RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

29 november 2019

CRISIS PREPAREDNESS OF SWEDISH BANKS

Compliance with the MREL requirement, Q3 2019

Reg. No. RGR 2019/52

The Debt Office's mandate for financial crisis management

The Swedish National Debt Office shall, in collaboration with the Ministry of Finance, Finansinspektionen (the Swedish Financial Supervisory Authority) and the Riksbank, work to keep the financial system stable. This is an important responsibility, as a serious disturbance to the financial system could result in significant costs for the Swedish economy from, for example, weak growth and higher unemployment. The Debt Office's primary financial stability roles include the provision of precautionary support to viable banks and other financial institutions ("institutions"), management of systemically important institutions that are no longer viable, and responsibility for the deposit insurance scheme.[1]

The procedure for managing systemically important institutions that are no longer viable is called resolution. Resolution entails that the central government, via the Debt Office, assumes control of a crisis-afflicted institution to restructure it or wind it up in an orderly manner, without using taxpayers' money. Throughout the resolution process, all or part of the institution's functions are maintained so that depositors and other customers have access to their accounts and services.

The minimum requirement for own funds and eligible liabilities (MREL)

During resolution, the institution's shareholders and creditors bear the costs of covering losses, through the write-down of liabilities or so-called bail-in.[2] For such a write-down to be possible, the institution must have a certain amount of own funds and liabilities to absorb losses and restore capital. The minimum requirement for own funds and eligible liabilities (MREL) ensures that there are sufficient own funds and liabilities that can be written down or converted in order to restore the institution's viability.

[1] The formal definition of institutions includes *credit institutions* (including banks and credit market companies) and *investment firms*. See Chapter 2, Section 1 of the Resolution Act (2015:1016).

[2] Deposits protected by the deposit insurance scheme are always protected from the write-down of liabilities. See also the information box on pages 7 and 8.

Summary

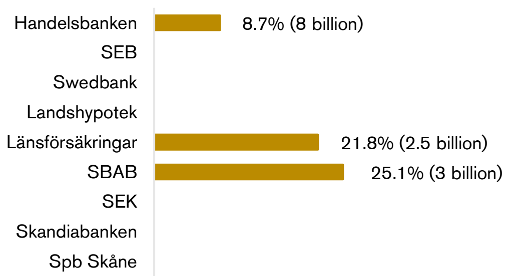
In order for the Debt Office to implement resolution, the institution being resolved must have sufficient own funds and liabilities that can be used to absorb losses and restore capital. Therefore, the Debt Office makes decisions each year on the levels of own funds and eligible liabilities that the institutions are required to have. These requirements are called the minimum requirements for own funds and eligible liabilities (MREL). A certain proportion of the requirement is to be met exclusively with liabilities (the liabilities proportion principle). Starting 1 January 2022, these liabilities must be subordinated liabilities. This means that they are to be used after own funds, and before other financing, to absorb any losses.

The Debt Office has deemed there to be nine systemically important institutions in Sweden currently, which are subject to the MREL requirements monitored in this report. These institutions are: the three major banks Skandinaviska Enskilda Banken (SEB), Svenska Handelsbanken, and Swedbank; and the mid-sized institutions Landshypotek, Länsförsäkringar, SBAB, Skandiabanken, Sparbanken Skåne, and the Swedish Export Credit Corporation (SEK).

In this report, the Debt Office shows how the systemically important institutions comply with the set requirements. These reports will be published once every quarter. The Debt Office also presents how the institutions comply with the liabilities proportion principle, as well as how subordinated liabilities are built up until 1 January 2022. [3]

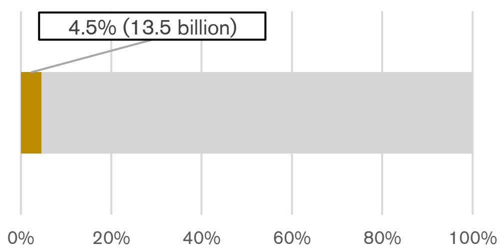
The figures in the report show that all systemically important institutions meet the set requirements. All institutions also have a sufficient amount of liabilities as required to meet the liabilities proportion principle. In addition, the report shows that the systemically important institutions have begun to issue subordinated liabilities. Figures 1 and 2 below show that as of 30 September 2019, the institutions in aggregate had issued subordinated liabilities valued at SEK 13.5 billion, which corresponds to around 4.5 per cent of the total issuance requirement.

