



CENTRAL BANK OF KENYA

**FRAMEWORK FOR IDENTIFICATION, REGULATION
AND SUPERVISION OF DOMESTIC SYSTEMICALLY
IMPORTANT BANKS IN KENYA**

AUGUST 2026

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GLOSSARY

BCBS	Basel Committee on Banking Supervision
CBK	Central Bank of Kenya
CET 1	Common Equity Tier 1
D-SIB	Domestic Systemically Important Bank
G20	Group of Twenty
GDP	Gross Domestic Product
G-SIB	Global Systemically Important Bank
HLA	Higher Loss Absorbency
ICAAP	Internal Capital Assessment Adequacy Process
IDE	Importance to the Domestic Economy
ILAAP	Internal Capital Assessment Adequacy Process
LGD	Loss Given Default
NOHC	Non-Operating Holding Company
PD	Probability of Default
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SIFI	Systemically Important Financial Institution
SME	Small and Medium Enterprise

PART I: PRELIMINARY

- 1.1 Title** – Framework for Identification, Regulation and Supervision Domestic Systemically Important Banks (D-SIBs) in Kenya
- 1.2 Authorization** - This Framework is issued under Section 33(4) of the Banking Act, which empowers the Central Bank of Kenya to issue Guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system
- 1.3 Application** – This Framework shall be applicable to all institutions licensed under the Banking Act (Cap. 488) and approved Non-Operating Holding Companies (NOHC).
- 1.4 Definitions** - Terms used in this Guideline are as defined in the Banking Act (Cap. 488). Other terms used in this Guideline shall be taken to have the meaning assigned to them hereunder;

- 1.4.1 Domestic Systemically Important Financial Institutions (D-SIFIs)** are financial institutions operating in one or more countries and whose disorderly failure would cause significant dislocations in the domestic or regional financial system and adverse economic consequences in the country or region.

In this document, the terms Systemically Important Financial Institutions (SIFIs) and Systemically Important Banks (SIBs) are used interchangeably.

- 1.4.2 Systemically Important Financial Institutions (SIFIs)** are financial institutions whose distress or disorderly failure would cause significant disruption to the wider financial system and economic activity.
- 1.4.3 Systemic risk** is the risk of disruption to financial services that is caused by an impairment of all or part of the financial system that can have serious negative consequences for the real economy.

PART II: STATEMENT OF POLICY

2.1 Purpose

The overall objective of this framework is to ensure that all D-SIBs are subjected to appropriate degree of oversight and regulation. This entails defining the regulatory parameters and calibrating the intensity of oversight by the regulator.

The objectives of this framework therefore include, among others:

1. To comply with the Basel Committee on Banking Supervision (BCBS) requirements on Supervision of D-SIBs;

2. To identify D-SIBs whose failure could cause significant disruption to Kenya's financial system and the overall economy;
3. To enhance resilience of D-SIBs by applying higher loss absorbency (HLA) requirement and
4. To limit the impact of systemic shocks on the financial system by ensuring that D-SIBs are subjected to an appropriate level of regulation and supervision that is commensurate with their systemic importance.

2.2 Responsibility

The Board of Directors of institutions and NOHCs have the ultimate responsibility to ensure that institutions operate within the framework and that banks identified as D-SIBs hold higher levels of capital through additional loss absorbency requirements at all times.

PART III: INTRODUCTION

The global financial crisis of 2007-2009 emphasized the need for strengthening regulation and supervision of SIFIs. Lessons from the crisis proved that failure of large, interconnected and complex financial institutions generates severe disruptions of the financial system and the real economy. Finding the right regulatory and supervisory approach of this class of institutions therefore became a priority for the global financial stability policy makers.

In November 2011, the BCBS issued its framework for dealing with global systemically important banks (G-SIBs). The G-SIB framework responds to the strongly held view of global leaders that no financial firm should be 'too-big-to-fail' and that tax payers should not bear the cost of resolution.

On the request of G20 leaders, the BCBS in October 2012 also issued a guiding framework for dealing with D-SIBs. The D-SIBS framework was designed from the G-SIBs framework but provides countries with flexibility to adjust the methodology based on their circumstances, structure and financial development. 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-SIB framework involves a set of principles on the assessment methodology and the HLA requirement for banks identified as D-SIBs. The framework provides 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:-

- (i) reduce the probability of D-SIBs failure;
- (ii) 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 are given in **Appendix 1**.

