MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)
SRB Policy under the Banking Package
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ALR</td>
<td>Additional Liabilities Report</td>
</tr>
<tr>
<td>BRRD</td>
<td>Bank Recovery and Resolution Directive</td>
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<tr>
<td>CBR</td>
<td>Combined Buffer Requirement</td>
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<td>CCyB</td>
<td>Countercyclical Capital Buffer</td>
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<td>CET1</td>
<td>Common Equity Tier 1</td>
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<tr>
<td>CRD</td>
<td>Capital Requirements Directive</td>
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<tr>
<td>CRR</td>
<td>Capital Requirements Regulation</td>
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<tr>
<td>DGS</td>
<td>Deposit Guarantee Scheme</td>
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<tr>
<td>DR</td>
<td>Commission Delegated Regulation</td>
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<tr>
<td>EBA</td>
<td>European Banking Authority</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>CSD</td>
<td>Central Securities Depository</td>
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<tr>
<td>DGS</td>
<td>Deposit Guarantee Scheme</td>
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<tr>
<td>DGSD</td>
<td>Deposit Guarantee Schemes Directive</td>
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<tr>
<td>DR</td>
<td>Delegated Regulation</td>
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<tr>
<td>EBA</td>
<td>European Banking Authority</td>
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<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FOLTTF</td>
<td>Failing or likely to fail</td>
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<tr>
<td>FSB</td>
<td>Financial Stability Board</td>
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<tr>
<td>G-SII</td>
<td>Global Systemically Important Institution</td>
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<tr>
<td>IPU</td>
<td>Intermediate Parent Undertaking</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>ISIN</td>
<td>International Securities Identification Number</td>
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<tr>
<td>LDR</td>
<td>Liability Data Report</td>
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<td>LRE</td>
<td>Leverage Ratio Exposure measure</td>
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<tr>
<td>LAA</td>
<td>Loss Absorption Amount</td>
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<tr>
<td>MCC</td>
<td>Market Confidence Change</td>
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<td>MDA</td>
<td>Maximum Distributable Amount</td>
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<td>MPE</td>
<td>Multiple Points of Entry</td>
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<tr>
<td>MREL</td>
<td>Minimum Requirement for Own Funds and Eligible Liabilities</td>
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<tr>
<td>NCWO</td>
<td>No Creditor Worse Off</td>
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<tr>
<td>NRA</td>
<td>National Resolution Authority</td>
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<td>NIP</td>
<td>Normal Insolvency Proceedings</td>
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<tr>
<td>PONV</td>
<td>Point of Non-Viability</td>
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<tr>
<td>PtB</td>
<td>Price to Book</td>
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<tr>
<td>P1</td>
<td>Pillar 1 requirement</td>
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<td>P2R</td>
<td>Pillar 2 requirement</td>
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<td>RC</td>
<td>Resolution College</td>
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<td>RCA</td>
<td>Recapitalisation Amount</td>
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<td>RLEs</td>
<td>Relevant Legal Entities</td>
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<td>RWA</td>
<td>Risk-Weighted Assets</td>
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<td>SPE</td>
<td>Single Point of Entry</td>
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<td>SRB</td>
<td>Single Resolution Board</td>
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<td>SRM</td>
<td>Single Resolution Mechanism</td>
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<td>SRMR</td>
<td>Single Resolution Mechanism Regulation</td>
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<td>SRF</td>
<td>Single Resolution Mechanism Fund</td>
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<tr>
<td>SREP</td>
<td>Supervisory Review and Evaluation Process</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>TLAC</td>
<td>Total Loss-Absorbing Capacity</td>
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<td>TLOF</td>
<td>Total Liabilities and Own Funds</td>
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<tr>
<td>TREA</td>
<td>Total Risk Exposure Amount</td>
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**DISCLAIMER**

This publication is not intended to create any legally binding effect and does not in any way substitute the legal requirements laid down in the relevant applicable European Union (EU) and national laws. It may not be relied upon for any legal purposes, does not establish any binding interpretation of EU or national laws and does not serve as, or substitute for, legal advice.

The SRB reserves the right to amend this publication without notice whenever it deems appropriate. The SRB’s MREL policy is subject to further revisions, including due to changes in the applicable European Union (EU) legislation. The SRB reserves the right to amend this publication without notice whenever it deems appropriate and it shall not be considered as predetermining the position that the SRB may take in specific cases, where the circumstances of each case will also be considered.
1 Executive summary

1 The minimum requirement for own funds and eligible liabilities (MREL) is set by resolution authorities to ensure that a bank maintains at all times sufficient eligible instruments to facilitate the implementation of the preferred and, where applicable, variant resolution strategies. The building up and maintenance of MREL-related capacity — in terms of quantity, quality, governing law, and appropriate location of MREL instruments — therefore plays a key role in improving a bank’s resolvability. This capacity underpins the credibility and feasibility of the preferred resolution strategies, and gives resolution authorities greater flexibility and confidence that a chosen strategy will meet public policy objectives. One example of how MREL features underpin resolution strategies is subordination requirements, set by the Single Resolution Board (SRB) to improve resolvability in general, and in particular to reduce the risk of breaching the no-creditor-worse-off (NCWO) principle (that no creditor is worse off under resolution than under insolvency proceedings). Another is the criteria on the location of eligible instruments needed to support the implementation of the resolution strategy in groups with complex structures.

2 MREL serves to prevent a bank’s resolution from depending on the provision of public financial support, and so helps ensure that shareholders and creditors contribute to loss absorption and recapitalisation. It ultimately supports the long-term viability, stability and efficiency of the financial system by promoting transparency, accountability and the better pricing of risk. The SRB will therefore always view the setting of the MREL through the lens of resolvability in order to ensure that banks maintain at all times sufficient quantity and quality of instruments capable of absorbing losses and recapitalising a bank in resolution.

3 This consultation paper sets out proposed revisions to the SRB’s MREL policy in the light of the “Banking Package”. The regulatory framework for MREL has been affected by the Banking Package amendments to the EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD); Regulation 806/2014/EU establishing a Single Resolution Mechanism (SRMR); and the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). Note that this paper does not aim at describing exhaustively all changes in the area of resolution included in the Banking Package. Some of these, in particular the changes becoming applicable at a later stage (e.g. MDA, IPU), will be covered in future revisions of this policy.

4 The SRB has developed proposals to implement the legislative amendments, taking into account the ultimate policy objectives. The proposed provisions aim to be effective, efficient and proportionate. They will help ensure that MREL is set in the context of fully feasible and credible resolution plans, for all types of banks. To this end, they build on the SRB’s existing MREL policy and experience with implementation, and the changes are largely incremental. The provisions will also promote a level playing field across banks including for Banking Union subsidiaries of non-Banking Union (EU) banks.

The presentation of the proposals in the paper is structured as follows:

- **Calibration.** The SRB is modifying and extending its approach to MREL calibration in accordance with the new framework.
  
  - From 2021, CRR requires institutions to comply with a prudential leverage ratio requirement at all times, acting as a backstop to risk-based own funds requirements. Taking this into account, the revised BRRD introduces an MREL requirement based on the Leverage Ratio Exposure Measure (LRE) to complement the risk-based MREL expressed in percentage of the total risk exposure amount (TREA). The parallel requirement is calibrated at a level commensurate to recapitalising a failing bank in order to restore compliance with the leverage ratio requirement.
  
  - In continuity with the principles of Commission Delegated Regulation (EU) 2016/1450, MREL is composed of a loss-absorption amount (LAA) and a recapitalisation amount (RCA). New provisions define conditions under which the RCA may be adjusted upwards or downwards. For example, a market confidence charge (MCC) is applied where warranted to ensure that a bank sustains market confidence post-resolution.
  
  - The Banking Package introduced the total loss-absorbing capacity (TLAC) minimum requirement for global systemically important institutions (G-SIIs), from the global standards set by the Financial Stability Board (FSB), and adapted the current MREL framework accordingly.
  
  - MREL for banking groups with a Multiple Point of Entry (MPE) approach to resolution has been further refined. If MPE is the preferred resolution strategy, the MRELs for the different resolution groups (i.e., the points of entry) should be set in such a way that each can be resolved independently without causing immediate shortfalls in other resolution groups.

- **Subordination for resolution entities.** The SRB proposes an approach to setting subordination requirements under the new framework, as well as a methodology to determine and quantify NCWO risk. Specifically:
  
  - The first group of banks – collectively “Pillar 1 Banks” – includes: (i) resolution entities of G-SIIs; (ii) banks with total assets exceeding EUR 100bn at the level of the resolution group (“Top Tier Banks”); and (iii) other banks chosen by the respective national resolution authority (NRA) which are not Top Tier Banks but are assessed as likely to pose a systemic risk in the event of failure (“Other Pillar 1 Banks”). Pillar 1 Banks will be subject to subordination requirements composed of a non-adjustable Pillar 1 MREL requirement that must be met with own funds instruments and eligible liabilities that are subordinated to all claims arising from excluded liabilities (and for these purposes, CET1 contained in capital buffers cannot count towards meeting the required amount of subordinated MREL expressed in terms of TREA) but may count towards meeting the required amount of subordinated MREL.
expressed in terms of LRE). However, the resolution authority may permit G-SIIs to count senior liabilities as eligible liability instruments against TLAC requirements up to an aggregate amount that does not exceed 3.5% of the TREA calculated in accordance with Article 92(3) and (4) CRR.

- Concurrently with the Pillar 1 subordinated MREL requirements detailed above, the Pillar 1 Banks’ resolution authority must also ensure that the subordinated MREL resources of Pillar 1 Banks are equal to at least 8% of total liabilities and own funds (TLOF). The resolution authority may reduce or increase this target level of minimum subordination for Pillar 1 Banks on a case by case basis and subject to conditions. When setting the subordinated component of the MREL ensuring the 8% TLOF target, the resolution authority shall count CET1 eligible for capital buffers towards the 8% target. Depending on the risk density of a Pillar 1 Bank, and its liability structure, application of the 8% TLOF minimum subordination requirement may represent a required quantity of subordinated MREL that is higher than the other Pillar 1 subordinated MREL requirements described in the paragraph above. For some Pillar 1 Banks (again depending on risk density and liability structure) satisfying the leverage based Pillar 1 subordinated MREL requirements may simultaneously satisfy the 8% TLOF target.

- A second group of banks (“non Pillar 1 banks”) will be subject to a subordination requirement only upon decision of the resolution authority to avoid a breach of the NCWO principle, following a bank-specific assessment carried out as part of resolution planning.

- The SRB has been developing a valuation-based tool to quantify possible NCWO risk. Assessing the need for subordination depends on projections of the size and distribution of losses for different classes of creditors under different strategies and conditions. The quantitative tool provides such projections by combining accounting and historical market data.

- **Internal MREL for non-resolution entities.** In the 2020 resolution planning cycle, the SRB intends to issue internal MREL decisions for non-resolution entities, progressively expanding the scope of entities covered. The SRB may waive subsidiary institutions qualifying as non-resolution entities from internal MREL, for example, where free transferability of funds is assured. SRMR grants the SRB the possibility to permit the use of guarantees to meet the internal MREL within the Member State of the resolution entity; the paper defines criteria for granting such permission.

- **MREL for cooperative groups.** The Banking Package introduces provisions specifically designed to tailor MREL requirements for cooperative networks, including a dedicated definition of the term resolution group that reflects the “inverse” ownership structure typical for cooperative groups. Governance and loss-sharing arrangements between the entities of a cooperative network are very varied. The resolution authority therefore has to tailor the resolution strategy to the specific features of the loss-sharing arrangement of a particular cooperative network in order to ensure that the group is resolvable. The SRB proposes minimum conditions to authorise

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9 Art. 128 CRDV (the reference therein to “risk based components” makes clear that the restriction against multiple use of buffer CET1 applies to MREL-TREA only.
10 Art. 72b(3) CRR.
11 Art. 12c(4) SRMR.
12 Art. 12c(4) SRMR allows the resolution authority to lower the target subject to a floor. Pursuant to Art. 12c(8) SRMR, raising the subordination level under Art. 12c(7) can only apply to 30% of the relevant population of Pillar 1 banks and is subject to other conditions.
13 Art. 12c(6) SRMR, second sub-paragraph.
14 Art. 12c(5) SRMR.
15 Art. 12i(3) SRMR.
16 Point 24b of Art. 3(1) SRMR.
certain types of cooperative networks to use eligible liabilities of associated entities other than the resolution entity to comply with the external MREL, as well as minimum conditions to waive the internal MREL of the legal entities that are part of the cooperative network. The determination of the external and internal MREL must be fully aligned with the specific resolution strategy in a way that supports the implementation of resolution action.

- **Eligibility of liabilities issues under the law of a third country.** Effective resolution involving liabilities issued under the law of third countries requires that the legal system of that country recognise that an EU resolution authority can modify those liabilities (e.g., by writing down or converting). The needed recognition might be achieved by statute or by contract. The paper expands on how liabilities can be considered eligible through contractual recognition.

- **Transition arrangements.** The operationalisation of transitional periods up to the 2024 deadline, including binding intermediate targets in 2022 and informative targets in 2023, is explained. Transition arrangements must be bank-specific because they depend on the MREL tailored to that bank and its resolution plan, and the bank’s progress to date in raising MREL-eligible liabilities.

6 The purpose of this consultation is to provide interested stakeholders with an opportunity to comment on the SRB’s proposed approach to certain key elements of the implementation of the amended MREL framework for institutions under its remit. With this document, the SRB sets out for stakeholders its proposed approach to setting MREL in light of the amendments to the regulatory framework; collect responses to targeted questions involving significant changes of the current policy; and gather industry feedback and expertise to inform policy making. The document is a working paper of the SRB for consultation, and does not prejudge the final policy decision the SRB will take.

