SRB – BANKING INDUSTRY DIALOGUE MEETING

MREL policy 2020

15 June 2020

Presenter: **Sebastiano Laviola**, SRB Board Member

Single Resolution Board

AGENDA

1. **MREL POLICY UNDER THE BANKING PACKAGE**
   - Overview of the core issues covered by the public consultation
   - Main outcomes of the public consultation

2. **COST OF FUNDING AND MREL BUILD-UP**
   - Covid-19 impact on cost of funding and issuances
   - MREL build-up in 2019 and Q1 2020

3. **MREL CALIBRATION AND DECISIONS IN THE 2020 RESOLUTION PLANNING CYCLE**
   - MREL calibration
   - Data collection
   - MREL build-up path

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1. MREL POLICY UNDER THE BANKING PACKAGE

SRB MREL POLICY UNDER THE BANKING PACKAGE: CONTENTS (1/2)

Overview of core issues covered by the policy:

- MREL requirements for Global Systemically Important institutions (**G-SIIs**):
  - TLAC constitutes Pillar 1 MREL
  - Additional MREL set by the SRB
- Changes to the **calibration of MREL:**
  - Introduction of risk-based and leverage metrics
  - CBR in addition to risk-based MREL
- Changes to the quality of MREL (**subordination**):
  - New regulatory classification (G-SII, Top Tier, Other Pillar 1 banks, and non-Pillar 1 banks)
  - 8% TLOF subordination target

SRB MREL POLICY UNDER THE BANKING PACKAGE: CONTENTS (2/2)

Overview of the core issues covered by the policy:

- New **NCWO risk assessment tool**
- Provisions on **internal MREL**
  - Expanded scope of entities subject to an individual requirement
- Dedicated rules
  - For certain business models (**cooperatives**) and
  - for certain resolution strategies (**MPE**)
- Clarifications on **third-country issuances**
  - Criteria for legal opinions

SRB MREL POLICY UNDER THE BANKING PACKAGE: CONSULTATION

- On 17 February 2020, the SRB launched a 3-week **consultation** on its proposed MREL policy. Twenty-five responses from banks, banking associations, NRAs and finance ministries

- On 20 May 2020, the SRB published the **MREL policy** and a **Feedback Statement** on the main industry comments

- **The policy implements the Banking Package and applies from the 2020 cycle onwards**
  - The policy sets out the methodology for the **MREL decisions to be adopted in 2021** with a first binding intermediate target for compliance by 1.1.2022 and the final target by 1.1.2024
  - The new (BRRD2) MREL decisions will substitute existing (BRRD1) MREL decisions adopted in the 2018 and 2019 cycles

MAIN OUTCOMES OF THE PUBLIC CONSULTATION (1/3) - CALIBRATION

Topic	Industry feedback	Outcome
Adjustments to default MREL calibration	Some respondents said they would welcome further adjustments to the default MREL formula	SRB will continue to adjust the default RCA on a case-by-case basis
MCC for external MREL	Some respondents were in favour of maintaining the MCC formula of the current SRB policy (CBR – 125 bp)	To ensure a transition to the MCC computed under the new legislative formula, the SRB will apply a phased approach (after four planning cycles, the MCC will be equal to the new MCC formula, CBR – CcyB)

MAIN OUTCOMES OF THE PUBLIC CONSULTATION (2/3) – CALIBRATION for MPE STRATEGIES

- Respondents to the consultation asked for a change in the treatment of the exposures towards EU resolution groups (RGs) to take into account the existence of a harmonised resolution regime

- The **methodology to compute the MPE add-on** – for the exposures towards EU resolution groups – now reflects the simulation of the bail-in tool applied at other EU resolution groups:
  - The inter-RGs exposures absorbed by the simulated LAA
  - ➢ ***are included fully in the calculation of the add-on***
  - The inter-RGs exposures absorbed by the simulated RCA
  - ➢ ***are included in the calculation for 75% of their value*** *(to take into account the lower market value of the converted amount post-resolution, in line with the NCWO assumptions)*
  - The methodology for the treatment of exposures towards resolution groups based in third countries remains unchanged

MAIN OUTCOMES OF THE PUBLIC CONSULTATION (3/3) – INTERNAL MREL

Topic	Industry feedback	Outcome
MCC for iMREL	Respondents asked to know the criteria for the application of the MCC	MCC for iMREL will take into account the features of the entity (in particular strong reliance on wholesale funding)
Waivers	Respondents asked about the link with capital waivers	The policy clarifies that capital waivers are not a pre-condition for iMREL waivers; nonetheless, it will be considered whether the subsidiary has obtained a supervisory waiver
Partially collateralised guarantees	Supported by respondents; some asked if collateralised guarantees are a pre-condition for waivers	Collateralised guarantees are an alternative way of meeting the iMREL-requirement; a waiver implies that there isn’t a requirement

