Questions and answers about the Swedish National Debt Office's decisions regarding the minimum requirement for own funds and eligible liabilities (MREL)

Which firms are the subject of the Debt Office's MREL decisions?

In 2018, the Debt Office has formally decided on an individual MREL for all credit institutions and investment firms subject to such a decision under the Swedish Resolution Act. In addition, the Debt Office has issued a decision on MREL at the group level.

The Debt Office has also taken a decision this year on MREL for subsidiaries that belong to groups for which the resolution strategy is known as a SPE strategy[1]. For these subsidiaries, specific principles apply for how the requirement is to be met. The liabilities being used shall be subordinated and issued to the institution within the group that is to be placed into resolution. (the subordination principle). The requirements apply from 1 April 2019.

What does the MREL decision cover?

The MREL decision taken by the Debt Office covers only the *size* of the requirement. The Debt Office's decision memorandum on MREL states that the Debt Office, in addition to setting the requirement, intends to apply a number of principles for how MREL *is to be met*. This includes that, at the group level, the requirement shall be met with a certain proportion of liabilities (the liabilities proportion principle), and the requirement shall be fully met with subordinated instruments no later than 1 January 2022.

The liabilities proportion principle and the subordination principle are not part of the formal MREL decision.[2]

What consideration is given to Pillar 2 requirements in MREL?

For systemically important institutions, Pillar 2 requirements will only be taken into account if they have been set by the Swedish Financial Supervisory Authority (FI) in the overall capital assessment for the firm as part of the Supervisory Review and Evaluation Process (SREP). Regarding institutions for which no overall capital assessment has been made, the loss absorption amount (LAA), and where applicable the recapitalisation

[1] Eng. 1 Single Point of Entry, i.e. a resolution strategy in which resolution measures are only applied to the parent company of a group.

[2] See the Debt Office's decision memorandum: *Application of the minimum requirement for own funds and eligible liabilities* (RG 2016/425), 23 February 2017 and *Questions and answers about the minimum requirement for own funds and eligible liabilities*.

amount (RCA), will consist solely of the minimum capital requirement in Pillar 1. The same applies to non-systemically important institutions for which a SREP has been conducted.

Pillar 2 requirements that are entirely motivated by macroprudential reasons (systemic risk add-on in Pillar 2, risk weight floor of 15–25 per cent and systemically critical securitisation transactions) are completely excluded from the calculation of the LAA.

For Pillar 2 requirements that are calculated by FI using a method in which parts of the requirements indirectly reflect macroprudential risks, the LAA is reduced by an amount corresponding to such risks. However, no comparable reductions are made to the RCA, as the calculation of RCA is not dependent on whether the Pillar 2 requirements have been set on the grounds of macroprudential risks, but rather on an assessment of which capital requirements are deemed applicable following a resolution.[3]

Example: Risk weight floor for mortgages 0–15 per cent

The Pillar 2 add-on for the risk weight floor is derived by first calculating the increase in the institution's risk-weighted exposure amount that the floor gives rise to. This increase is then multiplied by the minimum capital requirement, the capital conservation buffer, the counter-cyclical buffer and, where applicable, the systemic risk add-on in Pillar 2 and the systemic risk buffer. Out of these capital requirement components, the latter three are motivated by macroprudential risks. The proportion of the risk weight floor 0–15 per cent that corresponds to these three requirements will be reduced in the LAA.

Which data has been used to establish the minimum requirement?

The calculation of MREL is based on information on institutions' 1) capital requirements and 2) total liabilities and own funds.

Capital Requirement Information

For those institutions for which FI has conducted a SREP in 2018, all data regarding capital requirements has been obtained from the overall capital assessment resulting from that SREP. As a general rule, the assessment as at 31 December 2017 has been used (no forecast values).

For those institutions for which FI has not completed a SREP in 2018, the data regarding Pillar 2 requirements has been obtained from the latest available SREP. As there is no data from 31 December 2017, in these cases, data from the date (actual or forecast) closest to 31 December 2017 has been used. Other capital requirement data for these institutions, and data for those institutions that have not been subject to a SREP, have been obtained by the Debt Office directly from the institutions. This information is based on data as at 31 December 2017.

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[3] See section 3.2 of the Debt Office's decision memorandum.

Information about which Pillar 2 requirements directly or indirectly reflect macroprudential risks and how much of the requirement corresponds to such risks, i.e. the amounts that are reduced in the LAA, has been obtained from FI.

Information on total liabilities and own funds

Information on total liabilities and own funds has been obtained from the institutions. This information is based on data as at 31 December 2017.