



GIBRALTAR RESOLUTION  
AND COMPENSATION UNIT

# Industry Dialogue Workshop

MREL Recap & Reporting

**March 2022**



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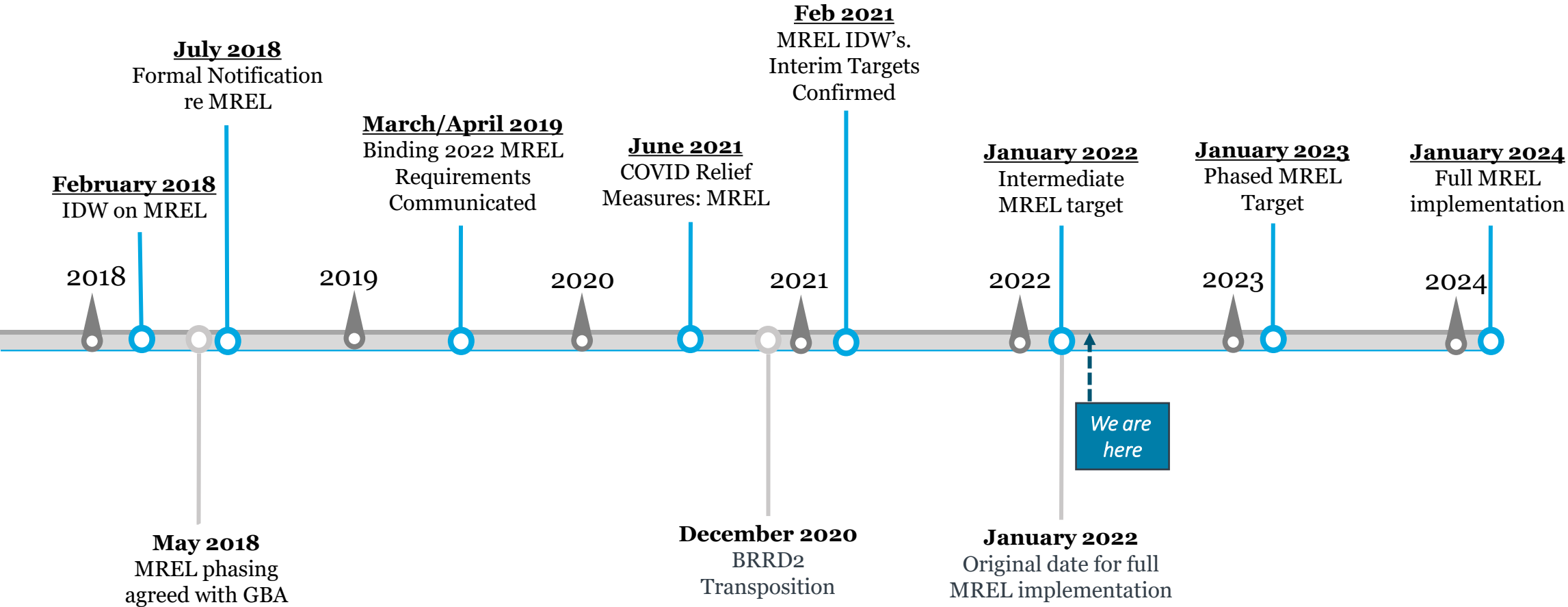




# MREL Recap



# MREL Implementation



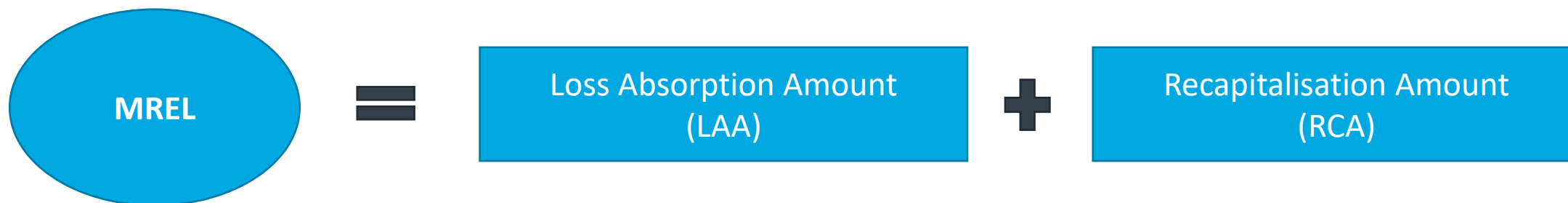
# What is MREL & why is it important?