Figure 1. Subordinated liabilities issued, % (SEK billion)



Note: Issuance per institution in per cent of total issuance requirement, and amount in parentheses. Data as of 2019-09-30.

Figure 2. Total subordinated liabilities issued, % (SEK billion)



Note: Total issuance in relation to issuance requirement (excluding Sparbanken Skåne), and amount in parenthesis.[4] Data as of 2019-09-30.

[3] The Debt Office has specified that subordinated liabilities shall be built up at a reasonable pace until 1 January 2022.

[4] The liabilities proportion principle is not shown for Sparbanken Skåne because Finansinspektionen does not make Pillar 2 requirements for the institution public.

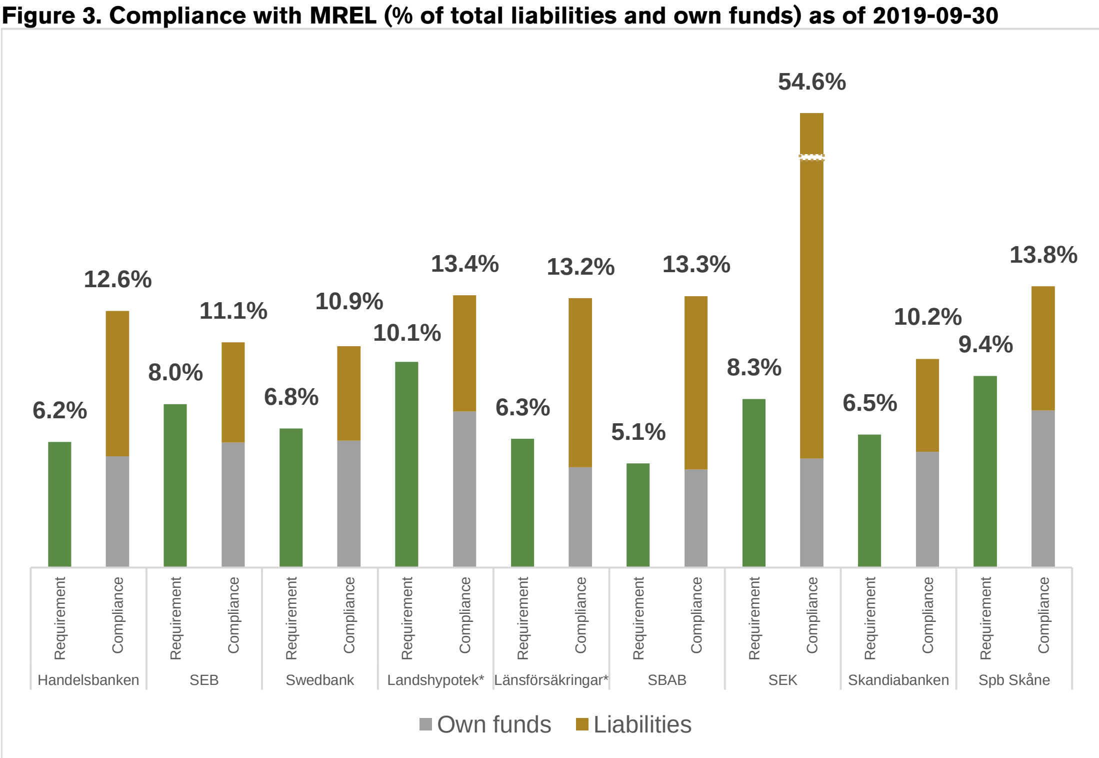
MREL compliance

The MREL compliance of systemically important institutions in this report concerns the institutions' requirements on a consolidated basis, based on information submitted by the institutions. The data for the MREL compliance presented in this report is as of 30 September 2019.

Compliance is measured on the basis of the MREL requirements determined in December 2018, which entered into force on 1 January 2019.[5] MREL compliance refers to the institutions' total resources (own funds and liabilities) for meeting the requirement. The report also covers compliance with the liabilities proportion principle (including the subordination principle) and the resulting *de facto requirement*. For further information on the Debt Office's MREL requirements and the principles involved, see the information box on pages 8 and 9.

