SRB – BANKING INDUSTRY DIALOGUE MEETING

Update on aspects of SRB MREL Policy

Presenter: Sebastiano Laviola, SRB Board Member
Monday, 14 December 2020
AGENDA

1. **Permission regime** to reduce eligible liabilities under Art. 78a CRR

2. Maximum Distributable Amount related to MREL (M-MDA)

3. SRB approach to **MREL eligibility** of reported liabilities

4. **Other** Policy enhancements

5. **MREL targets and build-up**

6. Covid-19 impact on **funding and issuances**

7. **Timeline** for MREL publications
1. SRB PERMISSION REGIME TO REDUCE ELIGIBLE LIABILITIES UNDER ART. 78A CRR (1/3)

• Art. 78a CRR – banks have to obtain an authorization to reduce eligible liabilities

• SRB Permission Regime in place since June 2019

• Subsequently updated in December 2019

• Revision of SRB Permission Regime required due to:
  • Application of SRMR2 (28 December 2020)
  • EBA RTS on procedural aspects of permission regime (expected in Q1-2021)
1. SRB PERMISSION REGIME TO REDUCE ELIGIBLE LIABILITIES UNDER ART. 78A CRR (2/3)

- SRB Communication on changes to SRB Permissions Regime (December 2020):
  - After receiving SRMR2 MREL Decision, banks should use the remainder of year 2021 to be prepared to the new regime as of 1 January 2022 and include the content of EBA RTS into the SRB Permission regime (information requirements, application of deductions etc.)
  - From 1 January 2022, scope of SRB Permission Regime enlarged to include senior unsecured and internal MREL eligible liabilities
  - Possible extension of existing GPPs until receipt of SRMR2 decision
  - No change for TLAC and internal TLAC eligible liabilities
1. SRB PERMISSION REGIME TO REDUCE ELIGIBLE LIABILITIES UNDER ART. 78A CRR (3/3)

**Time line to updated Permission Regime**

- **Now – SRMR2 decisions**
  Current SRB Permission Regime applies

- **SRMR2 decisions – 31 Dec 2021**
  No permission required due to Art. 12k SRMR2.
  EBA RTS - Delegated Regulation published and integrated into SRB Permission Regime

- **1 January 2022**
  Updated SRB Permission Regime applies (including enlarged scope of liabilities and contents of EBA RTS)
2. MREL MAXIMUM DISTRIBUTABLE AMOUNT (M-MDA) (1/2)

What is M-MDA?

- SRB may set restrictions for entities preventing them from distributing more than the M-MDA\(^1\) via various actions (incl. dividend payments on CET1, variable remuneration and payments on AT1 instruments).
- M-MDA may be applied where the entity meets the combined buffer requirement (CBR) in addition to the own funds requirements (i.e. no prudential MDA), but fails to meet the CBR in addition to the MREL or in case of MREL breaches (in accordance with Art.12j SRMR).

To which requirements does M-MDA apply and from when?

- It applies to transitional TLAC requirements from 28 December 2020 to 31 December 2021
- It applies to intermediate MREL targets including subordination / fully-loaded TLAC requirements from 1 January 2022
- Detailed information in next slide

\(^1\) The amount under M-MDA is to be computed in accordance with Article 10a(4)-(6) SRMR.
**MREL MAXIMUM DISTRIBUTABLE AMOUNT (M-MDA)**

**When does the M-MDA regime start?**

- **28 December 2020**
  - For G-SIIs: Transitional external TLAC requirement
  - For material subsidiaries of non-EU G-SIIs: Transitional internal TLAC requirement

- **1 January 2022**
  - For G-SIIs: Fully-loaded external TLAC requirement
  - For material subsidiaries of non-EU G-SIIs: Fully-loaded internal TLAC requirement

- **1 January 2022 (first binding MREL target)**
  - For Pillar 1 banks:
    - External MREL requirement; and
    - MREL subordination requirement.
  - For non-Pillar 1 banks:
    - External MREL requirement; and
    - *Where applicable*, MREL subordination requirement based on the NCWO risk assessment.
  - For all other subsidiaries (non-resolution entities):
    - *Where applicable*, internal MREL requirement

Industry dialogue
What is expected from the banks in case of a shortfall on CBR?