PART IV: ASSESSMENT METHODOLOGY FOR D-SIBS

In this framework, the indicator-based measurement approach as well as bucketing approach and supervisory judgement will be used by CBK to determine D-SIBs in Kenya.

4.1 Indicator Based Measurement Approach

The indicator-based method measures and ranks financial institutions according to their degree of systemic importance, with reference to five indicators from bank-level data. This framework utilizes only four of these indicators i.e. size, interconnectedness, substitutability and complexity, while the fifth indicator on cross-jurisdictional activity is substituted with importance to the domestic economy (IDE). The substitution is consistent with the BCBS principle that jurisdictions may adapt the indicator-based approach to reflect characteristics of the domestic financial systems.

4.1.1 Size

The size of a bank can be regarded as the key measure of systemic risk. The larger a bank is, the higher the potential damage that arises from its failure. When a large bank collapses, other banks are unlikely to fully replace its activities. Failure of a large and well known bank negatively impacts confidence in the banking system as a whole.

In determining the size of a bank, this framework shall consider the Leverage Ratio exposure measure of a bank relative to the aggregate value of the Leverage Ratio exposure measure for all banks in Kenya's banking sector.

The computation of a bank's size score is as shown below:

$$\text{Size} = \text{Exposure measure}_i / \text{Exposure measure}_n \text{ ----- (a).}$$

Where, i – refers to a specific bank whose weighted size score is being determined.

n – refers all the licensed banks in system.

4.1.2 Interconnectedness

The more interconnected a bank is to other financial institutions, the greater the potential for the failure of that bank to transmit distress through the financial system and the broader economy. The systemic impact of a bank greatly depends on its degree of interconnectedness with other financial institutions and can be measured by the volume of its intra financial systems assets and liabilities, short-term financing by interbank and money market operations.

The domestic interbank transactions in Kenya are reflected by deposits and balances due from local banking institutions and deposits and balances due to local banking institutions.

Accordingly, in determining the degree of interconnectedness of a bank in Kenya, the framework compare deposits and balances of a bank due from the local banking institutions over the total deposit and balances due from local banking institution for the entire banking sector; and deposits and balances of a bank due to local banking institutions over the overall deposits and balances due to local banking institutions for the entire banking sector.

The computation of a bank's interconnectedness score is as shown below:

Interconnectedness score for a bank_i =

$$\frac{1}{2} \{ (\text{Deposits and balances due from local banking institutions}_i / \text{Deposits and balances due from local banking institutions for all banks}_n) + \frac{1}{2} (\text{Deposits and balances due to local banking institutions}_i / \text{Deposits and balances due to local banking institutions for all banks}_n) \} \text{ ----- (b).}$$

Where, i – refers to a specific bank whose interconnectedness score is being computed.

n – refers all the licensed banks in system.

4.1.3 Substitutability

If a bank plays an important role in a specific business segment or as a provider of market infrastructure, such as payment systems, the substitution by alternative suppliers may prove a challenge. The failure of such a bank will not only cause inconvenience for customers seeking the same service at another institution but also increases the degree of distress at other banks in terms of service gaps and reduced market liquidity.

This framework has used loans to personal/households' sector and trade sector (assumed to constitute loans mainly to Small and Medium Enterprises (SMEs) and Real Time Gross Settlement (RTGS) payments cleared and settled through payment systems to measure a bank's degree of substitutability. The personal/household and trade sectors also constitute the largest sectors of the Kenyan economy funded through bank loans and advances. This depicts the dependency of these economic sectors on banks' capital.

Substitutability score for a bank_i =

$$0.3 * (\text{Loans to households}_i / \text{Total Loans to households by all banks}_n) + 0.3 * (\text{Loans to trade sector}_i / \text{Total Loans to trade sector by all banks}_n) + 0.4 * (\text{RTGS payments cleared and settled through payment systems}_i / \text{RTGS payments cleared and settled through payment systems}_n) \text{-----} \\ \text{----- (c).}$$

Where, i – refers to a specific bank whose substitutability score is being computed.

n – refers all the licensed banks in system.

4.1.4 Complexity

Complexity as a measure of systemic relevance rests on the notion that more complex financial institutions, in respect to their business model, structure and operations, are more difficult or very costly to be resolved by the authorities, in event of failure. The more complex the business, structure and operations of a bank are, the greater the systemic risk following such a bank's failure.

