

SRB – BANKING INDUSTRY DIALOGUE MEETING

The Banking Package and the next SRB MREL policy

16 December 2019

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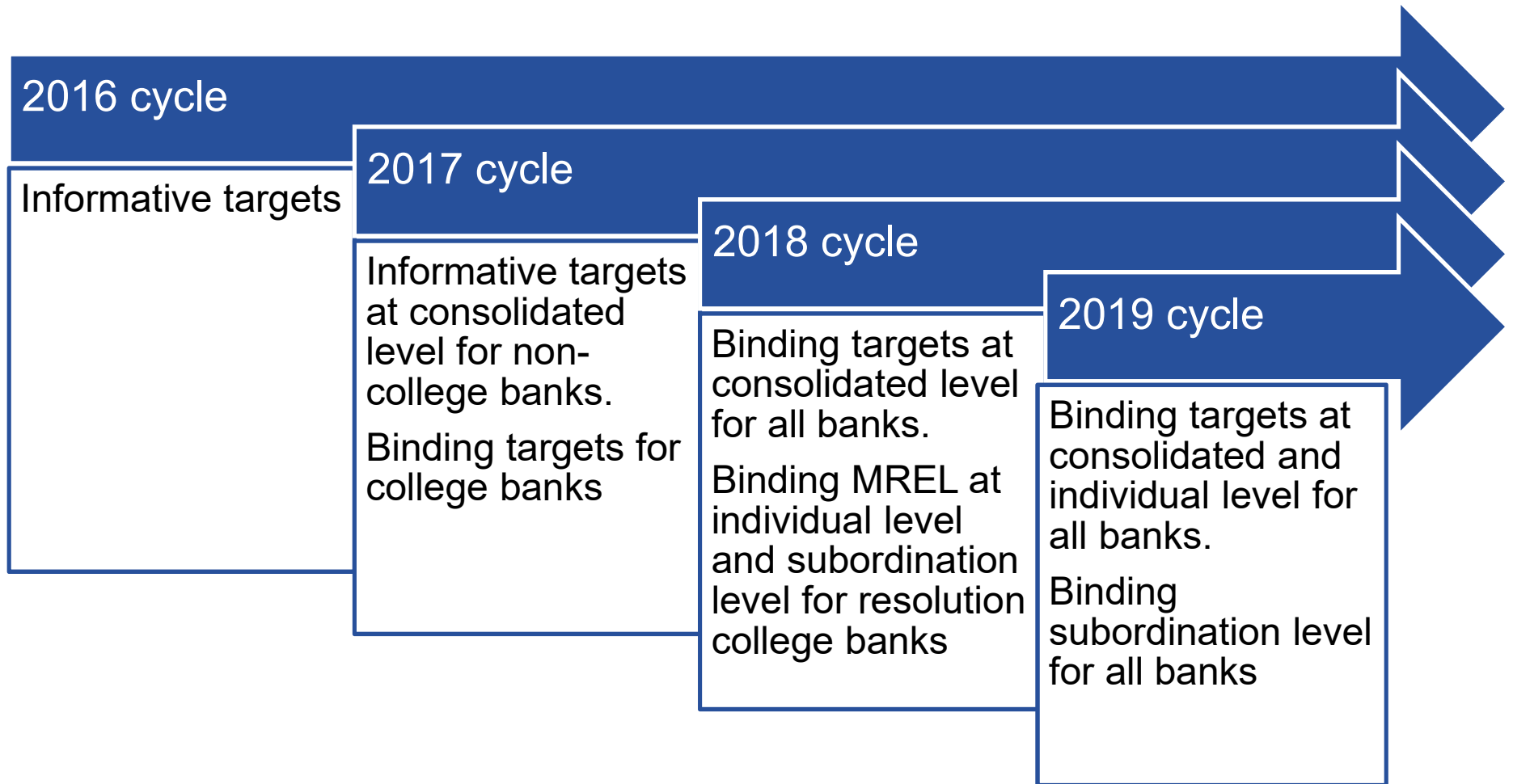
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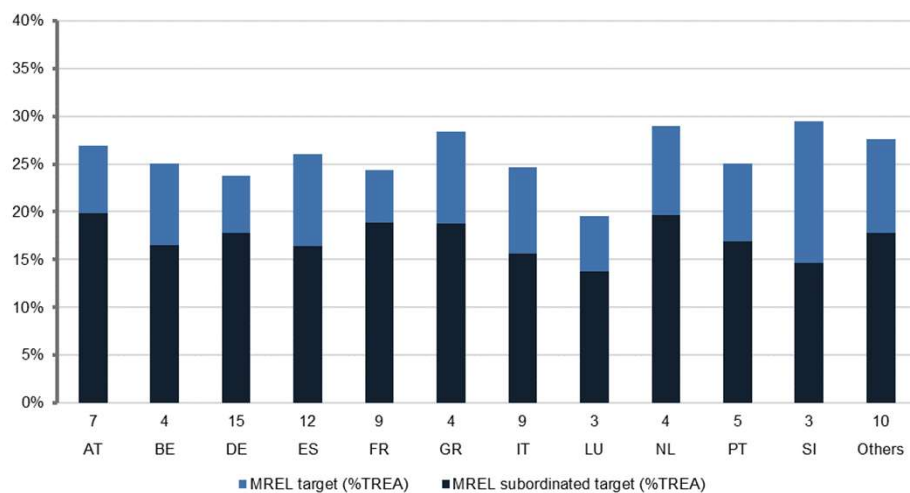
1. POLICY DEVELOPMENT 2016-2020

