

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

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The Committee on Economic and Monetary Affairs adopted the report by Gunnar HÖKMARK (EPP, SE) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 as regards loss-absorbing and Recapitalisation Capacity for credit institutions and investment firms.

The committee responsible recommended that the European Parliaments position adopted at first reading under the ordinary legislative procedure should amend the Commission proposal as follows.

Purpose: the proposal to amend Regulation (EU) No 806/2014 of the European Parliament and of the Council on the single resolution mechanism (MRU) aims to implement the total loss-absorbing capacity (TLAC) term sheet (the TLAC standard) on 9 November 2015, which was endorsed by the G-20 in November 2015.

While the TLAC standard sets obligations only for global systemically important institutions (GSIs), the minimum requirement for own funds and eligible liabilities (MREL) requirement applies to the EU banking sector as a whole. The proposal addresses this and other differences between the two standards.

Application and calculation of the minimum requirement for own funds and eligible liabilities: under the amended text, institutions may meet any part of the MREL requirement with Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments.

Eligible liabilities for resolution entities: eligible liabilities shall be included in the amount of own funds and eligible liabilities of resolution entities only where they satisfy certain conditions. By way of derogation, liabilities issued before the date of entry into force of this amending Regulation that do not meet the conditions set out in Regulation (EU) No 575/2013 may be included in the amount of own funds and eligible liabilities of resolution entities included in MREL.

It is clarified that liabilities arising from debt instruments with a derivative feature, such as structured notes, shall be included in the amount of own funds and that the entity has demonstrated to the satisfaction of the Board that the instrument is sufficiently loss absorbing and can be bailed-in without undue complexity, taking into account the principles of prudent valuation.

Determination of the minimum requirement for own funds and eligible liabilities: the text specifies that the Board shall ensure that the level of requirement is proportionate to the specificities of the business and funding models of the resolution entity.

The recapitalisation amount shall also be supplemented by an additional amount that the Board considers necessary to maintain sufficient market confidence after resolution, taking into account the business model, funding model, and risk profile of the resolution entity.

Determination of the requirement for entities that are G-SIIs: the minimum requirement for own funds and eligible liabilities of a resolution entity that is a G-SII or part of a G-SII shall consist of the higher of:

- a risk-based ratio of 18%, representing the own funds and eligible liabilities of the institution expressed as a percentage of the total risk exposure amount calculated in accordance with Regulation (EU) No 575/2013;
- a non-risk-based ratio of 6.75%, representing the own funds and eligible liabilities of the institution expressed as a percentage of the total exposure measure referred to in Regulation (EU) No 575/2013.

Breaches of the requirement: the Board and the other resolution authorities shall monitor on a quarterly basis the fulfilment of the minimum requirement for own funds and eligible liabilities and shall inform the competent authority of any breaches or other relevant events that could affect the fulfilment of the requirement.

Lastly, the Board shall determine an appropriate transitional period for an institution or entity to comply with the requirements in the Regulation.