The MREL requirement is expressed as the share of total liabilities and own funds (TLOF). Thus, Figure 3 below shows the institutions' compliance as a proportion of TLOF.

Figure 3. Compliance with MREL (% of total liabilities and own funds) as of 2019-09-30

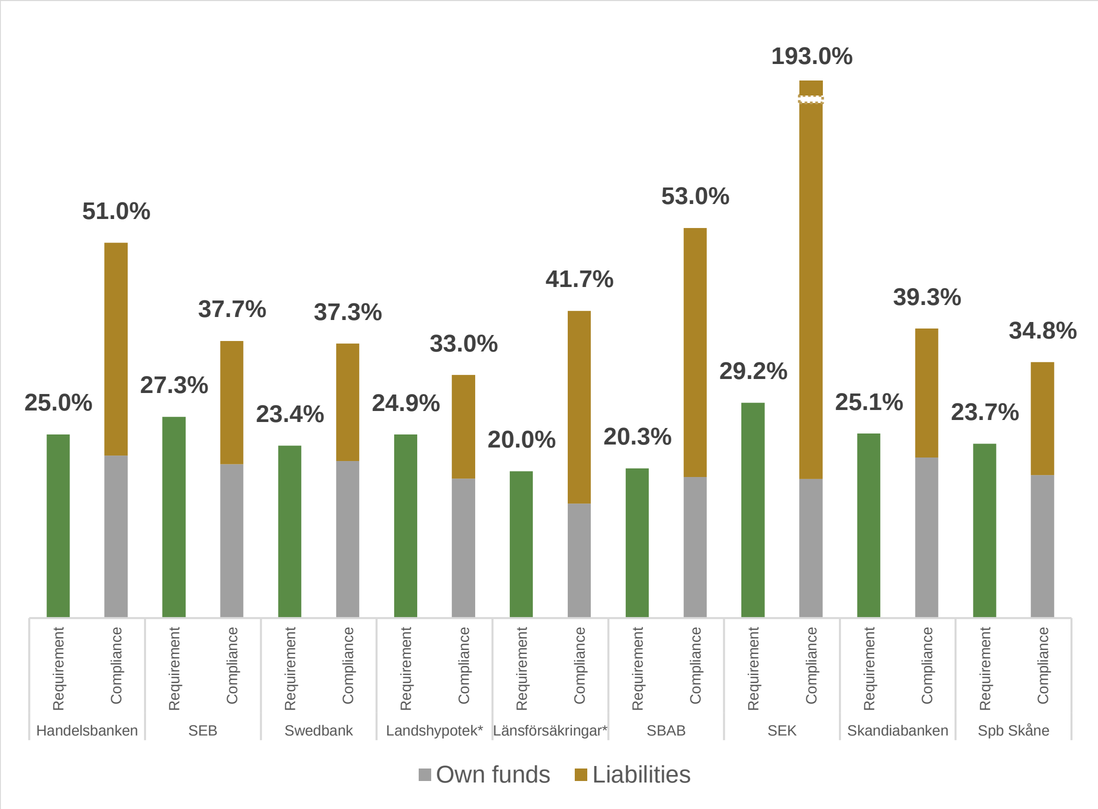


Note: The figure shows the MREL requirement and compliance (total MREL resources) for each institution. MREL compliance is also divided into the institutions' own funds and eligible liabilities. The MREL requirements are those to be met by each institution at the group level.
*The own funds differ from the own funds for the entire group on a consolidated basis. See the information box on pages 8–9 for further information.

[5] See the Debt Office's press release from 2018-12-19: https://www.riksgalden.se/sv/press-och-publicerat/pressmeddelanden-och-nyheter/pressmeddelanden/2018/arliga-beslut-om-bankkrisplanering-faststallda/

Figure 4 shows the institutions' compliance with MREL expressed as a share of their total risk exposure amount (TREA). This is presented for informational purposes to enable comparison with Finansinspektionen's capital requirements.