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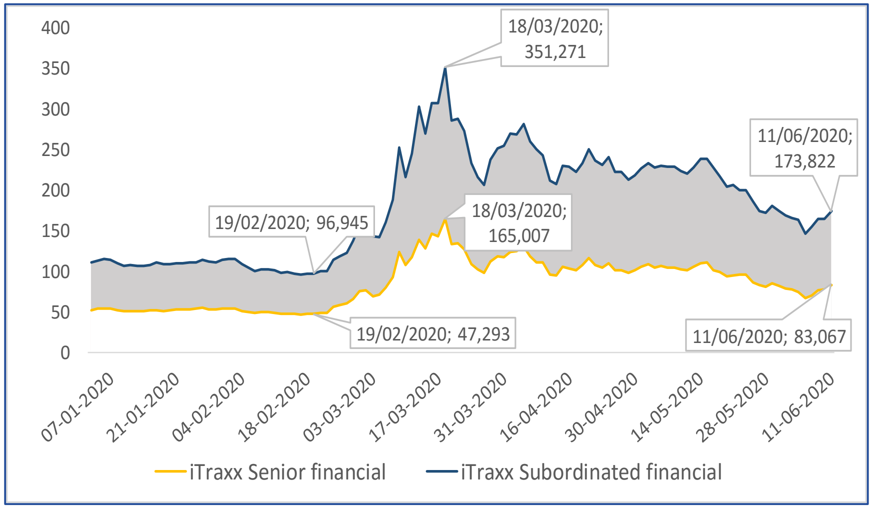
2. COST OF FUNDING AND MREL BUILD-UP

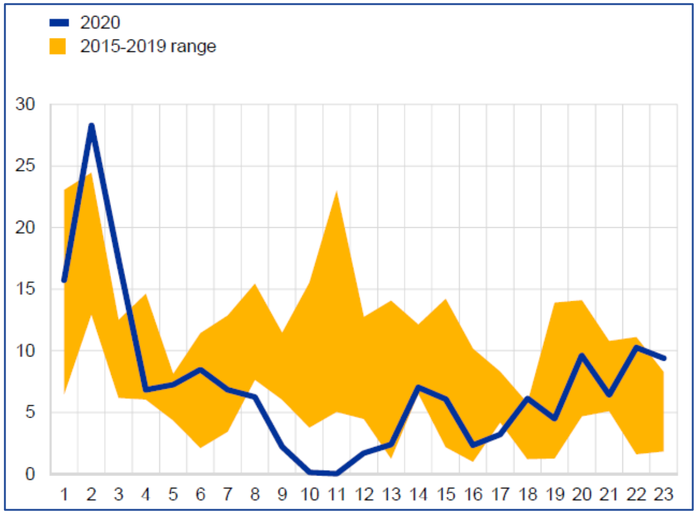
COVID-19 IMPACT ON COST OF FUNDING AND ISSUANCES

- Index on EU subordinated and senior bonds peaked on March 18th, registering a value 3.6 and 3.5 times the value of February 19th, respectively
- Since then, the cost of subordinated debt has shown signs of recovery with fluctuations until today, when its value is still 1.8 times pre-Covid levels
- Overall, volatility is still observed, although at a reduced magnitude compared to March-April turmoil. The spread between subordinated and senior debt was almost four times higher at the March 18th peak, while it decreased in the recent weeks and today it is converging towards pre-Covid levels
- Issuances during the Covid-19 market turmoil peak contracted below the “normal” values (2015-2019 range), while they recovered in the recent weeks

iTraxx on EU financial Subordinated and senior instruments



Weekly euro-banks issuances (EUR bn)
(weeks start on Wednesday and ends on Tuesday)

