



Single
Resolution Board

SRB 2nd Industry Dialogue

January 12th, 2016



Single
Resolution Board

SRB 2nd Industry Dialogue
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

Engagement with banks

Process for MREL decisions

General timeline

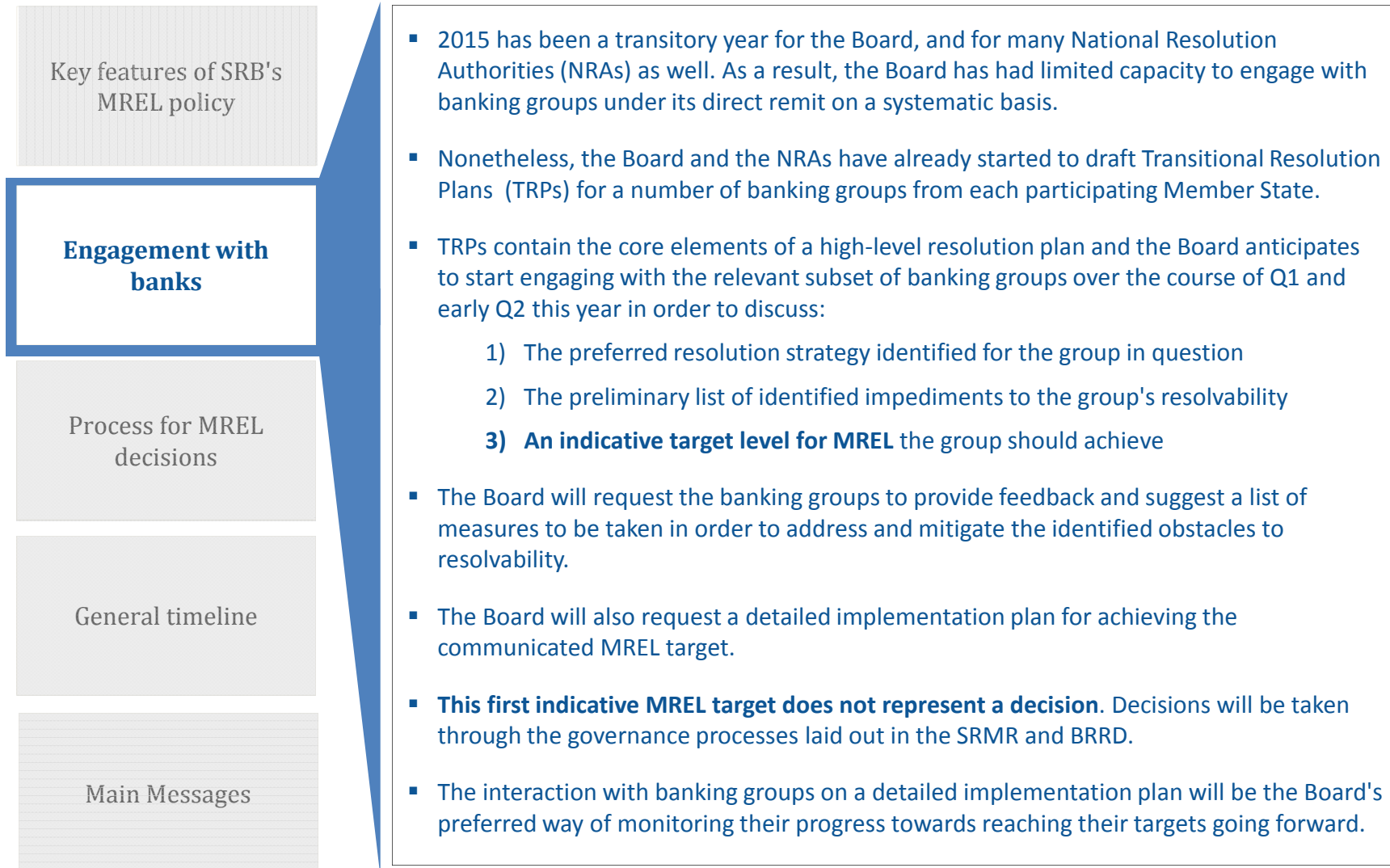
Main Messages

- 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



Process for MREL decisions within the Banking Union (BU)

