



**Single
Resolution Board**

21/11/2017 | **6th Industry Dialogue: 2017 MREL Policy**

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AGENDA



1. SRB MREL Policy for 2017

1.1 Introduction

1.2 Process

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2. Policy outcomes

3. MREL roadmap and next steps

SRB MREL Policy for 2017 – Introduction

- **Moving forward**

- > The SRB is further enhancing its **gradual MREL multi-year policy**. The MREL policy for 2017 introduces binding requirements and starts to address both the quantity and quality of MREL with bank-specific features

- **Loss-absorption capacity**

- > Reducing the impact of failure by increasing our ability to resolve failing firms in an orderly manner with no or minimal impact on the provision of critical functions, the financial system, public funds, depositors and investors, as well as client funds and client assets

- **Legal references**

- > EU Level 1: BRRD and SRMR
 - > EU Level 2: EU Commission delegated regulation 2016/1450 of 23 May 2016
 - > Other relevant information: FSB TLAC Term Sheet

- **Upcoming EU regulatory developments**

- > Finalisation of the negotiations on the EU Commission's Legislative Proposal on MREL/TLAC

SRB MREL Policy for 2017 – Process (1/2)

- **Scope**

- > The SRB intends to set binding targets for the majority of the largest and most complex banking groups within the SRB's remit as part of the 2017 resolution planning cycle
- > Most other banking groups will be subject to informative targets in 2017

- **Regulatory environment**

- > SRB decisions must be based on the current applicable legal framework. They take into account the flexibility offered by the legal framework to tailor MREL targets to bank-specific features, and are implemented in a consistent manner to safeguard the level playing field
- > The SRB follows closely the on going debates about the EU Commission's legislative proposals of 26 November 2016

- **Cooperation with other authorities**

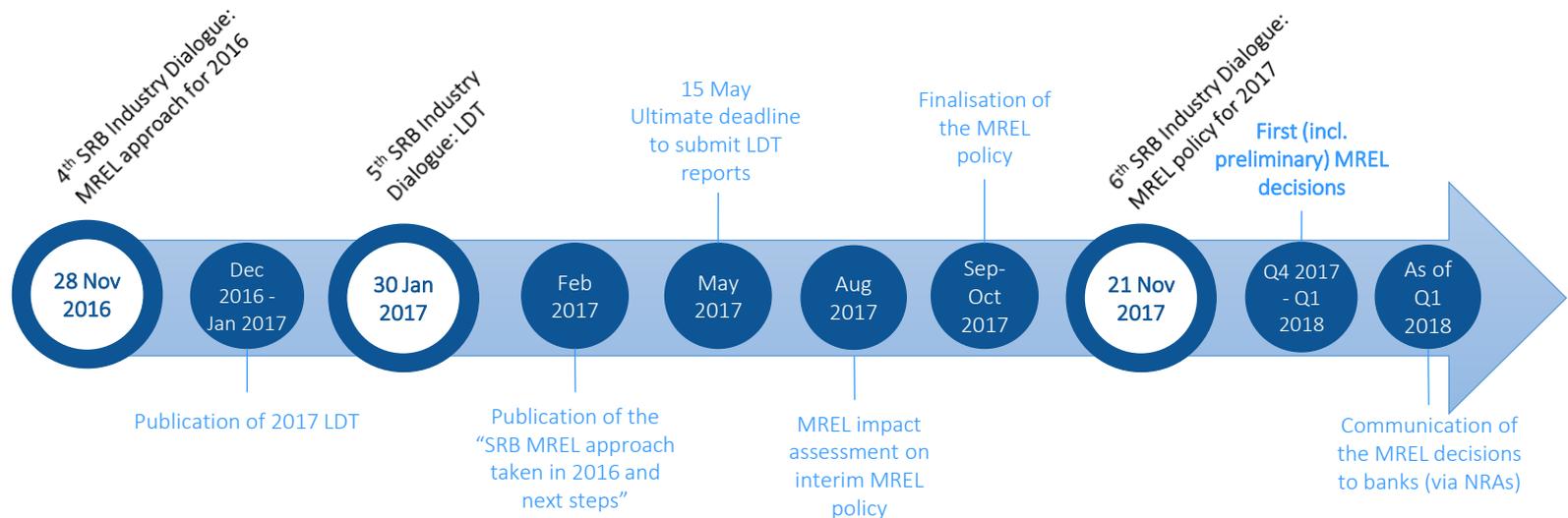
- > **National Resolution Authorities:** development of the MREL Policy for 2017 and its implementation throughout the resolution planning cycle
- > **ECB:** consultation on resolution plans and MREL proposals
- > The SRB also interacts with the **European Commission**, the **European Banking Authority**, other EU resolution authorities and **members of resolution colleges**

