Industry Dialogue: State of Play on MREL

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Agenda

1. Background
2. Updated SRB Approach for 2016
3. Aggregated Informative Targets and Shortfalls
4. Liability Data Templates: Update and Timeline
5. 2017 and beyond
1. Background

**Regulatory Environment**

- EU Commission Delegated Regulation on MREL came into force in May 2016
- EU Commission Legislative Proposal (banking reform package) published on 23rd November 2016
- EBA Interim report on MREL published on 19 July, and final report to be transmitted to EU Commission on 6 December 2016

**Resolution Planning & Exchanges with Banks**

- Informative MREL on 65 major banking groups (for which the SRB drafted resolution plans)
- MREL workshops with banks started in June (new wave from November onwards)
2. Updated SRB Approach for 2016

The MREL Journey Started Early 2016

> Legal basis and References
  - Art. 12 SRMR requires the SRB to determine MREL for entities under its remit
  - SRB methodology is based on BRRD and EU Commission Delegated Regulation

> Priorities for 2016

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Informative Targets based on EC Delegated Regulation</th>
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<tbody>
<tr>
<td>Quality</td>
<td>Subordination as per TLAC Term-Sheet for G-SIIs</td>
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<tr>
<td>Location</td>
<td>Consolidated level of EU parent only</td>
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<tr>
<td>Timing</td>
<td>G-SIIs to comply with the TLAC Term-Sheet by 2019</td>
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> Timeline

- **February**: Data request sent to groups
- **May-June**: Data submitted to NRA/SRB
- **Summer**: Workshops with banks on MREL calculation
- **September**: Refinements and follow-up actions
- **From November**: Informative MREL targets and new workshops
2. Updated SRB Approach for 2016

Key Features of SRB MREL Methodology for 2016 (1/2)

• Informative MREL Targets in 2016 = Mechanical sum of three amounts

> Basel 1 floor: applicable for LAA and RCA determination
> 8 percent “benchmark”: case by case analysis where targets are less than 8 percent total liabilities and own funds
> Partial subordination for G-SIIs: as per TLAC at 13.5% + Combined Buffer Requirement
2. Updated SRB Approach for 2016

Key Features of SRB MREL Methodology for 2016 (2/2)

• New SREP Methodology
  > Pillar 2 split into two components: requirement and guidance;
  > Stacking order clarified: Pillar 2 sits above the Pillar 1 total capital requirement; Pillar 2 guidance sits above the buffer requirements;

• Bank Specific Analysis still to be conducted
  > Resolution strategy: informative MREL targets do not consider bank specific analysis and assume open bank bail-in. Additional work needed for transfer strategies (sale of business, AMC, bridge bank) and strategies based on recapitalization of a smaller group;
  > Business model and risk profile: case-by-case analysis in calibrating the capital post-resolution (dialogue with the ECB);

• Assessment of MREL Eligible Instruments as per Art. 45 BRRD
  > As a starting point in the 2016 methodology the SRB considered: all liabilities regardless their holding structures (incl. retail investors), term deposits > 1 year, national rules for subordination in relation to G-SII's;
  > And did not consider: structured notes, liabilities issued by SPVs, and third-country issuances.
2. Updated SRB Approach for 2016

Communication Policy

• Dialogue with banks on informative MREL targets in 2016
  > Non-binding and non-enforceable
  > No expectation for compliance, but orientation for the next steps
  > No formal communication in 2016

• Engagements with banks
  > Workshops with banks
  > On-going dialogue
3. Aggregated Informative Targets and Shortfalls

Estimated Banking Union Impact based on our Sample

- Implementation of the 2016 SRB approach
  - Mechanical approach not reflecting resolution strategies and risk profiles
  - Does not take into account further case-by-case adjustments foreseen by the legislation
  - Does not take into account the recent EU Commission legislative proposal;

- Horizontal analysis performed at SRB level for all major banks for which the SRB drafted resolution plans (except MPE strategies)

- Informative targets and shortfalls
  - Informative targets: average 27% of total risk exposure amount (TREA)
  - Shortfalls: 112bn EUR, representing on average 7% of TREA (for banks with shortfall)
  - 8% “benchmark” not binding: two cases

- No one-size-fits-all answer foreseen
4. Liability Data Templates: Update and Timeline

Objectives of the LDT

> Providing a view on liability structure and loss-absorbing mechanisms
> Setting the adequate MREL requirements at different levels (solo, consolidated)
> Being able to check compliance with the MREL decision in the future
> Having a first set of detailed information to operationalise bail-in in real cases

Future of the LDT: will be composed of eight main elements

- **2015**
  - Ad hoc data
  - Basic, aggregated information

- **2016**
  - Data as of 31/12/2015
  - Extended information request

- **2017**
  - Data as of 31/12/2016
  - Extended information request, incl. intragroup

> The SRB is working in cooperation with NRAs, the ECB and the industry
4. Liability Data Templates: Update and Timeline

Finalisation of the LDT by end 2016

> Format: Excel or XBRL (taxonomy expected Q1 2017), submission via a secured Data Collection Portal; error reports if re-submission is needed
> Deadline for submission: 15 May 2017 based on data as of 31 Dec 2016
> Data quality checks by NRAs and SRB
5. 2017 and Beyond

Outstanding work expected in 2017 and beyond to adjust the methodology, including case-by-case analysis and future pieces of legislation

- Cooperation with NRAs and ECB;
- Interplay with EU Commission proposal

Several key topics to be addressed, among which

- Tailoring requirements to the resolution strategy (MPE, partial recapitalization strategies, risk profile);
- Solo requirements and internal MREL
- Subordination
- Eligibility of deposits
- Tailored and consistent approach for transition periods

On-going discussions to prepare the ground for binding MREL targets

- The discretionary choices made in determining informative targets for 2016 do not necessarily reflect the future choices the SRB will make when determining binding institution specific MREL requirements
THANK YOU

For more information, please contact:
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