GIBRALTAR RESOLUTION
AND COMPENSATION UNIT

Gibraltar Resolution Planning Framework

Industry Dialogue Workshop: MREL

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Industry Dialogue Workshops

- **Content of Resolution Plans:** 3rd November
- **Introduction to MREL and MREL setting**: 6th December
- **Data liquidity template:** February 21st 2018
- **Simplified Obligations:** February 28th 2018
- **Critical Functions\Shared Services:** March 21st 2018

Burden Shifting in Bank Resolution

- An overarching objective of a Bank Resolution regime is to shift the burden of bank rescues **from taxpayers to bank creditors**. RA's are now given the power to allocate losses to shareholders and creditors through the "bail in" tool. Shareholders and creditors must therefore absorb losses in a Bank resolution scenario.

- As of today, upon resolution, a failing institution may or may not hold a sufficient amount of bail-inable liabilities. To tackle this issue, the BRRD provides that institutions shall meet at all times **a minimum requirement for own funds and eligible liabilities** (MREL), to be determined by the RA.

- The MREL constitutes an anchor point for the resolution frameworks, as it determines the credibility of the bail-in regime. As bailing-in some liabilities may be legally difficult or potentially disruptive for the real economy, the BRRD provides also for a list of liabilities which must **not** be bailed-in, in particular covered deposits and secured liabilities.

Internal MREL – Under SPOE Approach

- Host authorities **must have confidence that there is sufficient loss-absorbing and recapitalisation capacity available** to subsidiaries in their jurisdictions with legal certainty at the point of entry into resolution.

- Without such confidence, host authorities could demand extra resources to be ring-fenced in their own jurisdictions either ex-ante or ex-post in a resolution. The adverse consequences of such actions, including global fragmentation of the financial system, and disorderly resolutions of failed cross-border firms, should be avoided.

- To implement an orderly resolution, there must be sufficient flexibility to use loss-absorbing capacity at subsidiary level where needed. This means that there will need to be a credible mechanism by which losses and recapitalisation needs may be passed with legal certainty to the resolution entity or entities.

- Within a banking group, each institution to meet its own (internal) MREL individually and at a consolidated level, such that each entity is able to absorb losses and can be recapitalised.

Setting MREL

- Informative MREL targets will now be provided to firms– in the interest of providing advance notice to firms.

- Final External MREL is due to be implemented by 2022 (with the RCU to work with firms in the interim transitional period)

- Internal MREL implementation deadlines will be communicated by home RA’s (or via RCU as appropriate)

Calculation of MREL

- MREL is to be calculated on the basis of two key components:

  - the **loss absorption amount** (LAA), based on the capital requirements of the current balance sheet, including regulatory capital requirements, the combined buffer requirements, and additional pillar 2 requirements (bank specific) set by the supervisor. The RA can also adjust this based on a risk assessment of the entity (through SREP);

  - the **recapitalisation amount** (RCA), which aims at covering the capital requirements of the failing institution post-resolution, taking into account potential divestments and other resolution actions under the preferred resolution strategy (the RA may be set to nil if it considers it can be put into liquidation), as well as the need to maintain sufficient market confidence;

‘Informative’ MREL

- For 2017, and in the interest of simplicity (and to be reviewed in HY1 2019) an informative MREL has been set at:

2 X Firm’s Regulatory Capital Requirement (recognised standard level)

- This interim target is ‘*non-binding, non-enforceable and non-challengeable*’ (ie no expectation on immediate compliance)
- In 2019 following a review a LDT’s and progress on MREL implementation, final MREL will be communicated.
- Providing an ‘informative MREL’ will allow for firms to prepare (at an early stage) for longer term implementation.
- Internal MREL will also be set at this level. The Home Resolution authority will advise on relevant implementation deadlines (when available).

Next Steps on MREL

- The RCU will discuss MREL requirements at **Cross-Border level** through Resolution Colleges
- **Firms can begin to prepare for** (or certainly start to think about) MREL implementation and LDT reporting
- Informative MREL targets to be provided to firms in Q4 2017. A subsequent LDT data gathering exercise will then be completed following IDW engagement. This will provide the RCU with the tools to calibrate final MREL and allow the FSRCC to assess the resolvability of Gibraltar’s BRR firms.
- The RCU will work closely with firms throughout 2018 and beyond on the challenges and possible solutions relating to the implementation of MREL.

Liquidity Data Info Template

- The second block will be used for a wide range of purposes such as defining the main **financial intragroup interconnections within the group, setting and monitoring MREL or implementing bail-in strategies**
- **This will include a list of liabilities which are allowed and not allowed to** be bailed-in, in particular covered deposits and secured liabilities.
- The data template (LDT) for firms will enable the identification of MREL-eligible liabilities; assist in an assessment of the quality, eligibility, quantum and location of MREL (for banking groups).
- **A data point model is currently under consideration by the RCU.** This will allow for an automated validated collection of data in a secure environment, whilst also significantly adhering to the cost focussed strategy of the Unit. It should also look to minimise the reporting burden for firms as much as possible

Microsoft Excel Worksheet

Template Instructions

Questions

Comments