SRB MREL Policy for 2017 – Process (2/2)

- Engagement with banks

- > The SRB and NRAs engage with banks through individual workshops to explain the MREL Policy and discuss the path to compliance with MREL targets in line with the transition periods

- Timeline



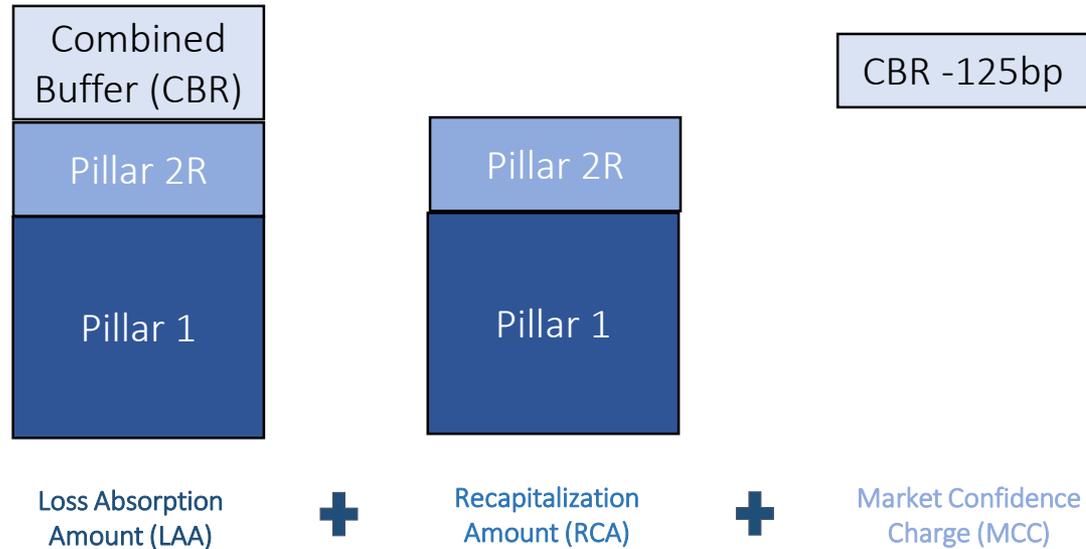
SRB MREL Policy for 2017 – Overview (1/7)

- Key features

- Binding consolidated MREL target at the level of the point of entry(ies)
- Based on the application of the bail-in tool
- Tailored with a number of bank-specific adjustments
- MREL-eligible instruments: own funds and eligible liabilities at consolidated level (resolution group)
- Based on final SREP 2016 decisions applicable as of 1 January 2017 and Liability Data Templates and other supervisory data as of 31 December 2016

SRB MREL Policy for 2017 – Overview (2/7)

- Default calculation (*unchanged compared to 2016 approach*)



- **Leverage ratio** not considered since not binding as per CRR
- **Basel 1 floor** applicable for LAA and RCA determination (EC Delegated Regulation)

SRB MREL Policy for 2017 – Overview (3/7)

- Bank-specific adjustments (*partially new*)

LAA	The SRB does not intend to adjust the default LAA in 2017
RCA	<p>The SRB may adjust the default RCA in 2017:</p> <ul style="list-style-type: none">❖ Adjustments to RWAs (as a result of resolution action, if deemed credible and feasible):<ul style="list-style-type: none">⇒ Balance sheet depletion?⇒ Recovery options?⇒ Restructuring plan divestments?❖ Other adjustments to default RCA: None
Overall target	<p>The SRB may adjust the overall MREL target in light of a benchmark of 8% total liabilities and own funds (TLOF) on a case-by-case basis</p> <p>In 2017 the SRB does not intend to adjust the overall MREL target based on:</p> <ul style="list-style-type: none">❖ NCWO assessments (art. 44.2 and 3) [monitoring in 2017]❖ DGS contributions

SRB MREL Policy for 2017 – Overview (4/7)

- **Subordination** (*partially new*)

