



SRB 2nd Industry Dialogue

January 12th, 2016



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SRB Approach to MREL in 2016

Dominique Laboureix, Member of the Board

Key features of SRB's MREL policy in 2016

Banking groups require MREL at individual and consolidated level

Key features of SRB's MREL policy 2016

Engagement with banks

Process for MREL decisions

General timeline

Main Messages

- Art. 12 SRMR requires the Board to determine the minimum requirement for own funds and eligible liabilities (MREL) for the entities listed in Art 7(2) SRMR, i.e.:
 - Entities and groups that are under the direct supervision of the ECB
 - Cross-border groups
- The obligation to determine MREL starts in 2016 and the draft EBA RTS on MREL (not finalised) allows resolution authorities to set an appropriate transition period to reach the MREL target level
 - The Board intends to determine MREL for all major banking groups established in the Banking Union over the course of 2016
 - MREL determinations require a case-by-case analysis and individual decisions
 - The Board will work with banks on individual implementation plans to reach the MREL target as soon as possible
 - The Board will require interim targets during the transition phase
 - The Board may also make decisions on the quality (in particular a subordination requirement) of all or part of the MREL
- Each entity within the scope of the SRMR is required to meet its own MREL: institutions must meet MREL at an individual level and parent entities at a consolidated level
 - In 2016 the Board will focus on determining MREL at the consolidated level of each group only
 - MREL decisions for subsidiaries will be made in a second stage, based on their individual characteristics and the consolidated level which has been set for the group [Art 12(9) SRMR] and considering the possibility of waivers [Art 12(10) SRMR]

Additional features of SRB's MREL policy in 2016

Treatment of G-SIBs and other major banking groups

Key features of SRB's MREL policy 2016

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General timeline

Main Messages

- The SRB has closely followed the development of an international standard for the Total Loss Absorbing Capacity (TLAC) for G-SIBs by the Financial Stability Board.
- While the TLAC standard has not yet been implemented into European law, the Board anticipates that G-SIBs based within the Banking Union will need to meet TLAC by 2019.
- The Board intends to take core features of the TLAC standard into account in its 2016 MREL decisions, for GSIBs and beyond.
- The SRB, as a resolution authority, will strive to ensure that resolution will be possible through adequate planning and setting an appropriate level of MREL on the basis of a case-by-case analysis as outlined in this presentation.
- In line with its legal mandate, the SRB will focus on banks' resolvability and develop resolution plans that do not assume extraordinary public financial support.
- Nevertheless, the SRB must retain the option of using the Single Resolution Fund (SRF) as a last resort in resolution, if this proves necessary.
- Based on a preliminary assessment, an MREL target of not less than eight percent of total assets – but on a case-by-case basis possibly above – would generally be required for the banks under the SRB's remit. It is generally unlikely that a lower requirement would be set for any of the major banking groups in the Banking Union.

The Board will strive to obtain MREL decisions for the major banking groups within the Banking Union during 2016, taking into account the main features of TLAC for the most important banking groups, in order to allow for an appropriate transition period.