Figure 4. Compliance with MREL (% TREA) as of 2019-09-30



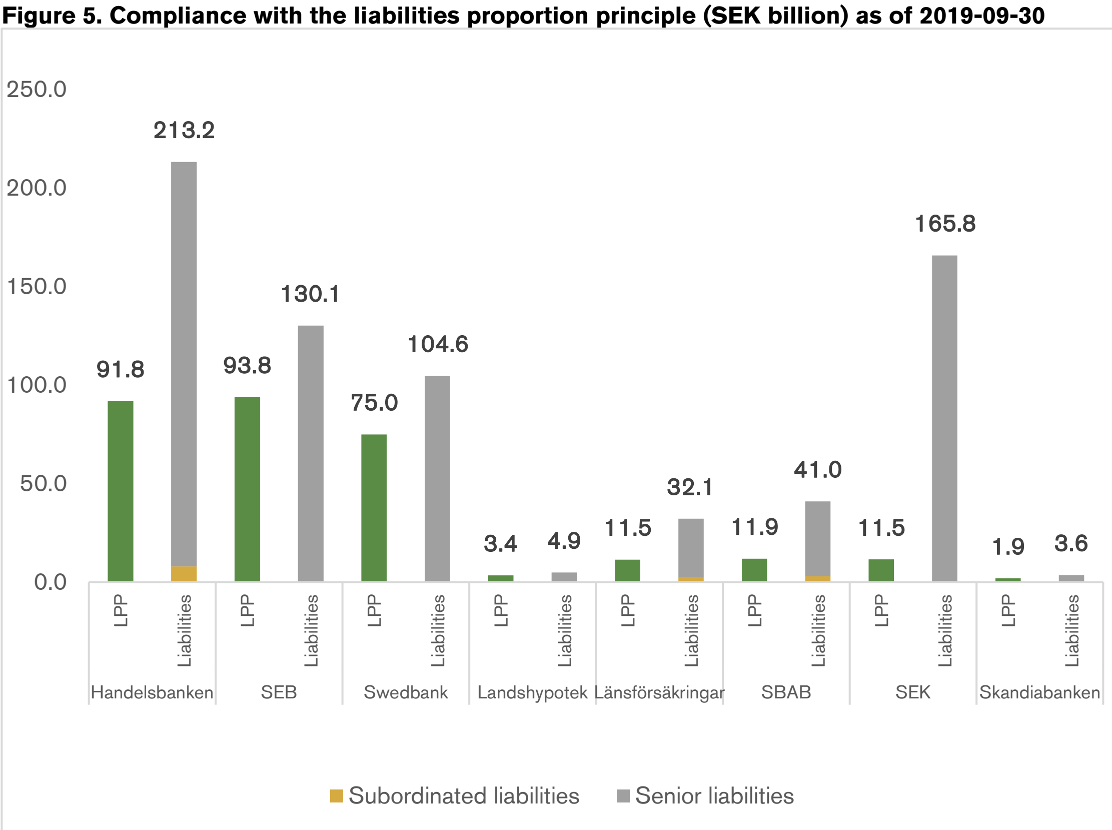
Note: The figure shows compliance with MREL (total MREL resources) for each institution in per cent of TREA. The requirement and compliance is adjusted based on TREA as of 2019-09-30. MREL compliance is also divided into the institutions' own funds and eligible liabilities. The MREL requirements are those to be met by each institution at the group level. The requirement expressed in terms of TREA is presented for informational purposes.
*The own funds differ from the own funds for the entire group on a consolidated basis. See the information box on pages 8–9 for further information.

Liabilities proportion principle and de facto requirement

The Debt Office has established that a certain proportion of the MREL requirement is to be met exclusively with liabilities (the liabilities proportion principle, "LPP"). By 1 January 2022, these liabilities must consist of a specific type of debt instruments – subordinated liabilities (the subordination principle). These principles are described further in the information box on pages 8 and 9.

Figure 5 shows the institutions' total compliance with the liabilities proportion principle, expressed in SEK billion, and the amount of subordinated liabilities each institutions has issued.