RECAP

MREL ensures **loss absorption** and **recapitalisation** in the event of a bank resolution. Meeting MREL means improved resolvability.

Stabilisation in a resolution includes:

- **absorbing** losses a credit institution/group incurred prior to or in resolution.
- providing the **capital** needed to meet prudential requirements after resolution and to maintain sufficient market confidence.



“To avoid institutions structuring their liabilities in a manner that impedes the effectiveness of the bail-in tool it is appropriate to establish that the institutions meet at all times a **Minimum Requirement for own funds and Eligible Liabilities** (...).“ rec. 79 BRRD

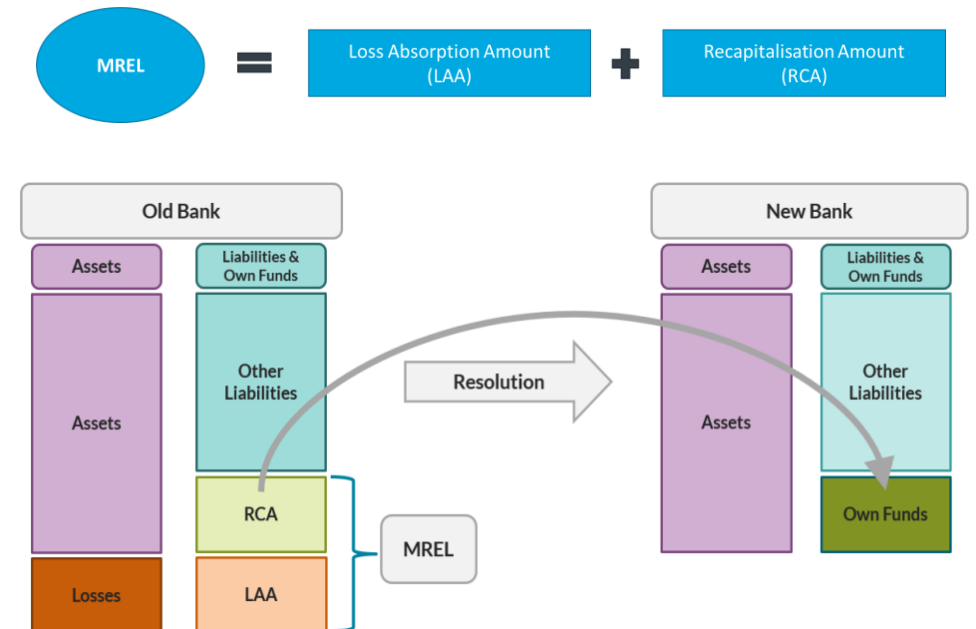
## Why is MREL key for the bail-in tool?

- Ensures institutions have adequate eligible liabilities to enable effective use of bail-in.
- The bail-in tool ensures that the costs of failure of a bank will as much as possible be borne by the bank's investors, i.e. its shareholders and creditors.
- The EU & UK both provide for certain liabilities to be excluded from the scope of the bail-in tool (on a mandatory and discretionary basis) due to financial stability and/or social policy concerns.
- MREL is mandatory for all resolution institutions (including those expected to use other resolution tools).

# How do firms meet MREL? (1/2)

## Liability proportion:

- MREL must be met by a certain proportion of liabilities (not applied to firms who's resolution strategy is insolvency).
- Not all liabilities that can be written down are eligible for satisfying the MREL requirement.
- The criteria for MREL eligible items are stricter and include requirements pertaining to the nature of the liabilities and their minimum maturity, for example.
- The reason for the stricter criteria for MREL liabilities is that although the bail-in tool can be applied during resolution to liabilities with a shorter maturity, short-term liabilities may mature during the bank's crisis or the assets related to the liabilities may be such that investors can immediately withdraw them or require their immediate payment.
- Consequently, the MREL requirement aims to ensure that an institution has eligible liabilities even at the time of being placed under resolution.



# MREL Eligibility Criteria

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The UK Bank Recovery and Resolution (No. 2) Order, Article 123(4) stipulates a number of eligibility criteria for equity and debt instruments (P1 & P2 Capital) to qualify as MREL:

- Issued and fully paid up;
- Not owed to, secured by or guaranteed by a firm itself;
- Not funded directly or indirectly by a firm;
- Remaining maturity of at least one year;
- Not a derivative liability; and
- Not a preferred deposit.
- Instrument that creates liability is not governed by a third country (i.e. outside of Gib/UK).