Linked with resolution plan approval

- Key features of SRB's MREL policy
- Engagement with banks
- Process for MREL decisions**
- General timeline
- Main Messages

- Setting MREL is part of the process for approving resolution plans
- More developed resolution plans than TRPs will be prepared by Internal Resolution Teams (IRTs) consisting of staff from SRB and NRAs

Purely BU

SRB and NRAs to draft resolution plan for the group (including setting of MREL)

Formal communication to ECB and NRAs involved, potential amendments following ECB and/or NRAs comments

SRB Executive Session for approval of MREL as part of resolution plans

Banks under the scope of NRAs within the BU

NRAs to set MREL
But under guidelines and general instructions of SRB

- For purely BU groups the process timeline depends on setting up IRTs, developing resolution strategies, **and obtaining the data required as inputs into the calculation**
- **Resolution plans and MREL decisions must be reviewed annually**

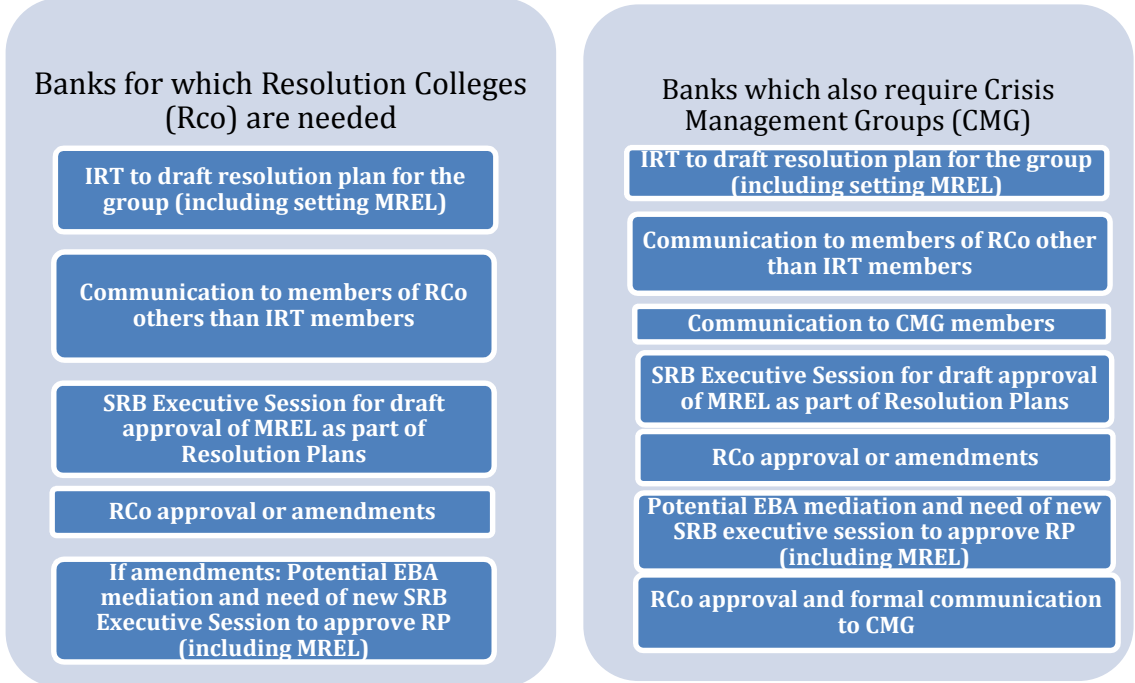
The process for adopting MREL decisions requires the approval of resolution plans by the Executive Session of the Board with the involvement of NRAs and other parties

MREL decisions for groups with banking activities outside the Banking Union

More complex decision making ...

- Key features of SRB's MREL policy
- Engagement with banks
- Process for MREL decisions**
- General timeline
- Main Messages

- MREL decisions are made by Resolution Colleges; SRB will strive to obtain decisions for all major banks during 2016

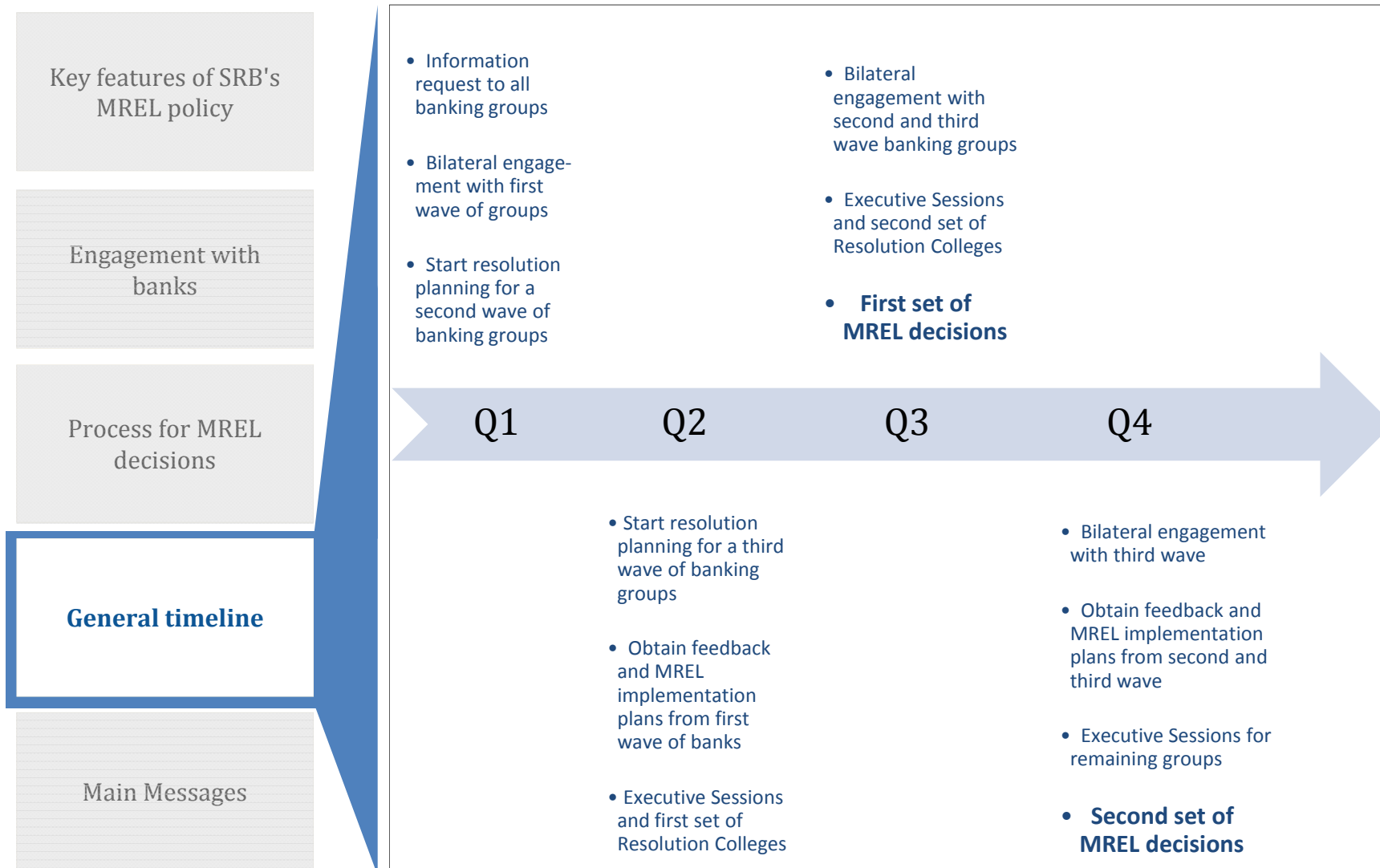


- Resolution Colleges must be established for all banking groups with subsidiaries in non-participating Member States
- A joint decision is required on Resolution Plans, Resolvability Assessment, and MREL