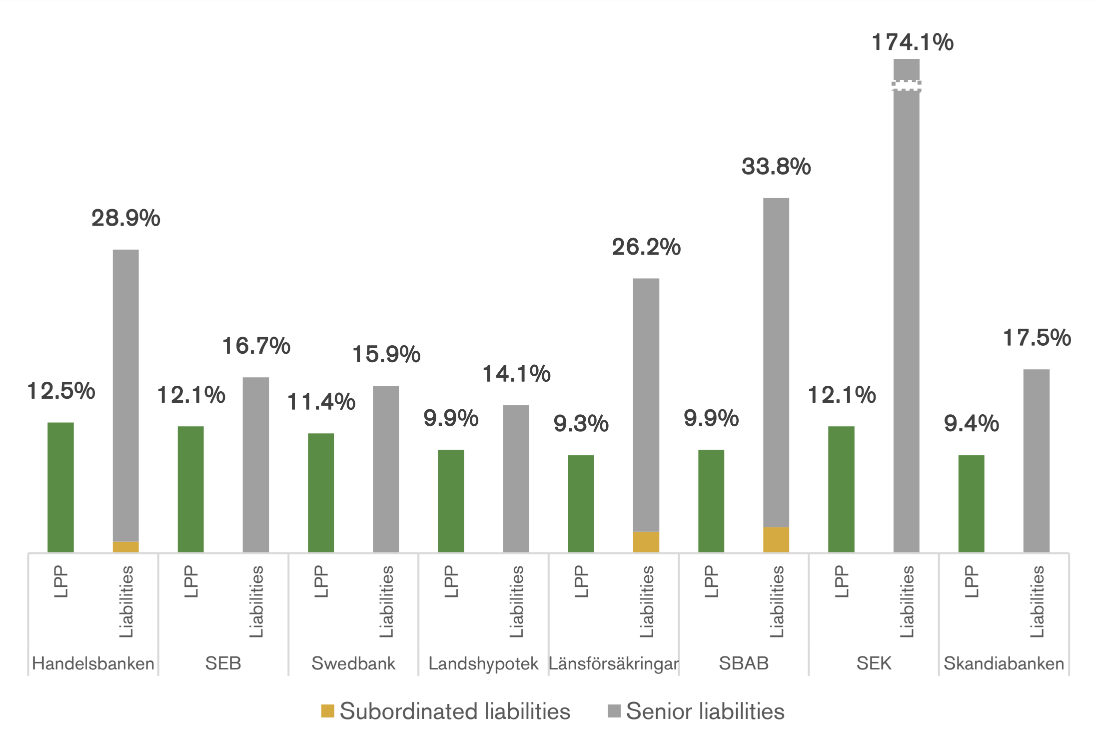
Figure 5. Compliance with the liabilities proportion principle (SEK billion) as of 2019-09-30



Note: The figure shows the liabilities proportion principle, and compliance (total eligible liabilities) for each institution. Compliance is also divided into shares of subordinated and senior liabilities. The liabilities proportion principle corresponds to the Pillar 1 and Pillar 2 requirements (nominal amounts) set by Finansinspektionen. Sparbanken Skåne is not shown here because Finansinspektionen does not make Pillar 2 requirements for the institution public. However, the Debt Office monitors the institution's compliance in the same way as for other systemically important institutions.

Figure 6 shows the institutions' compliance with the liabilities proportion principle (LPP) expressed as a share of their total risk exposure amount (TREA). The compliance is presented for informational purposes to enable comparison with Finansinspektionen's capital requirements.

