

# **7<sup>TH</sup> SRB – BANKING INDUSTRY DIALOGUE MEETING**

## **SRB MREL POLICY**

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**Brussels, 10 December 2018**





# AGENDA



**1. SRB MREL ROADMAP**

**2. 2018 PLANNING CYCLE & MREL POLICY OVERVIEW**

**3. NEXT STEPS**



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## **1. SRB MREL ROADMAP**

## WHERE DO WE STAND?

### SRB MREL roadmap

The SRB follows a roadmap for MREL with a multi-year approach to ensure smooth progress.

- ▶ In 2017 cycle, for the first time, binding MREL targets at consolidated level were set for the majority of the largest banking groups within the SRB's remit, while informative targets were communicated to most of the other banking groups (80 binding and informative targets at consolidated level set in total).
- ▶ In 2018 cycle, the SRB is moving forward with binding MREL targets set at consolidated level for most of the banking groups under SRB remit (93 decisions), and the introduction of MREL targets at individual level (249 decisions).

The SRB intends to set binding targets for all banking groups within the SRB's remit by 2020.

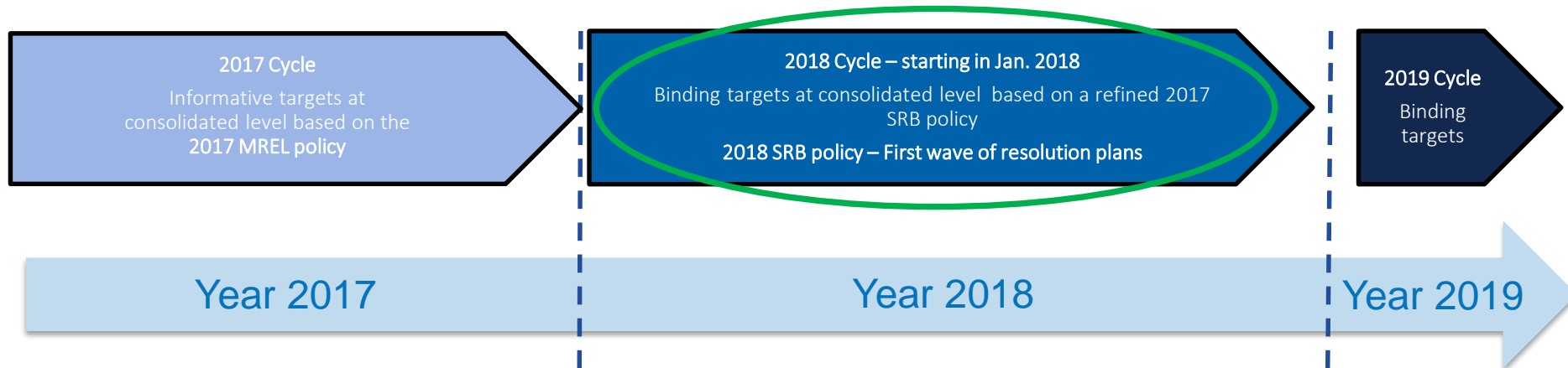


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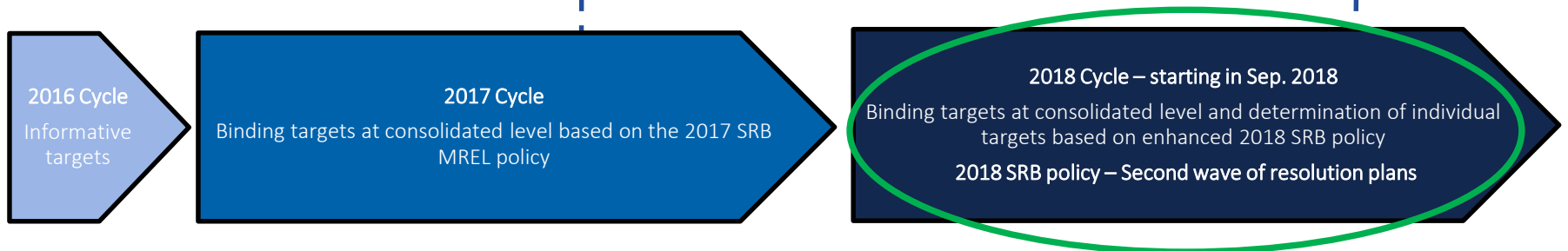
## **2. 2018 PLANNING CYCLE & MREL POLICY**