Complexity of Kenyan banks can be reflected through their investment in financial securities for dealing, investment securities, financial derivative assets and liabilities. Financial securities for dealing are speculative and short-term investments by banks whereas investment securities include both financial securities available for sale and held to maturity.

For purposes of assessing complexity, this framework has assigned a weight of 40 percent to financial securities and a weight of 30 percent each to financial derivative assets and financial derivative liabilities.

This is as shown in the formula below.

Complexity score for a bank_i =

$$0.4 * (\text{Financial Securities}_i / \text{Financial Securities}_n) + 0.3 * (\text{Financial Derivative Assets}_i / \text{Financial Derivatives}_n) + 0.3 * (\text{Financial Derivatives Liabilities}_i / \text{Financial Derivative Liabilities}_n) \text{-----} \\ \text{(d).}$$

Where, i – refers to a specific bank whose complexity score is being computed.

n = refers to all the licensed banks in the system

4.1.5 Importance to the Domestic Economy (IDE)

Given that the point of reference in identifying D-SIBs is the domestic economy, this framework has considered the relevance of a bank to the domestic economy, by comparing its contribution to the overall gross domestic income (GDP). This is in addition to deposits component, which largely reflect the public perception of the domestic impact that a bank's failure may cause.

The IDE indicator is computed as follows:

Score of importance of a bank $_i$ to the Domestic Economy =

$$0.5 * (\text{Deposits}_i / \text{Total Deposits}_n) + 0.5 (\text{Total Assets}_i / \text{GDP}_k) \text{ ----- (d).}$$

Where, i - refers to a specific bank whose IDE is being computed.

n – refers to deposits of all the licensed banks in system

k - refers to the country's GDP

4.2 Indicator Weights

In adopting the indicator- based measurement approach, weights were assigned to the size, interconnectedness, substitutability, complexity and IDE. The determinants (sub-indicators) within each indicator were also assigned weights as shown in Table 1.

Table 1: Weighting of Indicators

Indicator	Component	Component Weight	Indicator Weight (%)
Size	Total assets plus off-balance sheet items	100%	40
Interconnectedness	Deposits and balances due from local banking institutions	50%	30
	Deposits and balances due to local banking institutions	50%	
Substitutability	Loans to households	30%	15
	Loans to trade sector / SMEs	30%	
	payments cleared and settled through payment systems	40%	
Complexity	Financial Securities	40%	

Indicator	Component	Component Weight	Indicator Weight (%)
	Financial Derivative Assets	30%	5
	Financial Derivative Liabilities	30%	
Importance to the Domestic Economy	Customer deposits	50%	10
	Bank size relative to GDP	50%	
Total Weight			100

4.3 Computation of the Total Score

In order to determine the total score for each bank under consideration, the sub-scores for each factor are summed together as shown below.

$$\begin{aligned}
 \text{Total Score for bank}_i &= 0.4 * \text{Size of a bank}_i \text{ score (a)} + 0.3 * \text{Interconnectedness score for a} \\
 &\quad \text{bank}_i \text{ (b)} + 0.15 * \text{Substitutability score for a bank}_i \text{ (c)} + 0.05 * \\
 &\quad \text{Complexity score for a bank}_i \text{ (d)} + 0.1 * \text{Score of importance of a} \\
 &\quad \text{bank}_i \text{ to the Domestic Economy (e).} \\
 &= 0.4 * (a) + 0.3 * (b) + 0.15 * (c) + 0.05 * (d) + 0.1 * (e).
 \end{aligned}$$

4.4 HLA Requirement for D-SIBs

4.4.1 General Requirement

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 CET 1 capital requirement and seen as an extension of the capital conservation buffer.

4.4.2 Designation of D-SIBs

CBK will utilize a total score value higher than 0.25 and/or any category score value higher than 0.05 as thresholds for indicating systemic importance. Though the total score carries more weight in determining the systemic importance of a bank, scores of the individual factors will be considered in designing the necessary supervisory responses. A bank may not be systemically important based on its total score (less than 0.25) but where it depicts systemic importance based on the score of one or more factors (a score of 0.05 or more), appropriate supervisory measures will be deployed.

4.4.3 D-SIB Bucketing Approach

Banks identified as D-SIBs will be grouped into buckets by the Central Bank based on their degree of systemic importance as reflected by the overall scores derived from the total score assessment and the category scores. The bucketing approach facilitates the application of policy measures that are commensurate with a D-SIB's degree of systemic importance.