- Once the entity is in shortfall, it shall immediately notify the national resolution authority and the SRB.
- Banks should not wait until breaches occur and should signal expected breaches.
- Banks are expected to provide all the necessary data to the SRB to perform the monthly assessments. [*Specific data templates will be provided by the SRB*]

How will the SRB assess whether to impose M-MDA?

- SRB assess whether to exercise the M-MDA power, taking into account all of the elements set out in Article 10a(2) SRMR.
- 9 months later
- SRB shall exercise the M-MDA power, *except* where it finds that at least two of the conditions set out in Article 10a(3) SRMR are fulfilled

Notification by the bank
3. SRB APPROACH TO MREL ELIGIBILITY OF REPORTED LIABILITIES (1/2)

- Banking Package enhanced criteria for liabilities to be MREL eligible

- ALR – modelled on future EBA MREL Reporting Templates, reports aggregate figures for MREL liabilities with limited granularity

SRB will introduce additional steps for confirming the MREL eligibility of reported liabilities and enhancing the accuracy of reports:

1. **Eligibility Checklist** for Reporting Officers to be published on SRB website on specific eligibility conditions and types of liabilities, guiding the preparation of the ALR

2. **Management Sign-Off Form** signed by bank management confirming MREL eligibility of liabilities reported in the ALR

3. SRB will conduct **bank-level verifications** of reported liabilities with banks and may require additional information
3. SRB APPROACH TO MREL ELIGIBILITY OF REPORTED LIABILITIES (2/2)

Preparation of ALR
- **Who?** Reporting officer(s)
- **What?** Eligibility checklist

Validation of ALR before submission
- **Who?** Chief Executive Officer (CEO) or board member responsible for resolution
- **What/How?** Sign-off form

2021 RPC
- **Who?** IRTs
- **What?** Checks on specific liabilities
4. OTHER POLICY ENHANCEMENTS

• Expanded scope of iMREL setting
  • Intermediate entities in a group including at least one RLE are in the scope of the LDR reporting to allow the application of the RTS on daisy chain
  • The RLE thresholds are reduced to 3%
5. MREL TARGETS

- **BRRD 1 MREL metrics - 2018/2019**
  
  In Dec 2019 MREL targets* equal to 25.2% TREA on average (EUR 1,869 bn); subordination targets equal to 15.5% TREA.

  - The average MREL shortfall decreased to 1.0% TREA (EUR 74.0 bn) and subordination shortfalls were equal to 0.1% TREA.

- **BRRD 2 draft MREL metrics - 2019**
  
  In Dec. 2019 the draft BRRD 2 average MREL targets** amounted to 25.5% TREA (EUR 1,884 bn) including the CBR. The MREL subordinated targets represented 16.0% TREA (EUR 1,185 bn).

  - The average MREL shortfall was 1.1% TREA (EUR 82.7 bn).

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* The sample includes 94 banks
** The sample includes 99 banks
5. MREL BUILD-UP

• In 2020 SRB banks have issued about EUR 180 bn of new MREL instruments*

• The outstanding MREL stock amounted to EUR 2.3 tn (+1.6% considering the same sample)* in Q2.2020

• In Q2.2020, SRB banks issued about EUR 88.2 bn, registering a reduction of 4% compared to Q1.2020 due to the impact of Covid-19 disruptions

• Senior unsecured and senior-non-preferred represented 44% and 26% of issuances respectively in Q2.2020

• G-SIIIs accounted for about 31% of the new issuances in Q2.2020

* The sample includes 79 resolution entities (excluding liquidation entities)
6. COVID-19 IMPACT ON COST OF FUNDING AND ISSUANCES

• Overall the cost of funding recovered since April until the third week of September, when concerns regarding new lockdowns in EU countries affected the markets again.

• As of end November, the index of subordinated debt is 1.2 times pre-Covid levels.

• In March 2020, banks’ issuances decreased below the 2015-2019 average issuance corridor, driven by market disruption due to the Covid-19 outbreak. Since April, gross bond issuances started recovering and remained broadly within the average issuance corridor.
7. Timeline for publications on MREL

2021 Resolution Planning Cycle

Dec. 2020

- Updated approach for authorization to redeem or reduce eligible liabilities instruments
- MREL eligibility checklist
- MREL quarterly dashboard - First issue

H1 2021

- MREL quarterly dashboard 2nd issue
- Update of the 2020 SRB MREL Policy
- MREL quarterly dashboard 3rd issue
THANK YOU!