# OVERVIEW OF 2018 PLANNING CYCLE

## First wave of 2018 resolution plans - Banks without resolution college



## Second wave of 2018 resolution plans - Banks with resolution college



# MREL POLICY FOR THE FIRST WAVE OF 2018 RESOLUTION PLANS (1/2)

## Policy objectives

- ▶ Improving resolvability of the banks by setting binding consolidated MREL targets
  - ▶ Improving the bank-specific nature of the targets by tailoring MREL to the resolution strategy
- The SRB moves towards a full coverage of banking groups with binding MREL targets at consolidated level

## Publication

- ▶ The SRB has published its policy on 20 November 2018, <https://srb.europa.eu/en/content/mrel>

# MREL POLICY FOR THE FIRST WAVE OF 2018 RESOLUTION PLANS (2/2)

## Key features

- ▶ Methodology for MREL calculation largely based on the 2017 policy. No significant changes as compared to last year for the main components of the target. Calculation in line with DR on MREL
- ▶ Removal of the Basel I floor as no longer applicable
- ▶ Downward adjustments to MREL calibration to take into account “transfer tools”

Prerequisites for transfer strategies	<ul style="list-style-type: none"><li>- Adequate level of separability needed</li><li>- Analysis of market depth</li><li>- Adequate MIS and data to support the transfer strategy needed</li></ul>
Loss-absorption amount	<ul style="list-style-type: none"><li>- Default LAA calculation applicable also for transfer strategies</li></ul>
Recapitalisation amount	<ul style="list-style-type: none"><li>- Default RCA adjusted downward to reflect the transfer of assets, if the primary resolution tool to be used is a “transfer tool” (sale of business, bridge institution, asset separation) and variant is not bail-in</li><li>- Scaling factor of 20% of RWAs of the resolution group: proxy reflecting the assets that would be transferred and/or liquidated under normal insolvency proceedings, to be further developed in 2019</li></ul>



# MREL POLICY FOR THE SECOND WAVE OF 2018 RESOLUTION PLANS (1/4)

## Priorities for the SRM

- ▶ The MREL policy is intended to (i) further support the resolvability of banks, (ii) to fine-tune existing requirements of the MREL calibration and (iii) to ensure consistent application, with a the focus on four main aspects:
  - **Calibration for transfer strategies** (already incorporated for the first wave of banks) but with a mandatory variant strategy
  - Subordination requirement and NCWO add-on
  - Eligibility of liabilities limited to the ones issued at the Point of Entry
  - MREL at individual level for subsidiaries within resolution groups

# MREL POLICY FOR THE SECOND WAVE OF 2018 RESOLUTION PLANS (2/4)

## Key features : Consolidated targets

Legal Framework	- Applicable legal framework, no reference to European Commission’s legislative proposal				
Calibration	<ul style="list-style-type: none"> <li>- Default calibration based on MREL Delegated Regulation</li> <li>- Adjustment of the recapitalization amount to take into account bank-specific features, including transfer strategies when primary tool. Variant compulsory.</li> <li>- Adjustments to take into account MPE strategies</li> <li>- Reference to 8% benchmark on a case-by-case basis</li> </ul>				
Subordination	<p>- <b>Move to binding requirements</b>, with an approach combining minimum floors and NCWO assessments and a conservative approach on 2.5%/2.2% allowance</p> <table border="1" data-bbox="672 739 1503 961"> <tr> <td data-bbox="672 739 894 839">G - SIs</td> <td data-bbox="904 739 1503 839">16% RWAs + CBR + <i>NCWO add-on</i></td> </tr> <tr> <td data-bbox="672 861 894 961">Other banks</td> <td data-bbox="904 861 1503 961">14% RWAs + CBR + <i>NCWO add-on</i></td> </tr> </table>	G - SIs	16% RWAs + CBR + <i>NCWO add-on</i>	Other banks	14% RWAs + CBR + <i>NCWO add-on</i>
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Eligibility	- <b>Move to a “hybrid approach”</b> , consolidated own funds and eligible liabilities at the level of the point of entry eligible to ensure compliance with consolidated MREL targets				
Transition periods	- Bank-specific transition periods				