Engagement with banks prior to individual decisions

The Board will phase in its contacts with banking groups over the course of 2016

Key features of SRB's
MREL policy

**Engagement with
banks**

Process for MREL
decisions

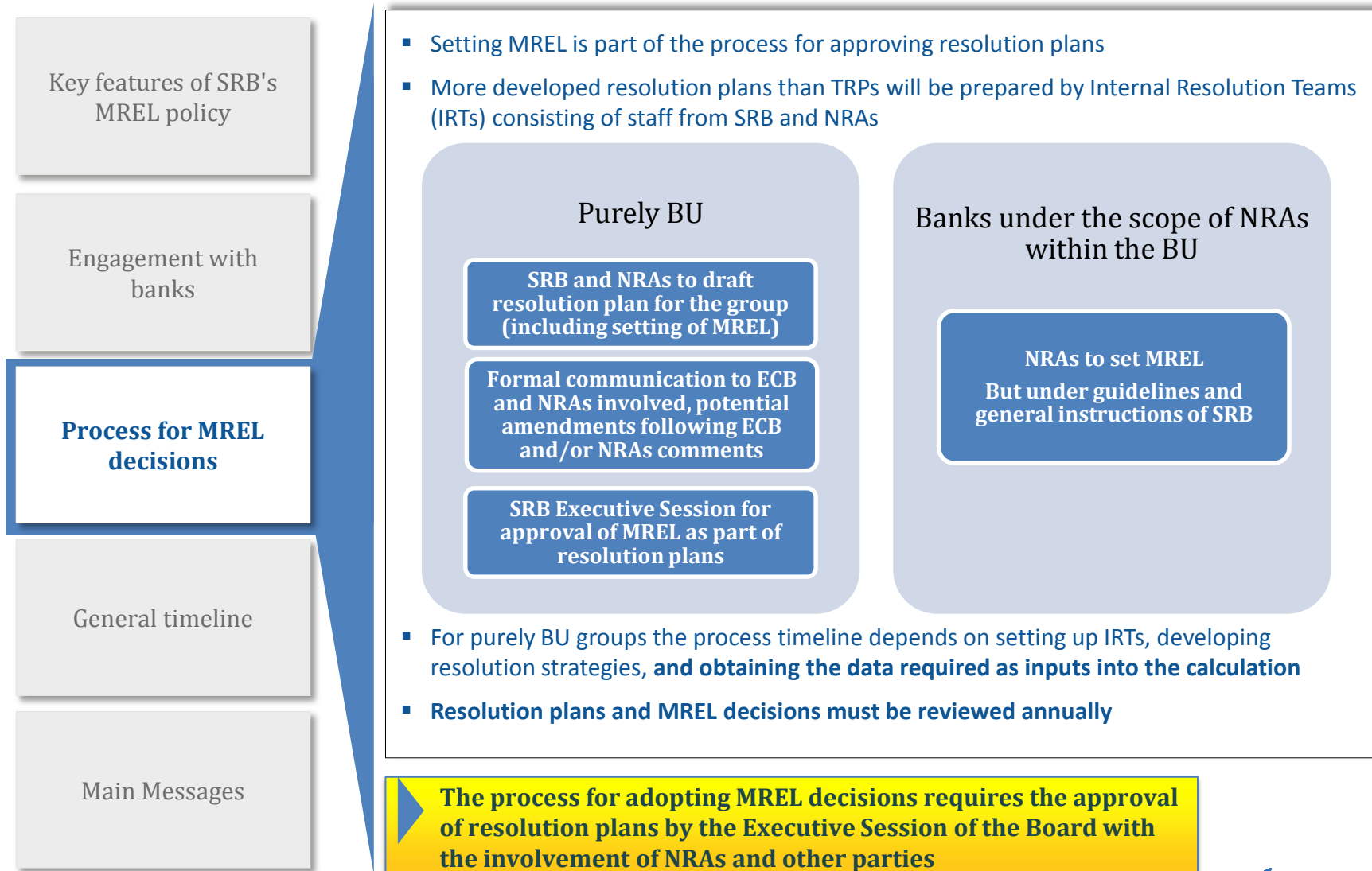
General timeline

Main Messages

- 2015 has been a transitory year for the Board, and for many National Resolution Authorities (NRAs) as well. As a result, the Board has had limited capacity to engage with banking groups under its direct remit on a systematic basis.
- Nonetheless, the Board and the NRAs have already started to draft Transitional Resolution Plans (TRPs) for a number of banking groups from each participating Member State.
- TRPs contain the core elements of a high-level resolution plan and the Board anticipates to start engaging with the relevant subset of banking groups over the course of Q1 and early Q2 this year in order to discuss:
 - 1) The preferred resolution strategy identified for the group in question
 - 2) The preliminary list of identified impediments to the group's resolvability
 - 3) **An indicative target level for MREL** the group should achieve
- The Board will request the banking groups to provide feedback and suggest a list of measures to be taken in order to address and mitigate the identified obstacles to resolvability.
- The Board will also request a detailed implementation plan for achieving the communicated MREL target.
- **This first indicative MREL target does not represent a decision.** Decisions will be taken through the governance processes laid out in the SRMR and BRRD.
- The interaction with banking groups on a detailed implementation plan will be the Board's preferred way of monitoring their progress towards reaching their targets going forward.