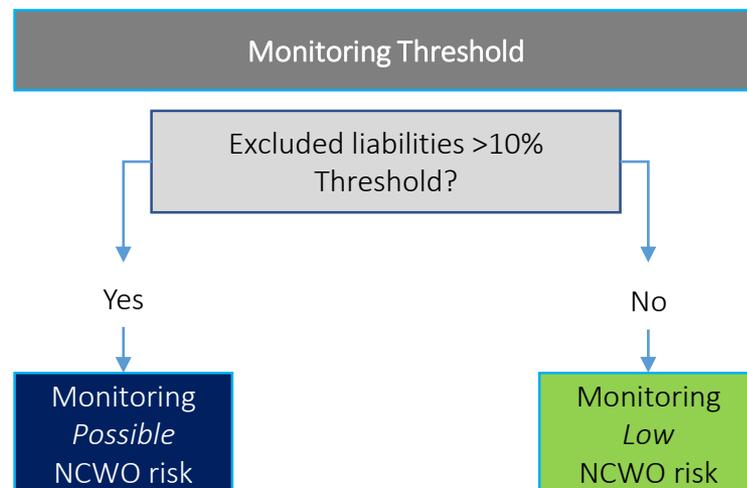
The SRB intends to enhance the quality of MREL. Subordination is viewed as a way to:

- Improve resolvability, and limit the risk of breaching NCWO
- Increase degree of certainty for taking resolution actions
- Ensure a clean priority order and transparency to investors

Proportionate application of a subordination benchmark to G-SIIs and O-SIIs to ensure level playing field and avoid cliff effects.

Subordination (*)	
G - SIIs	13.5% RWAs + Buffers
O - SIIs	12% RWAs + Buffers
Other	Case by case

(*) Not applicable where the resolution strategy envisages structural subordination



SRB MREL Policy for 2017 – Overview (5/7)

- Eligible liabilities and own funds (*partially new*)

Assessment of MREL-eligible instruments as per Art. 45 BRRD

Consolidated MREL targets assessed against own funds and MREL-eligible instruments at consolidated level for binding MREL decisions

Specific cases of eligible instruments:

- **Non-covered non-preferred deposits:** The SRB policy will exclude them unless there is evidence of their non-breakable nature over a one-year horizon
- **Liabilities issued under third country law:** The SRB policy will exclude liabilities governed by the laws of third countries unless the bank is able to demonstrate that their write-down or bail-in would be effective
- **Liabilities held by retail investors:** These instruments are MREL-eligible and cannot be excluded ex ante under the legal framework. Holdings of such instruments could prove to be an impediment to resolution

SRB MREL Policy for 2017 – Overview (6/7)

- MREL targets for multiple point-of-entry strategies (*new*)

MREL should be set as a result of the preferred resolution strategy, with MPE strategies based upon the principle that different resolution groups can be resolved separately. The failure of one group should not cause the failure nor affect the resolvability of the other resolution groups

MREL target for resolution entities based on:

- 2016 Total SREP capital requirement (TSCR)
- Total risk exposure (TRE) (excluding exposures to other resolution groups)
- Adjustment from potential expected LAA from participations in other resolution groups
- Adjustment from RCA needs related to residual exposures to those resolution groups

SRB MREL Policy for 2017 – Overview (7/7)

- Transition periods (*new*)

Binding MREL targets will be accompanied by bank-specific transition periods

Transition periods are set based on the following principles:

- The shortest possible with a maximum 4 years
- Bank-specific, taking into consideration issuance capacity and momentum, market capacity and possible recent structural changes

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Policy outcomes

- Estimated outcome across the Banking Union

- > Application of the SRB 2017 MREL Policy

Sample of 76 banks (larger than the assessment conducted in 2016) representing approx. 80% of total assets of SRB banks

Based on the application of the SRB 2017 MREL Policy (bank-specific adjustments, subordination and criteria for MREL eligible-instruments)

Estimated MREL targets: on average 26% RWAs

Estimated MREL shortfalls: aggregate EUR 117 bn of which EUR 47 bn to be met with subordinated instruments, based on reported data as of 31 December 2016