***Ultimately, banks will be required to perform their own assessment as to whether instruments/products are MREL eligible.***

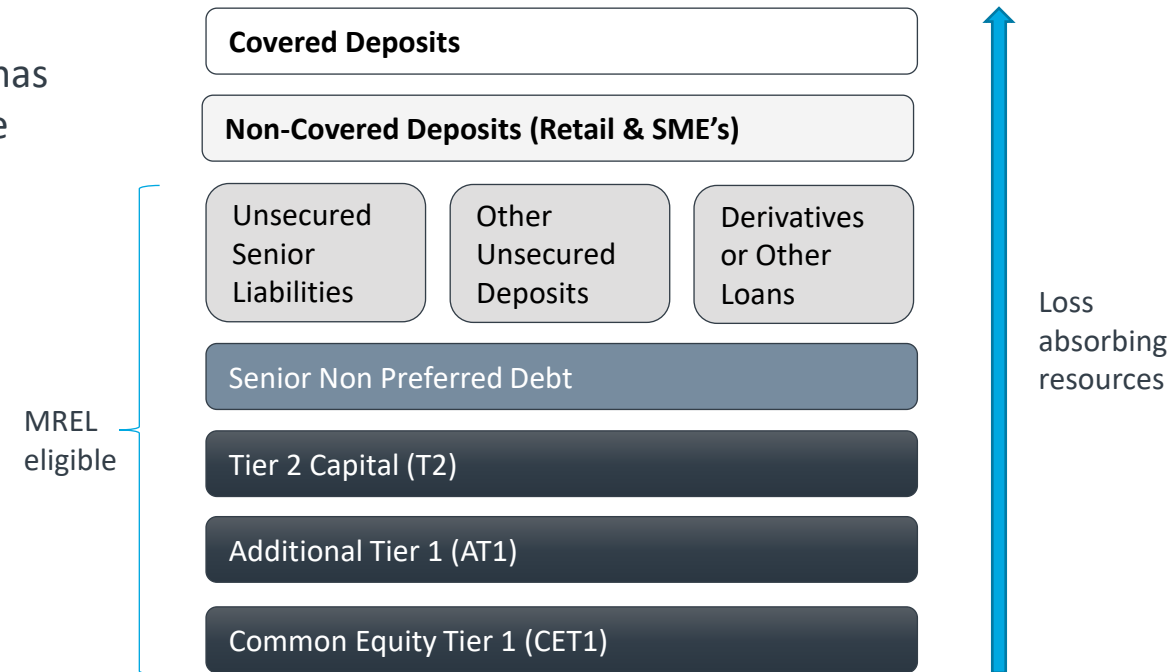
The RCU will do their best to assist when it can in this regard.