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

- i) at the level of both standalone and consolidated level
- ii) in the form of CET1 capital

Based on the annual assessment, the HLA will be allocated in three (3) different buckets based on the total scores and the category scores. The HLA capital requirements shall range from 0.5 percent to 2.5 percent additional CET 1 presented as a percentage of risk weighted assets (RWA) as shown in table 2 below.

Table 2: D-SIBs Bucketing Approach

Bucket	Total Score Range	Category Score Range	HLA Requirement (Additional CET1 requirement as a percentage of RWA)
3	>0.25	>0.3	2.5%
2	>0.15 - ≤0.25	>0.2 - ≤0.3	1.5%
1	>0.05 - ≤0.15	>0.1 - ≤0.2	0.5%

4.4.4 Regulatory Capital Requirements

In calculating its regulatory capital requirements, including the CET 1 capital it has available to meet the (extended) buffer, a bank's CET 1 capital must first be applied to meeting all of the three minimum capital ratios (i.e. the CET 1 capital ratio, Tier 1 capital ratio and Total capital ratio – and the capital conservation buffer) to the bank pursuant to CBK's Prudential Guideline on Capital Adequacy, before the remainder can contribute to the HLA capital requirements. The Central Bank will apply an additional capital charge to D-SIBs based on their D-SIB scores and depending on which of the 'buckets' the D-SIB score falls as shown in table 2.

4.5 Transition and Disclosure

- (1) Assessment of D-SIBs shall be conducted once every calendar year, as at December 31, using data from banks and mortgage finance institution, licenced by the Central Bank.

- (2) The designated D-SIBs shall then be notified in writing by the end of March in each calendar year, and the list thereof shall be published by June of the said year.
- (3) Newly identified D-SIBs and those progressing to a higher HLA requirement bucket will:
 - a) have a transition period of up to 12 months following notification by the Central Bank, to comply with the HLA requirement.
 - b) within three (3) months of the notification from the Central Bank, submit a board approved action plan which details how it intends to meet the D-SIB HLA within the period referred to 4.7 (a) above.
- (4) If a bank classified as a D-SIB does not meet the cut-off criteria in the subsequent annual assessment, it shall be removed from the list of D-SIBs and will thereafter not be subject to D-SIB regulatory requirements.
- (5) In the event that a bank progresses to a higher score that requires higher capital absorbency requirements, the bank shall have a 12-month grace period, following notification by the Central Bank, for full compliance to be attained.
- (6) Conversely, should a bank's D-SIB score reduce in the subsequent annual assessment, it shall adjust to the lower capital requirement or to non-D-SIB status, as applies.

4.6 Supervisory Approach for D-SIBs

Once D-SIBs have been identified, CBK will take the below supervisory measures to reduce the systemic risk of D-SIBs. The objectives of these additional supervisory measures are to reduce the probability of D-SIBs failure; reduce the impact of D-SIBs failure; reduce public sector costs; and to level the playing field by reducing the Too-Big-To-Fail advantage.

The additional supervisory measures on D-SIBs include:

(a) Enhanced Supervision

There shall be greater intensity and/or frequency of targeted on-site and offsite supervision, and monitoring and surveillance of key performance indicators for D-SIBs within the Risk Based Supervision framework, targeted at assessing efficacy of risk management, governance and internal controls, in order to ensure DSIB's soundness as a going concern. This will include, among other things:

- i) More in-depth assessment of D-SIBs (such as more frequent examinations);
- ii) Reference to macro-prudential analysis to identify potential risks and threats to the domestic financial system that might adversely affect the risk profile of individual D-SIBs;
- iii) Review and consideration of D-SIBs' risk appetite and risk tolerance statements on a regular basis and, as appropriate, review of supplementary information such as associated metrics or

management information (e.g. risk or audit reports), to support assessment of whether the risk appetite and risk limits are adhered to at an operational level; and

- iv) More intensive supervisory interaction and engagement, including between CBK and the D-SIB's board and its audit and risk committee members.

(b) Stress Testing, ICAAP and ILAAP

Systemic risk capital buffer requirements of D-SIBs require appropriate capital and liquidity planning. Hence, D-SIBs shall be required to conduct quarterly stress tests and evaluate their ability to absorb losses from a range of economic and financial shocks. DSIBs shall also be required to conduct Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), at least annually and the results shall be reviewed by CBK.