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MREL roadmap and next steps

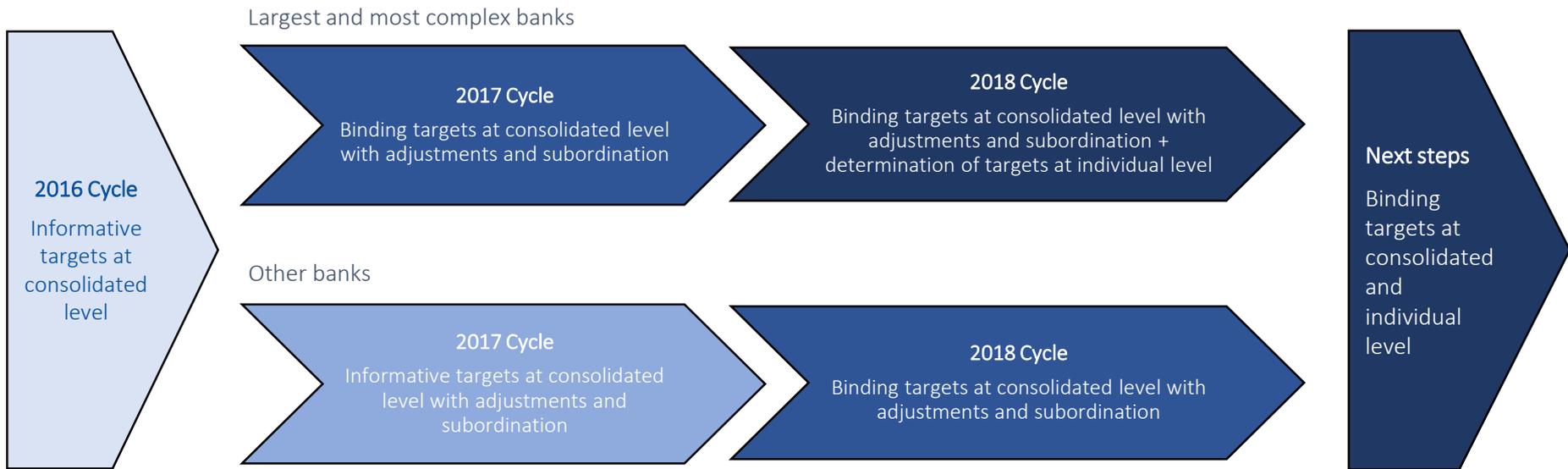
- **Preparing the ground for the future**

- > By setting MREL targets, the SRB seeks to improve bank resolvability. MREL will give more flexibility when addressing crisis situations to take appropriate actions before and in resolution
- > To prepare the ground for the implementation of individual requirements within banking groups and the operationalisation of bail-in, the SRB will communicate informative elements to banks in 2017 using a stricter definition of eligible instruments, considered only at the point of entry
- > In addition, the SRB will communicate to banks in 2017 informative elements in order to prepare for the potential consequences of Brexit, in particular with respect the definition of eligible instruments
- > The SRB does not intend to publish individual targets and does not intend to ask banks to do so. It has engaged with ESMA to assess if and how binding MREL decision should be disclosed by the banks, in light of the existing legal framework and recent publications by relevant EU authorities (e.g. EBA report on MREL)

MREL roadmap and next steps

- SRB MREL roadmap

- > The 2017 MREL Policy represents a step forward compared to 2016, with a focus on bank-specific features, quality of MREL and the setting of binding requirements with appropriate transition periods
- > The SRB follows a roadmap for MREL with a multi-year approach to ensure smooth progress



MREL roadmap and next steps

- Next steps for the 2018 cycle

- > MREL decisions have to be reviewed annually. The SRB will reconsider its 2017 assessment during the next resolution planning cycle to take into account any relevant supervisory decision affecting the banks within its remit, or any changes in the banks' financial structure and risk profile
- > In addition, the SRB will closely monitor the development of the legal framework and adapt its policy, including the bank-specific MREL targets and transition periods
- > More specifically:
 - The SRB will launch a new LDT data collection with expected submission by end April 2018 and will publish all necessary guidance before end 2017. The SRB expects banks to be able to produce these data at any given time to be resolvable
 - The SRB will continue developing its methodology to address in particular i) the consequence of its resolvability assessments on MREL targets, ii) the impact of transfer strategies, and iii) the definition of a policy on individual and internal MREL
 - Monitoring of the impact of Brexit will be conducted, in cooperation with other EU authorities
- > The SRB will publish its 2017 MREL Policy before end 2017 on the SRB website



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THANK YOU

For more information, please contact:

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