

Associazione Bancaria Italiana

Capital requirements and the MREL determination criteria 12 May 2016

Joanne KELLERMANN – Single Resolution Board – Board Member

Key features of SRB's Minimum Requirement for own funds and Eligible Liabilities (MREL) policy in 2016

Key features of SRB's MREL policy 2016

Process for MREL decisions

Data collection exercise

General timeline for decisions

Interaction with new Pilar I requirements

- Art. 12 SRMR requires the Board to determine the MREL for entities and groups that are under the direct supervision of the ECB as well as cross-border groups. The obligation to determine MREL starts in 2016
 - Performing case-by-case analyses and taking individual decisions
 - Working with banks on individual implementation plans
 - Set **indicative target level** for MREL
 - Possibly giving guidance on the quality (in particular a subordination requirement) of all or part of the MREL
- Institutions must meet MREL at individual level and parent entities at consolidated level
 - In 2016 the Board intends to determine MREL for all major banking groups established in the Banking Union at consolidated level 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]
- Preliminary assessment: an MREL target of not less than 8% 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.

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- **MREL indicative decision**: An MREL decision is based on several key parameters which may not be all assessed in 2016.
 - Quantity To be set as target level
 - Quality

Location

- To be set in a second time
- **Timing** G-SIB: MREL interim target for 2019

Other banks: to be defined

■ **TLAC**: 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

Adopting MREL decisions requires the approval of resolution plans by the Executive Session of the Board with the involvement of NRAs and other parties

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 Internal Resolution Teams (IRTs) will prepare resolution plans and setting MREL is part of the process for their adoption. Resolution plans and MREL decisions must be reviewed annually

Purely BU

IRT 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 for which Resolution Colleges (RCo) are needed

IRT to draft resolution plan for the group (including setting MREL)

Communication to members of RCo others than IRT members

SRB Executive Session for draft approval of MREL as part of Resolution Plans

RCo approval or amendments

If amendments: Potential EBA mediation and need of new SRB Executive Session to approve RP (including MREL)

- The timeline for decisions depends on developing resolution strategies, and obtaining the data required as inputs into the calculation
- For banks operating purely within the Banking Union, the Board will take decisions on Resolution Plans, including MREL in late Q4
- For banks for Resolution Colleges (RCos) the Executive Session of the SRB will take decision in early Q4
- After RCos meetings, a joint decision is required by the resolution authorities who are members of the RCos on Resolution Plans, Resolvability Assessment, and MREL

The Liability Data Template: a tool to set MREL

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- For resolution planning and execution it is necessary to have specific granular information on liabilities at a legal entity level, including intragroup liabilities
- The SRB, with participation from the NRAs, the ECB, and the EBA, has developed a standardised template ("liability data template") which has been requested from all banking groups under the remit of the SRB
- A short term objective (2016):
 - Provide a **summary overview** of the liability structure of the institutions.
 - Get relevant data to **set MREL at consolidated level** for the EU parent entity.
- <u>A long term objective (2017 2018):</u>
 - Define the SRB long term expectations for the banks to report on MREL and bail-in (next two years) to get detailed information on liabilities to better understand the liability instruments and the consequences of their specificities on resolution planning.
 - Incentivize the banks to develop an adequate IT system in order to execute bail-in by providing clarity on the data needs.



General timeline for engaging with banking groups and adopting MREL decisions in 2016

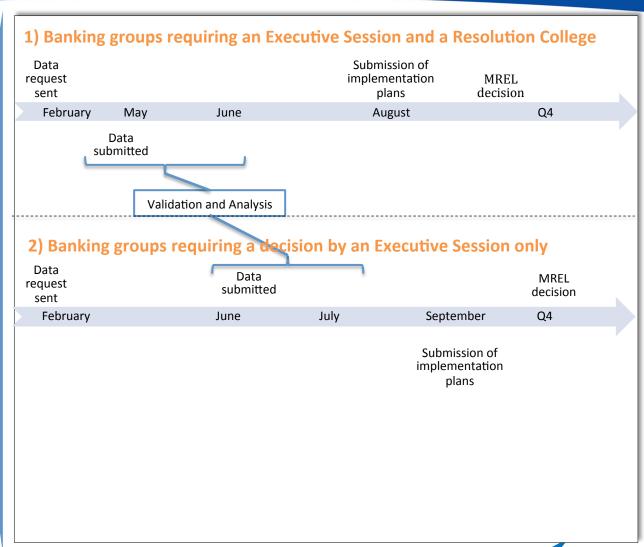
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TLAC to be taken into account in MREL decisions

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- **EBA RTS Draft**: current basis for setting MREL levels
 - Commission intends to adopt it in the forthcoming days
 - SRB commits to setting MREL levels on the basis of EBA RTS
- TLAC to be taken into account in MREL decisions:
 - The SRB has closely followed the development of an international standard for the Total Loss Absorbing Capacity (TLAC) for G-SIBs
 - 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 the TLAC termsheet into account in its 2016 MREL decisions, for GSIBs and beyond
 - Full TLAC implementation may require revision of SRMR and BRRD, although
 a revision is not expected in the short term due to a usually long legislative
 procedure involving the European Parliament and Council





Thank you!