7 Responses and comments are most helpful if they:

- respond to the specific question provided;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/rationale proposed; and
- describe and justify any alternative policy choice the SRB should consider.

Comments should focus on matters within the SRB’s remit and specifically on MREL policy implementation. The SRB will concentrate primarily on responses to the specific questions provided.

8 The responses will support the SRB in preparing the final MREL Policy, expected to be published in Q2 2020. Based on this policy, MREL decisions applying the revised SRMR framework will be taken in 2021.

9 Alongside this consultation paper, readers are advised to read: the SRB’s addendum on new CRR requirements, published on 25 June 2019 and updated on 18 December 2019 informing institutions of the implementation of CRR provisions relating to TLAC requirements for G-SIs; the prior permission regime under Article 78a CRR applicable to all institutions; and past SRB policy documents.

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17 Past policy documents had noted the need for further refinements in the light of experience and regulatory changes (see for example paragraphs 2 and 3 of the 2018 SRB Policy for the second wave of resolution plans).
2 Calibration

This chapter describes the SRB’s methodology for calibrating MREL. Sections 2.1 and 2.2 are applicable to all resolution entities that are not parent entities of other resolution entities (SPE strategies), as well as to non-resolution entities for determining the internal MREL. Section 2.5 outlines the specifics of MREL for G-SIIs. Section 2.6 introduces the SRB’s proposed methodology for calibrating MREL for resolution entities that are parent entities of other resolution entities (MPE strategies).

The concepts of “resolution entity”, “non-resolution entity”, “resolution group”, “parent entity”, and “G-SII” are defined in the BRRD and the CRR. In broad terms, a resolution group consists of a resolution entity and subsidiaries, or a resolution entity and other institutions permanently affiliated with a central body. A resolution group within a banking group comprises at least one resolution entity (i.e., a Point-of-Entry) and its subsidiaries that are intended to be resolved jointly through the upstreaming of losses to or down streaming of capital from the resolution entity.

The SRB will continue its approach to the definition of resolution groups based on the financial and operational separability of institutions. Resolution groups are defined in accordance with the preferred resolution strategy, and might deviate from the prudential perimeter. This is the case where the SRB assesses that one or more subsidiaries are financially and operationally separable from (other) resolution groups headed by a resolution entity established in the EU (“EU resolution group”). Where the SRB defines more than one EU resolution group, and/or excludes subsidiaries established in third countries from the EU resolution group, the external MREL for resolution entities established in the Banking Union will be set in accordance with the methodology for MPE strategies.

Mortgage credit institutions qualifying under the conditions of Art. 12b(1) SRMR are exempted from the MREL. Where they are subsidiaries of a resolution entity subject to the MREL, they shall not be part of the consolidation when determining the external MREL of the resolution group.

The new framework confirms the principle that the resolution authority is required to determine the loss-absorption amount (LAA) and recapitalisation amount (RCA) for those entities that would not be wound up in normal insolvency proceedings. The LAA reflects the losses that the bank should be capable of absorbing. The RCA is the amount necessary for continuing to comply with conditions for authorisation, and for carrying on the activities for which the institutions are authorised under the relevant legislative act. The sum of these amounts constitutes the institution’s MREL. Entities that would be wound up in normal insolvency procedures have an LAA, but no RCA.

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20 See points 83 of Art. 2(1) BRRD.
22 See point (83b) of Art. 2(1) BRRD and point (24b) of Art. 3(1) of the SRMR.
23 Art. 12b(2) SRMR.
**External MREL and internal MREL.** The MREL for resolution entities is set at the consolidated level of the resolution group ("external MREL"); it has to be met with own funds at the level of the resolution group and eligible liabilities issued externally by the resolution entity\(^{24}\). The MREL for entities that are not themselves resolution entities ("non-resolution entities") is set at individual level or sub-consolidated level, where applicable ("internal MREL")\(^{25}\).

**Supervisory and resolution reporting data used for calibration.** As further detailed in section 7, the SRB will calibrate binding MREL intermediate targets and final targets in the 2020 cycle, to be communicated to banks in early 2021. For setting MREL in the 2020 cycle, the SRB will use end-2019 balance sheet data and the final supervisory review and evaluation process (SREP) decisions and Pillar 2 requirements applicable in 2020. Otherwise than in its current approach to calibration based on fully-loaded input values including buffer requirements for MREL calibration, the SRB will use transitional values applicable at the reference date\(^{26}\). In the subsequent resolution planning cycle (see section 7) the final target will be re-calibrated and communicated based on the input values of the new reference date.

### 2.1 LEVERAGE-BASED MREL

A leverage-based dimension has been added to the definitions of external and internal MREL. LAA and RCA will be computed not only in percentage of the total risk exposure amount (TREA), but also in percentage of the Leverage Ratio Exposure Measure (LRE), based on a different calibration. MREL is therefore expressed as two ratios that have to be met in parallel: (i) as a percentage of TREA (the “MREL-TREA”); and (ii) as a percentage of the LRE (the “MREL-LRE”). Each may be met in part or in full with subordinated resources in the respective metric, as determined by the SRB, where applicable.

### 2.2 DEFAULT FORMULA FOR EXTERNAL AND INTERNAL MREL

#### 2.2.1 Loss-absorption amount (LAA)

In line with points (a)(i) and (b)(i) of Art. 12d(3) and (6) SRMR, the LAA is expressed in relation to the two metrics, TREA and LRE:

- For the MREL-TREA, the LAA consists of the sum of the (consolidated)\(^{28}\) minimum Supervisory Pillar 1 requirement\(^{29}\) and Supervisory Pillar 2 requirement\(^{30}\); and
- For the MREL-LRE, the LAA corresponds to the (consolidated) leverage ratio requirement\(^{31}\):

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\(^{24}\) Point (b) of Art. 12c(1) SRMR in conjunction with point (a) of Art. 72b(2); see exception of Art. 12c(3) SRMR and Art. 88a CRR on qualifying instruments issued by subsidiaries. For own funds see the specification in Art. 11(3a) CRR in the context of TLAC.

\(^{25}\) Art. 12g(1) SRMR.

\(^{26}\) Art. 12d(9) SRMR.

\(^{27}\) Art. 12a(2) SRMR.

\(^{28}\) Depending on whether the respective MREL is set on consolidated or individual basis.

\(^{29}\) Art. 92(1) CRR.

\(^{30}\) Art. 104a CRD.

\(^{31}\) Art. 92(1)(d) CRR; the prudential leverage ratio requirement applies from 28 June 2021, to be taken into account when calibrating targets based on the non-risk based formula in decisions issued in the 2020 planning cycle, including the intermediate target to be met by 1 January 2022.
\[
\text{LAA}_{\text{TREA}} = (\text{TREA} \times (\text{Supervisory Pillar 1} + \text{Supervisory Pillar 2}))
\]

\[
\text{LAA}_{\text{LRE}} = (\text{LRE} \times \text{Leverage Ratio})
\]

### 2.2.2 Recapitalisation amount (RCA)

In light of points (a)(ii) and (b)(ii) of Art. 12d(3) and (6) SRMR, also the RCA is expressed in relation to the two metrics, TREA and LRE:

- For the MREL-TREA, the RCA consists of the sum of the (consolidated) minimum Supervisory Pillar 1 and Pillar 2 requirements for the TREA calculation, and
- For the MREL-LRE, the RCA corresponds to the (consolidated) leverage ratio requirement for the LRE calculation:

\[
\text{RCA}_{\text{TREA}} = (\text{TREA} \times (\text{Supervisory Pillar 1} + \text{Supervisory Pillar 2}))
\]

\[
\text{RCA}_{\text{LRE}} = (\text{LRE} \times \text{Leverage Ratio})
\]

Instruments can no longer be used to meet both the MREL-TREA and the capital buffer requirement. Common Equity Tier 1 (CET1) used to meet the MREL-TREA can no longer be used to meet the CBR. Hence, for the MREL-TREA, the combined buffer requirement (CBR) is no longer included in the LAA formula. However, the usability of the same amount of capital is unrestricted by the leverage-based MREL. The same distinction applies to subordination requirements.

### 2.3 Adjustments to the Loss-Absorption Amount

The SRB will evaluate whether raising the LAA above capital requirements is necessary for entities that would likely be wound up under normal insolvency proceedings (“liquidation entities”). For such entities, the SRB may decide either to maintain the MREL at the level of the LAA or to set a higher amount after evaluating, in particular, any possible impact on financial stability and on the risk of contagion to the financial system.

The SRB will therefore evaluate whether an adjustment of the LAA for these entities is needed. In principle, the SRB would assume that the loss-absorption capacity of a liquidation entity, and prospective losses, are already adequately reflected in total capital requirements. The SRB assesses the impact of winding up an institution under normal insolvency proceedings on financial stability, taking into account the risk of direct and indirect contagion, when performing the public interest assessment during the resolution planning stage. Typically, the SRB earmarks an entity for liquidation because it has concluded that winding up the entity under insolvency proceedings would not put financial stability (nor the other

32 Article 128 CRDV (in particular the reference therein to “risk based components”).
33 Second sub-paragraph of Art. 12c(6) SRMR.
34 Art 12d(2) SRMR.
resolution objectives) at risk. As a consequence, the SRB assumes that, a priori and subject to any consideration specific to the bank in question, an adjustment of the LAA for liquidation entities will not be necessary. Nonetheless, a bank-specific assessment may lead to the conclusion that an adjustment is warranted where the bank’s asset quality and/or lack of transparency, and/or the bank business model may put financial stability objectives at risk.

2.4 Adjustments to the Recapitalisation Amount

The default RCA may be adjusted upwards or downwards according to Art. 12d(3) SRMR. All possible adjustments of the RCA under the SRB MREL policy are described below. The SRB intends to continue to adjust the default RCA on a case-by-case basis, where considered appropriate, for all types of banks. To ensure equal treatment and a level playing field for all institutions in the Banking Union, the determination of adjustments is subject to stringent conditions.

2.4.1 For all strategies

Adjustments related to balance sheet size

The SRB will continue calculating the external MREL on a consolidated basis taking into account all entities in the resolution group, regardless of the fact that some subsidiaries within the resolution group could be subject to insolvency proceedings in case of failure. Some entities within the resolution group might enter liquidation in the run-up to a wider group resolution. The insolvency of such subsidiaries could have an impact on a group’s capital and therefore affect the value of MREL-eligible instruments at the level of the resolution entity. However, the willingness to let a subsidiary go into liquidation during the run-up to resolution remains a going-concern business decision. It is not something that can be anticipated by the resolution authority and is therefore not factored into the consolidated MREL requirement.

The SRB will maintain the possible adjustments related to balance sheet depletion, binding restructuring plans and recovery options. In continuation of established policy practice, the SRB will allow, on a bank-by-bank basis with due justification, adjusting downwards the projected TREA post-resolution that serves as a basis for determining the RCA of the MREL-TREA, including the market confidence charge. The same adjustment would apply for determining the RCA of the MREL-LRE.

The prevalence of credit risk in the bank’s risk profile will continue to be the yardstick for considering the balance sheet depletion effect. At the time of failure, the banking group may have a smaller balance sheet than at the time of resolution planning, particularly if the failure is due to credit risk losses. The higher the contribution of credit risk to the own funds’ requirement, the larger the balance sheet effect that the SRB will apply. The adjustment of assets is limited to an amount equal to the LAA plus CBR, and shall in all cases not exceed 10% of total assets.

Divestments and sales firmly embedded in a going-concern divestment/restructuring plan may warrant an adjustment in RCA. To this end, they may include the removal of riskier assets with associated higher risk weighting from the balance sheet through mandatory deleveraging actions. If actions as formulated in going concern divestment and restructuring plans are legally binding and time-bound, the SRB may take into account the possible impact of these actions on the parameters that are used for determining the RCA of MREL.
The SRB may apply downward adjustments based on recovery options, but only in exceptional cases and subject to conditions. Provided the SRB assesses actions for implementing these options as credible and feasible in accordance with Art. 12d(3) SRMR; implementable immediately in resolution; and with a positive impact in any loss scenario, then such measures may be eligible, subject to a case-by-case assessment. The SRB intends to consider the effects of such measures on the TREA/LRE of the bank post-resolution up to a reduction equal to 5% of TREA, when determining the RCA of MREL.

**Market confidence charge adjustment**

The recapitalisation amount can be adjusted upwards by an appropriate amount (termed the market confidence charge or MCC) as necessary to ensure that, following resolution, the resolution entity sustains sufficient market confidence. This adjustment relates to the MREL-TREA only.

The MCC provision reflects that the MREL should be calibrated in a way to ensure that the institution heading the resolution group is sufficiently capitalised to sustain market confidence. In this way, the resolution entity will be able to meet the conditions for authorisation during the restructuring period; provide critical functions; and attract funding without recourse to extraordinary public financial support, over a one-year time horizon. By that time, it is expected that the implementation of the restructuring plan would have led to material improvements in the financial situation of the bank such that market access is no longer problematic.

The SRB suggests phasing in the change in the MCC from the current formula (CBR minus 125 Basis Points) towards the new legislative formula (CBR minus the amount maintained to meet the Countercyclical Capital Buffer, CCyB). In the 2020 resolution planning cycle the SRB would set the MCC at CBR minus the greater of the absolute bank-specific amounts of the CCyB and 93.75 Basis Points. The SRB would lower the latter in each resolution planning cycle in steps of 31.25 Basis Points until only the formula in the legislation of CBR minus the CCyB applies.