► POLICY DEVELOPMENT 2016-2020



► MREL TARGETS

MREL targets as of end-2018



- MREL targets represent on average 25.2% of Total risk exposure amount (TREA) as of December 2018
- Subordination requirements amount to 17.8% TREA
- The average MREL shortfall was 2.0% TREA in December 2018

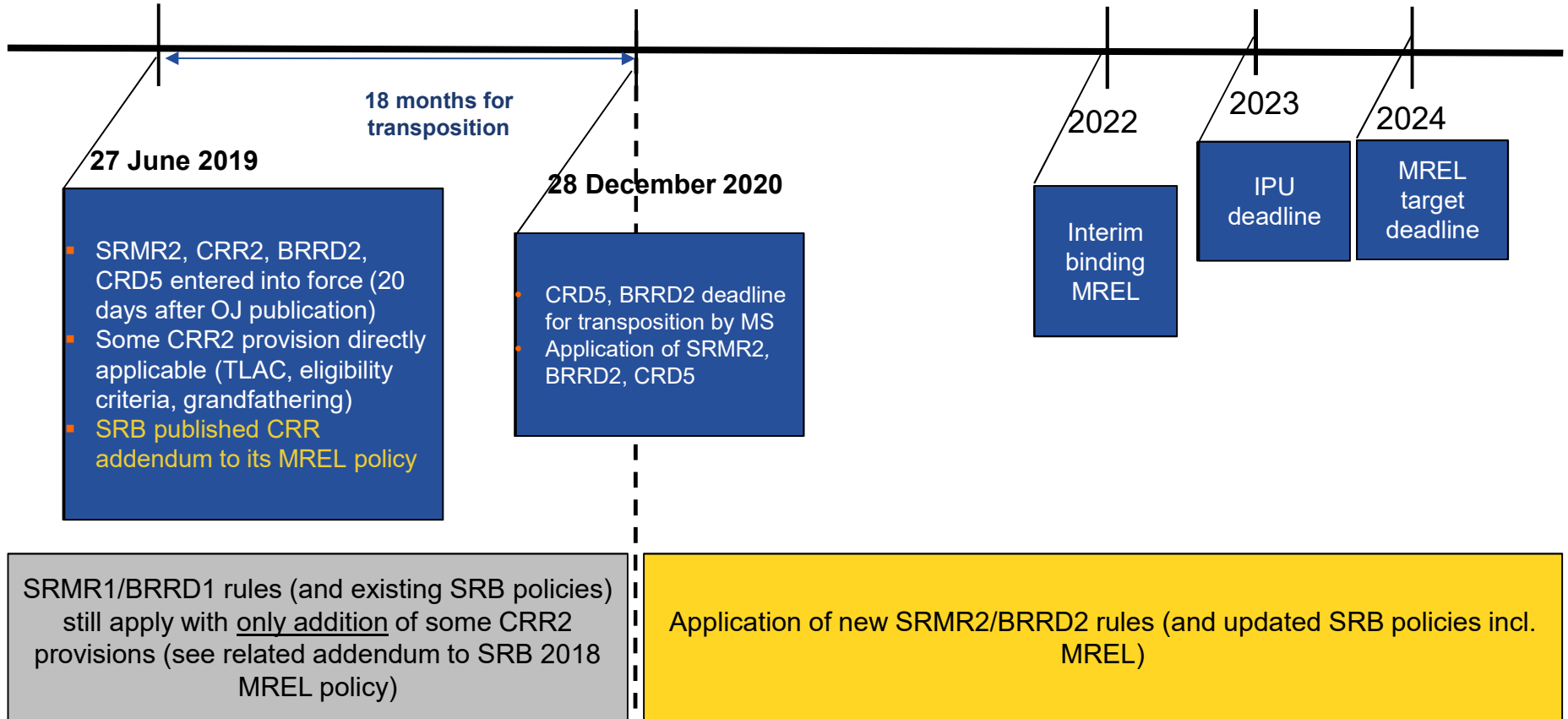
Source: SRB calculation, https://www.consilium.europa.eu/media/41645/joint-risk-reduction-monitoring-report-to-eg_november-2019_for-publication.pdf