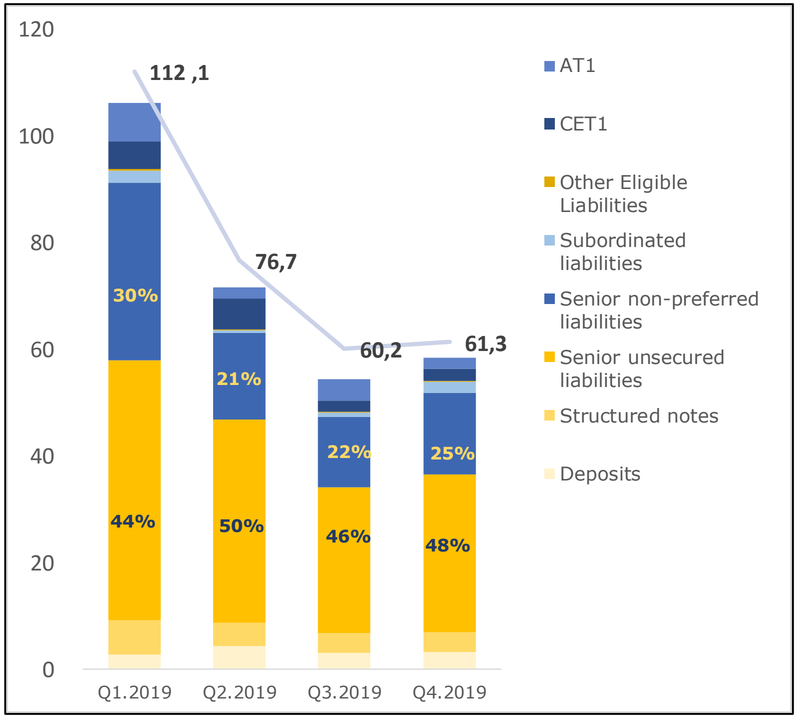


Source: Dealogic, ECB calculations

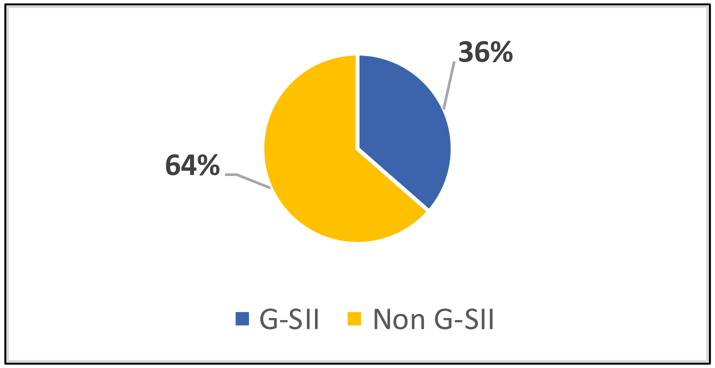
MREL BUILD-UP IN 2019 AND Q1 2020

- In 2019 SRB banks have issued about EUR 310bn of new MREL instruments*
- The outstanding MREL stock amounted to EUR 2.4 tn. at end-2019 (+5% from end-2018)*
- Senior unsecured and senior-non-preferred represented 48% and 25% of issuances respectively
- G-SIIs accounted for about 41% of the new issuances in 2019
- In Q1 2020, SRB banks issued about EUR 36 bn. of MREL instruments, all in January and February. In the same quarter of 2019, SRB banks issued EUR 112 bn.

MREL issuances by instrument (EUR bn)



MREL issuances by type of bank in Q3-2019



** Data available represent 96% of the total sample (80 banks, excluding liquidation entities)*

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3. MREL CALIBRATION AND DECISIONS IN THE 2020 RESOLUTION PLANNING CYCLE

MREL CALIBRATION IN THE 2020 RPC IN LIGHT OF THE COVID-19 OUTBREAK (1/2)

- **Reminder**: the SRB has announced that, as regards **existing BRRD1 binding targets**, it will take a forward-looking approach to banks that may face difficulties in meeting those targets before new MREL decisions under the banking package take effect
- As concerns the **BRRD2 MREL decisions under the 2020 RPC**, the SRB:
  - will continue to monitor carefully market conditions and will assess the potential impact on transition periods needed for the build-up of MREL
  - will use the flexibility allowed by the regulatory framework to adapt transition periods and interim targets applied to banking groups
- The calibration of new MREL requirements will be based on **end-2019 data**, with some macroprudential capital buffers updated in consequence of Covid-19 measures undertaken by supervisory authorities:
  - banks have been requested to submit a simplified template with the updated capital requirements applicable to the institution at end-June 2020, computed on December 2019 exposures.