An MCC does not seem essential for ensuring the viability of a subsidiary that will be recapitalised by the resolution entity at the point of non-viability without placing it under resolution, except in specific circumstances. Accordingly, the SRB intends not to set the MCC for internal MREL for non-resolution entities, except (i) for the operating bank that is a direct subsidiary of a Holding Company identified as a resolution entity, or (ii) where the SRB concludes that the MCC is necessary to sustain market confidence because of the subsidiary’s complexity and strong reliance on wholesale funding.

**Other possible adjustment**

The SRB may raise the MREL-LRE up to 8% of TLOF if necessary to meet resolution objectives. The SRB may adjust the MREL-LRE up to 8% TLOF at the level of the resolution group, if considered necessary to provide for loss-absorbing capacity at the level referred to Art. 27(7) SRMR. The SRB will do so based on a case-by-case assessment without automaticity and paying due consideration to financial stability.

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36 Art. 12d(3) SRMR.
37 Sixth sub-paragraph of Art. 12d(3) SRMR.
38 Art. 12d(3) SRMR (the seventh sub-paragraph sets a default value equal to the post-resolution combined buffer requirement minus the counter cyclical buffer).
39 To allow “down streaming” of the capacity raised by the Holding Company from external investors (structural subordination).
40 In accordance with the fourth subparagraph of Art. 12d(3) and the fourth subparagraph of Art. 12d(7) SRMR.
34 **RCA may potentially be adjusted in light of projected post-resolution Pillar 2 requirements.** Art. 12d(3) SRMR foresees potential upward or downward adjustments of the RCA component corresponding to supervisory Pillar 2 requirements after the implementation of the resolution strategy and after consulting the competent authority. The SRB will continue the dialogue with supervisory authorities with a view to gaining further clarity on ECB/NCA requirements for future planning cycles. For the 2020 resolution planning cycle, the SRB will assume unchanged Pillar 2 requirements as a prudent base assumption factoring in potential downward and upward drivers for post-resolution requirements; in particular that resolution would put a bank previously facing difficulties on a sounder footing on the one side, and uncertainties over post-resolution restructuring cost on the other.

2.4.2 **For transfer strategies**

The SRB intends to continue to allow for adjustments to the RCA, including the MCC, to reflect the transfer of assets when the resolution strategy relies primarily on a transfer tool (sale of business – share or asset deal, bridge institution, and/or asset separation\(^41\)). The adjustment takes the form of a scaling factor applied to total assets, as a proxy to reflect the recapitalisation needs post resolution, or the assets that would be transferred and/or liquidated under normal insolvency proceedings. This scaling factor is bank specific. It applies to the TREA and LRE bases of the calibration of the RCA. It can be aggregated with other bank-specific adjustments applied to the RCA, including the MCC, where relevant.

36 Allowing such an adjustment demands a critical and realistic assessment of the credibility and feasibility of resolving the respective bank using transfer tool(s). As a pre-condition to the choice of the sale of business tool, all the conditions for its operationalisation shall be duly met at the time of the plan. This condition implies, among other things, high standards in the Management Information System and data room availability, market analysis of the likelihood of potential buyers, and a stringent separability analysis. Moreover, adjustment factors to MREL for banks with a transfer strategy presuppose that the transfer tools are the most appropriate tools for achieving the resolution objectives in both the preferred and variant strategies.

37 **The SRB intends to tailor the adjustment factor to bank-specific characteristics within a 10% corridor range, with an upper limit of 25% and a lower limit of 15% for the 2020 planning cycle.** A flat scaling factor of 20% was applied in the 2017 to 2019 resolution planning cycles. The adjustment factor as of 2020 will be determined on case-by-case basis, based on criteria that capture the marketability and capital needs of the resolved entity.

38 The criteria considered by the SRB are:

- Bank size, measured by total assets;
- Existence of impaired assets, measured by the ratio of non-performing exposures net of allowances over total assets;
- Depositor base, measured by the ratio of covered deposits to total assets; and

\(^{41}\) In this context, the asset separation tool is a complementary resolution tool, which can only be used in combination with other resolution tools; the primary tool of the resolution strategy is typically the bail-in tool.
• Level of uncertainty on the valuation of banks’ activities, measured by the ratio of Level 3 assets to total assets (a higher ratio of Level 3 assets implies a lower level of transparency to a buyer).

39 Where the feasibility of implementing transfer strategies relies on a third party and market conditions to a large extent, the SRB develops a variant resolution strategy and the MREL is calibrated accordingly. This approach ensures that both strategies can be credibly implemented if need be, following on from the SRB’s obligation to ensure resolvability independently of third parties’ decisions or exogenous circumstances. Calibrating MREL based on the variant strategy, if more stringent, is necessary to ensure that the implementation of either preferred or variant strategy would be feasible at the time when a bank is determined to be failing or likely to fail (FOLT).

40 The adjustment factor is not applicable to internal MRELs. Resolution tools are intended to be applied at the level of the resolution entities only. Subsidiaries that are not resolution entities are meant to be recapitalised through the cancellation and/or conversion of instruments that meet the conditions for internal MREL, which prevents subsidiaries from entering either resolution or insolvency. Since the amount of losses incurred by subsidiaries as well as their recapitalisation needs are not dependent on the choice of resolution tool for the resolution entity, no scalar should be applied to internal MREL.

2.5 MREL FOR G-SIIs

41 Resolution entities of EU G-SIIs and material subsidiaries of non-EU G-SIIs are subject to specific MREL requirements. The definition of G-SII entities covers all subsidiaries of all G-SIIs identified by the FSB. They are subject to requirements articulated in a statutory Pillar 1 TLAC requirement set out in Art. 92a and 92b CRR, and any potential additional requirement determined by the SRB where the minimum TLAC requirement is deemed to be insufficient for fulfilling the conditions of MREL calibration set out in Art. 12d SRMR. In addition, Art. 72e CRR extends the existing deduction regime for own funds instruments to eligible liabilities items for G-SII entities that are identified as resolution entities. The rules for calculating the precise amounts that must be deducted are fully harmonised in CRR.

42 The SRB will set an additional requirement where the requirement set out in Art. 92a and 92b CRR is lower than general MREL calibration (LAA+RCA) based on Art. 12d SRMR. The additional requirement should be equal to the difference between the two. The possible addition helps ensure that all resolution groups are capable of absorbing losses and being recapitalised in line with the provisions set out in Art. 12d SRMR, as for non-GSIIs; the resolvability rationale underpinning the calibration of the LAA and RCA does not differ between G-SIIs and non-G-SIIs. Thus, with this policy, the SRB implements current principles of MREL calibration for EU G-SIIs established in the Banking Union, in alignment with the approach of other FSB jurisdictions to set requirements on loss-absorbing resources at a level potentially higher than the Minimum TLAC defined in the TLAC term sheet.

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42 Art. 2 (1)(136) CRR.
43 Art. 12e(1) and (3) SRMR.
44 A. 12d(1)(a)-(e) of SRMR.
2.6 MREL FOR GROUPS WITH MULTIPLE RESOLUTION ENTITIES (MPE)

The key characteristic of the MPE approach is that a banking group is resolved through the application of resolution powers to the resolution group(s) where losses materialise. A resolution group comprises a resolution entity (i.e. a Point-of-Entry) and its subsidiaries that are intended to be resolved jointly through the upstreaming of losses to that resolution entity.

The underlying assumption of the MPE approach is that single entities or resolution groups can be resolved feasibly and credibly without undermining the resolvability of other components of the consolidated group. To achieve this aim, any resolution group in a MPE group shall limit its financial interconnection within the same banking group and, in principle, hold MREL eligible instruments issued in the market, external to the banking group, in order to avoid contagion effects between resolution groups of the same banking group.

Following this principle, for an MPE resolution group the MREL needs to be adjusted upward to reflect the level of exposures between resolution groups of the same banking group. For example, equity participations may have to be written off or debt converted into other capital instruments in resolution. This condition is necessary for ensuring that single entities or resolution groups can be resolved feasibly and credibly without undermining the resolvability of other parts/entities of the consolidated group.

2.6.1 Current approach

The SRB currently applies a dedicated formula to determine add-ons to the default LAA and RCA. It starts from the assumption that the bail-in tool would be applied to every resolution group (both EU and non-EU). The LAA and RCA are adjusted upward to compensate for any losses or recapitalisation exposures that may arise from the resolution of other resolution groups. These exposures are typically in the form either of own funds or eligible liabilities instruments, held by the respective resolution group (Annex I).

The current approach has areas with potential for further refinement:

- Amendment to the assumption that subsidiaries in third countries will be resolved through the application of the bail-in tool: The current methodology assumes that all resolution groups are resolved with the application of the bail-in tool. This assumption — set as an intermediate solution — may underestimate losses of exposures to a resolution group of a third country that has not implemented a resolution framework following the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions, potentially amounting to a full loss of the intragroup investment.

- Use of accounting equity rather than the own funds definition: To facilitate the data collection for the computation of the add-ons to the LAA and RCA in all resolution groups, it was assumed that total equity is a proxy for own funds (the variable needed to be used in verifying compliance with the requirement). As the variable “own funds” is generally lower than “total equity” (the prudential framework being stricter than accounting), the surplus in other resolution groups may be overestimated under the current methodology.
The Banking Package introduces a new deduction regime directly applicable to G-SIIs under an MPE approach. Art. 72e(4) CRR introduces specific TLAC adjustments for G-SIIs under an MPE strategy. In particular, it foresees adjustments to the TLAC eligible items: any exposure of the EU parent resolution entity towards a subsidiary which does not belong to the same resolution group as that parent, in the form of either own funds or eligible liabilities, shall be deducted from the computation of the TLAC-eligible liabilities of the parent resolution entity.

However, if the subsidiary concerned is in surplus with regard to its TLAC requirement, according to Art. 72e CRR, the resolution authority of that parent institution, after duly considering the opinion of the resolution authorities of any subsidiaries concerned, may permit the parent institution to deduct such holdings by reducing a lower amount. The deduction may be reduced by the proportion of the TLAC surplus that corresponds to the own funds and eligible liabilities issued by the subsidiary and held by the parent resolution entity. From an economic perspective, this lower deduction amount represents loss-absorbing and recapitalisation capacity held at local level and not committed to any local prudential and resolution requirements.

If a lower deduction is accepted, the amount of TLAC surplus that is used to reduce the deductions of the parent resolution entity also has to be deducted from the TLAC-eligible liabilities of the subsidiary concerned. The rationale is that otherwise the same liabilities could be used to cover TLAC requirements twice: one at parent level, one at subsidiary level. The surplus amount pertaining to the parent resolution entity that increases its eligible liabilities must be matched by a corresponding lower amount of eligible liabilities in the subsidiary.

While the current SRB approach takes into account the inter-resolution group exposures by adding an equivalent amount to the MREL target of the parent resolution entity, the CRR rules pursue a similar economic goal by deducting the intra-resolution group exposure from the eligible liabilities. The new CRR rules in CRR2 are directly applicable to G-SIIs as regards their TLAC requirement according to Art. 92a CRR. To continue applying the current methodology and at the same time apply the new methodology for G-SIIs as required by the CRR may lead to inconsistencies. This would happen, firstly, between G-SIIs and other banks and, secondly, for G-SIIs themselves for which two methodologies would co-exist, namely the CRR deduction regime in relation to the Pillar 1 TLAC component and the current approach in relation to the additional MREL.

2.6.2 Proposed way forward

In light of the above, the SRB proposes to revise its current methodology to determine MREL add-ons that mirror the economic rationale and effects of the CRR deduction regime. The objectives are to strengthen the role of MREL in supporting the preferred resolution strategy and ensuring that resolution groups under the MPE approach can be resolved credibly and feasibly.

To this end, MPE deductions as set out in Art. 72e(4) CRR for G-SIIs would be translated into corresponding MREL add-ons for all MPE groups. Under this approach, the outcome of the CRR approach based on deductions will be transformed into corresponding add-ons to capture the intragroup exposures.

To phase in the proposed approach to all MPE resolution entities under its remit, the SRB intends to assume for non-G-SIIs in the 2020 resolution planning cycle that surpluses of other resolution groups...
would be available. Also, any additional shortfall arising from the change to the new approach would be duly taken into account when setting transition periods in accordance with Art. 12k SRMR⁴⁵.

To foster a level playing field across resolution strategies (SPE or MPE), the SRB proposes to potentially adjust the MPE requirement on the basis of a hypothetical SPE requirement on a case-by-case basis. In this regard, Art. 45h(2) BRRD states that for determining MREL for G-SIs, the resolution authorities shall discuss and where appropriate and consistent with the G-SII’s resolution strategy, agree on any adjustment to eliminate or minimise the differences between i) the requirement for the Union parent entity as if it was the only resolution entity of the G-SII (hypothetical SPE requirement) and ii) the sum of the requirement for each resolution entity (MPE requirements without add-on). On this basis, the SRB could reduce, for all EU resolution groups under its remit in an MPE approach including non-G-SIs, the add-on up to the difference between the two hypothetical requirements; conditional on the commitment of the bank to reduce financial interconnections between resolution groups. This policy proposal aims to preserve the neutrality of MREL with regard to the resolution strategy chosen, while ensuring a level-playing field between similar groups with different preferred resolution strategies.

When comparing with the hypothetical SPE requirement, MPE add-ons will be disregarded in the sum of the requirements of resolution groups. That way, double counting of own funds instruments and eligible liabilities instruments issued by entities in one resolution group and held by entities in another resolution group is avoided.