# How do firms meet MREL? (2/2)

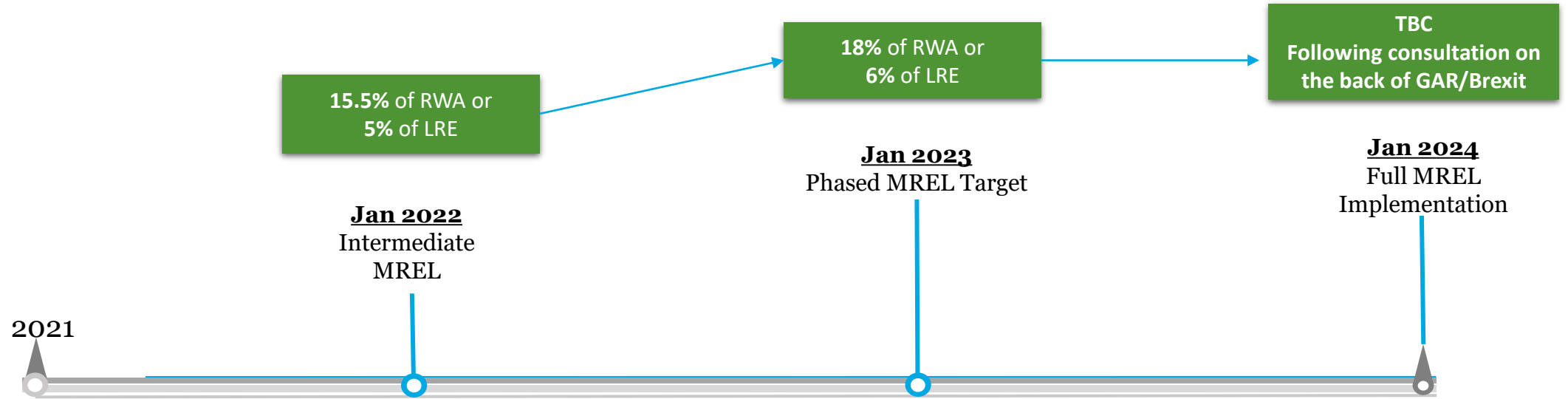
## Subordination

- No subordination requirements for 2022-23 interim targets.
- To ensure the effective and fast implementation of bail-in, MREL has been developed towards ensuring that institutions have adequate equity and debt instruments that are subordinated, i.e. ranking below traditional senior debt.
- Will entail that the minimum requirement is met or partially met with subordinated instruments that can be written down or converted before other liabilities such as corporate deposits or bonds.
- ***TBC following interim target implementation.***



# Interim Targets

- MREL improves strength of firms resolvability.
- MREL applies to all credit institutions who has a resolution strategy other than insolvency.
- Every institution has to hold sufficient and eligible loss absorbing capital by itself.
- MREL not an institution-specific requirement, or tailored to each individual bank (harmonised):



# MREL UK Calculation Targets

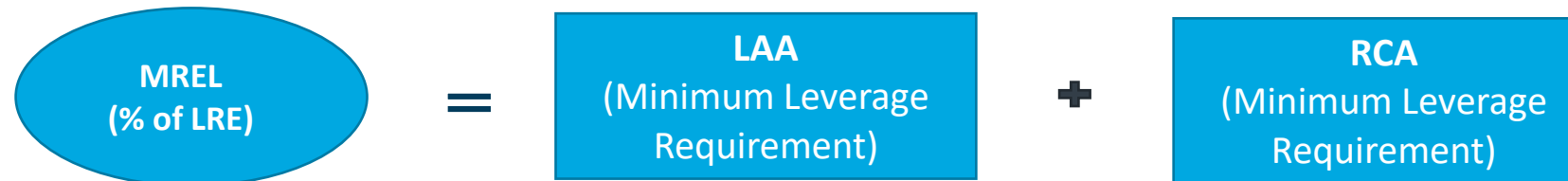
RECAP

UK bail-in resolution entities will be required to meet an external MREL equivalent to the higher of:

- i. Two times the sum of Pillar 1 and Pillar 2A, i.e.  $2 \times (\text{Pillar 1} + \text{Pillar 2A})^*$  e.g. 21% if the capital requirement is 10.5%:



- ii. If subject to a leverage ratio requirement, two times the applicable requirement (i.e. 6.5% if the leverage ratio is 3.25%):



- MREL shall be expressed as a percentage of Risk Weighted Assets (RWA) or Leverage Ratio Exposure (LRE) as a percentage of the eligible liabilities of the institution.



# Example – Bank ABC MREL Calibration



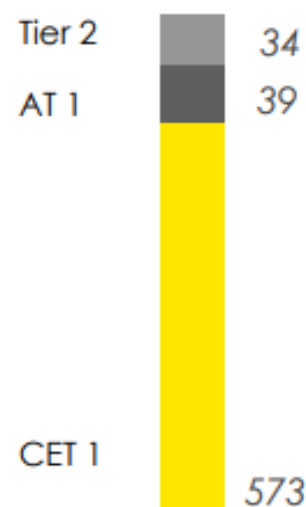
<b>Total Assets</b>	<b>325,000,000</b>
<b>RWAs</b>	<b>100,000,000</b>
<b>Own Funds</b>	<b>18,500,000</b>
- CET1	10,000,000
- T2	8,500,000
RWA (15.5% of RWA) Jan 2022	<input type="text"/>
LRE (5% of TA) Jan 2022	<input type="text"/>
RWA (18% of RWA) Jan 2023	<input type="text"/>
LRE (6% of TA) Jan 2023	<input type="text"/>

- Calculate higher of 15.5% of RWA or 5% of LRE for Jan 2022.
- Eligible own funds above required threshold (higher of RWA or LRE).
- Repeat for Jan 2023 targets.