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2. BANKING PACKAGE: MAIN CHANGES

▶ BANKING PACKAGE - TIMELINE OF NEW RULES



BANKING PACKAGE: NEW REGULATORY CLASSIFICATIONS

Type of institution	Description
G-SIIs	CRR-CRD designation in line with FSB methodology; (Pillar) 1 MREL
Top-tier (> € 100bn assets)	Banks with total assets above EUR 100 bn with a minimum (Pillar 1) MREL, including subordination
Other Pillar 1 banks (selected by NRAs)	Banks that are neither G-SIIs nor Top-tier banks which the NRAs have assessed as reasonably likely to pose a systemic risk in the event of failure (Art. 12d(5) SRMR); the SRB will apply the same regime as for top-tier banks
Others (those not covered above)	Other banks which do not fall in the previous classifications which might have subordination requirements based on the assessment of NCWO risk

BANKING PACKAGE: MREL CALIBRATION

- **MREL continues to be composed of:**
 - Loss absorption amount (LAA)
 - Recapitalisation amount (RCA)
- **New: the MREL expressed in LRE applies in parallel to MREL-TREA**
- **Both have to be met in parallel at all times**

LAA (CBR is removed from the formula)

$$LAA_{TREA} = (TREA \times (\text{Pillar 1} + \text{Pillar 2}))$$

$$LAA_{LRE} = (LRE \times \text{Leverage Ratio})$$

RCA

$$RCA_{TREA} = (TREA \times (\text{Pillar 1} + \text{Pillar 2}))$$

$$RCA_{LRE} = (LRE \times \text{Leverage ratio})$$

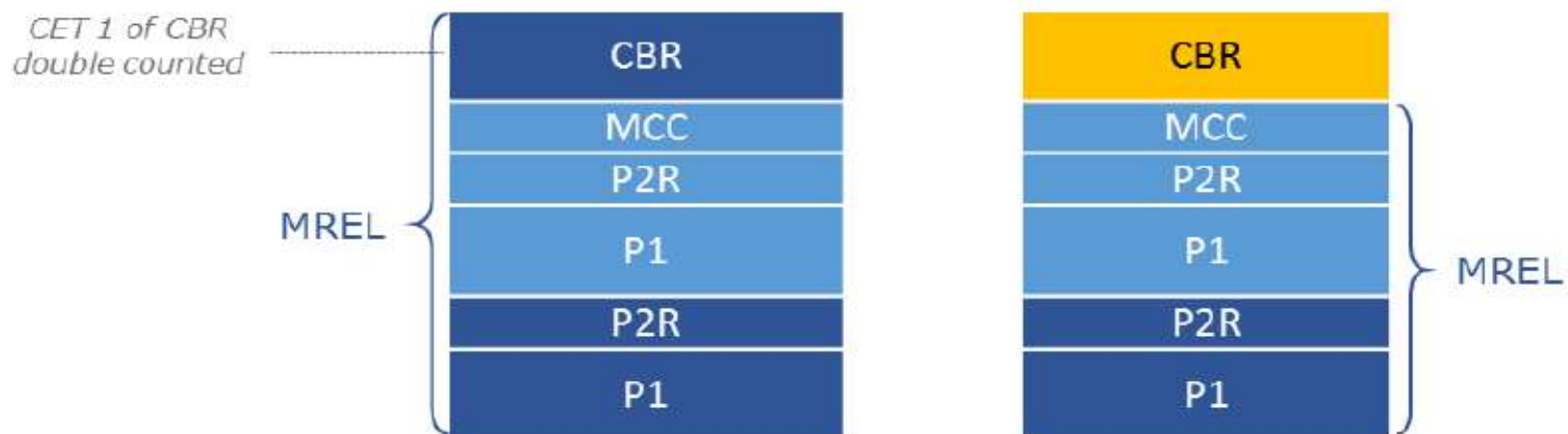
▶ BANKING PACKAGE: MREL CALIBRATION

➤ Interplay with TLAC for G-SIIs

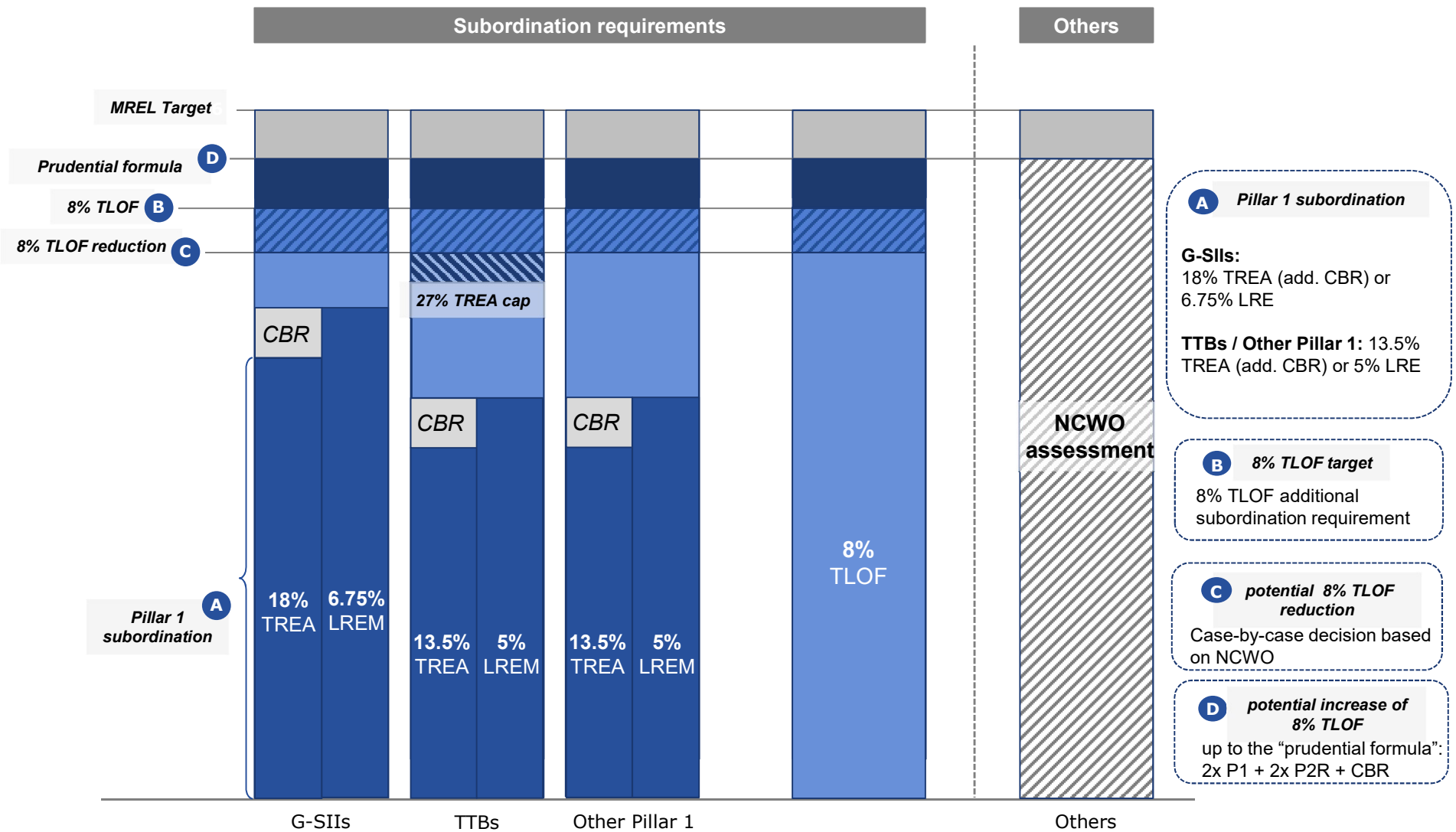
- TLAC constitutes Pillar 1 MREL; additional MREL may be set by SRB
- SRB intends to set additional MREL target where TLAC is lower than computed MREL