(c) Macro-Prudential Regulation

CBK shall periodically deploy as necessary, appropriate policy tools to moderate the systemic risk posed by D-SIBs.

(d) Recovery and Resolution Plans

D-SIBs shall be required to develop a recovery plan and a resolution plan that shall be updated and submitted to CBK annually by April 30, to reduce the cost of failure and improve their resolvability through early intervention and crisis recovery and management arrangements. The objective is to ensure that D-SIBs have comprehensive plans that proactively identify management actions and contingency arrangements that can be invoked to support the banks through severe stress situations and therefore avert disruptions to the financial system and economy.

In case a Kenyan subsidiary of a foreign bank is designated as a D-SIB, CBK shall engage the home regulator of the parent bank/bank holding company, and the parent bank/bank holding company itself in assessing the adequacy of the D-SIB's recovery and resolution plans.

(e) Disclosure Requirements

D-SIBs may be required to have enhanced disclosure and transparency requirements or mandated to make additional and more frequent disclosures of their financial positions and performance.

(f) Liquidity surcharges

D-SIBs may be required to maintain higher liquidity ratios than non-D-SIBs, depending on the prevailing funding and liquidity risks.

(g) Limits or restrictions on size/scope of bank activities:

D-SIBs may be restricted from expanding their operations or introducing new products whose effect may enhance the systemic risk of the bank.

The supervisory measures to be employed on a D-SIB depend on the supervisors' judgement as to the institution's degree of systemic risk. It is also worth noting that the above list of supervisory measures against D-SIBs is not exhaustive.

4.7 Review of the D-SIBs Framework

This framework shall be reviewed at least once in every three years to incorporate revisions and amendments in the Basel Committee for Banking Supervision (BCBS) frameworks, and developments in the banking sector.

PART V: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

Failure to comply with any of the provisions of this framework shall attract remedial measures and administrative sanctions as set out in the Central Bank's Guideline on Capital Adequacy (CBK/PG/03).

PART VI: EFFECTIVE DATE

Effective date - The effective date of this framework shall be as advised by the Central Bank.

ENQUIRIES

Any enquiries on this Guideline should be forwarded to:

Director, Bank Supervision Department
Central Bank of Kenya
P. O. Box 60000 - 00200
NAIROBI
TEL. 2860000 e-mail: fin@centralbank.go.ke

APPENDIX I

The D-SIBs Assessment Framework

The D-SIBs Framework constitutes twelve (12) principles. Principles 1 to 7 deal with the assessment methodology for D-SIBs and principles 8 to 12 focus on the requirement for HLA for D-SIBs. The twelve principles, which have guided the development of the CBK Framework for D-SIBs, are outlined below:

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 or externality imposed by a bank's failure. Just as is the G-SIBs assessment framework, the D-SIBs assessment should focus on “**loss given default (LGD)**” and not “probability of default (PD)” (risk of 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 the banks for their degree of systemic importance at a 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. This is because the activities of a bank outside the home jurisdiction can, when the bank fails, have potential significant spillovers to the domestic (home) economy.

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 banking sector concentration).
- d) Complexity (including additional complexities from cross-border activity).

The national authorities can consider other measures/data that would inform the bank specific indicators within each of the factors, such as the size of the domestic economy (size of bank in relation to GDP).

Principle 6: National authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions to ensure that their assessments reflect the current

state of relevant financial systems. The D-SIBs assessments should be similar to G-SIBs assessments (annual).

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. This will act as an incentive for D-SIBs to reduce their systemicity.

HLA Requirement for D-SIBs

Principle 8: National authorities should document the methodologies and considerations used in arriving at the HLA framework for the D-SIBs in their jurisdiction. The level of HLA for D-SIBs should be informed by quantitative methodologies (where available) and country specific factors (such as banking sector size to GDP, Concentration of banking sector) 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. In case where there are multiple D-SIB buckets, this could imply differentiated levels of HLA between the different D-SIB buckets.

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 at the parent and/or consolidated level, and the host authorities should impose HLA requirements at the subsidiary level. The home authority should test that the parent bank is adequately capitalised on a stand-alone basis, including where a D-SIB HLA requirement is applied at 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 both a D-SIB and G-SIB in the home jurisdiction.

Principle 11: In cases where a 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 (and other relevant policy measures), within the constraints imposed by relevant laws in the host jurisdiction.

Principle 12: The HLA requirement should be met fully by CET 1. National authorities should also put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB.