

**EFBS – FINANCIAL AFFAIRS COMMITTEE**  
**SRB RESOLUTION PLANNING – STATE OF PLAY**  
**ON MREL**

---

Presenter: Sergio Materazzi, Senior Policy Expert

Prague, 16 October 2019



# SRB Mission and Objectives

Pillar 1

Pillar 2

Pillar 3

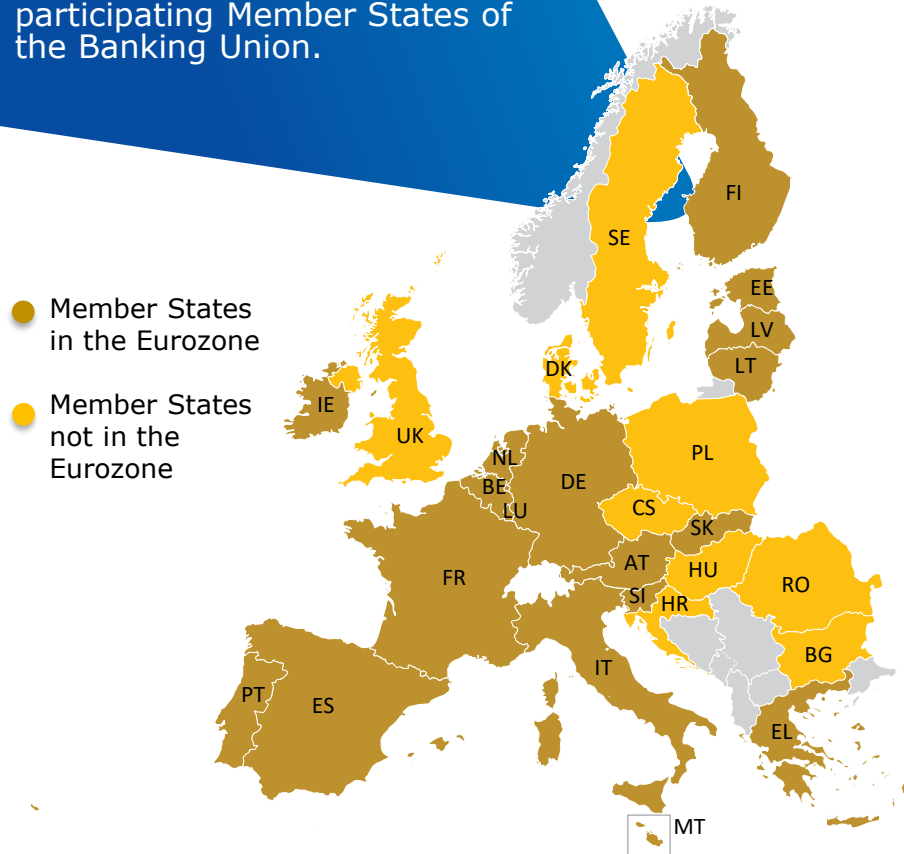
SINGLE  
SUPERVISORY  
MECHANISM

SINGLE  
RESOLUTION  
MECHANISM

EUROPEAN DEPOSIT  
INSURANCE  
SCHEME

## Mission

Ensure an orderly resolution of failing banks with minimum impact on the real economy and the public finances of the participating Member States of the Banking Union.



The SRB together with the Banking Union National Resolution Authorities (NRAs) form the Single Resolution Mechanism (SRM)

The SRB is directly responsible for >120 banking groups:

- ▶ Significant banks, including 8 G-SIIs
- ▶ Cross-border banking groups

NRAs are directly responsible for all other banks (approx. 3200). SRB ensures oversight and may 'take over' direct responsibility

The SRB closely cooperates with the NRAs



# AGENDA



**1. SRB MREL ROADMAP & 2018 PLANNING CYCLE**

**2. SRB MREL POLICY 2018**

**3. NEXT STEPS**

European Federation of Building Societies – Financial Affairs Committee

## **1. SRB MREL ROADMAP & 2018 PLANNING CYCLE**

## 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).

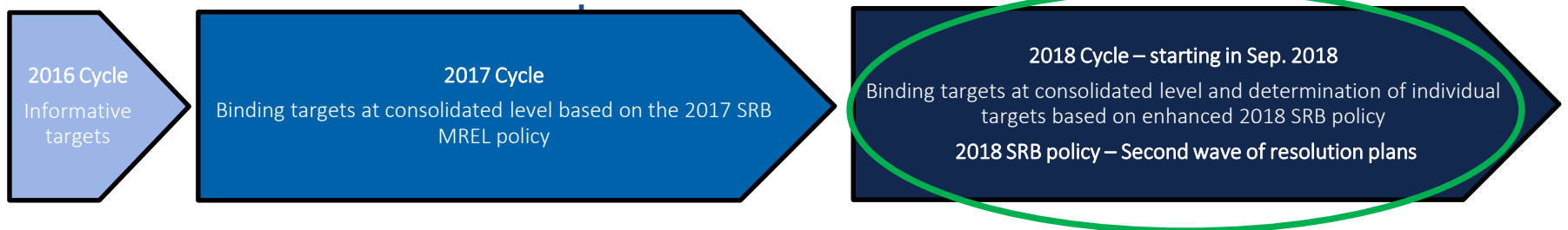
The SRB intends to set binding targets for all banking groups within the SRB's remit by 2020.

# 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



European Federation of Building Societies – Financial Affairs Committee

## **2. SRB MREL POLICY 2018**

# SRB MREL POLICY 2018 – 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 (iii) to ensure consistent application and to guarantee a level playing field, 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
  - **Move to binding subordination requirements including potential 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**



# SRB MREL POLICY 2018 – SECOND WAVE OF 2018 RESOLUTION PLANS (2/4)

## Key features for 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	<ul style="list-style-type: none"> <li>- <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</li> </ul> <table border="1" data-bbox="672 768 1499 993"> <tr> <td>G - SIIs</td> <td>16% RWAs + CBR + <i>NCWO add-on</i></td> </tr> <tr> <td>Other banks</td> <td>14% RWAs + CBR + <i>NCWO add-on</i></td> </tr> </table>	G - SIIs	16% RWAs + CBR + <i>NCWO add-on</i>	Other banks	14% RWAs + CBR + <i>NCWO add-on</i>
G - SIIs	16% RWAs + CBR + <i>NCWO add-on</i>				
Other banks	14% RWAs + CBR + <i>NCWO add-on</i>				
Eligibility	- <b>Move to a “hybrid approach”</b> , consolidated own funds and eligible liabilities at the level of the point of entry to ensure compliance with consolidated MREL targets				
Transition periods	- Bank-specific transition periods				

# SRB MREL POLICY 2018 – SECOND WAVE OF 2018 RESOLUTION PLANS (3/4)

## Key features for 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

## SRB MREL POLICY 2018 – SECOND WAVE OF 2018 RESOLUTION PLANS (4/4)

- Estimated outcome across the Banking Union
  - > Impact assessment on the application of the SRB 2018 MREL Policy
    - Sample of 100 banks (as compared to 78 banks for the 2017 impact assessment exercise)
    - Representing approx. 95 % of total assets of SRB banks
  - > Estimated MREL targets: on average 25% RWA
  - > Estimated MREL shortfalls: aggregate EUR 171 bn based on reported data as of 31 December 2017, corresponding to 2,5% RWA of the banks in the sample
  - > Estimated MREL shortfall in subordinated instruments: EUR 67 bn, corresponding to 1% RWA of the banks in the sample
  - > Important caveat: Very limited bank-specific adjustments applied (yet to be determined by the SRB). Final shortfalls are expected to be lower

European Federation of Building Societies – Financial Affairs Committee

### **3. NEXT STEPS**

## WHERE ARE WE TODAY

MREL decisions: The SRB continues the journey to resolvability:

- 2018 cycle:
  - first wave of resolution plans (non-college banks): 45 MREL decisions adopted until now based on the 2018 Policy (conso)
  - second wave of resolution plans (college banks): around 200 MREL decisions to be adopted by the end of 2019 (conso and individual)
- 2019 cycle: new decisions (conso and individual) by the beginning of 2020

## BANKING PACKAGE

The other provisions of the Banking Package will impact many aspects of the MREL determination, in particular:

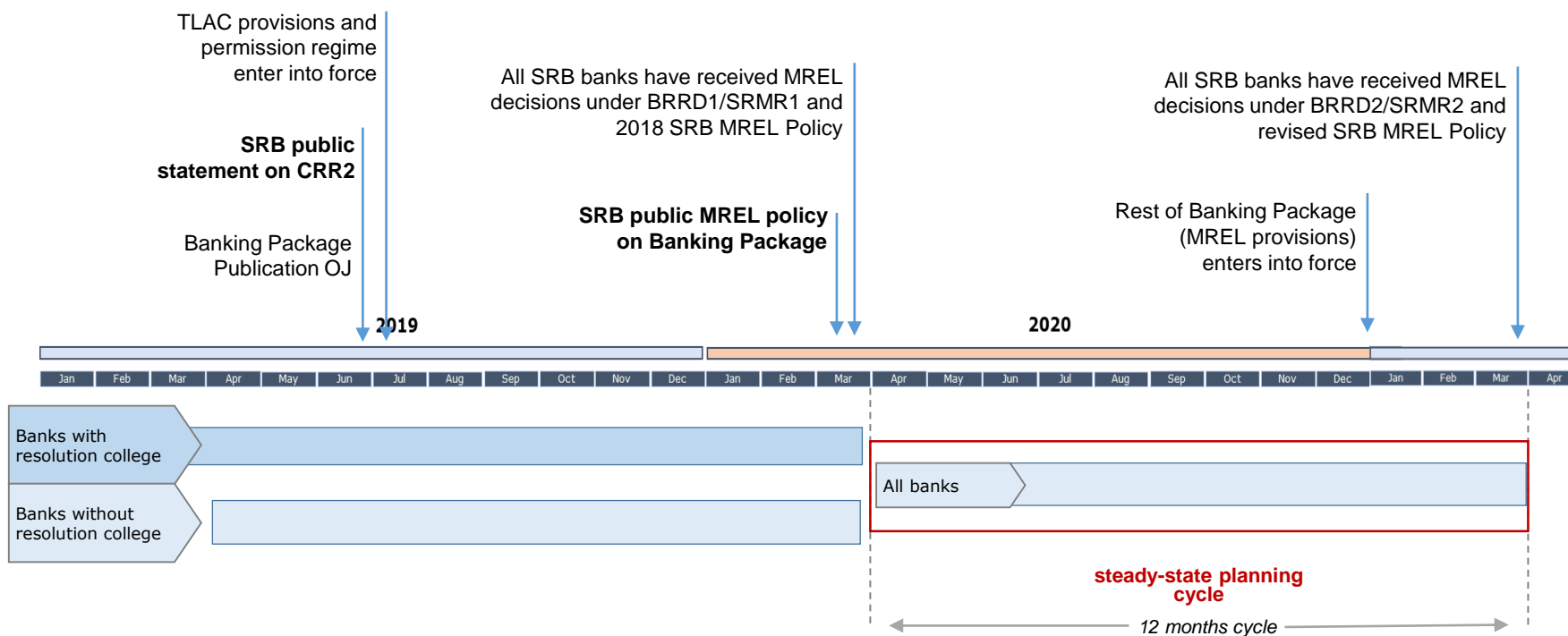
- MREL calibration is revised
- Subordination rules are enhanced
- Internal MREL is defined, etc.

The SRB intends to publish by the end of 2019/ beginning of 2020 its final SRMR2/ BRRD2 MREL policy, which will form the basis for MREL setting under the new framework.

**The direction of travel is clear. Banks are expected to start anticipating the application of the rules now to comply with the new framework in due course.**

# IMPACT ON RESOLUTION PLANNING

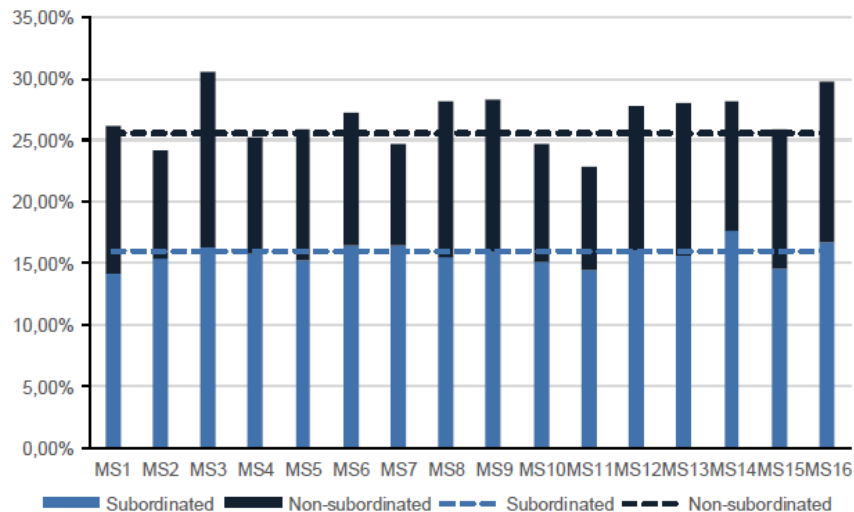
The SRB will implement its final SRMR2/BRRD2 MREL policy for all institutions in the resolution planning cycle starting in 2020. The SRB estimates that these MREL decisions will be communicated to banks at the beginning of 2021.



# RISK REDUCTION PACKAGE

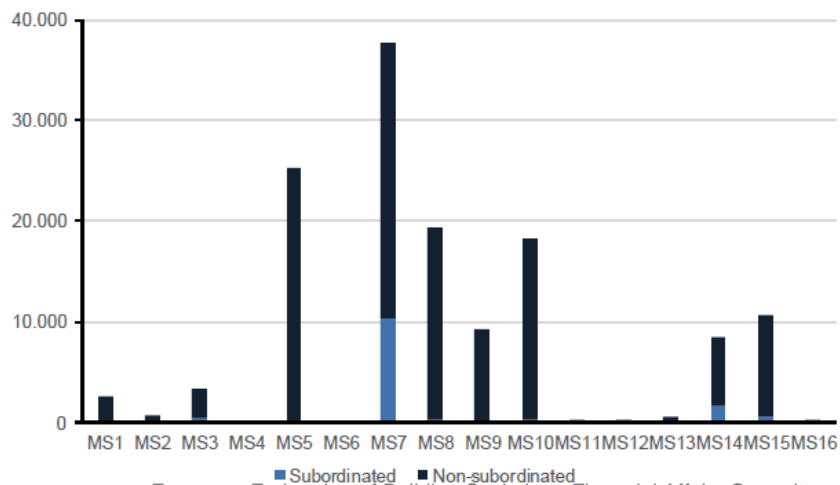
## Indicator 7: MREL Target

Chart 7.1: Consolidated MREL Target Requirement per MS, % TREA



## Indicator 9: MREL Shortfall

Chart 9.1: MREL Shortfall per MS, €millions



- MREL build-up:

- > As at 31/12/2017, the stock of MREL eligible instruments accounted for 33.8% of TREA, of which more than two thirds was composed of subordinated instruments.

- MREL shortfall

- > 14 of the 16 MS display a shortfall, concentrated in 5 MSs
- > It amounts to €136 bn (around 2% of TREA).

Source: [EC Monitoring report on risk reduction indicators – November 2018](#)



**THANK YOU!**

**SRB MULTI-ANNUAL  
PLANNING AND  
WORK PROGRAMME 2018**



**SINGLE RESOLUTION BOARD  
WORK PROGRAMME 2019**