➤ Interplay with capital buffers

- In RWA framework, no counting of CET1 used for CBR
- In LRE framework, buffer capital can be used for MREL



BANKING PACKAGE: OVERVIEW OF MREL SUBORDINATION



▶ NCWO ASSESSMENT

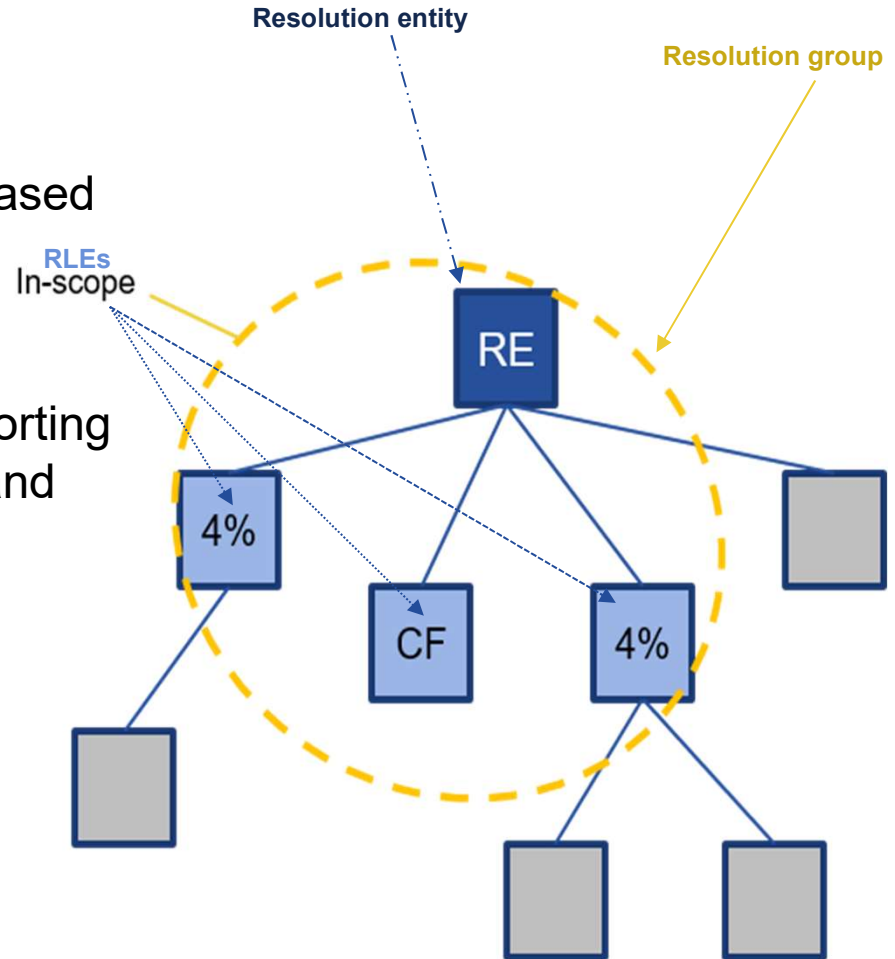
- ▶ Moving towards a value-based assessment of NCWO risk
 - ▶ As a first step towards an improved quantification of NCWO risk, the SRB intends to apply a new methodology in the 2020 planning cycle
 - ▶ This approach would seek to quantify NCWO risk by comparing the value of instruments held by senior creditors of a given bank in resolution with their value in insolvency using a dedicated **quantitative tool**
- ▶ Intended use of the quantitative tool
 - ▶ The bank-specific input values would be derived from the liability structure of the bank. The quantitative tool may serve
 - ▶ for Pillar 1 banks: to assess NCWO risk as a precondition for any case-by-case adjustments of subordination targets and allowances;
 - ▶ for non Pillar 1 banks: to set bank-specific subordination requirements