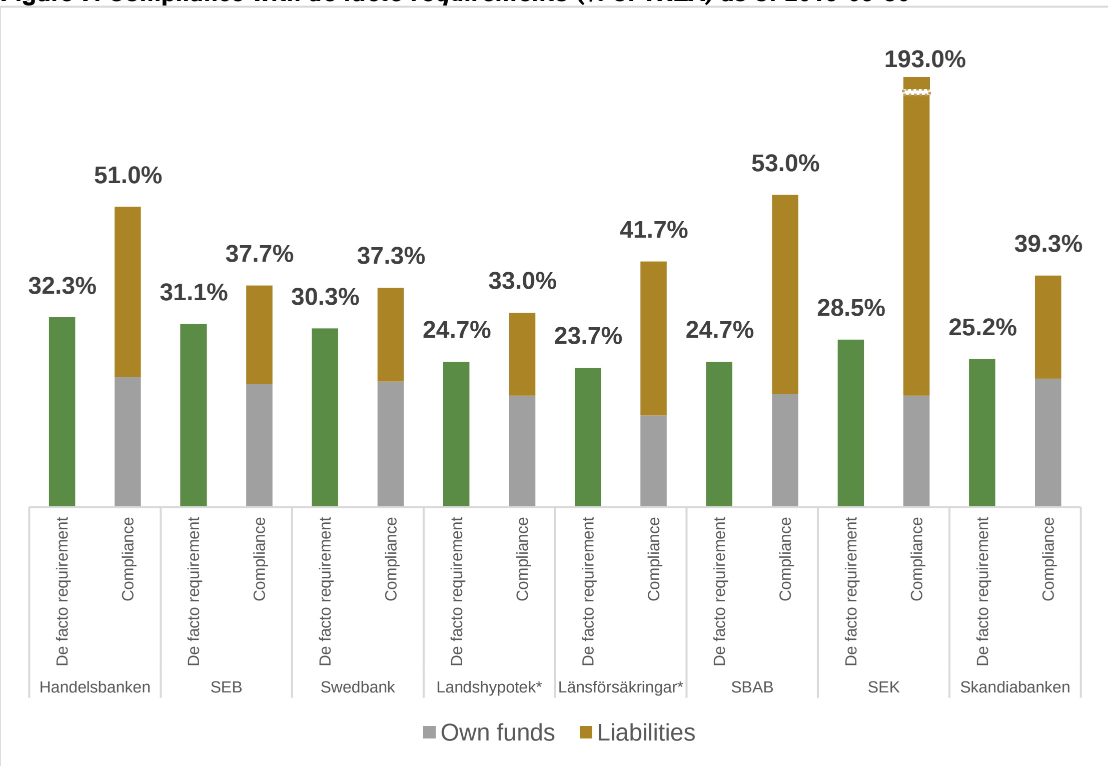
Figure 6. Compliance with the liabilities proportion principle (% of TREA) as of 2019-09-30



Note: The figure shows the liabilities proportion principle in per cent of TREA, and compliance (total eligible liabilities) for each institution. Compliance is also divided into shares of subordinated and senior liabilities. The liabilities proportion principle corresponds to the Pillar 1 and Pillar 2 requirements (nominal amounts) set by Finansinspektionen. The requirement expressed in terms of TREA is presented for informational purposes. Sparbanken Skåne is not shown here because Finansinspektionen does not make Pillar 2 requirements for the institution public. However, the Debt Office monitors the institution's compliance in the same way as for other systemically important institutions.

Figure 7 shows the institutions' compliance with the total capital requirements plus the liabilities proportion principle, i.e. the *de facto requirement*. For a further description of the *de facto requirement*, see the information box on pages 8 and 9. Compliance is expressed as a share of the institutions' total risk exposure amount (TREA) and is presented for informational purposes to enable comparison with Finansinspektionen's capital requirements.

Figure 7. Compliance with *de facto requirements* (% of TREA) as of 2019-09-30



Note: The figure shows the *de facto requirement* for each institution, which corresponds to the institutions' total capital requirements as evaluated by Finansinspektionen plus the liabilities proportion principle established by the Debt Office. The requirement is shown in relation to TREA. Compliance is also divided into the institutions' own funds and eligible liabilities. The compliance is reported for informational purposes. Sparbanken Skåne is not shown here because Finansinspektionen does not make Pillar 2 requirements for the institution public. However, the Debt Office monitors the institution's compliance in the same way as for other systemically important institutions.

*The own funds differ from the own funds for the entire group on a consolidated basis. See the information box on pages 8–9 for further information.

Calculating and meeting MREL

The purpose of MREL

In order to implement resolution, systemically important institutions must have a certain amount of own funds and liabilities that can be written down or converted into new equity to absorb losses and restore capital in a crisis. Therefore, The Debt Office sets the minimum requirement for own funds and eligible liabilities (MREL). The requirement is set at the group level and for individual institutions.

The MREL requirement can be met with own funds and liabilities (referred to as eligible liabilities) that fulfil certain conditions. Among other things, eligible liabilities must have a residual maturity of at least one year and must not be deposits protected by deposit insurance, must not be secured liabilities, and must not be liabilities that arise from derivatives.[6 7 8]

The requirement is composed of two parts

The MREL requirement must enable the institution to both absorb losses that can arise in its operations and cover the need for new capital so that it can continue as a going concern following resolution. MREL is therefore composed of a loss absorption amount (LAA), calculated on the basis of prevailing capital requirements and Pillar 2 requirements (including certain technical adjustments to the Pillar 2 requirement).[9] Thereafter, the recapitalisation amount (RCA) is calculated, which corresponds to the resources used in resolution to recapitalise the institution. The RCA is also calculated on the basis of prevailing minimum capital requirements and Pillar 2 requirements, as the Debt Office plans for the systemically important institutions' entire operations to continue after resolution.