⁴⁵ See Section 6 below.
3 Subordination for resolution entities

Subordination improves resolvability by making the implementation of the resolution tools more feasible and credible. In particular, it addresses the risks stemming from having bail-in-able instruments ranking pari passu with operational liabilities and any other liabilities excluded from bail-in in resolution, which might otherwise result in a breach of the NCWO principle\(^46\). Of particular concern is the risk that the value of instruments held by shareholders and creditors whose claims have been bailed-in in resolution incur greater losses than they would have incurred in a winding up under normal insolvency proceedings ("insolvency")\(^47\). The affected shareholders and creditors would be entitled to the payment of the difference out of the resolution financing arrangements. Subordination is designed to avoid this occurrence.

The Banking Package confirms the central role of the NCWO risk in the determination of subordination requirements. As will be explained in this section, for resolution entities subject to Pillar 1 subordinated MREL requirements, the legislation provides discretion to the resolution authority to reduce the requirement to hold a minimum level of 8% TLOF of subordinated instruments, provided that the NCWO principle is not breached. The resolution authority may also grant a G-SII an allowance for senior instruments to meet the external TLAC requirement\(^48\). Similarly, the NCWO principle plays a role in the conditionality for increasing the subordination requirement beyond the level equal to 8% TLOF in accordance with Art. 12c(8) and (9) SRMR. Finally, the assessment of NCWO risk is the only driver for subordination requirements for banks other than G-SIs, Top Tier Banks and Other Pillar 1 Banks\(^49\).

3.1 Calibration of subordination requirements

Subordination requirements differ across types of institutions. The amount a resolution entity is required to hold in own funds and subordinated liabilities depends on the entity’s regulatory classification, and, in particular, whether the SRB has identified NCWO risk for these banks. Resources eligible for meeting the internal MREL for non-resolution entities must be fully subordinated\(^50\).

The Banking Package has significantly amended the way subordination requirements are determined for various types of banks, and especially for larger, more systemic banks. The new framework

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\(^{46}\) Art. 27(3) and (5) of the SRMR.

\(^{47}\) Art. 15(1)(g) SRMR. The NCWO condition can be breached even though total losses are typically larger under insolvency than under resolution because the distribution of losses depends on the approach taken. For example, insolvency may allow holders of bail-in-able senior debt to share losses with holders of non-bail-in-able senior debt. That may be superior for the former if the value of shares they receive in resolution is very low. Annex II provides an illustration.

\(^{48}\) Art. 72b(3) and (4) CRR.

\(^{49}\) Art. 12c(5) SRMR; see below section 2.2.

\(^{50}\) See eligibility criteria in Art. 12g SRMR and 92b CRR (internal TLAC).
establishes minimum subordination requirements for G-SIs, Top-Tier Banks, and Other Pillar 1 Banks. The minimum level of subordination for these banks is composed of:

i. Pillar 1 subordinated MREL requirements, calibrated at 18% TREA (plus CBR)/6.75% LRE for G-SIs, or 13.5% TREA (plus CBR)/5% LRE for Top Tier Banks and Other Pillar 1 Banks; and

ii. any additional subordination set by the resolution authority, equal to a level of 8% TLOF. Note: This level may be decreased or increased by the resolution authority, subject to a cap and a floor.

In line with Art. 12c(5) SRMR, the SRB may set subordination requirements for resolution entities of banks that do not qualify as G-SIs, Top Tier Banks and Other Pillar 1 Banks, based on a case-by-case assessment of NCWO risk. The subordination requirement is to be set at a level calibrated so as to eliminate NCWO risk, based on a comparison of projected losses under resolution and insolvency for relevant claimants. The assessment is be subject to the conditions of Art. 12c(9) SRMR. The level of subordination is limited by the higher of (i) 8% of total liabilities and own funds; and (ii) the so-called “prudential formula” (2x Supervisory Pillar 1 + 2x Supervisory Pillar 2 + CBR).

### 3.2 PROVISIONS FOR RESOLUTION ENTITIES SUBJECT TO A PILLAR 1 SUBORDINATED MREL REQUIREMENT

#### 3.2.1 8% TLOF target level

Art. 12c(4) SRMR provides that the SRB shall require resolution entities of G-SIs, Top Tier Banks and Other Pillar 1 Banks to achieve a subordination level equal to 8% TLOF. This requirement is in addition to the Pillar 1 subordinated requirements described above at point (i) of paragraph 58. The 8% TLOF requirement is a target level which the SRB has to ensure when calibrating the subordinated component of the MREL.

Depending on the risk density and the liability structure of the resolution entity at the reference date of MREL calibration, the 8% TLOF target level may already be achieved by the other Pillar 1 subordinated MREL requirements. Where the amount corresponding to 8% TLOF exceeds the risk-based

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51 Art. 92a CRR.
52 Art. 12d(4) SRMR.
53 Art. 12d(5) SRMR.
54 Not part of the MREL, the CBR accounts for an additional level of subordination governed by a dedicated regulatory regime with a power of the resolution authority to prohibit certain distributions in the case the institution no longer meets the CBR in addition to the requirement (Art. 10a SRMR).
55 Art. 92a CRR in conjunction with Art. 72a(1)(a), Art. 72b(2)(d), Art. 72k and 92a CRR. Being a statutory requirement of Art. 92a CRR, no implementing act of SRB is needed, whereas Pillar 1 requirements for TTBs and Other Pillar 1 Banks will be determined through the SRB MREL decision.
56 Art. 12c(4) and (5) SRMR in conjunction with Art. 12c(3) and Art. 12g(2)(a)(ii) SRMR.
57 Art. 12c(4) SRMR.
58 Art. 12c(7) SRMR.
59 Art. 12c(4) SRMR.
or leverage-based Pillar 1 subordinated MREL requirements, the latter need to be increased up to the equivalent of 8% TLOF to ensure that the target level is achieved.

64 **The 8% TLOF target level for Top Tier Banks is capped at 27% of TREA.** Where the TLOF component, including any adjustment, leads to an amount of subordination that is higher than 27% of TREA, Art. 12c(4) SRMR provides that a cap (at 27% of TREA) shall be applied where access to the Single Resolution Fund is not considered to be an option for resolving that resolution entity in the resolution plan. The cap does not apply to Other Pillar 1 Banks.

65 **Interplay between the 8% TLOF target level and MREL calibration.** The SRB has submitted a question on the interplay between the 8% TLOF target level and MREL calibration via the European Banking Authority Single Rulebook Q&A process and will update the policy following the response.

### 3.2.2 Increase of the 8% TLOF target level

66 **The SRB may increase the 8% TLOF subordination requirement for G-SIs, Top Tier Banks and Other Pillar 1 Banks under specific conditions.** According to Art. 12c(8) SRMR, the SRB may decide to increase subordination requirements where

- a) substantiative impediments to resolvability have been identified in the preceding resolvability assessment;

- b) the credibility and feasibility of the resolution strategy is limited; or

- c) the bank has been assigned a prudential Pillar 2 requirement which ranks it, in terms of riskiness, among the top 20% of the resolution entities under the SRB’s remit that are subject to an MREL decision.

67 Art. 12c(7) SRMR specifies that, for a number of resolution entities up to 30% of this type, the SRB may impose a higher subordination requirement. That higher requirement shall not exceed the higher of (i) 8% of total liabilities and own funds; and (ii) the prudential formula $(2 \times \text{Supervisory Pillar 1} + 2 \times \text{Supervisory Pillar 2} + \text{CBR})^{62}$.

68 **The SRB will consider increasing subordination in relation to banks for which the SRB concludes that there are impediments to resolvability, that the credibility and feasibility of their resolution strategy is limited or based on the riskiness of the institution (Art. 12c(8) SRMR).** The prime focus will be on condition (b) of Art. 12c(8) SRMR (related to insufficient progress in removing potential impediments, in particular relating to NCWO risk), and the conditions of Art. 12c(9) SRMR. Where a bank does not take measures deemed credible and sufficient to address potential impediments, the SRB may decide to adjust upward its subordination requirement. The bank’s progress on resolvability will be first and foremost assessed against the specific work priorities communicated to each bank by the SRB. The SRB will further operationalise conditions (a) of Art. 12c(8) SRMR (substantive impediments to resolvability

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61 Where the use of the Single Resolution Fund is foreseen, the overall MREL target needs to be sufficient to meet the conditions for a contribution of the Fund to resolution (Art. 27(7) SRMR).

62 For Top Tier Banks, the 27% TREA cap may be exceeded.
have been identified in the preceding resolvability assessment) and (c) of Art. 12c(8) SRMR (riskiness of the institution in terms of the supervisory Pillar 2 requirement).

### 3.2.3 Decrease of the 8% TLOF target level

The SRB may decrease the 8% TLOF target level on a case-by-case basis, depending on the outcome of the assessment of NCWO risk, and subject to satisfactory progress towards resolvability. When determining the overall level of the subordination requirement for a resolution entity, the SRB may decrease the 8% TLOF target level downwards in accordance with Art. 12c(4) SRMR by no more than the level equal to the formula: $8\% \times \left(1 - \frac{\frac{3.5\% \text{TREA}}{18\% \text{TREA}+\text{CBR}}}{}\right)$.

This adjustment may be granted only if the conditions set out in Art. 72b(3) CRR are met, in particular (i) that the reduction does not create NCWO risk; and (ii) subject to satisfactory progress of the bank towards resolvability, assessed in the resolvability assessment of the 2020 resolution planning cycle. Where the SRB concludes that these conditions are met on a case-by-case basis, the NCWO approach described in section 3.3 would allow the SRB to calibrate the adjustment such that NCWO risk is avoided.

### 3.2.4 TLAC allowances for G-SIs

Decisions on the TLAC allowances under Art. 72b(3) and (4) CRR for G-SIs shall follow the approach taken regarding discretionary 8% TLOF reductions. As explained in the Addendum to the SRB 2018 MREL policy, an allowance under Art. 72b(3) and (4) CRR permitting the use of senior instruments to satisfy the external TLAC requirement of Art. 92a CRR may be granted, on a case-by-case basis, only (i) if it does not give rise to a material risk of successful legal challenge or valid compensation claims in relation to the NCWO principle; and (ii) subject to a satisfactory progress of the bank towards resolvability.

Where granted, this allowance may be full or partial, depending on the quantity of subordinated instruments needed to balance the estimated value in resolution with the value in insolvency (“equilibrium point”). Where the amount of subordination at the equilibrium point is lower than the reduced 8% TLOF target level, the SRB proposes to limit the allowance to the extent necessary to ensure an amount of subordinated resources equal to that level.

These allowances will be reassessed yearly, based on new balance sheet data and communicated to G-SIs. The SRB will communicate to each G-SI information on whether it will grant allowances, and their level. This communication will determine: (i) any allowance applicable until 31 December 2021 under the transitional TLAC regime of 16% TREA/6% LRE; (ii) any allowance applicable from 1 January 2022 under the fully-loaded TLAC regime of 18% TREA/6.75% LRE, to be revised in the subsequent planning cycle.

### 3.3 Valuation-based assessment of NCWO risk

The SRB 2018 MREL policy for the second wave of resolution plans, still operating under the present legal framework, addresses NCWO risk. Under this policy, it is assumed that NCWO risk is present where

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63 Para 32 of the 2018 SRB MREL policy for the second wave of resolution plans.

64 In contrast, the outcome remains binary for any allowance granted under Art. 72b(4) CRR (“Hold-Co allowance”) due to the “all-or-nothing” nature of this permission.

65 See point (49b) of Art. 3(1) SRMR “subordinated eligible instruments” means instruments that meet all of the conditions referred to in Article 72a of Regulation (EU) No 575/2013 other than paragraphs (3) to (5) of Article 72b of that Regulation.
the ratio of mandatory exclusions in the first senior class (ranking senior to subordinated and senior non-preferred liabilities) exceeds 10%. An add-on applies as soon as the 10% threshold is breached, unless the MREL requirement is already fully met with own funds and subordinated (and senior non-preferred) instruments.

The limitations of this threshold-and-add-on approach have been mitigated through subordination floors. Add-ons reduce NCWO risk but do not ensure that it is removed at a specific level of subordination. This inherent limitation has been de facto mitigated under the SRB 2018 MREL policy by the use of standard minimum levels of subordination (16% RWA for G-SIIs, 14% for all other resolution entities). Those minima complement the overall requirement by ensuring that a certain level of high-quality eligible instruments is held at all times.

The SRB considers that a more risk-sensitive assessment of NCWO may better support the resolvability of banks. Such an assessment should provide the analytical tools to the SRB to implement subordination levels for banks that have no minimum subordination requirement under the Banking Package, as well as to adjust subordination requirements for Pillar 1 Banks.

As a first approach to quantifying NCWO risk, the SRB has developed a quantitative tool that simulates the resolution and insolvency scenarios and compares the situation (value at disposal) of certain groups of creditors in those both scenarios. Where the estimate in resolution is lower than the value in insolvency, the approach determines the amount of senior resources that would need to be replaced with subordinated resources to make these two values equal. This amount reflects the quantitative change in the liability structure deemed to avoid NCWO risk under the specific assumptions of the valuation tool. At this “equilibrium point”, the approach assumes that NCWO risk will be avoided. Thus, the tool attempts to operationalise the legal principles governing NCWO risk in a mathematical construct.

The approach would also allow to estimate the equilibrium point where the value in resolution is higher than the insolvency counterfactual. The absence of NCWO risk reflects a potential surplus of subordinated resources over the equilibrium point from which NCWO risk is avoided.