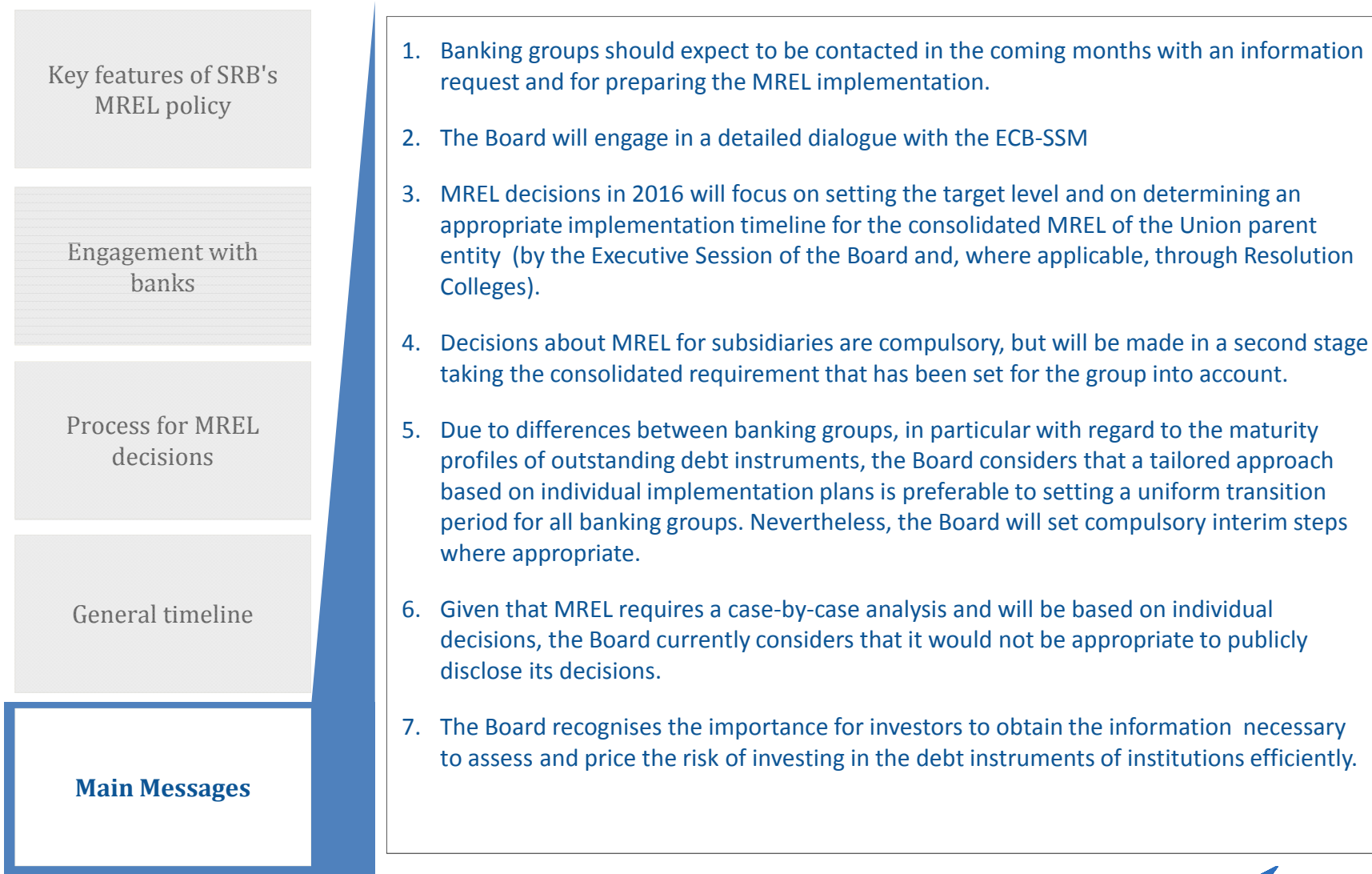
Following a draft approval by the Executive Session, a joint decision by the resolution authorities represented in a Resolution College is required

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



Questions & Answers

Setting the scene

MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Questions & Answers

Questions?