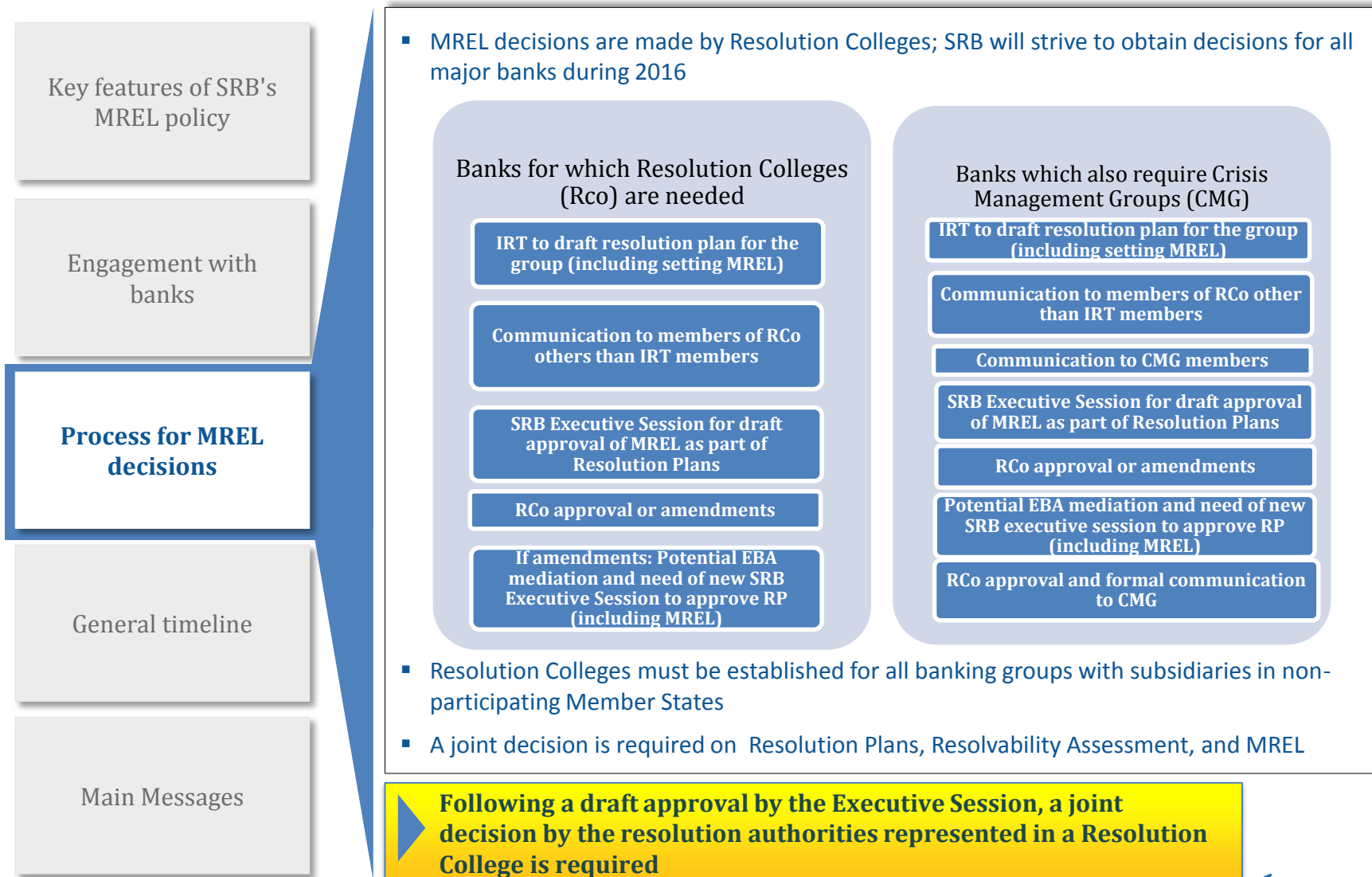
Process for MREL decisions within the Banking Union (BU)