## MREL POLICY FOR THE SECOND WAVE OF 2018 RESOLUTION PLANS (3/4)

### Key features : Individual targets

Legal Framework	- Applicable legal framework, no reference to European Commission's legislative proposal
Scope	- Binding requirements for all subsidiaries (non-resolution entities) that meet relevance criteria ("relevant legal entities": 5% quantitative threshold as per TLAC or provision of critical function), to be met with instruments satisfying the MREL eligibility criteria set in the applicable legal framework
Calibration	- Default calibration based on MREL Delegated Regulation  - No reconciliation of targets (consolidated and individual) within a resolution group, but to address specific situations on a case-by-case basis depending on the conclusions of the resolvability assessment
Internal MREL	- Informative guidance on the eligibility of instruments
Transition periods	- Bank-specific transition periods

## MREL POLICY FOR THE SECOND WAVE OF 2018 RESOLUTION PLANS (4/4)

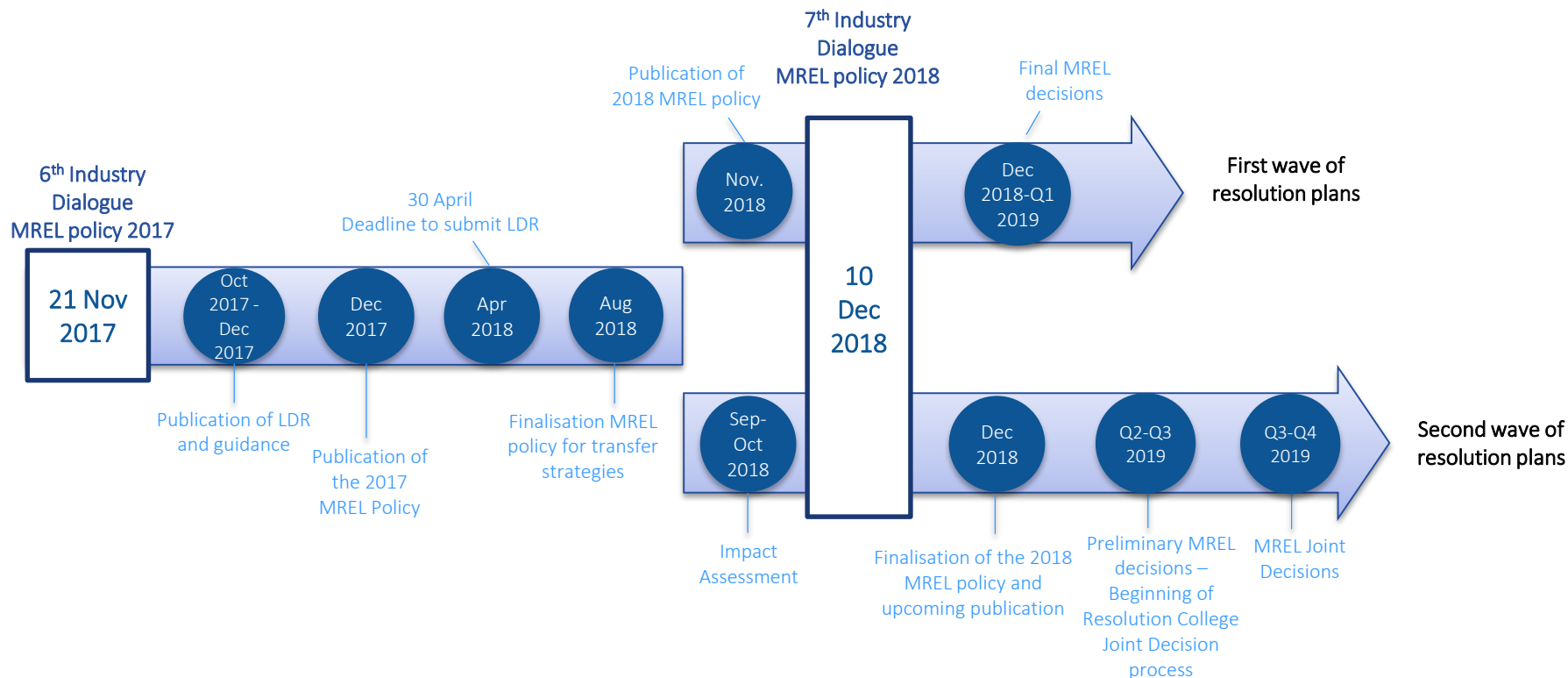
### Estimated outcome at consolidated level across the Banking Union