Principles for meeting MREL

In addition to the MREL requirement it sets, the Debt Office has also laid down principles for how the institutions must meet the requirement. MREL must be met in full by 2022 at the latest, and entirely with subordinated instruments (the subordination principle)[10]. In addition, the institutions must have at least enough eligible liabilities to correspond to the size of the recapitalisation amount (liabilities proportion principle). Subordination entails that liabilities

[6] In resolution, liabilities can also be written down that have the same order of priority as eligible liabilities (this does not include guaranteed deposits or secured liabilities) as well as liabilities that have a residual maturity of less than one year, even if these may not be formally used to meet MREL. The stipulated conditions increase the likelihood of the availability of a sufficient amount of resources that can be written down if, for instance, the institution can no longer raise funding in capital markets. Deposits up to SEK 950,000 by private individuals and firms subject to deposit insurance are exempted from write-down. The protection for depositors is thereby the same in the event of resolution as it is when an institution fails. See further information on the Debt Office's website: (https://www.riksgalden.se/sv/var-verksamhet/insattningsgarantin-och-investerarskyddet/).

[7] The conditions are stated in Chapter 2, Section 2 of the Resolution Act (2015:1016) – eligible liability – and Chapter 2, Section 2 of the Debt Office's resolution regulations (RGKFS 2015:2) – MREL eligible liability.

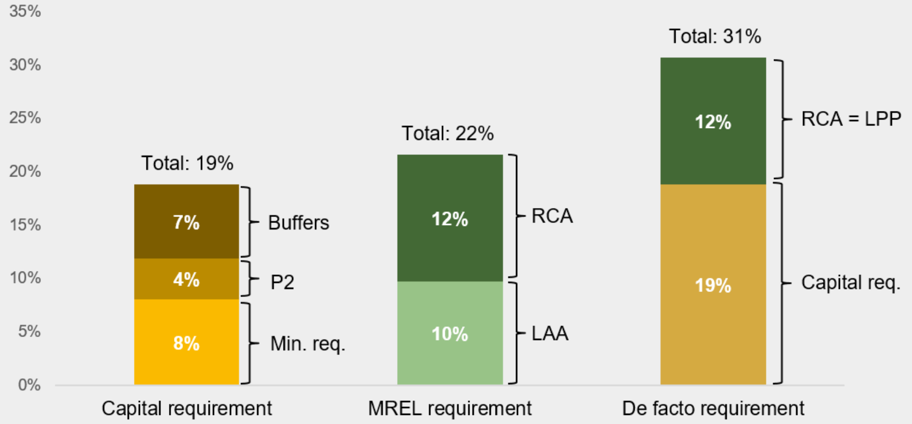
[8] The terms *eligible* and *MREL eligible* will be revised in the Swedish legislation when a revised Bank Resolution and Recovery Directive (BRRD2) has been transposed into Swedish law.

[9] The Debt Office makes technical adjustments to the Pillar 2 requirement because certain components correspond to macroeconomic risks that can be assumed to have been realised before the institution is put in resolution. The loss absorption amount is therefore generally slightly lower than the recapitalisation amount (see the figure on page 9).

are written down or converted into equity, before other financing such as deposits from large corporations of bank bonds.[11]

The liabilities proportion principle (LPP) ensures that there are sufficient resources in resolution to recapitalise the institution and entails that the overall need for own funds and eligible liabilities for the institutions is higher than the MREL requirement. Therefore, institutions' *de facto requirements* comprise the total capital requirement and the liabilities proportion principle (see the illustration below).

Illustration – the *de facto requirement* for an example institution (% of total risk exposure amount)[12]



In the illustration, the total capital requirement amounts to 19 per cent of the total risk-weighted exposure amount (far-left bar), comprised of 8 per cent minimum requirement, 4 per cent Pillar 2 requirement, and 7 per cent buffers. The loss-absorption amount corresponds to the minimum requirement and the Pillar 2 requirement, with certain technical adjustments (described above). The recapitalisation amount corresponds to the minimum requirement and Pillar 2 requirement. The MREL requirement thereby amounts to 22 per cent (middle bar). The liabilities proportion principle entails that banks must have liabilities corresponding to the recapitalisation amount. The institution's *de facto requirement* is therefore the capital requirement (to be met with own funds) plus the recapitalisation requirement (to be met with eligible liabilities), and thereby amounts to 31 per cent (right-hand bar).