Linked with resolution plan approval



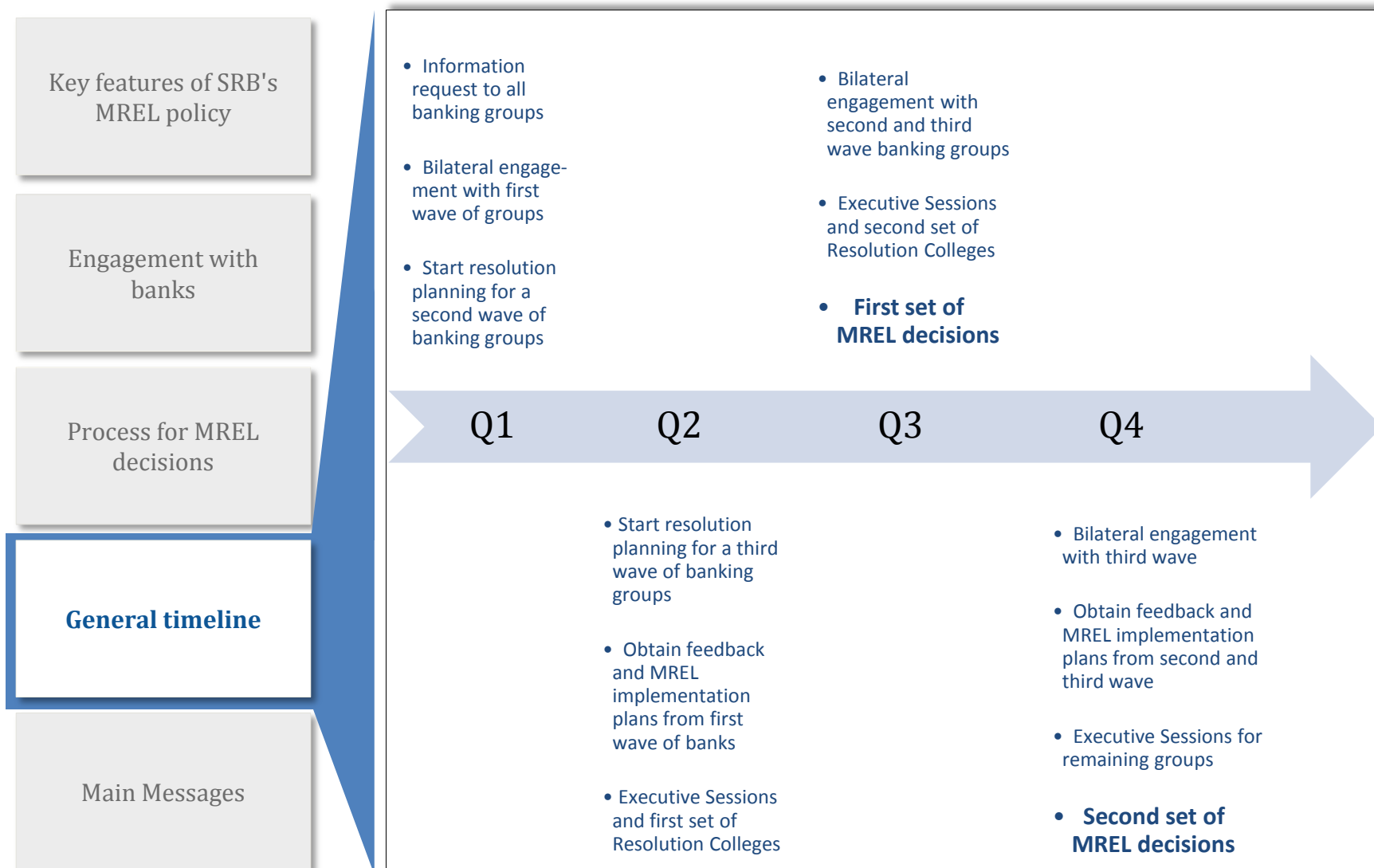
MREL decisions for groups with banking activities outside the Banking Union

More complex decision making ...