- ▶ **Impact assessment on the application of the SRB 2018 MREL Policy**
  - Sample of 100 banks (as compared to 76 banks for the 2017 impact assessment exercise)
  - Representing approx. 95 % of total assets of SRB banks
  
- ▶ **Estimated MREL targets:** around 25% RWA on average
  
- ▶ **Estimated MREL shortfalls:** aggregate EUR 171 bn based on reported data as of 31 December 2017, corresponds to 2,5% RWA of the banks in the sample
  
- ▶ **Estimated MREL shortfall in subordinated instruments:** EUR 67 bn, corresponds to 1% RWA of the banks in the sample
  
- ▶ **Caveat:** Limited bank-specific adjustments applied (yet to be determined by the IRTs)

# SRB MREL POLICY 2018 – PROCESS AND TIMELINE

## Engaging with banks

- ▶ Similarly to previous years, the SRB and NRAs will engage with banks: individual workshops to explain the MREL Policy 2018 and discuss the path to compliance with MREL targets in line with the applicable transition periods, right to be heard before the final decision.



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### **3. NEXT STEPS**

## NEXT STEPS

- ▶ **Banking package.** The SRB closely monitors the development of the legal framework and has provided its experience based input to the policy makers if necessary. After the adoption of the package, the SRB policy will need to be adapted to address new TLAC implementation and internal MREL requirements.
- ▶ **Brexit.** The SRB has published its expectations to ensure resolvability of banks in the context of Brexit ([link](#)).
  - For the new MREL issuances, at a minimum, issuances under UK law must include contractual clauses: effectiveness of the clauses and impact on resolvability to be assessed; banks should also consider issuing under a governing law of the EU 27 to achieve legal certainty.
  - Regarding the stock of UK issuances, for the banks having MREL shortfalls as a consequence of ineligibility of the issuances governed by the law of the UK for MREL purposes, the SRB will consider each situation on a case-by-case basis, while ensuring consistency across all banks under its remit. This may entail an extension of transitional periods.

## NEXT STEPS

- ▶ **Liability Data Reports (LDR) and data quality.** Data quality remains an issue in the 2018 iteration of the LDR with a large number of resubmissions of LDRs requested.
  - Consequences on the impact assessment: two month delay to reach sufficient quality to start the exercise.
  - Data quality and availability on time are key items to consider within the resolvability assessment.
  - The information requested in the LDR will be increased by 2020 to further support the implementation of individual and internal MREL requirements and to increase the SRB capacity to monitor and analyse the bail-inability of banks' liabilities in a detailed way.
- ▶ **Monitoring of compliance with the MREL targets.** Implementation of SRB MREL decisions needs to be monitored through internal control and governance procedures, as well as periodic reporting.



## LDR AND OTHER REPORTING IN 2019

### Commission Implementing Regulation (CIR) 2018/1624 on the provision of information for the purpose of resolution plans: in force for reporting in 2019

- Minor changes to SRB reports (liability data, critical functions, FMIs) for 2019: additional information beyond the EU minimum may continue to be requested
- No double reporting: institutions do not need to fill in the related CIR templates (Z.02.00, Z.03.00, Z.07.01, Z.09.00)

Report	Changes compared to 2018	Submission format (NRA to SRB)	Submission deadline	Publication
Liability Data Report (LDR)	Minor	Xbrl	31 March 2019	SRB website
Critical Functions	Minor	Excel	30 April 2019	SRB website
FMI	Minor	Excel	30 April 2019	SRB website
CIR	N/A	Excel	31 May 2019	EBA website

**THANK YOU!**

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