Single
Resolution Board

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	<ul style="list-style-type: none">▪ The purpose of MREL is to ensure that banking groups have sufficient loss absorbing and recapitalization capacity <u>at all times</u>, i.e.<ul style="list-style-type: none">▪ 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 <u>subset</u> of liabilities that are eligible for bail-in. BRRD and SRMR provide a legal requirement to bail-in <u>all</u> eligible liabilities, while observing the creditor hierarchy in insolvency and the pari-passu principle<ul style="list-style-type: none">▪ 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 <u>ex-ante assessment</u> of the "likelihood" of discretionary exclusions in order to test the robustness of the bail-in tool against the risk of NCWO breaches:<ul style="list-style-type: none">▪ 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 components	
Information needs from banks	
Timeline for information requests in 2016	
Main Messages	



MREL as sum of several components

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

Setting the scene

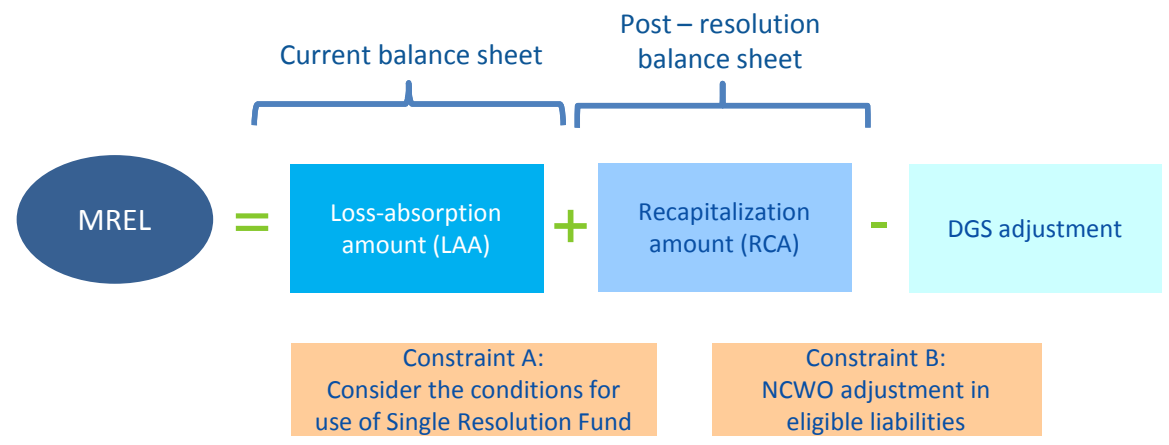
MREL as sum of components

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

The maximum of...

A) Total capital
+
The combined buffer
(Conservation, countercyclical & systemic)
+
Any Pillar 2 requirement

B) Basel I capital floor

C) Leverage ratio requirement

SRB adjustments

+

Idiosyncratic Adjustment:

Business model, funding model & risk profile – SREP

To mitigate impediments to resolvability or absorb losses on holdings of MREL instruments issued by other banks or group entities.

