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 2017, the Debt Office has decided on an individual MREL for all credit institutions and investment firms that are subject to the Swedish Resolution Act, with one exception. No individual MREL has been set for subsidiaries in groups for which the resolution strategy consists of an SPE strategy.[1][2] In addition, the Debt Office has made a decision on a minimum requirement at group level.

What does the MREL decision cover?

The MREL decision made by the Debt Office covers only *the size* of the requirement. The Debt Office's decision memorandum on MREL[3] states that the Debt Office, in addition to the requirement, intends to implement a number of principles for *how* the minimum requirement shall be met, one of which is that the requirement should be met with a certain proportion of liabilities (the liabilities proportion principle) and that the requirement should be completely met with subordinated instruments no later than 1 January 2022. These principles are not part of the formal MREL decision.[4]

For those institutions which the Debt Office has assessed need to be managed via resolution, and which have not previously been subject to resolution plan decisions, the Debt Office will begin assessing the institutions' resolvability based on the liabilities proportion principle on 1 July 2018. Regarding the subordination principle, the Debt Office will during 2018 determine whether there are grounds to make any exceptions in how the principle on subordinated liabilities will be applied.

What consideration is given to Pillar 2 requirements in the minimum requirement?

Pillar 2 requirements will only be considered in the setting of MREL if they have been applied by the Swedish Financial Services Authority (Swedish FSA) in the overall capital assessment that the Swedish FSA undertakes for the firm as part of the Supervisory Review and Evaluation Process (SREP). Regarding institutions for which no overall

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[1] Single Point of Entry, i.e. a resolution strategy where resolution measures are only applied to the parent company of a group.
[2] See *Questions and answers regarding the minimum requirement for eligible liabilities* (RGR 2017/221), 6 October 2017.
[3] Debt Office decision memorandum: *Application of the minimum requirement for own funds and eligible liabilities* (RG 2016/425), 23 February 2017.
[4] See section 5.1 of the Debt Office's decision memorandum and Questions and answers about the Minimum Requirement of Eligible Liabilities for a more detailed explanation of the function of these principles.

capital assessment has been made, the loss absorption amount (LAA), and where applicable the recapitalisation amount (RCA), will consist solely of the minimum capital requirement in Pillar 1.

Pillar 2 requirements which are completely 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 entirely excluded from the calculation of the LAA.

For Pillar 2 requirements that are calculated by Finansinspektionen using a method where 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 or not the Pillar 2 requirements have been set on the grounds of macroprudential risks, but rather on an assessment of which capital requirements are deemed to be applicable following a resolution.[5]

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 data

For institutions where the Swedish FSA has carried out an SREP in 2017, all data regarding capital requirements has been obtained from the overall capital assessment resulting from that SREP. As a general rule, the assessment as per 31 December 2016 has been used (no forecasts).

For institutions where the Swedish FSA has not completed an SREP in 2017, the information regarding Pillar 2 requirements has been obtained from the latest available SREP. As there is no data from 31 December 2016 in these cases, data from the date (actual or predicted) closest to 31 December 2016 has been used. Other capital requirement data for these institutions, as well as for those institutions that have not

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

been subject to an SREP, has been obtained by the Debt Office directly from institutions. This information is based on data as of 31 December 2016.

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 the Swedish FSA.

Information on total liabilities and capital base

Information regarding total liabilities and own funds has been obtained directly from institutions. As a rule, this information is based on data as of 31 December 2016.