Timeline for engaging with banking groups over the course of 2016

Tentative phased-in approach



Key messages on the SRB's approach to MREL in 2016

Key features of SRB's
MREL policy

Engagement with
banks

Process for MREL
decisions

General timeline

Main Messages

1. Banking groups should expect to be contacted in the coming months with an information request and for preparing the MREL implementation.
2. The Board will engage in a detailed dialogue with the ECB-SSM
3. MREL decisions in 2016 will focus on setting the target level and on determining an appropriate implementation timeline for the consolidated MREL of the Union parent entity (by the Executive Session of the Board and, where applicable, through Resolution Colleges).
4. Decisions about MREL for subsidiaries are compulsory, but will be made in a second stage taking the consolidated requirement that has been set for the group into account.
5. Due to differences between banking groups, in particular with regard to the maturity profiles of outstanding debt instruments, the Board considers that a tailored approach based on individual implementation plans is preferable to setting a uniform transition period for all banking groups. Nevertheless, the Board will set compulsory interim steps where appropriate.
6. Given that MREL requires a case-by-case analysis and will be based on individual decisions, the Board currently considers that it would not be appropriate to publicly disclose its decisions.
7. The Board recognises the importance for investors to obtain the information necessary to assess and price the risk of investing in the debt instruments of institutions efficiently.

Setting the scene

MREL as sum of
components

Information needs from
banks

Timeline for information
requests in 2016

Questions & Answers

Questions?



SRB 2nd Industry Dialogue

Technical Aspects of calibrating MREL

Axel Kunde, Head of Unit Resolution Planning & Decisions

The basics of MREL

Setting MREL requires an assessment of potential exclusions from bail-in

Setting the scene

MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Main Messages

- The purpose of MREL is to ensure that banking groups have sufficient loss absorbing and recapitalization capacity at all times, i.e.
 - a minimum amount of own funds and liabilities that can credibly and feasibly be written down or converted into equity
 - without violating the no creditor worse-off principle (NCWO)
- MREL eligible liabilities represent a subset of liabilities that are eligible for bail-in. BRRD and SRMR provide a legal requirement to bail-in all eligible liabilities, while observing the creditor hierarchy in insolvency and the pari-passu principle
 - This implies that the bail-in cannot be limited to MREL eligible liabilities, unless exceptional circumstances at the date of the resolution scheme would justify the (full) exclusion of all other eligible liabilities (Art. 44.3 BRRD and Delegated Act under Art 44.11 BRRD)
- Draft EBA RTS on MREL requires resolution authorities to conduct an ex-ante assessment of the "likelihood" of discretionary exclusions in order to test the robustness of the bail-in tool against the risk of NCWO breaches:
 - If MREL eligible liabilities may need to be excluded from bail-in, the MREL level must be increased pro-rata
 - If other eligible liabilities may need to be excluded that a) rank pari-passu or junior to MREL eligible liabilities, and b) exceed 10% of a class in insolvency, the resolution authority must assess whether the loss absorption and recapitalization needs can be borne by MREL eligible liabilities only, without breaching the NCWO principle
 - Assumptions and valuations used for this analysis must be documented

MREL as sum of several components

Draft EBA RTS on MREL provides a standardised framework for quantifying MREL

Setting the scene

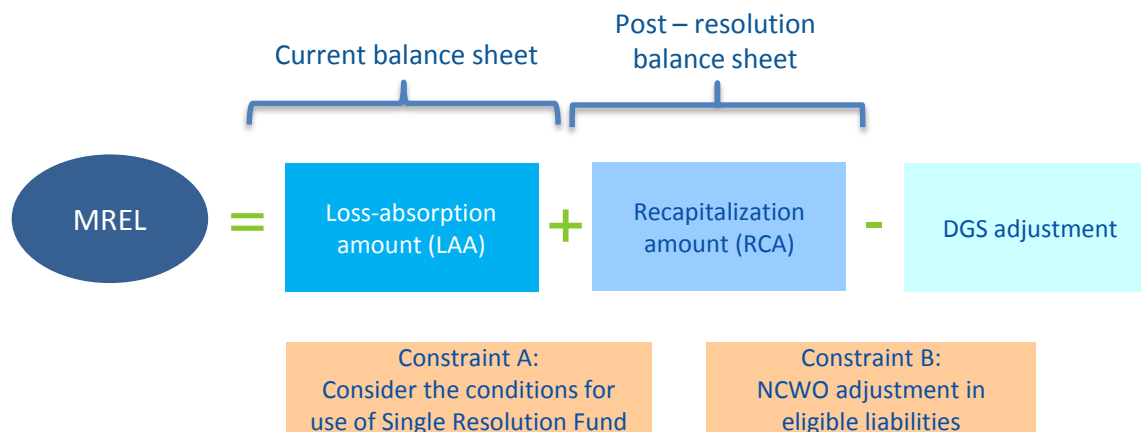
MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Main Messages