-

Pillar 2 Adjustments based on stress tests or macroprudential risks

Part of the combined buffer requirement

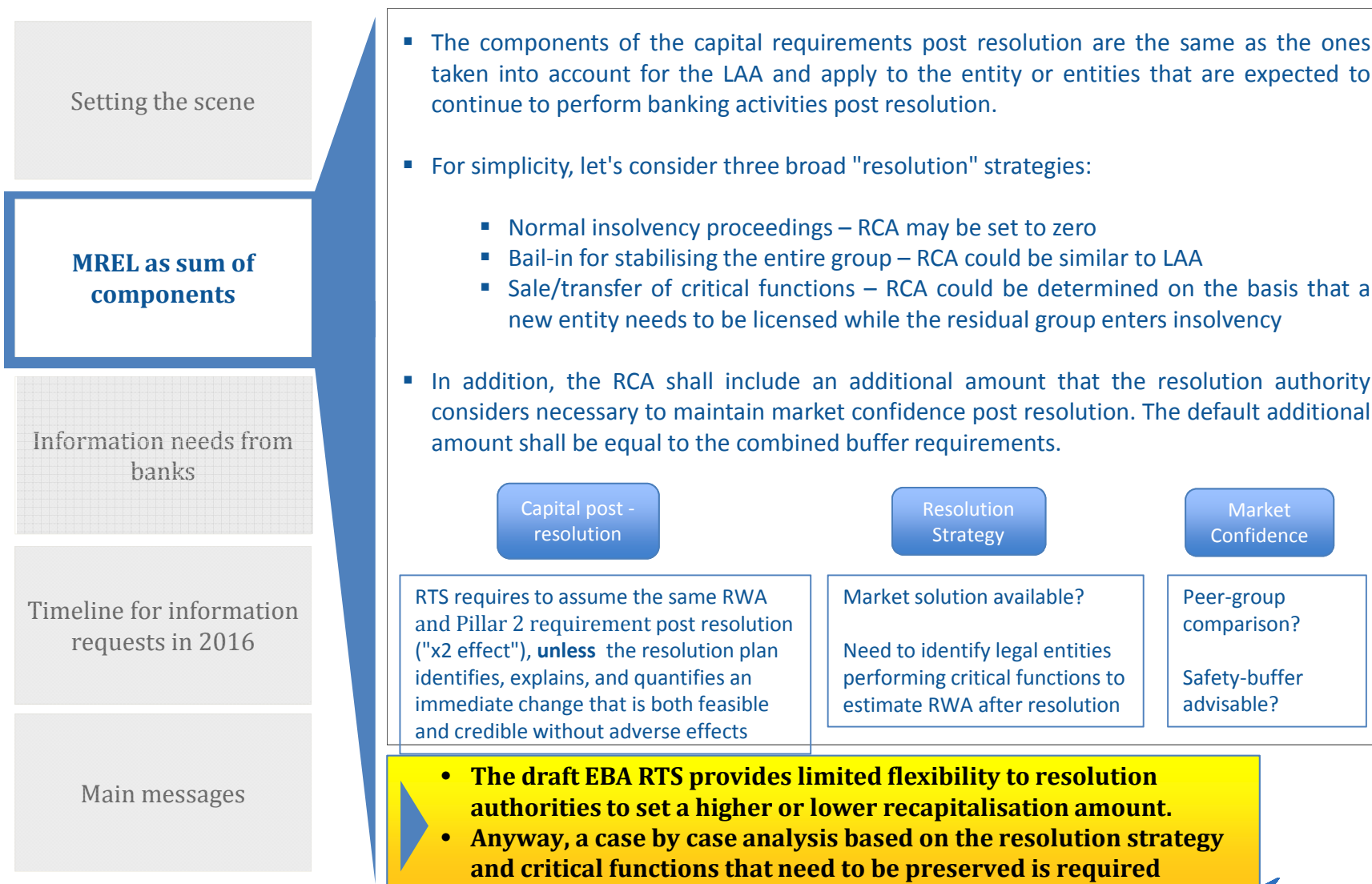
In both cases a case-by-case assessment is required