The tool estimates the value at disposal of a bank’s creditor in resolution with the respective value in insolvency, based on assumptions about write downs and losses under different circumstances.

i. The total loss of value for the creditor after resolution is referred to as “resolution haircuts”. In resolution, the value of debt is affected by the full or partial write-down and conversion of the outstanding amount. While the part of the claim written down is fully lost, the part of senior claims converted into shares (partially) compensates the creditor for the loss of the debt claim (Box 1).

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66 A surplus of subordinated resources over the equilibrium point of NCWO needs to be distinguished from a surplus of subordinated resources over MREL: the amount of subordinated resources of a bank may exceed the amount needed to avoid NCWO risk assumed under the quantitative tool, but at the same time be insufficient to meet any Pillar1 subordination requirement.
ii. In insolvency, the value of debt is affected by any loss the creditor incurs when the amount he/she receives following the liquidation of assets and payment of other liquidation cost is lower than his/her claim, referred to as “insolvency haircuts”. It is assumed that the total amount of losses may exceed the total amount of the own funds requirement (which equals the MREL LAA + CBR). Losses include the ones which may have contributed to the insolvency situation, and the ones that stem from the insolvency proceedings, because assets will be liquidated below their book value.

80 The approach assumes an additional loss in case of insolvency, reflecting the extra losses and costs associated with insolvency proceedings. The additional amount (i.e., the haircut on assets) is 10%, applied to total assets minus (MREL LAA + CBR). This proxy level would be fine-tuned in future resolution planning cycles to take into account the composition of assets and the local historical recovery rates in insolvency proceedings, subject to the availability of data from which the SRB can draw reliable conclusions for all Banking Union jurisdictions.

81 The bank-specific input values to be used in the tool will be derived from the liability structure of the bank as reported in the LDR.

82 The SRB will base its decisions related to NCWO primarily on the tool. In case the underlying assumptions are not well aligned with the specificity of the bank, resulting in NCWO risk not being properly assessed, the SRB might deviate from the numerical outcome in order to better determine the underlying NCWO risk.

83 The tool and its assumptions will be further refined in future resolution planning cycles based on the experience gained in 2020. Input from a variety of stakeholders is being sought through this consultation and otherwise.

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67 The CBR is the Combined Buffer Requirement.
Box 1
Derivation of resolution haircuts

The approach assumes losses (i) equal to the amount of own funds requirement, i.e., the MREL LAA plus CBR (written down part); and (ii) that the institution is recapitalised by the level of the RCA. Recapitalisation is achieved through the conversion of liabilities, starting from liabilities in subordinated rankings, and thereafter, if needed, converting senior (or pari passu) non-excluded liabilities. After resolution, the value of instruments initially held by senior non-excluded debt holders would be the remaining senior debt (not converted part) plus the portion of new equity stemming from the conversion of senior debt (converted part).

Then, the tool allocates the newly created shares to the creditors whose liabilities have been converted in proportion to the converted amounts. Where NCWO risk is assumed to exist after this step, the shares are re-allocated to creditors of higher rankings to the extent necessary to avoid NCWO risk, taking into account the post conversion equity value of these instruments instead of their nominal value.

These equity instruments are booked on the bank’s balance sheet at the same nominal value as the initial liabilities they result from. However, the book value does not necessarily reflect the instruments’ value for the new shareholders, for whom the relevant value is the market price of the new shares, in line with Article 10(5) of the Commission Delegated Regulation 2018/345 which provides that Valuation 2 “shall provide an estimate of the post-conversion equity value of new shares transferred or issued as consideration to holders of converted capital instruments or other creditors.” The term “equity value” means an estimated market price, for transferred or issued shares, that results from the application of generally accepted valuation methodologies. This value may take into account reasonable expectations for franchise value.

Historical data shows that listed companies and especially banks under strain may trade significantly below book value. In particular, price to book (PtB) ratios of financial institutions have been depressed during the financial crisis; in addition, PtB ratios of banks with low profitability are generally below par, reflecting the key role of expected earnings in equity valuation of companies. To illustrate medium term PtB values: the average PtB value for a sample of 34 listed banks under SRB’s remit from 2012 to 28 June 2019 was 0.523.

The SRB considers that PtB ratios of shares, adjusted for a resolution scenario, can be used to determine a proxy for post-conversion equity value. PtB ratios are available for a broad sample of past crisis cases and banks with low profitability. Considering historical and current PtB ratios and a necessary adjustment for a resolution scenario, the SRB proposes to assume a default price-to-book value of \( ptbOf_{from\_Senior} = 25\% \). This initial level may be fine-tuned in future iterations of the policy, subject to evidence-based findings.

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68 See EBA Final Guidelines on the rate of conversion of debt to equity in bail-in (EBA/GL/2017/03, 05 April 2017).
4 Internal MREL for non-resolution entities

89 The MREL policy recognises that a feasible and credible resolution strategy may involve the placement of loss-absorbing capacity in all parts of the resolution group. The policy will be revised and strengthened in line with the provisions of the Banking Package. Banks are expected to fully implement an internal MREL mechanism aligned with the new framework.

90 Past efforts in this direction have paved the way. Already in the 2018 and 2019 resolution planning cycles, the SRB started issuing binding targets for non-resolution entities of banking groups considered as relevant legal entities (RLEs). The aim was to ensure a sufficient amount of loss-absorbing capacity in all parts of each resolution group. On the basis of policy operating under the applicable legislation, compliance with individual MREL is governed by the eligibility criteria of the SRMR/BRRD, as applicable until 27 December 2020.

91 The SRB will issue internal MREL decisions for non-resolution entities, expanding the scope of entities covered. Eligibility criteria are tighter than under the current individual MREL rules, and the transition regimes differ. Hence, transition periods applying to existing targets for non-resolution entities will be re-calibrated based on shortfalls (as of reference date end-2019), in accordance with the regime for transition periods defined in Art. 12k SRMR (see section 7). Information on eligible resources including shortfalls will be collected via the liability data report (LDR) as well as an additional liability report (ALR) tailored to the new eligibility regime established by Art. 12g SRMR.

92 The SRB’s approach has to take into account that some elements of the eligibility framework will be further specified through Level 2 legislation. In particular, Level 2 legislation will define methods serving to prevent that the indirect subscription of internal MREL instruments by the resolution entity would hamper the smooth implementation of the resolution strategy (“daisy chains”); and on the form and nature of indirect funding and incentives to redeem. The SRB will assess whether a provisional approach on these matters could be implemented already in the 2020 resolution planning cycle, pending publication of the Level 2 legislation in the Official Journal.

4.1 INTERNAL MREL FOR AN EXPANDED SCOPE OF SUBSIDIARIES

93 The scope of subsidiaries for which the SRB will set internal MREL will expand. Coverage will encompass entities providing critical functions and/or those meeting the 4% threshold of the resolution group’s total risk exposure amount, or leverage exposure, or total operating income (the previous threshold was 5%). These are deemed RLEs (see graphic overleaf). It is worth noting that entities providing critical functions

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70 In this regard, the European Banking Authority is expected to develop Regulatory Technical Standards further specifying the limits of indirect subscription of internal resources (“daisy chains”) (Art. 45f(6) BRRD).
71 Art. 45f(6) BRRD.
72 Art. 72b(7) CRR.
are captured by the present definition of RLEs, even where they are below the size threshold. In line with the SRB policy on the scope of LDR reporting, the entities that comply with the criteria above have been required to submit a LDR to ensure that the financial information needed to determine MREL is available.

The SRB will continue to expand the scope of subsidiaries with internal MREL in future cycles as deemed appropriate. In future cycles, the SRB intends to continue reviewing criteria for inclusion in that scope and, as appropriate, expanding it to other subsidiaries not yet covered by a formal decision. This might also result in the proportion of liquidation entities gradually increasing. The focus on RLEs in the 2020 planning cycle does not prevent (and should not discourage) banks from implementing an internal MREL mechanism encompassing other entities included in the resolution group.

4.2 Waiver of Internal MREL

In line with Art. 12h SRMR, in limited circumstances the SRB may waive subsidiary institutions qualifying as non-resolution entities from internal MREL. The new statutory conditions of Art. 12h SRMR do not materially deviate from the current legal framework. Table 1 (overleaf) provides an overview.
The SRB may exercise its discretion to grant waivers, starting from the minimum conditions set out in Art. 12h SRMR. In considering the granting of a waiver, the SRB undertakes a holistic assessment of all circumstances, known at that stage of resolution planning that could have an impact on the transfer of funds by the resolution entity to the subsidiary when resolution action is taken. In general, granting a waiver implies that prepositioning of loss-absorbing capacity in the form of MREL eligible items is not needed because the losses and recapitalisation of the subsidiary would be taken care of by the resolution entity through alternative action.

Free transferability of funds, as envisaged for waiver cases, is assessed against a resolution scenario. Art. 12h(1)(c) and 12h(2)(c) SRMR request that no current or foreseen material, practical, or legal impediment to the transfer of funds by the resolution entity to the subsidiary, in particular when resolution action is taken in respect of the resolution entity or the parent undertaking. The condition of Art. 12h(1)(c) and 12h(2)(c) SRMR is thus to be assessed by the resolution authority against a resolution scenario in which, jointly or independently, the resolution entity enters resolution and/or the subsidiary reaches the point of non-viability (PONV). The scenario may involve the failure of a parent of the subsidiary within the same Member State, including where it is not a resolution entity. In such a scenario, the losses and recapitalisation burden of the subsidiary would need to be covered by the resolution entity, even though it is also in a FOLTF situation, by respecting the safeguards in Chapter VII of the BRRD.

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73 Not the case for banks in shortfall during transition periods.
74 Art. 12h(2)(b) SRMR.
The SRB will operationalise the criteria to assess the fulfillment of the conditions for internal MREL waivers. Despite not being a precondition for the granting of an MREL waiver, one important element is to assess whether the subsidiary has obtained a supervisory waiver, or would be eligible to obtain such waiver if the bank were to apply for it. While bearing in mind that the competent authority assesses conditions for granting a supervisory waiver from a going concern perspective, a positive supervisory assessment shows that the relevant group is generally able and willing to provide funding and loss-absorption. Where evidence demonstrates in a satisfactory manner that the funding and loss-transfer arrangements are also robust in a resolution scenario, the SRB may consider the conditions for a MREL waiver to be satisfied.

The legal framework requires banks to demonstrate that there is no impediment to the prompt transfer of own funds or repayment of liabilities. The SRB considers that where a subsidiary would not meet the conditions to obtain a supervisory waiver in a going-concern scenario, this would play against the credibility of gone concern recapitalisation of the subsidiary. The concern is even more relevant where the size, risk exposures or systemic relevance of the subsidiary would necessitate a significant transfer of funds from the resolution entity. In such a case, the bank applying for an MREL waiver is expected to demonstrate that the loss transfer mechanism between the subsidiary and the resolution entity in place is commensurate to the size of the subsidiary and substitutes the need for a prepositioning of loss-absorbing capacity, even if the resolution entity itself is in a FOLTTF situation.

4.3 Provision of guarantees and internal MREL

The SRB considers that partially collateralised\textsuperscript{75} guarantees permitted by the resolution authority\textsuperscript{76} may give flexibility to banks to use such instruments to complement fully prepositioned instruments to meet the internal MREL. Also, they provide greater regulatory assurance for resolvability than waivers. Therefore, in consideration of the advantages and of the regulatory safeguards that apply, the SRB intends in general to permit their use within the same Member State of the resolution entity, provided all the conditions set out in the legislation are met.

Art. 12g(3) SRMR grants the possibility for the SRB to permit the use of guarantees to meet the internal MREL within the Member State of the resolution entity, i.e., for the same institutions that may also be potentially eligible to apply for MREL waivers. Such guarantees must meet several conditions to fulfil this function. The requirements that must be met by include, among other conditions:

- the guarantees must be triggered under timing conditions equivalent to those applicable to instruments eligible for meeting internal MREL; and
- the collateral backing the guarantee given by the resolution entity to its subsidiary qualifies under Art. 197 CRR, following appropriately conservative haircuts\textsuperscript{77}.

\textsuperscript{75} At least 50%, see letter (e) of Art. 12g(3).
\textsuperscript{76} Art. 12g(3) SRMR.
\textsuperscript{77} (f) of Art. 12g(3) SRMR.
The SRB may develop further guidance specifying the conditions of Art. 12g(3) SRMR for such permission. In particular, the resolution entity may need to provide an independent written and reasoned legal opinion or otherwise satisfactorily demonstrate that there are no legal, regulatory or operational barriers to the transfer of collateral from the resolution entity to the relevant subsidiary. Regarding the condition to apply appropriately conservative haircuts on collateral qualifying under Art. 197 CRR, the SRB proposes to apply the minimum haircuts determined in the tables of Art. 224 CRR for volatility adjustments for the same type of collateral, assuming daily revaluation.
5 MREL for cooperative groups

The Banking Package introduces new provisions concerning MREL requirements for cooperative networks. In particular: point (24b) of Art. 3(1) SRMR legally defines the scope of the “resolution group” for credit institutions permanently affiliated to a central body, the central body itself and their respective subsidiaries; Art. 12f(3) SRMR grants discretion to determine one or more (resolution) entities within that group, whose liabilities shall count towards the compliance with the consolidated MREL requirement; and Art. 12i SRMR introduces the possibility of waiving internal MREL for a permanently affiliated credit institution, or the central body itself, upon fulfillment of certain conditions. The implementation of the last two points deserves further elaboration.

