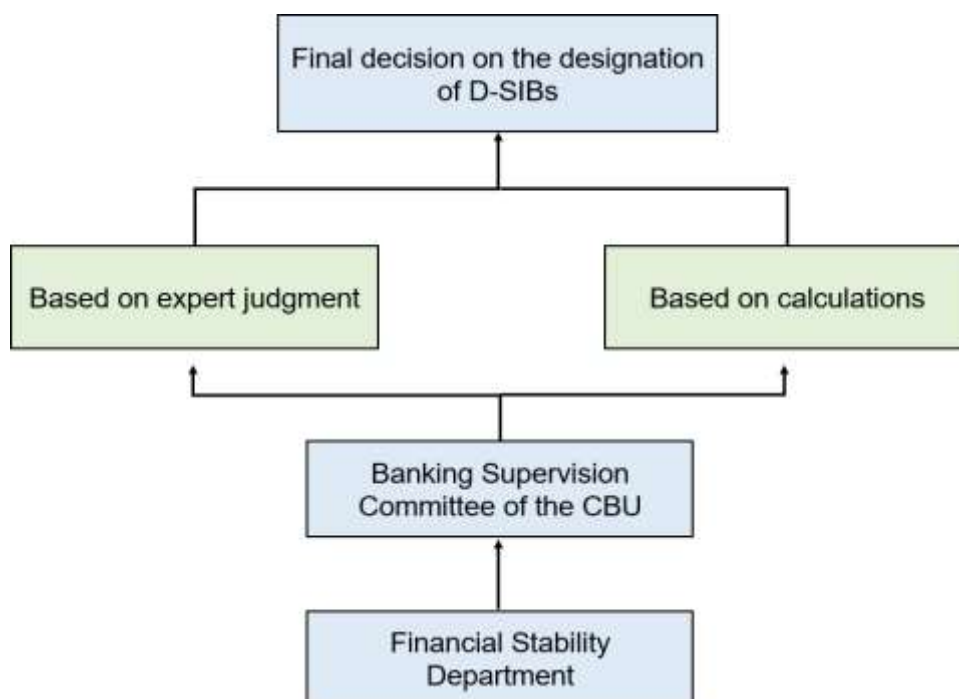
$V_i$  –  $i$ -The weight of the  $K$ -index.

#### **Rules for designating a systemically important bank**

At the end of each quarter, a calculation is made of the banks' systemic importance. If the aggregated result of a bank is higher than the sum of the average aggregated result of all banks plus one standard deviation, then this bank is considered to be systemically important at the end of the quarter.[10]

The Central Bank determines systemically important banks once a year and designates them as systemically important for the following year. Financial stability The Department shall submit the results of the calculations for the last four consecutive quarters for discussion by the Banking Supervision Committee of the Central Bank by November 1 of the reporting year.

### 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.[11]

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:[12]

- ❖ 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 1<sup>st</sup> 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 1<sup>st</sup>, 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.[13]

### **Conclusion and recommendations.**

In conclusion, we all know that assessing the financial stability of commercial banks and ensuring the economic stability of the country are important issues. At the same time, it is known that the financial difficulties of large banks lead to a "domino effect" that complicates the activities of economic entities and worsens the economic situation, which leads to negative consequences.

Therefore, identifying systemically important banks, designating national and global systemically important banks, and regulating their activities will prevent any problematic situations. It is important for the supervisory authorities of all countries to establish additional economic standards for systemically important banks and ensure the stability of their activities. To this end, constantly studying the experience of foreign countries, while implementing the recommendations of the international Basel Committee on Banking Supervision, will help prevent various complex situations.

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