# Raiffeisen Croatia - MREL

## Current MREL Situation

31/12/2020



24.97 %

MREL ratio

24.94 %

Subordinated ratio

EUR 2,733 mn

TREA as of Dec 2020

in EUR mn

## Indicative MREL Targets as of January 2021

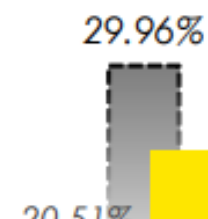
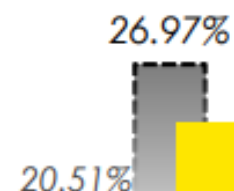
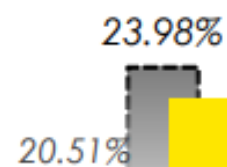
■ Total MREL target (in EUR mn)

■ Subordinated MREL target (in EUR mn)

at 01.01.2022

at 01.01.2023

at 01.01.2024



## Funding plans

● 2021

~ EUR 160 mn

● 2022

~ EUR 125 mn

● 2023

~ EUR 110 mn

- German law MTN program for preferred and non-preferred senior issuance
- 2021 Targeted issuance volumes too small for international issuance: funding plan to be met through private placements with supranational institutions



# MREL Reporting



# MREL Reporting Requirements

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- FSRCC requirement to collect information for the purpose of resolution planning and monitoring MREL. Ultimate objective to work together with banks to improve resolvability.
- First deadline for Q1 submissions of the MREL data via Invoke is 12 May 2022 (in line with other GFSC quarterly deadlines) on a quarterly basis.
- MREL resourcing template required (MRL001). **No** requirement at present for MRL002 (MREL forecasting) & MRL003 (MREL debt info). ***NB. This could changed following consultation with UK/GAR alignment.***
- Phased approach has been introduced to allow for better understanding of reporting landscape with regards to MREL.
- 2024 Target TBC – following consultation with GFSC and industry.

# MREL001 Reporting Template

ID	MREL Items	Rows	MATURITY PROFILE					
			Less than one year	One year and greater, less than two years	Two years and greater, less than five years	Five years and greater	Perpetual	Calculated amount that does not have maturity
			010	020	030	040	050	060
1.1	Tier 2 capital	010	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.2	Tier 2 capital issued by subsidiaries	020	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.3	Tier 2 capital that is no longer eligible as regulatory capital due to prudential amortisations	030	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.4	Tier 2 capital issued by subsidiaries that is no longer eligible as regulatory capital due to prudential amortisations	040	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.5	MREL eligible subordinated unsecured liabilities	050	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.6	MREL eligible senior unsecured liabilities	060	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.7	Liabilities that are not MREL eligible	070	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
1.8	Total MREL eligible resources	080	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
<b>Supplementary Information</b>								
2.1	Exposures to other MPE resolution groups that correspond to liabilities eligible for MREL (not applicable to SPE firms)	90	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.2	Investments in own non-regulatory capital MREL eligible liabilities	100	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.3	Reciprocal cross-holdings in non-regulatory capital MREL eligible liabilities	110	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.4	Investments in non-regulatory capital MREL eligible instruments of financial sector entities where the institution does not own more than 10% of the issued common share capital of the entity	120	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.4.1	Of which held in the trading book and are to be sold within 30 business days	130	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.5	Investments in non-regulatory capital MREL eligible instruments of financial sector entities where the institution owns more than 10% of the issued common share capital of the entity	140	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.6	Ineligible CET1	150	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.7	Ineligible AT1	160	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value
2.8	Ineligible T2	170	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value	Monetary Value



# Useful MREL documents

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**MREL Statement of Policy (Bank of England):**

<https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/mrel-statement-of-policy-december-2021-updating-2018.pdf?la=en&hash=513F77100E9424C7F4019928FEFA42AC2C025AA0>

**MREL Reporting Guidance Notes (Bank of England):**

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2018/ps1118app2guidance.pdf>

**Interim and end state MREL targets for UK banks:**

<https://www.bankofengland.co.uk/-/media/boe/files/financial-stability/resolution/interim-and-end-state-mrel-december-2021.pdf?la=en&hash=E294573862037D91737A0DE9A1ABD1087F6AE9A4>

**MREL Eligible Liabilities list (page 20):**

[https://www.bbvaresearch.com/wp-content/uploads/2016/03/20160308\\_2nd-Annual-Capital-Magement-Forum\\_vf-1.pdf](https://www.bbvaresearch.com/wp-content/uploads/2016/03/20160308_2nd-Annual-Capital-Magement-Forum_vf-1.pdf)

**Central Bank of Ireland Approach to MREL:**

<https://www.centralbank.ie/docs/default-source/regulation/how-we-regulate/resolution/resolution-framework/the-central-bank-of-ireland's-approach-to-mrel.pdf?sfvrsn=4>

# Reminders (other 2022 data submissions)

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## **1) Submission of Resolution templates:**

- Criticality assessment excel workbook (as per previous years).
- RCU to disseminate market share following submissions.

## **2) Client Pooled Accounts template:**

- CPA return (as per previous years).

