Summary of consultation paper on MREL

A new framework for management of banking crises came into force in Sweden on 1 February 2016. The new framework means that the Swedish National Debt Office can take control over a crisis stricken bank by means of process known as "resolution", if such action is required to preserve financial stability. In a resolution the shareholders and lenders will be exposed to the bank's losses, not taxpayers. The lenders' liabilities will, in simple terms, be written down in the same way as in insolvency, albeit with certain exceptions. Debt write down (also known as "bail-in") will therefore become the central tool for handling bank crises.

In order to execute a resolution, banks must have a certain amount of own funds and liabilities which can be written down in order to cover losses or reinstate the bank's capital base in a crisis. A specific requirement is therefore being introduced, the minimum requirement for own funds and eligible liabilities (MREL). The requirement should be met at all times.

The introduction of MREL is a key part of the EU Bank Recovery and Resolution Directive which underpins the Resolution Act. The Debt Office, as designated Resolution Authority, will make decisions on the specificities of the MREL requirement.

The Level of MREL

MREL shall comprise of the sum of a *loss absorption amount* and a *recapitalisation amount*.

Loss absorption amount: shall be equivalent to an institution's total capital requirements (without taking into account the Basel-I floor), excluding the combined buffer requirement and the Pillar 2 systemic risk component.

Recapitalisation amount: shall be equivalent to an institution's total capital requirements, including, where applicable, the Basel-I floor. The recapitalisation amount shall be zero for institutions which are not expected to be placed in resolution, i.e. institutions which are deemed capable of being resolved through insolvency.

MREL will be set according to the above principles from autumn 2017, after the Swedish Financial Services Authority's annual comprehensive capital assessment *(Swe: samlade kapitalbedömning)* is complete and, where applicable, after the consultation and decision-making process in the resolution colleges for cross-border institutions has been completed. Until that time MREL for institutions will be set to the same level as each institution's total capital requirement.

Riksgäldskontoret
ORG.NR
202100-2635

POSTADRESS POSTAL ADDRESS
SE-103 74 Stockholm
Sweden

BESÖK VISITORS
Jakobsbergsgatan 13

TELEFON TELEPHONE
NAT. 08 613 45 00
INT. +46 8 613 45 00

TELEFAX
NAT. 08 21 21 63
INT. +46 8 21 21 63

INTERNET
riksgalden@riksgalden.se
www.riksgalden.se

Complying with MREL

The Debt Office intends, as a specific part of the resolvability assessment process, to evaluate how institutions comply with the MREL requirement. For those institutions that are planned to be handled by resolution, it is expected that the following principles should be complied with in order for the institution to be deemed resolvable.

Liabilities proportion: institutions should have MREL compatible liabilities *(swe: medräkningsbara skulder)* which are at least equivalent to the recapitalisation amount.

MREL compatible liabilities within groups: MREL compatible liabilities for groups where the preferred resolution strategy is an SPE (Single Point of Entry) should meet certain specific criteria. Liabilities which are used to meet MREL requirements on a consolidated basis should be issued by the Union parent undertaking and be held by third party entities outside the group. Liabilities which are used to meet the MREL requirements of subsidiaries on an individual basis should consist solely of liabilities to the Union parent undertaking. In addition, these liabilities should be subordinated to the subsidiary's other liabilities and should be capable of being written down or converted without the subsidiary being placed in resolution.

The Debt Office intends to assess institutions resolvability on the basis of these principles from autumn 2017. For institutions which at that time do not comply with the principles, the Debt Office will, unless other circumstances apply, conclude that an impediment to resolvability applies and accordingly initiate a process to address the impediment.

Subordination and cross-holdings

Two further principles which the Debt Office considers should be complied with in order for institutions to be deemed resolvable are:

- MREL compatible liabilities should be subordinated to other liabilities, and
- risks related to holdings of other institutions' eligible liabilities and/or MREL compatible liabilities ("cross-holding") should be limited.

However at this stage, the Debt Office does not intend to introduce requirements related to these principles or apply them as part of the resolvability assessment. The Debt Office considers that further impact assessment analysis is required and additionally wishes to take account of ongoing international regulatory activity before a final decision on these principles is made.

Regarding a subordination requirement, the Debt Office's view is that such a requirement should be introduced in the future. The Debt Office is therefore planning to publish further information at the start of 2017 regarding the nature, extent and implementation timetable for such a requirement.