- The level of MREL needs to ensure that, if the bail-in tool were to be applied, the losses of an institution or parent could be absorbed and the CET1 ratio of the entities could be restored to a level necessary for continued authorisation and to sustain sufficient market confidence post resolution (Art 12(6) SRMR).
- This conceptual framework is further specified in the draft EBA RTS (not yet formally approved by the European Commission).
- The draft EBA RTS delivers a high degree of standardization for determining MREL throughout the EU. However, the RTS allows for certain adjustments to be made by resolution authorities in coordination with supervisors, which require the development of guidelines by the SRB to ensure uniform implementation within the Banking Union
- Main pillars and constraints of the draft EBA RTS:



Limited flexibility for adjusting the loss absorption amount

Draft EBA RTS assumes losses = own funds requirements incl. buffers

Setting the scene

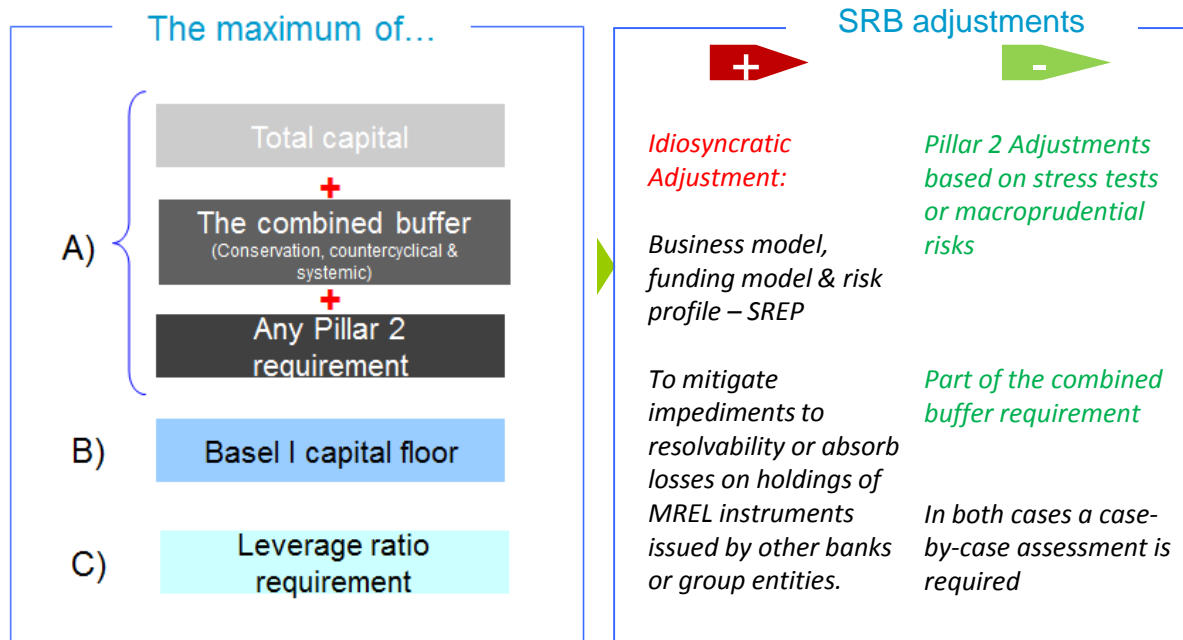
MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Main messages

- LAA: The starting point is the minimum prudential requirement, including capital buffers, that supervisors require on a going-concern basis
- Nevertheless potential resolution authority adjustments could be considered