5.1 Expansion of the perimeter of the eligible liabilities for external MREL

A cooperative network may encompass more than one resolution entity, whose liabilities may count towards the compliance with the consolidated MREL requirement of the group. Art. 12f(3) SRMR enables the resolution authority to decide which entities in the resolution group must comply with MREL requirements “in order to ensure that the resolution group as a whole” complies with the consolidated MREL requirement. The SRB considers that this provision entails the possibility of recognising eligible liabilities issued externally from entities of the cooperative network, leading to the existence of more than one resolution entity. This possibility is explicitly allowed in the legal definition of “resolution group” for cooperative networks in accordance with point (b) of point (83b) of Article 2(1) of the BRRD.

Liabilities that count towards compliance with the consolidated MREL target (from here onwards: “network eligible liabilities”) should be such as to support the preferred resolution strategy. Art. 12f(3) SRMR states that the selection of entities whose liabilities shall count as network eligible should depend “on the features of the solidarity mechanism and the preferred resolution strategy...in conformity with the resolution plan”. The article does not further specify the conditionality governing the exercise of the discretion granted to the resolution authority to decide on the modalities of MREL compliance of the network. In this regard, it is important to recall that the objective of MREL in general is to support the resolvability of an institution or a group. The authorisation to use network eligible liabilities must therefore not put the operationalisation of the preferred resolution strategy determined by the SRB for the specific cooperative network at risk. Thus, a network eligible liability must contribute to the resolution financing at the level of the network, regardless of which of the affiliated entities or institutions is the source of losses.

This condition holds even when the cooperative network has in place a mutual support scheme. In particular, it needs to be assured that the strategy can be successfully implemented, regardless of which entity within the network faces losses, which could not be covered by the relevant solidarity mechanism or mutual guarantee scheme in a going-concern status of the cooperative network. If this is not warranted, network eligible liabilities cannot be credibly assumed to ensure the resolvability of the cooperative network.
When applying Art. 12f(3) SRMR, three general conditions need to be met as part of the resolution planning process in order to assume that a resolution strategy relying on the application of resolution tools on network eligible liabilities is feasible, namely:

- Congruent scope of the entities meeting the conditions for resolution, whereby resolution can be applied at the level of the resolution group, taking into account the specificities of the solidarity mechanism;
- Operationalisation of the network-wide resolution approach, whereby internal transfer of losses and recapitalisation capacity are operationally feasible on a network basis; and
- Existence of a loss-sharing mechanism among entities and creditors in insolvency in accordance with the applicable insolvency law and the features of the solidarity mechanism.

While these fundamental conditions are meant to provide orientation on the cornerstones of feasible resolution strategies for cooperative networks, the SRB has defined more specific criteria for the MREL treatment of cooperative networks. All entities with liabilities under review for counting towards compliance with the consolidated MREL of the resolution group, should be included in the scope of the assessment of the following criteria, adjusted to the new legal framework. The criteria are:

i. Own funds issued by any of the entities are capable of absorbing losses to restore the solvency of any of the entities of the resolution group;

ii. Eligible liabilities issued by any of the network entities would be subject to bail-in, under the resolution strategy relevant for MREL setting, in case any of these entities reaches the point of FOLTF;

iii. There is no material risk of breaching the NCWO principle with a clear ranking on distribution of losses within the group. In particular, NCWO should be respected when applying the bail-in tool on a pro-rata basis to network eligible liabilities that are part of the same class in the creditor hierarchy;

iv. Appropriate communication to investors subscribing MREL eligible debt instruments and information about the potential bail-in of such instruments for the recapitalisation of any of the entities of the network has been undertaken;

v. Determination of FOLTF is on a joint basis: the SRB will consider the likelihood of a FOLTF determination being made at the level of all affiliated entities of the network and the central body, either simultaneously or as a whole at group level, taking also into account the possible assessment of the conditions for resolution under Art. 32a and 32(1) BRRD for cooperative networks that are part of the same resolution group.

A cooperative network seeking network-wide recognition of eligible liabilities needs to demonstrate fulfillment of condition iii. on a network basis. Based on the applicable national law and the features of the solidarity mechanism, the network should demonstrate that the treatment of creditors in insolvency relies indeed on the solidarity principle between entities and creditors of the network.79 So, in line with

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79 Note that the demonstration of the absence of any material NCWO risk here differs from the assessment envisaged under section 2.3 of this consultation paper, which focuses on an assessment of the treatment of creditors in insolvency in comparison to resolution for one single entity.
Art. 74 BRRD, the absence of material NCWO results from a comparison of the actual treatment of creditors of the network or group in resolution with the (hypothetical) treatment of those creditors, should the entities of the group be liquidated in normal insolvency proceedings (NIP) at the time when the resolution decision is taken. Thus, assuming for a relevant bank a bail-in strategy applied on the whole network, the SRB must be convinced that assets and liabilities of all network entities would be legally and economically bundled in an (hypothetical) insolvency procedure, thereby minimising NCWO risk.

The existence of (a) a guarantee of the network benefitting third party creditors; or (b) a reorganisation of the network leading to the merger of all affiliates into one entity might under certain conditions achieve such aggregation. To minimise NCWO risk, both options would also need to become effective in a hypothetical insolvency situation, should the entities of the group be liquidated in normal insolvency proceedings (NIP) at the time when the resolution decision is taken.

A reorganisation of the network leading to the merger of all affiliates into one entity may be part of a preferred resolution action envisaged in the resolution plan, provided certain conditions are met. To be preferred, the SRB must consider the implementation of such merger to be credible and feasible, and its execution must not rely on discretionary decisions of external stakeholders not controllable by the SRB or the respective national resolution authority. For the purpose of the MREL treatment in case of a merger being implemented as part of or together with resolution actions, the SRB will assess whether the above listed five criteria can be considered as met, taking into account the economic and legal implications of the merger.

To avail of the network-wide recognition of eligible liabilities, the cooperative network should provide strong supporting evidence regarding compliance with the above listed conditions and criteria. That evidence will be based on the features of the solidarity mechanism or mutual support scheme, and the preferred resolution strategy. For this purpose, the SRB may request an independent legal analysis prepared at the request of the cooperative network, intended to provide clarification on the features of the solidarity mechanism or mutual support scheme, or any other solution to ensure solidarity among creditors of the network, and their implications for the above conditionality, in combination with the preferred resolution strategy.

5.2 WAIVER OF INTERNAL MREL FOR AFFILIATED INSTITUTIONS

The third subparagraph of Art. 12g(1) SRMR describes the scope of the internal MREL for the various institutions making up a cooperative network. Accordingly, affiliated credit institutions that are themselves resolution entities in the context of Art. 12f(3) SRMR are not subject to the MREL on an individual basis. The remaining RLEs entities of the group remain subject to an internal MREL requirement, unless they are explicitly waived in accordance with Art. 12i SRMR.

Art. 12i SRMR introduces six criteria for granting affiliated credit institutions, or the central body itself, a waiver from individual MREL targets, with flexibility offered to the SRB when assessing the criteria. Notable is the flexibility with respect to criterion f) that “there is no current or foreseen material practical

80 Art. 74(3)(a) BRRD.
or legal impediment to the prompt transfer of own funds or repayment of liabilities between the central body and the permanently affiliated credit institutions in the event of resolution”.

115 The assessment of criterion f) of Art. 12i SRMR on any impediment to the prompt transfer of own funds or repayment of liabilities is based on an analysis of the bilateral relation between the central body and the respective affiliated institution for which a waiver from an individual MREL target is being considered. A network-wide perspective, as under Art. 12f(3) SRMR, is not adopted. The criteria for assessing impediments to the prompt transfer of own funds or repayment of liabilities for non-affiliated subsidiaries are also applicable for cooperative institutions under this section.

116 The presence of a capital waiver from the competent (supervisory) authority does not imply an automatic MREL waiver. Nevertheless, criteria b) and f) of Art. 12i SRMR may be considered met where the SRB has received sufficient comfort, depending on bank-specific elements, that the guarantee provided by the central body to the affiliated institution in line with Art. 7(1) CRR could be effectively used in a resolution (and hypothetical insolvency) scenario and covers the entirety of the relevant commitment(s). This possibility is without prejudice of the compliance with other criteria set out by the legislation.

117 Despite the application of a waiver, banks are expected to provide all necessary data for the legal entity, as any other subsidiary. The application of a waiver does not automatically translate into a waiver from reporting requirements. The data is needed for the SRB to have available the information to monitor the waiver decision.
6 Eligibility of liabilities issued under the law of a third country

Effective resolution within the SRM framework involving liabilities issued under the law of third countries requires that an EU resolution authority can modify those liabilities (e.g., by writing down or converting). Yet, when liabilities are not governed by the law of an EU Member State, a court of the third country with jurisdiction over the liabilities may not recognise the resolution actions of an EU resolution authority. In such circumstances, resolution that achieves the objectives of the SRM will be at risk.

The needed recognition might be achieved by statute or by contract. One possibility is that the legal framework of the third country or an international agreement ensure that the courts of the third country recognise the EU resolution authorities’ powers. In the absence of a cross-border recognition framework, recognition might be achieved through prior contractual acceptance by creditors that their contractual claims may be cancelled or modified in resolution. Art. 55(1) BRRD requires institutions to include a contractual clause into contracts by which the creditor or party to the agreement creating the liability recognises that the liability may be subject to the write-down and conversion powers of an EU resolution authority. Moreover, that creditor or party agrees to be bound by any reduction of the principal or outstanding amount due, conversion, or cancellation that is affected by the exercise of those powers by a resolution authority. Art. 44 of the Commission Delegated Regulation (EU) 2016/1075 further specifies the requirements applicable to the clause.

The BRRD2 introduces changes to Art. 55 concerning the obligation to introduce a suitable recognition clause into certain contracts. Art. 45(5) BRRD (I) gave the resolution authority the discretion to exclude such liabilities from the MREL capacity where the effectiveness of bail-in is not demonstrated. It is replaced by Art. 55(2) BRRD (II), which excludes liabilities without a recognition clause compliant with Art. 55(1) BRRD, in the absence of a statutory cross-border recognition framework.

AT1 and T2 instruments may be especially affected. Under current SRB policy, they were included in the computations of MREL capacity irrespective of the inclusion of a recognition clause. As a consequence of the change to Art. 55, and in the absence as of the date of publication of a suitable binding international agreement with the third country or statutory recognition, the SRB will exclude AT1 and T2 instruments governed by third country law from MREL supply, unless the bank has included an

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81 When such a clause is not included in the contract, the respective liability shall never be counted against the MREL (see Article 55(2) last subparagraph BRRD2). Not affected are liabilities issued or entered into before the date mentioned in point (d) of Art. 55(1) BRRD.

82 See para 45 of the 2018 MREL policy for the second wave of resolution plans.

83 Powers granting discretion to an authority to grant recognition to foreign resolution proceedings at the point of resolution, similar to the discretionary powers under Art. 93 to 95 BRRD, do not ensure resolvability ex ante where no recognition is foreseen in the contract. Moreover, the decision of an administrative authority to recognise the resolution action of another jurisdiction does not per se ensure that the courts competent to adjudicate the contract would be bound to reach the same conclusion.
effective and enforceable contractual recognition clause. If necessary, any additional shortfall arising from this change of treatment will be taken into account when setting transition periods in accordance with Art. 12k SRMR\textsuperscript{84}.

A recognition clause must be effective and enforceable to be compliant. The power of the resolution authority to request a legal opinion on the effectiveness and enforceability of the clause, on a case-by-case basis, is left unchanged\textsuperscript{85}.

For liabilities other than AT1 and T2 instruments governed by third country law, banks need to provide a legal opinion. Where the legal opinion is signed after 16 January 2019\textsuperscript{86}, it needs to meet the minimum criteria set out below in Box 2. The SRB did not request legal opinions from banks in the 2018 and 2019 resolution planning cycles, where the proportion of their issuances governed by the laws of third countries with respect to the MREL-eligible stock was deemed not significant, and the SRB had sufficient information, and in particular the contractual terms, to assess the eligibility of such liabilities. The SRB intends to continue to apply this proportional approach.

### Box 2

**Satisfactory legal opinions**

Annex I to the 2018 SRB MREL Policy for the second wave of resolution plans addresses minimum requirements for a legal opinion under art. 55(1) BRRD. It should be read in conjunction with Art. 45(5) BRRD and 12(17) SRMR. On this basis, a legal opinion shall:

1. Be reasoned and indicate whether the bail-in clause fully complies with Art. 44 of Commission Delegated Regulation 2016/1075, detailing the criteria set forth therein.

2. Take into account not only the general enforceability of the standard/template clause but also, to the extent relevant, all specific circumstances, rules governing the actual programme/offering/issuance, and ensure that no other contractual term or arrangement may impair the effectiveness and enforceability of the clause.

3. Include an analysis of possible impediments to the effectiveness and enforceability of the clause, drawing from insolvency law, securities law and the general legal framework of the third country jurisdiction, such as public policy.

4. Include an assessment on the effectiveness of the clause in case of non-coincidence of jurisdiction and governing law (i.e. if the chosen court (the jurisdiction) is called to apply a foreign law), particularly in terms of how in practice the chosen forum will apply the governing law.

\textsuperscript{84} See Section 6.

\textsuperscript{85} Art. 55(3) BRRD.