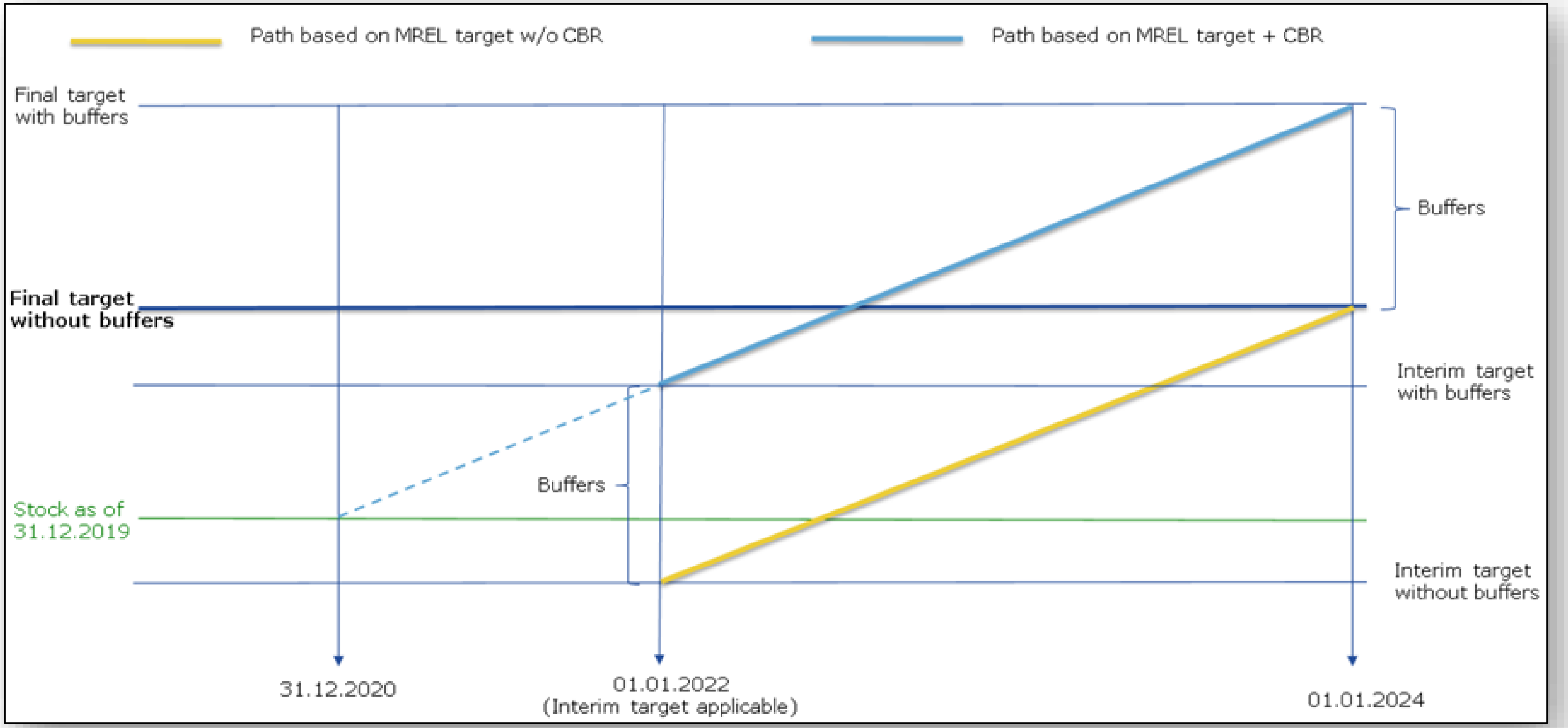
MREL CALIBRATION IN THE 2020 RPC IN LIGHT OF THE COVID-19 OUTBREAK (2/2)

- The **SRB will monitor the evolution of key balance sheet metrics and MREL capacity as of June 2020:**
  - Banks will be requested to provide **key metrics** (TREA, LRE, TLOF) and **MREL capacity with reference date June 2020**, in order to assess material balance sheets changes due to Covid-19
  - The SRB expects to receive the data by mid-August
  - Updated funding plans will be requested to banks
  - Ongoing monitoring of BRRD1 decisions through the existing MREL quarterly data collection exercise.

- Adjustments with respect to a linear build-up of MREL will be assessed in light of banks' specific circumstances.

MREL CALIBRATION IN THE 2020 RPC IN LIGHT OF THE COVID-19 OUTBREAK – BUILD-UP PATH

At the beginning of 2021 the SRB will set intermediate targets that ensure an ambitious, yet realistic, level of MREL build-up towards the final target.
When setting the **intermediate target**, the SRB will take into account the need of the banks to comply with the **combined buffer requirements.**



THANK YOU!