Potential SRB adjustments to the LAA require a case by case analysis per group in close cooperation with the competent authority, in particular on the basis of detailed information from the Supervisory Review and Evaluation Process (SREP)

Recapitalisation Amount (RCA) driven by preferred resolution strategy

Draft EBA RTS: RCA = capital requirement post resolution

Setting the scene

MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Main messages

- The components of the capital requirements post resolution are the same as the ones taken into account for the LAA and apply to the entity or entities that are expected to continue to perform banking activities post resolution.
- For simplicity, let's consider three broad "resolution" strategies:
 - Normal insolvency proceedings – RCA may be set to zero
 - Bail-in for stabilising the entire group – RCA could be similar to LAA
 - Sale/transfer of critical functions – RCA could be determined on the basis that a new entity needs to be licensed while the residual group enters insolvency
- In addition, the RCA shall include an additional amount that the resolution authority considers necessary to maintain market confidence post resolution. The default additional amount shall be equal to the combined buffer requirements.

Capital post - resolution

Resolution Strategy

Market Confidence

RTS requires to assume the same RWA and Pillar 2 requirement post resolution ("x2 effect"), **unless** the resolution plan identifies, explains, and quantifies an immediate change that is both feasible and credible without adverse effects

Market solution available?

Need to identify legal entities performing critical functions to estimate RWA after resolution

Peer-group comparison?

Safety-buffer advisable?

- **The draft EBA RTS provides limited flexibility to resolution authorities to set a higher or lower recapitalisation amount.**
- **Anyway, a case by case analysis based on the resolution strategy and critical functions that need to be preserved is required**

Information needs from banking groups in 2016

Setting the scene

MREL as sum of components

Information needs from banks

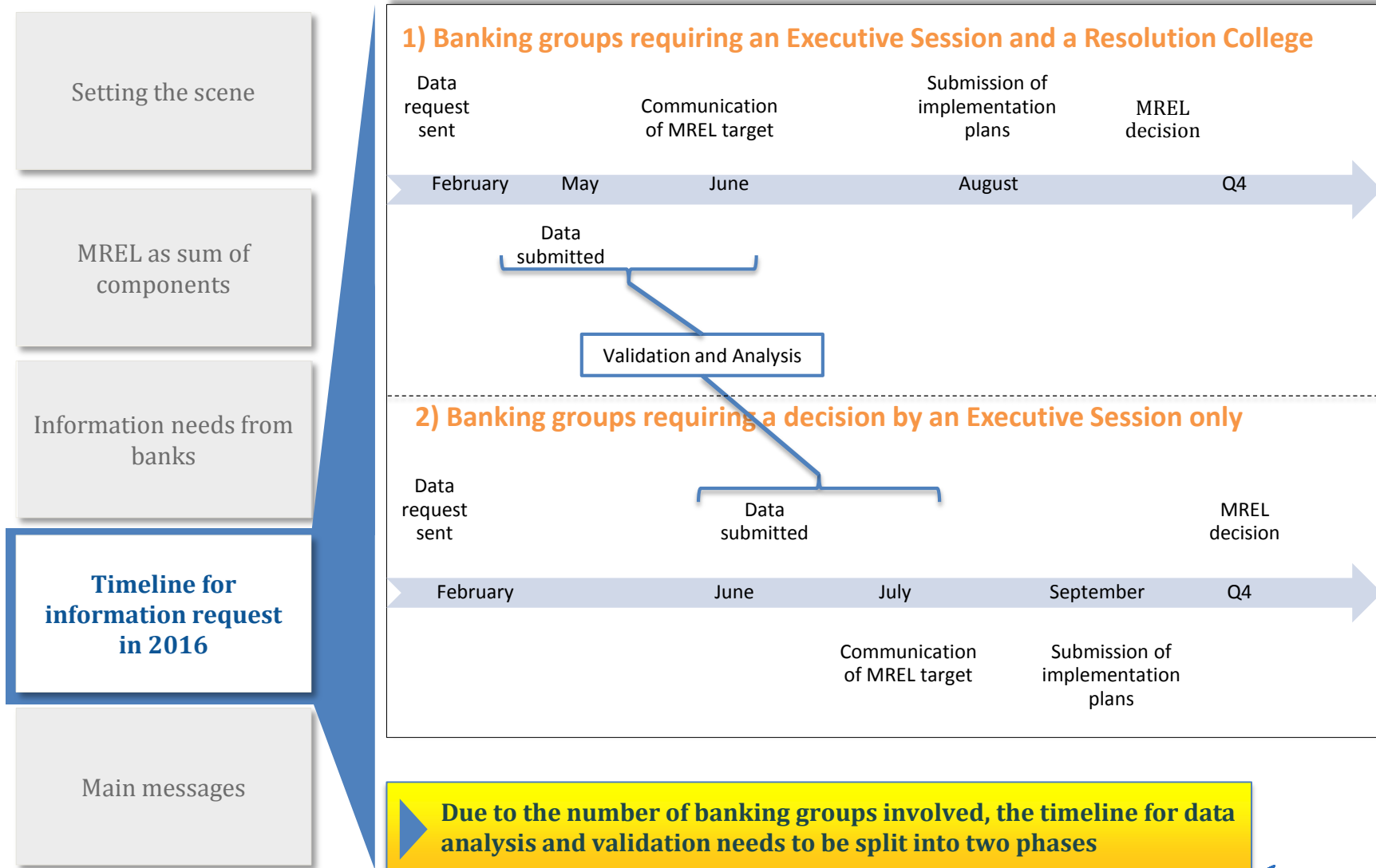
Timeline for information requests in 2016