\textsuperscript{86} Date of publication of the 2018 MREL policy for the second wave of resolution plans.
Even with contractual provisions, exogenous risks to resolvability may affect eligibility. The legal enforceability and effectiveness of contractual recognition is conditional upon any unconditional contractual acceptance of an EU resolution action not being overturned or rendered ineffective by the laws or actions of authorities having jurisdiction over the contract. As acknowledged in the FSB’s Principles for Cross-border Effectiveness of Resolution Actions, contractual approaches such as bail-in clauses do not achieve the level of legal certainty that would be conferred by statutory recognition.\(^{87}\)

In this regard, the SRB intends to monitor this carefully. The SRB retains the right to exclude some or all liabilities under a given governing law from the MREL supply if it were to conclude that a change in or emergence of exogenous circumstances puts the effective exercise of the write-down and conversion powers at risk. To manage this risk, the SRB welcomes early collaboration with stakeholders in identifying challenges to bail-in operationalisation, and in mitigating those risks through bank preparedness and standardised processes.

The responsibility for ensuring that liabilities preserve their eligibility and for managing the related risks rests with banks. Because the risk described lies outside the sphere of influence of issuing banks, the SRB recommended in previous communication on MREL and Brexit\(^{88}\) to mitigate risks to resolvability and MREL de-recognition, were they to be realised. To this end, the SRB encouraged banks to adhere to market practices that increase the level of comfort on the effective enforceability of the bail-in clause, also to consider issuing as much as possible under the governing laws of EU27\(^{89}\) countries to achieve legal certainty.

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\(^{87}\) FSB’s Principles for Cross-border Effectiveness of Resolution Actions, p. 8.

\(^{88}\) See the SRB position paper dated 15 November 2018.

\(^{89}\) Member States of the EU with the exception of the United Kingdom in the context of Brexit, see also next section.
7 Transition arrangements\(^{90}\)

Art. 12k SRMR specifies the provisions applicable to define transition periods up to the start of 2024. In particular, all banking groups have

- a common deadline of 1 January 2024 to meet their full external and internal MREL targets including subordination; and
- two intermediate targets, a first binding intermediate target to be met by 1 January 2022, and a second intermediate target of informative nature for 1 January 2023\(^{91}\).

The following chart provides an overview:

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90 The SRB has submitted a question on the interpretation of Art. 12k SRMR via the EBA Single Rulebook Q&A process and will update the policy following the response.

91 “Planned minimum requirements” shall be defined for each 12-month period in accordance with Art. 12k(6) SRMR to facilitate a gradual build-up. The SRB intends to set this intermediate target for the 1 January 2023 as a second milestone towards the final target.

92 2° subpara of Art. 12k(1) SRMR.
intermediate target levels to be met by 1 January 2022 are set for both the total MREL as well as the subordination component.

To ensure a linear build-up of the MREL capacity, the SRB intends to calibrate the binding intermediate target for 1 January 2022 by dividing the amount of shortfall relative to the final target equally until the end of the transition period\(^93\). For banks without a shortfall, the SRB intends to set the binding intermediate targets equal to final targets to be complied with by 1 January 2022.

The subordination component of intermediate target levels cannot be lower than the asset based Pillar 1 subordinated MREL requirements, which must be fully met by 1 January 2022 irrespective of shortfalls\(^94\). By that date,

- G-SIs and material subsidiaries of non-EU G-SIs must comply with fully-loaded TLAC requirements\(^95\), and
- Top Tier Banks and Other Pillar 1 Banks must meet their MREL-Pillar 1 SR of 13.5% TREA/5% LRE\(^96\).

Where higher than the above Pillar 1 subordinated MREL requirement, the 8% TLOF minimum subordination requirement, including any increase thereof, is subject to linear progression towards final targets in the case of a shortfall.

The SRB intends to adopt as part of the 2020 resolution planning cycle MREL decisions for resolution entities, and for non-resolution entities meeting relevance criteria, according to current legislation and the policies decided after this consultation. Each new decision, communicated to a bank in 2021, will set out two binding MREL targets, including for subordination: the binding intermediate target to be met by 1 January 2022, ensuring the linear build-up if the bank is in shortfall, and the fully calibrated MREL (final target) to be met by 1 January 2024. These decisions will replace any applicable MREL decision issued under the previous legal framework. The decisions will be based on end-2019 liability data.

The SRB will assess the need for any extension of the final target deadline beyond 1 January 2024 for individual banks on a case-by-case basis, where justified and appropriate\(^97\). Given that the resolvability of banking groups relies on the availability of sufficient MREL resources, the SRB will consider a deviation from the deadline of 1 January 2024 only exceptionally, taking into consideration whether the bank has taken all necessary steps and actions to meet its target by the deadline and whether banks in the same jurisdiction have adequate access to capital markets. Banks subject to the extension of the deadline to meet the MREL target should all the more enhance efforts to progress in other resolvability dimensions.

In subsequent resolution planning cycles, the final target for 1 January 2024 would be re-calibrated and communicated on the basis of data of the new reference date and, as appropriate, enhanced methodologies. In doing so, the SRB will have regard to any intervening changes, for example in regulations affecting calibration and the supply of MREL.

\(^{93}\) The SRB may exceptionally deviate from a linear calibration (“Intermediate target levels, as a rule, shall ensure a linear build-up…”) on a case-by-case basis, where justified by exceptional circumstances specific to a bank.

\(^{94}\) Art. 12k(2) SRMR.

\(^{95}\) Art. 92a and 92b CRR.

\(^{96}\) Art. 12d(4) and (5) SRMR.

\(^{97}\) 3rd subpara of Art. 12k(1) SRMR.
Annex I. MREL adjustment for Multiple-Point-of-Entry strategies

This annex provides further details on the current SRB methodology to adjust MREL for MPE banking groups. The methodology to compute the MREL for a resolution group under the MPE strategy is composed of the following steps:

- **Step 1 – Split of the balance sheet**
  The first step consists of splitting the overall risk exposure between:
  a) the risk exposure amount related to external exposures to which the “SPE approach” is applied, and
  b) the risk exposure amount (composed by equity participations and other exposures) related to the other resolution groups within a banking group, for which the MPE add-on is calculated. These inter-resolution group exposures consist of equity participations, debt or deposits held by the resolution group, for which the MREL is being calculated, in other resolution groups.

- **Step 2 - Calculation of the MREL on the part of the balance sheet related to external exposures**
  On the part of the balance sheet related to the external exposures isolated under Step 1a, the MREL is computed as the sum of Loss Absorbing Amount (LAA) and Recapitalisation amount (RCA).

\[
LAA_g = \left( Sub_{\text{consolidated}} TRE_g - \sum_i Equi\text{ty risk exposure}_i - \sum_i Other\text{ risk exposure}_i \right) \times OCR_g
\]

\[
RCA_g = \left( Sub_{\text{consolidated}} TRE_g - \sum_i Equi\text{ty risk exposure}_i - \sum_i Other\text{ risk exposure}_i \right) \times OCR_g
\]

Where:

- \( Sub_{\text{consolidated}} TRE_g \) = Total Risk Exposure at EU parent entity resolution group level \( g \), including any exposures to legal entities of other resolution groups, risk weighted in line with CRR dispositions
- \( Equi\text{ty risk exposure}_i \) = risk exposure of equity participations in other \( i \) resolution groups, risk weighted in line with CRR dispositions
- \( Other\text{ risk exposure}_i \) = other non-collateralized risk exposures to other \( i \) resolution groups, risk weighted in line with CRR dispositions
- \( OCR_g \) = consolidated capital decision at EU parent entity level

- **Step 3 - Adjustment of the LAA in light of the impact of loss absorption on inter-resolution group equity participations**
  The LAA computed under Step 2 is adjusted by adding up the level of the inter resolution group exposures - in the form of equity participations - of the resolution group for which the MREL is being calculated.

\[
LAA_{g\text{ adjustment}} (1) = \sum_i \left\{ \max \left\{ 0; \min \left\{ (BV\text{ Participations}_i; (BV\text{ Participations}_i - \alpha_i \times (Accounting\text{ equity}_i - LAA_i)) \right\} \right\} \right\}
\]

Where:
**BV Participations** = Book value of the participations in the entities of resolution group i.

\[ \alpha_i = \text{Percentage of capital instruments issued by entity } i \text{ held by the EU resolution group } g \]

\[ LAA_i = \begin{cases} TRE_i \star OCR_i & \text{if EU subsidiary and capital decision available} \\ TRE_i \star OCR_g & \text{if EU subsidiary and capital decision not available} \\ TRE_i \star TCR_g & \text{if non-EU subsidiary but FSB compliant regime} \\ TRE_i \star TCR_g & \text{if non-EU subsidiary and non-FSB compliant regime} \end{cases} \]

Contribution to EU parent entity consolidated TRE \* TCR

(Accounting equity) = remaining value of the equity of entity i after the recognition of losses

- **Step 4: Adjustment to the LAA in light of the impact of loss absorption on other inter-resolution group exposures**

The LAA computed under Step 2 is adjusted by adding up the level of inter-resolution group exposures – in the form of exposures other than equity - of the resolution group for which the MREL is being calculated.

\[ LAA_g \text{ adjustment (2)} = \sum_i \sum_j \left[ \text{Losses Class } i,j-1 - \max \left( \text{Losses Class } i,j-1 - \text{Pari Passu Eligible Liabilities } i,j; 0 \right) \right] \star \beta_{i,j} \]

Where:

\[ \beta_{i,j} = \text{percentage of pari passu liabilities } j \text{ issued by entity } i \text{ and held by the EU resolution group } g \]

\[ \text{Losses Class } i,j-1 = \text{Losses remaining after the absorption class } j-1 \text{ and flowing in class } j \text{ of entity } i. \text{ For } j-1, \text{ the losses are set to LAA of entity } i \text{ minus the book value of the equity participations.} \]

- **Step 5: Adjustment to the RCA in light of the impact of recapitalisation on other inter-resolution group exposures**

The RCA computed under Step 2 is adjusted by adding up the remaining inter-resolution group exposures after loss absorption under Step 3 and recapitalisation. These residual exposures are risk weighted according to the new nature of the instrument (i.e. equity as per recapitalisation).

\[ RCA_g \text{ adjustment} = \left( \sum_i \left( \text{Equity exposure}_i - \text{MREL Calculation Step 2}_i \right) \right) \star \text{Risk weight equity}_i \]

+ \[ \sum_i \sum_j \text{MIN(} \text{RCA need } i,j-1; \text{Pari Passu Eligible Liabilities } i,j \text{)} \]

- MREL Calculation Step 3(\(i,j\)) \* Risk weight equity \(_i\)

+ \[ \sum_i \sum_j \left[ (\text{Pari Passu Eligible Liabilities } i,j - \text{MREL Calculation Step 3}_i,j) \right] \]

- MIN(\(\text{RCA need}_j-1; \text{Pari Passu Eligible Liabilities } i,j - \text{MREL Calculation Step 3}_i,j) \)

\[ \text{Risk Weight Pari Passu Eligible Liabilities } i,j \] \* OCR\(_g\)

Where:

\( \text{(Equity exposure}_i - \text{MREL Calculation step } 2)_i \) = Participation in entity \( i \) retained by EU resolution group \( g \) post LAA adjustment from Step 2
\[ RCA\ need_{i,j-1} = \text{Amount of RCA need in class } j \text{ after using } j-1 \text{ pari passu eligible liabilities. The RCA need when } j=1, \text{ is equal to the requested RCA minus the available remaining equity in the subsidiary.} \]

\[ \text{Pari Passu Eligible Liabilities}_{i,j} - \text{MREL Calculation Step 3}_{i,j} = \text{EU resolution group’s other exposures corresponding to pari passu eligible liabilities } j \text{ in } i, \text{ post LAA adjustment from Step 3} \]

\[ \text{MIN}(RCA\ need_{i,j-1}; \text{Pari Passu Eligible Liabilities}_{i,j} - \text{MREL Calculation Step 3}_{i,j}) = \text{Amount of eligible pari passu liabilities } j \text{ converted into equity and to be risk weighted to equity} \]

\[ \text{Risk weight equity } i = \text{the risk weight applicable under CRR rules to equity participations in } i \]

\[ (\text{Pari Passu Eligible Liabilities}_{i,j} - \text{MREL Calculation Step 3}_{i,j}) - \text{MIN}(RCA\ need_{i,j-1}; \text{Pari Passu Eligible Liabilities}_{i,j} - \text{MREL Calculation Step 3}_{i,j}) = \text{Residual Amount of eligible pari passu liabilities } j \text{ in entity } i \text{ after RCA conversion, to be risk weighted to the respective class.} \]

\[ \text{Risk Weight Pari Passu Eligible Liabilities}_{i,j} = \text{the risk weight applicable under CRR rules to the EU resolution group’s other exposures corresponding to pari passu eligible liabilities } j \text{ in } i \]
Annex II. Complementary information on NCWO

NCWO occurs when one class of claimants is worse off under resolution than under liquidation. This is in large part due to the balance sheet composition and it can occur even when total losses are larger under insolvency than under resolution because the distribution of losses depends heavily on the exclusions. In particular, bail-in-able senior liabilities may be worse off being bailed in under resolution than sharing losses with non-bail-in-able senior liabilities under insolvency. The risk is greater when the market value of equity that bailed-in claimants may receive in exchange for debt instruments is lower.

Illustrative example of resolution not giving rise to an NCWO breach

For illustrative purposes, consider a bank with the balance sheet shown in the following table. It is assumed that the bank suffers losses of 60. The minimum capital needed after resolution is 40.

Hence, in resolution, the initial own funds of 80 is reduced to 20 and resolution converts subordinated debt of 20 into equity of 20. The equity may have a market value higher or lower than its book value.