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



Information needs from banking groups in 2016

Setting the scene

MREL as sum of components

Information needs from banks

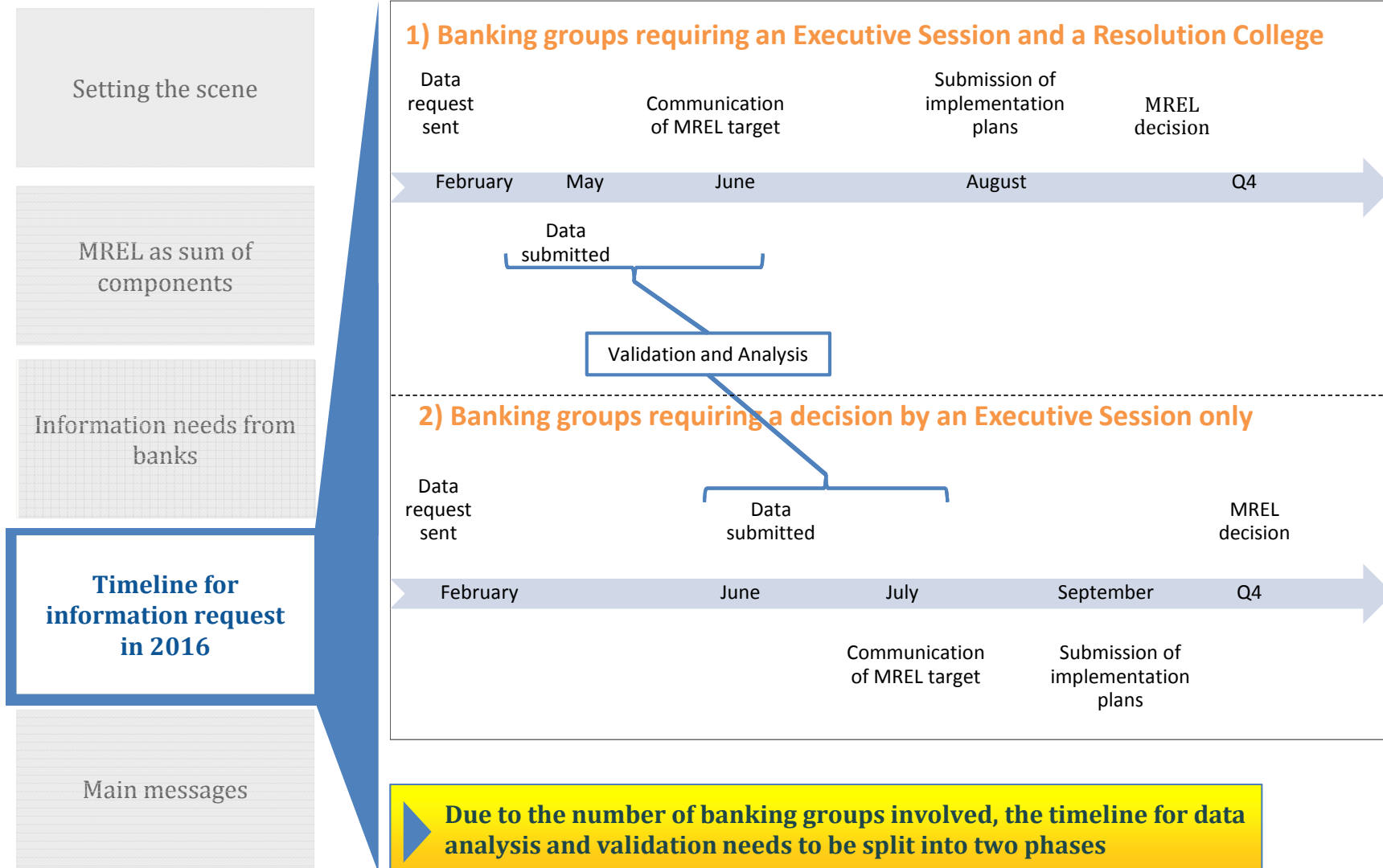
Timeline for information requests in 2016