Main messages

- Banking groups are reporting a lot of information, in particular FINREP and COREP. There is also a data requirement for calculating their contributions to the SRF.
- However, for resolution planning and execution it is necessary to have specific granular information on liabilities at a legal entity level, including intragroup liabilities: MREL must be set for every entity within the scope of the SRMR at solo and/or consolidated level in order to ensure that losses can be absorbed and the capital can be restored at any level within a group [Art 12 (1), (2), (6) SRMR].
- After a first partial exercise in 2015, the SRB has established a technical working group, with participation from NRAs, ECB, and EBA to develop a standardised template which will be requested from all banking groups within the Banking Union
- The template will be based on work already conducted by the EBA and several NRAs and will cover the following categories of liabilities under BRRD/SRMR definitions:
 - Excluded liabilities (from bail-in)
 - Eligible liabilities (for bail-in)
 - MREL eligible liabilities and own funds instruments
- It is intended that ongoing reporting requirements may be included in the regulatory reporting framework in the future. In the interim, the SRB and the NRAs will continue to refine the template, based on experience gained from interacting with banking groups.
- The Board expects that ongoing reporting requirements in a standardised format will only start in 2017 at the earliest.

Resolution planning requires granular information on liabilities, at the legal entity level, which is not already covered by existing reporting obligations.

Timeline for information request on eligible and excluded liabilities in 2016



Key messages on information needs from banking groups in 2016

Setting the scene

MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Main messages

1. In the coming months, the SRB will request granular liability information for all entities for which it has to set MREL, based on 2015 year-end balance sheets. The request will go beyond the consolidated group level and cover each licensed subsidiary of the EU parent entity within the Banking Union in order to prepare the MREL decisions for next year.
2. The 2016 data request will not be limited to MREL eligible instruments, but cover excluded and other eligible liabilities as well. For own funds and for MREL eligible liabilities information will be requested at the instrument level; for certain other categories of eligible liabilities, the information will be requested at the netting set, counterparty or customer level.
3. Irrespective of the frequency of the future reporting requirement, the SRB will expect all institutions to be able to produce the information on an ad hoc basis and on short notice as this necessary for implementing the bail-in tool within any resolution scheme.
4. When engaging with banking groups on a bilateral basis for communicating an indicative MREL target, the SRB expects groups to be ready to discuss:
 - Their own perspective on the ex-ante assessment that the SRB is required to conduct, mentioned on p.13
 - Their issuance strategy at a high level covering at a minimum the type of instruments, the target investor base, and their issuance capacity

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Questions & Answers

Questions?