FROM INDIVIDUAL TO INTERNAL MREL

- Expanded scope of RLEs (threshold decreased from 5% to 4% and all entities with CFs)
- Information on eligible internal resources collected via the current and additional reporting tailored to the new eligibility regime (LDR and Additional Liability Report)
- Calibration before adjustments:

$$\text{MREL}_{\text{TREA}} = \text{LAA}(\text{P1}+\text{P2})+\text{RCA}(\text{P1}+\text{P2})$$

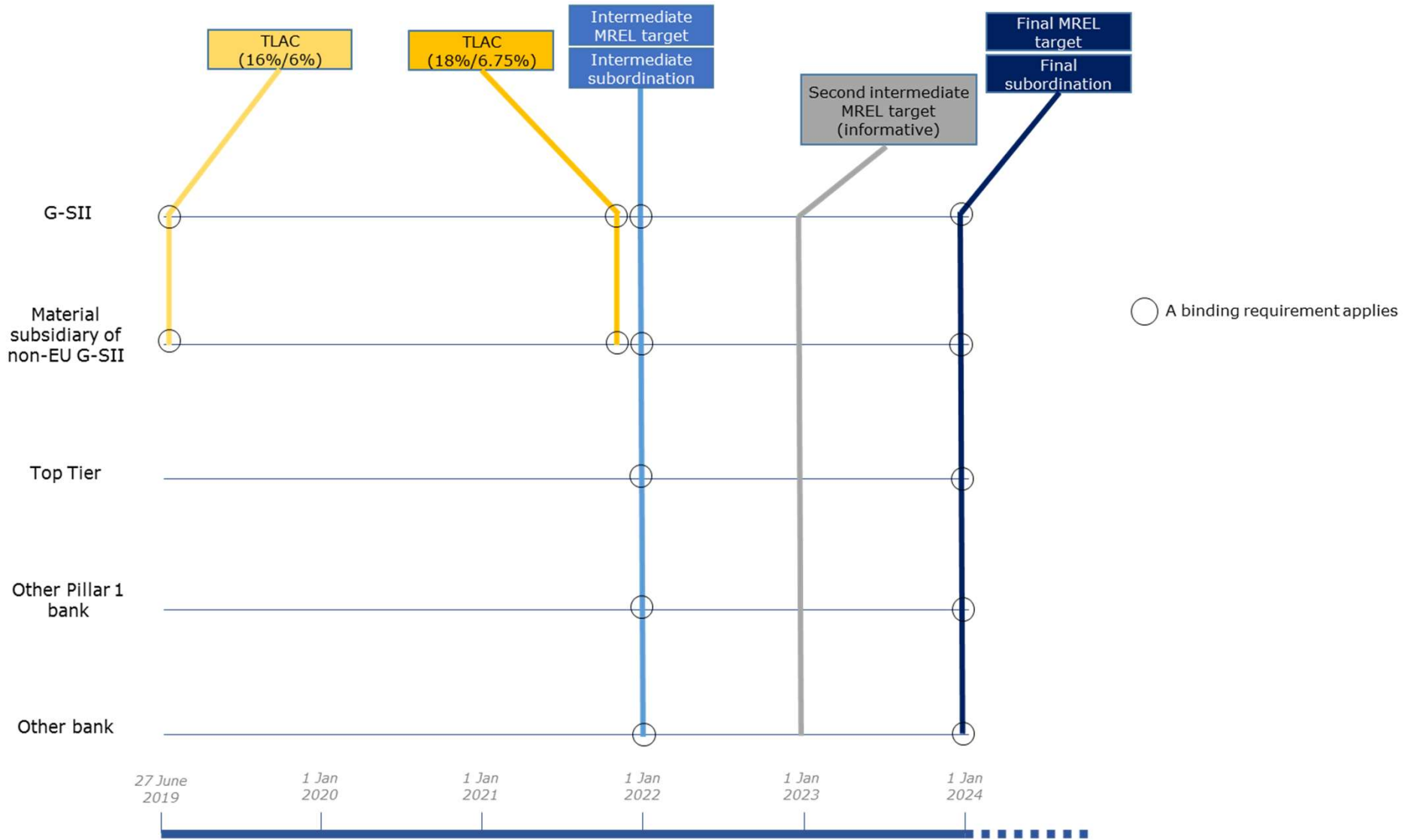
$$\text{MREL}_{\text{LRE}} = \text{LAA}(3\% \text{ LRE})+\text{RCA}(3\% \text{ LRE})$$