MREL compliance for groups

A resolution group consists of the companies within a group that are to be managed collectively through resolution. The MREL requirement on a consolidated basis therefore corresponds to the combined loss absorption and recapitalisation requirements for the entire group. In every group, only one institution is put into resolution – the resolution entity. The Debt Office develops a resolution strategy for the group and decides which entity is the resolution entity. The entire resolution group's own funds are counted towards meeting MREL on a consolidated basis, whereas only the eligible liabilities that are issued by the resolution entity are counted.

[11] For more information, see the Debt Office's memorandum *Application of the Minimum Requirement for Own Funds and Eligible Liabilities*: (https://www.riksgalden.se/globalassets/dokument_sve/om_riksgalden/finansiell-stabilitet/tillampning-av-minimikravet-pa-nedskrivningsbara-skulder.pdf).

[12] The illustration shows the combined requirements for Handelsbanken, SEB and Swedbank as at 2018-12-31.

For the majority of the nine systemically important institutions, the resolution group coincides with the group level that Finansinspektionen reports in the publication *The Capital Requirements of Swedish Banks*. Landshypotek and Länsförsäkringar are exceptions to this, for which the resolution entity is an institution other than the parent company in the group (in both cases, the parent company is a holding company). In these cases, the parent company's own funds are therefore not part of the own funds included in MREL.

Appendix table

Table 1 summarises compliance with MREL and the liabilities proportion principle based on the Figures above.

Table 1. Aggregate data as of 2019-09-30

Institution	MREL requirement	MREL resources			MREL requirement	MREL resources			Liabilities proportion principle	Liabilities		
	% of TLOF				% of TREA				SEK billion			
		Total	*O/w own funds*	*O/w liabilities*		Total	*O/w own funds*	*O/w liabilities*		Total	*O/w senior*	*O/w sub-ordinated*
Handelsbanken	6.2%	12.6%	5.5%	7.1%	25.0%	51.0%	22.1%	28.9%	91.8	213.2	205.2	8.0
SEB	8.0%	11.1%	6.1%	4.9%	27.3%	37.7%	20.9%	16.7%	93.8	130.1	130.1	0.0
Swedbank	6.8%	10.9%	6.2%	4.6%	23.4%	37.3%	21.3%	15.9%	75.0	104.6	104.6	0.0
Landshypotek*	10.1%	13.4%	7.7%	5.7%	24.9%	33.0%	18.9%	14.1%	3.4	4.9	4.9	0.0
Länsförsäkringar*	6.3%	13.2%	4.9%	8.3%	20.0%	41.7%	15.6%	26.2%	11.5	32.1	29.6	2.5
SEK	8.3%	54.6%	5.4%	49.3%	29.2%	193.0%	18.9%	174.1%	11.5	165.8	165.8	0.0
SBAB	5.1%	13.3%	4.8%	8.5%	20.3%	53.0%	19.2%	33.8%	11.9	41.0	38.0	3.0
Skandiabanken	6.5%	10.2%	5.7%	4.6%	25.1%	39.3%	21.8%	17.5%	1.9	3.6	3.6	0.0
Sparbanken Skåne	9.4%	13.8%	7.7%	6.1%	23.7%	34.8%	19.4%	15.4%	-	4.8	4.8	0.0

Note: The figure shows compliance with MREL (total MREL resources) for each institution. MREL compliance is also divided into the institutions' own funds and eligible liabilities. The MREL requirements are to be met by each institution on a consolidated basis. The requirement expressed in terms of TREA is presented for informational purposes.
Compliance with the liabilities proportion principle is divided into shares of subordinated liabilities and senior liabilities. The liabilities proportion principle corresponds to the Pillar 1 and Pillar 2 requirements (nominal amounts) set by Finansinspektionen.
*The own funds differ from the own funds on a consolidated basis for the entire group. See the information box on pages 7–8 for further information.

The Swedish National Debt Office is the central government financial manager and national resolution and deposit insurance authority. The Debt Office thus plays an important role in the Swedish economy and financial markets.

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