Main messages

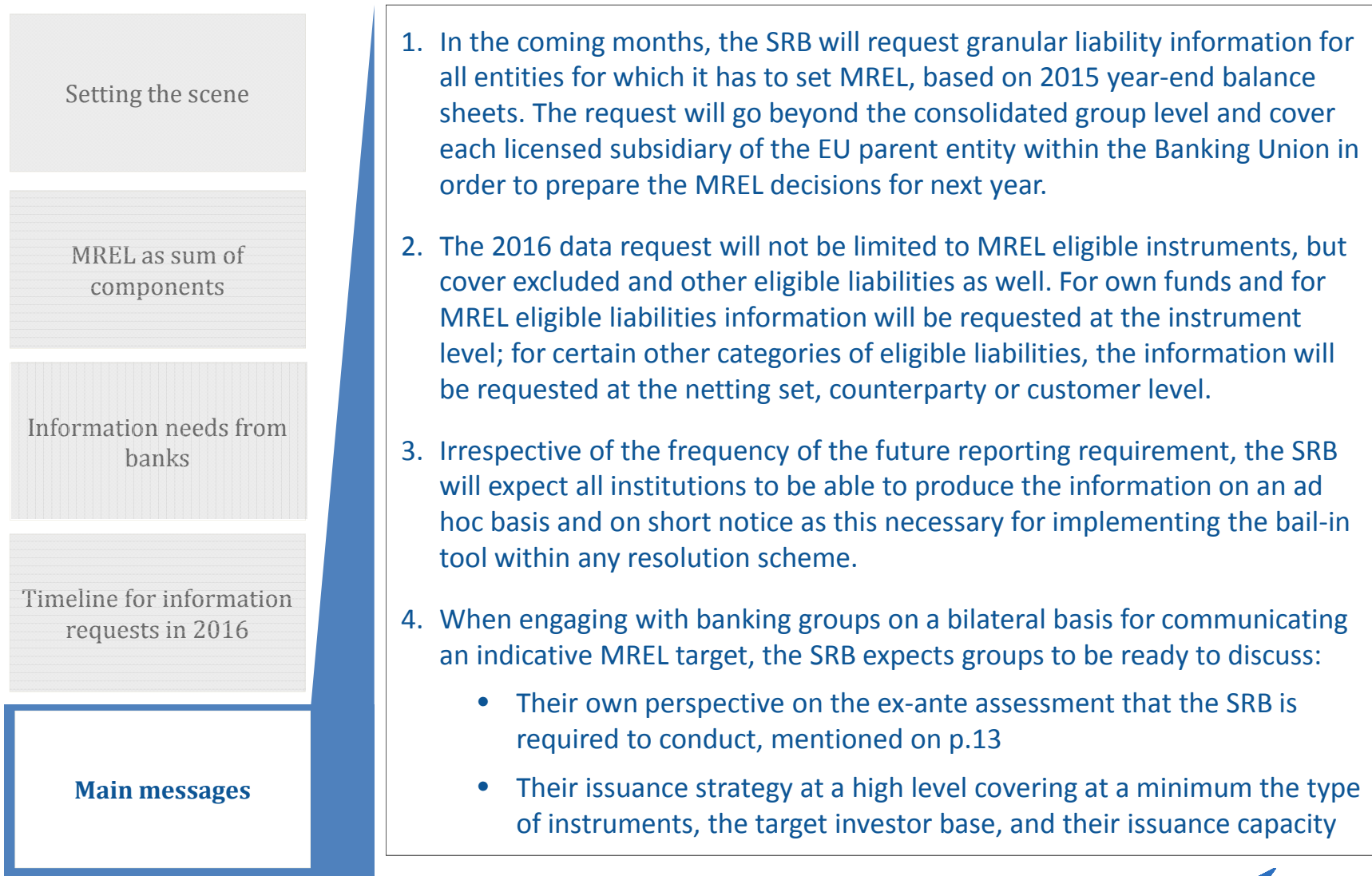
- Banking groups are reporting a lot of information, in particular FINREP and COREP. There is also a data requirement for calculating their contributions to the SRF.
- However, for resolution planning and execution it is necessary to have specific granular information on liabilities at a legal entity 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



Questions & Answers

Setting the scene

MREL as sum of components

Information needs from banks

Timeline for information requests in 2016

Questions & Answers

Questions?