▶ CRR NEW METHODOLOGY FOR GSII WITH MPE STRATEGY

- ▶ CRR introduces a deduction-based approach for G-SII entities with MPE strategies (Art. 72e(4) CRR)
 - ▶ Exposures in TLAC eligible instruments between resolution groups are deducted from the TLAC capacity
 - ▶ Under conditions SRB may allow a reduced amount of deduction taking into account surpluses in other resolution groups
- ▶ The SRB intends to follow the economic rationale of the CRR for all MPE groups in order
 - ▶ to ensure consistency between MREL and TLAC for G-SIIs
 - ▶ to ensure a level playing field
 - ▶ to overcome some shortcomings identified in the current methodology

▶ TRANSITION PERIODS





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3. IMPACT ASSESSMENT

▶ **IMPACT ASSESSMENT**

- ▶ **Impact assessment:** Sample of 107 banks (as compared to 100 in the 2018 impact assessment)

- ▶ **Estimated MREL shortfalls (incl. CBR):** shortfall between EUR 150 and 200bn (depending on the assumptions taken) based on the reported data as of 31 December 2018; between 2% and 2.7% TREA of the banks in the sample

- ▶ **Estimated MREL shortfall in subordinated instruments:** shortfall between EUR 20 and 70bn (depending on the assumptions taken); between 0.3% and 0.9% TREA of the banks in the sample

- ▶ **Caveats:**
 - Capital requirements have been considered based on transitional provisions;
 - Other Pillar 1 MREL banks were not considered;
 - No bank-specific adjustments were applied (as yet to be determined by the IRTs)



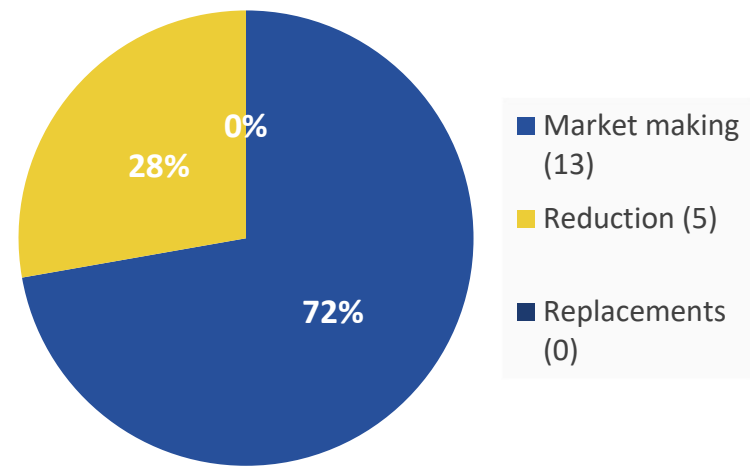
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4. PERMISSIONS REGIME: CURRENT PRACTICE

PERMISSIONS REGIME (Art. 78a CRR): CURRENT PRACTICE

Scope of application	
Institutions	<p>In scope: Banks with TLAC requirements and/or MREL decisions</p> <p>Out of scope: Banks with MREL = LAA</p>
Instruments	In scope: eligible liabilities instruments (72b CRR)

18 applications received for 2020



For **2020**, banks' requests for permissions amount to 10,6 billions, out of which more than 7 bn are for market making purposes



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5. NEXT STEPS



NEXT STEPS



- The MREL policy will be published in Q1 2020, the SRB will organise a targeted consultation on the Consultation Paper
- Publication of final MREL policy expected in Q2 2020

THANK YOU

