

Single Resolution Mechanism: loss-absorbing and recapitalisation capacity for credit institutions and investment firms

2016/0361(COD) - 23/11/2016 - Legislative proposal

PURPOSE: to revise the Minimum Requirement for own funds and Eligible Liabilities (MREL) and implement the total loss absorbing capacity (TLAC) for credit institutions and investment firms.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with Council.

BACKGROUND: the G-20 endorsed the Total Loss-Absorbing Capacity (TLAC) Term Sheet published by the Financial Stability Board (FSB) in 2015. The TLAC standard requires global systemically important institutions ('G-SIIs') in the Union framework, to hold a sufficient minimum amount of highly loss absorbing (bailin-able) liabilities to ensure smooth and fast absorption of losses and recapitalisation in resolution.

In its [Communication of 24 November 2015](#), the Commission committed itself to bringing forward a legislative proposal by the end of 2016 that would enable the TLAC standard to be implemented by the internationally agreed deadline of 2019. The implementation of the TLAC standard in the Union needs to take account of the existing institution-specific minimum requirement for own funds and eligible liabilities ('MREL') applicable to all Union credit institutions and investment firms as laid down in Directive 2014/59/EU of the European Union and of the Council. As TLAC and MREL pursue the same objective of ensuring that Union institutions have sufficient loss absorbing and recapitalisation capacity, the two requirements should be complementary elements of a common framework.

In addition, the absence of harmonised rules in the Member States participating in the Single Resolution Mechanism (SRM) in respect of the implementation of the TLAC standard would create additional costs and legal uncertainty for institutions and make the application of the bail-in tool for cross-border institutions more difficult. The absence of harmonised Union rules also results in competitive distortions on the internal market given that the costs for institutions to comply with the existing requirements and the TLAC standard may differ considerably across the participating Member States. It is therefore necessary to remove those obstacles to the functioning of the internal market and to avoid distortions of competition resulting from the absence of harmonised rules in respect of the implementation of the TLAC standard.

IMPACT ASSESSMENT: the Commission conducted an impact assessment of several policy alternatives. Under the preferred option, the TLAC standard for G-SIIs would be integrated in the existing resolution framework, while that framework would be amended as appropriate to ensure full compatibility with the TLAC standard.

CONTENT: according to this proposal, the [Single Resolution Mechanism Regulation](#) will be amended so that the TLAC will be integrated into the existing MREL (Minimum Requirement for own funds and Eligible Liabilities) system, which is applicable to all banks, and will strengthen the EU's ability to resolve failing G-SIIs while protecting financial stability and minimising risks for taxpayers.

The implementation of new standards on the total loss-absorbing capacity (TLAC) of global systemically important institutions (G-SIIs), which will strengthen the EU's ability to resolve failing G-SIIs while minimising risks for taxpayers.

Regulation (EU) No 806/2014 will be amended accordingly.

The proposed amendments are part of a legislative package that includes also amendments to [Regulation \(EU\) No 575/2013](#) (the Capital Requirements Regulation), to [Directive 2013/36/EU](#) (the Capital Requirements Directive) and to [Directive 2014/59/EU](#) (the Bank Recovery and Resolution Directive).