Were the bank goes through insolvency proceedings, extra losses of 40 would be incurred. All equity and subordinate debt would be wiped out, and aggregate senior debt would be untouched. Holders of bail-in-able senior debt would still hold 90, which is the same as in resolution, while the holders of subordinated debt would be worse off because they do not have the equity they received in resolution.

<table>
<thead>
<tr>
<th>BANK BALANCE SHEET (BOOK VALUE)</th>
<th>Initial</th>
<th>After insolvency</th>
<th>After resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt above senior</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Senior debt excluded from bail in</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Senior debt not excluded from bail in</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Subordinate debt</td>
<td>20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Equity</td>
<td>80</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Held by:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bailed-in senior debt holders</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bailed-in subordinate debt holders</td>
<td>0</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Original equity holders</td>
<td>80</td>
<td>0</td>
<td>20</td>
</tr>
</tbody>
</table>
Illustrative example of resolution potentially giving rise to an NCWO breach

Consider then a similar bank with the balance sheet shown in the following table. The bank has less subordinated debt and more senior debt than the one in the example above.

As before, the minimum capital needed after resolution is 40 and the loss incurred is 60. However, with this balance sheet the outcome is significantly different: in resolution, the initial own funds of 80 are reduced to 20, and the subordinated debt of 10 is converted into equity. In addition, bail-in-able senior debt of 10 is converted into equity.

Where the bank goes through insolvency proceedings, extra losses of 40 would be incurred (as in the previous example). All equity and subordinate debt would be wiped out, and aggregate senior debt would be reduced by 10. Holders of bail-in-able senior debt would hold 95. If the market value of the equity that they would hold under resolution (10) is less than 5, then they would be better off under insolvency. In such case, a NCWO rule would be breached.

<table>
<thead>
<tr>
<th>BANK BALANCE SHEET (BOOK VALUE)</th>
<th>Initial</th>
<th>After insolvency</th>
<th>After resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt above senior</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Senior debt excluded from bail in</td>
<td>100</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>Senior debt not excluded from bail in</td>
<td>100</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Equity</td>
<td>80</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Held by:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bailed-in senior debt holders</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Bailed-in subordinate debt holders</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Original equity holders</td>
<td>80</td>
<td>0</td>
<td>20</td>
</tr>
</tbody>
</table>
# Glossary

<table>
<thead>
<tr>
<th><strong>Asset Separation Tool (AST)</strong></th>
<th>As defined in the Art. 3 (32) SRMR.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Arrangement</strong></td>
<td>An arrangement is any agreement, contract, policy, procedure, guideline or practice governing the provision of a service.</td>
</tr>
<tr>
<td><strong>Back-to-back booking</strong></td>
<td>A pair of legally separate transactions, but with the same terms of trade and involving three parties. One party is the intermediary, as the buyer in one transaction and the seller in the second transaction. This allows institutions to book the transaction in a different place to the original business.</td>
</tr>
<tr>
<td><strong>Bail-in</strong></td>
<td>As defined in Art. 3 (33) SRMR.</td>
</tr>
<tr>
<td><strong>Bridge Institution (BI)</strong></td>
<td>As defined in Art. 3 (31) SRMR.</td>
</tr>
<tr>
<td><strong>Business Lines</strong></td>
<td>A structured set of activities, processes and operations that are developed by the institution for third parties to achieve the organisation’s goals.98</td>
</tr>
<tr>
<td><strong>Business Reorganisation Plan</strong></td>
<td>The restructuring post bail-in should be achieved through the implementation of a business reorganisation plan. Where applicable, such plans should be compatible with the restructuring plan that the entity is required to submit to the Commission under the Union State aid framework. In particular, in addition to measures aiming at restoring the long term viability of the entity, the plan should include measures limiting the aid to the minimum burden sharing, and measures limiting distortions of competition (Art. 27 (16) SRMR and Art. 52 (12), (13) BRRD)</td>
</tr>
<tr>
<td><strong>Capital Requirements Directive (CRD)</strong></td>
<td>Directive 2013/36/EU.</td>
</tr>
<tr>
<td><strong>Central counterparty</strong></td>
<td>An entity that places itself, in one or more markets, between the counterparties to the contracts traded, becoming the buyer to every seller and the seller to every buyer and thereby guaranteeing the performance of open contracts.99</td>
</tr>
<tr>
<td><strong>Central Securities Depository (CSD)</strong></td>
<td>An entity that 1) enables securities transactions to be processed and settled by book entry; 2) provides custodial services (e.g. the administration of corporate actions and redemptions); and 3) plays an active role in ensuring the integrity of securities issues [ECB Glossary of terms related to payment, clearing and settlement systems, December 2009]100.</td>
</tr>
</tbody>
</table>

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98 Commission Delegated Regulation (EU) 2016/778 of 2. February 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to the circumstances and conditions under which the payment of extraordinary ex-post contributions may be partially or entirely deferred, and on the criteria for the determination of the activities, services and operations with regard to critical functions, and for the determination of the business lines and associated services with regard to core business lines, OJ L131, 20.5.2016, 41.


100 ECB Glossary of terms related to payment, clearing and settlement systems, December 2009.
| **Clearing** | The process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement. Sometimes this term is also used (imprecisely) to cover settlement. For the clearing of futures and options, this term also refers to the daily balancing of profits and losses and the daily calculation of collateral requirements. |
| **College Banks** | Banks for which a college in accordance with Art. 88 BRRD has been established. |
| **Combined Buffer Requirement (CBR)** | Total CET1 capital required to meet the requirements for the capital conservation buffer. |
| **Core Business Lines** | Business lines and associated services that represent material sources of revenue, profit, or franchise value for an institution or for a group of which an institution forms part. |
| **Critical Financial Market Infrastructure (FMI services)** | Payment, clearing, settlement or custody services, provided by an FMI or by an intermediary, which are necessary for the continuity of one or several critical functions. |
| **Critical functions** | Activities, services or operations the discontinuance of which is likely in one or more Member States, to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity or cross-border activities of an institution or group, with particular regard to the substitutability of those activities, services or operations. |
| **Critical functions Report** | An SRB reporting requirement for banks to provide information on their self-assessment of critical functions: [https://srb.europa.eu/en/content/critical-functions-report](https://srb.europa.eu/en/content/critical-functions-report) |
| **Critical services** | Services, which are necessary for one or more critical functions, that are performed for group business units or entities and whose discontinuity would seriously impede or prevent the performance of those critical functions. |
| **Dual-hatting** | Describes situations where an employee paid by one legal entity provides services to another entity within the group. |
| **Essential services** | Services whose continuity is necessary to continue core business lines. |

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101 ECB Glossary of terms related to payment, clearing and settlement systems, December 2009.
102 Directive 2013/36/EU 128.
103 Art. 2 (1) (36) BRRD.
104 Art. 2 (1), (31) BRRD.
105 Art. 6(4) DR 2016/778.
106 Art. 7 DR 2016/778/EU.
<table>
<thead>
<tr>
<th>Essential FMI services</th>
<th>Payment, clearing, settlement or custody services, provided by an FMI or by an intermediary, which are necessary for the continuity of one or several core business lines.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMI Intermediaries</td>
<td>FMI service providers other than FMIs. More often than not, these will be other institutions offering payment, clearing and settlement services, including by way of facilitating indirect access to an FMI.</td>
</tr>
<tr>
<td>FMI report</td>
<td>An SRB reporting requirement for banks to provide information on participation in or membership of FMIs and use of FMI intermediaries for payment, clearing, settlement and custody services: <a href="https://srb.europa.eu/en/content/fmi-report">https://srb.europa.eu/en/content/fmi-report</a></td>
</tr>
<tr>
<td>Group entities</td>
<td>Each legal entity that is part of a group\textsuperscript{107}.</td>
</tr>
<tr>
<td>Indirect holding</td>
<td>In accordance with the Art. 1 (114) CRR.</td>
</tr>
<tr>
<td>Institution</td>
<td>A credit institution or investment firm\textsuperscript{108}.</td>
</tr>
<tr>
<td>Material legal entities</td>
<td>Subset of group entities. The parent institution must always be included. Material group entities are the most significant entities within the group, whether that be due to the provision of critical funds or through generating a significant portion of the institution’s revenue.</td>
</tr>
<tr>
<td>No Creditor Worse Off (NCWO)</td>
<td>The No Creditor Worse Off principle states that no creditor of an institution should incur greater losses in resolution than they would have incurred under normal insolvency proceedings\textsuperscript{109}.</td>
</tr>
<tr>
<td>Open bank bail-in</td>
<td>In accordance with Art. 27 (1) (a) SRMR.</td>
</tr>
<tr>
<td>Operational Plan</td>
<td>Part of the Resolvability Work Programme that operationalises the programme through (i) concrete deliverables, (ii) timelines and (iii) milestones.</td>
</tr>
<tr>
<td>Operational asset</td>
<td>Assets that are not financial assets and that are required to perform services, such as real estate, intellectual property including trademarks, patents and software, hardware, IT systems and applications, data warehouses. Operational assets are critical/essential/otherwise relevant where access to them is required in order to perform a critical/essential/other relevant service.</td>
</tr>
<tr>
<td>Other relevant services</td>
<td>Services which, while not defined as critical or essential, are necessary for a successful implementation of the preferred resolution strategy or variant strategy.</td>
</tr>
<tr>
<td>Pari passu</td>
<td>The situation where two or more assets, securities, creditors, or obligations are treated equally and managed without preference.</td>
</tr>
</tbody>
</table>

\textsuperscript{107} Art. 1 (2), (31) BRRD.  
\textsuperscript{108} Art. 2 (1), (23) BRRD.  
\textsuperscript{109} Described in Art. 73 BRRD; Art. 15 SRMR.
| **Preferred resolution strategy (PRS)** | Defined as in Art. 2 (3) Delegated Regulation 2016/1075. |
| **Relevant Services** | All critical, essential or other relevant services. This applies analogously to operational assets and staff. |
| **Resolution entity** | A resolution entity means an entity established in the Union, which is identified by the resolution authority as an entity in respect of which the resolution plan provides for resolution action. |
| **Resolution Group** | A resolution entity and its subsidiaries that are not i) resolution entities themselves, or ii) subsidiaries of other resolution entities, or iii) entities established in a third country that are not included in the resolution group in accordance with the resolution plan and their subsidiaries. |
| **Resolution Reporting Requirements** | Pursuant to Art. 11 (1) BRRD and Section B of BRRD Annex, as well as Art. 8 (4) SRMR, the SRB collects information for drawing up and implementing resolution plans for banks under its remit. The SRB resolution reporting requirements (Liability Data Report, Critical Functions Report and FMI Report) cover the minimum information required by European Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 as well as further details required for the respective area. [https://srb.europa.eu/en/content/reporting](https://srb.europa.eu/en/content/reporting) |
| **Resolvability Progress Report** | A document reflecting the progress made by the banks in addressing impediments, based on the Resolvability Work Programme. The report should (i) give sufficient details on the banks’ deliverables against milestones, and (ii) help IRTs to update the resolvability assessment at the end of each resolution planning cycle. |
| **Sale of Business (SoB)** | As defined in Art. 3 (1) (30) SRMR. |
| **Securities Settlement System (SSS)** | A system that allows the transfer of securities, either free of payment or against payment (delivery-versus-payment). |
| **Significant Institution** | In accordance with Art. 6 (4) of Regulation (EU) No 1024/2013. |
| **Staff** | Employees of the parent or any group entity of the institution. Staff are critical/essential/otherwise relevant where they are required in order to perform a critical/essential/other relevant service. |
| **Substantive Impediment Process** | The procedure described under Art. 10 SRMR. |
| **Synthetic Holding** | In accordance with Art. 1 (126) CRR. |
| **Third-country** | A non-EU country. |
| **Transitional Service Agreement** | An agreement that determines the scope of services one company should provide to another when there is a change of ownership. |

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110 Art. 2 (1) (83b) (a) BRRD, Art. 23 (1) (24b) (a) SRMR.
111 ECB Glossary.
<table>
<thead>
<tr>
<th>Valuation 1</th>
<th>Valuation 1 is the valuation required under Art. 20 (45) (a) SRMR to assess whether the conditions for resolution or for write-down or conversion of capital instruments are met.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation 2</td>
<td>Valuation 2 informs the decision on the appropriate resolution action to be taken and, depending on that action, the decisions on the extent of the cancellation or dilution of instruments of ownership, the extent of the write-down or conversion of relevant capital instruments and eligible liabilities, the assets, rights, liabilities or instruments of ownership to be transferred, and the value of any consideration to be paid and ensures that any losses on the assets of the entity are fully recognised.(^\text{112}) Valuation 2 should include an estimate of the treatment that each class of shareholders and creditors would have been expected to receive if an entity were wound up under normal insolvency proceedings(^\text{113}).</td>
</tr>
<tr>
<td>Valuation 3</td>
<td>Valuation 3 aims at determining whether or not shareholders and creditors would have received better treatment if the institution under resolution had entered into normal insolvency proceedings. In other terms, Valuation 3 aims at assessing any possible breach of the NCWO principle(^\text{114}).</td>
</tr>
<tr>
<td>VDR</td>
<td>Virtual Data Room: a virtual data room is generally intended to be an online facility where documents and information to perform a due diligence are uploaded.</td>
</tr>
</tbody>
</table>

\(^{112}\) Art. 20 (5) (b)-(g) SRMR  
\(^{113}\) Art. 20 (9) SRMR.  
\(^{114}\) Art. 20 (16-18) SRMR.