Opinion of the European Banking Authority on the Commission’s Intention to Amend the Draft Regulatory Technical Standards Specifying Criteria Relating to the Methodology for Setting Minimum Requirement for Own Funds and Eligible Liabilities According to Article 45(2) of Directive 2014/59/EU

Introduction and legal basis

On 3 July 2015, the European Banking Authority (EBA) submitted to the European Commission for endorsement the draft regulatory technical standards (RTS) specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities in accordance with the mandate set out in Article 45(2) of Directive 2014/59/EU,\(^1\) establishing a framework for the recovery and resolution of credit institutions and investment firms (‘BRRD’).

On 17 December 2015, the European Commission informed the EBA that it, acting in accordance with the procedure set out in the fifth and sixth sub-paragraphs of Article 10(1) of Regulation (EU) No 1093/2010,\(^2\) intended to amend the draft RTS submitted by the EBA.

The EBA’s competence to deliver this Opinion is based on the fifth sub-paragraph of Article 10(1) of Regulation (EU) No 1093/2010.

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In accordance with Article 14(5) of the Rules of Procedure of the Board of Supervisors, the Board of Supervisors has adopted this Opinion.

1. General comments

a. The draft RTS specifying the assessment criteria relating to the methodology for setting the minimum requirement of own funds and eligible liabilities

In order to ensure the effectiveness of the bail-in tool, Article 45 of Directive 2014/59/EU provides that Member States have to ensure that institutions meet at all times a minimum requirement for own funds and eligible liabilities (‘MREL’), to be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The same provision states that the MREL shall be set on a case-by-case basis by the resolution authority after consulting the competent authority.

The second paragraph of Article 45 of Directive 2014/59/EU empowers the EBA to develop RTS ‘which specify further the assessment criteria’, as mentioned in points (a) to (f) of paragraph (6) of the same provision, on the basis of which, for each institution, a minimum requirement for own funds and eligible liabilities is to be determined by the resolution authority.

The European Commission has proposed to endorse the draft RTS with the amendments better described and examined in Part 2 of this Opinion.

The main amendment concerns the removal from Article 5 of the draft RTS of the reference to the minimum contribution by shareholders and holders of capital instruments and eligible liabilities of institutions and groups that have been designated as Globally Systemically Important Institutions (G-SIIs) and Other Systemically Important Institutions (O-SIIs) by the competent authority to loss absorption and recapitalisation of 8% of total liabilities and own funds, or of 20% of the total risk exposure amount if the additional conditions under Article 45(8) of Directive 2014/59/EU are not met. In the Commission’s view, this requirement is tantamount to setting a minimum MREL amount, and this and other matters—including the setting of an appropriate transitional period—have been mandated to be dealt with by the EBA in a Report to be submitted by 31 October 2016. Furthermore, the Commission observes that none of the criteria set out in Article 45(6) of Directive 2014/59/EU, which the EBA is mandated to specify, require that the resolution authority ensures access to resolution funds at the time of setting the MREL, rather that ensuring bail-in of 8% total liabilities before accessing the resolution funds is a requirement only in resolution.

Other amendments to Articles 1(6), 4(1) and 4(2) of the draft RTS are justified by the Commission by the need to make the draft RTS compatible with the text of Directive 2014/59/EU. In Article 8(2), the 48-month deadline set for the transitional period is removed and replaced by different wording.

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3 Decision adopting the rules of Procedure of the European Banking Authority Board of Supervisors of 27 November 2014 (Decision EBA DC 2011/001(Rev4)).
Lastly, the Commission has made several additional amendments to recitals and other provisions in order to simplify and clarify them as appropriate and to make a number of minor technical adjustments.

b. Endorsement process

As a preliminary remark, the EBA would like to draw attention to the circumstance that—further to the submission by the EBA of the RTS on 3 July 2015 in compliance with the deadline set out by Article 45(2), second sub-paragraph, of Directive 2014/59/EU—saw the European Commission communicate to the EBA its intention to endorse the standard with amendments on 17 December 2015. Although the Commission had indicated its intention to make amendments and the nature of some of them on previous occasions, the official communication occurred more than five months after the submission of the standards by the EBA. The EBA also acknowledges that, due to its obligation to comply with the tight deadline for the submission of the RTS envisaged by the Directive, the Commission has been given a short period to provide comments of a legal nature before the submission of the standards, in accordance with the good cooperation practices established between the EBA and the Commission.

Article 10(1), fifth sub-paragraph of Regulation (EU) No 1093/2010 establishing the EBA, provides that the Commission has to decide whether to endorse the draft RTS, including in part only or with amendments ‘within three months from [its] receipt’. Such a timeframe is justified in Recital (23) of the same Regulation by the need to ‘ensure a smooth and expeditious adoption process’.

Along the same lines, Recital (23) of Regulation (EU) No 1093/2010 specifies that the draft RTS ‘should be subject to amendment only in very restricted and extraordinary circumstances, since the Authority [the EBA] is the actor in close contact with the market and knowing best the daily functioning of financial markets’. The recital specifies that ‘draft regulatory technical standards would be subject to amendment if they were incompatible with Union law, did not respect the principle of proportionality or ran counter to the fundamental principles of the internal market for financial services as reflected in the acquis of Union financial services legislation’. Such a restrictive approach to the Commission’s power of amendment was upheld by the General Court in the order of 27 November 2013 in the case T-23/12, MAF v. EIOPA, where it was stated that ‘le contenu du projet de normes techniques, […], n’est, en principe, pas susceptible de modification’.

In light of the above and as a general consideration, the EBA disagrees with many of the amendments proposed by the Commission and is of the view that they are not supported by compelling legal arguments that the original text submitted by the EBA was ‘incompatible with Union law, did not respect the principle of proportionality or ran counter to the fundamental principles of the internal market for financial services as reflected in the acquis of Union financial services legislation’, as indicated in Recital (23) of Regulation (EU) No 1093/2010 as grounds for amending the EBA draft RTS.
2. Specific comments

a. Removal of the reference to the minimum contribution to loss absorption and recapitalisation of 8% of total liabilities and own funds

The EBA agrees with the Commission that the draft RTS should not seek to set a harmonised minimum MREL requirement, as this would be beyond the scope of the EBA’s empowerment as set out in Directive 2014/59/EU. The EBA notes that the issue of whether there should be a harmonised minimum requirement, and if so at what level, should instead be considered in the framework of the EBA Report on MREL mandated by Article 45(19) of the Directive. Related issues will also be considered in the Commission’s planned legislative proposal to implement the Financial Stability Board’s (FSB’s) standard on total loss-absorbing capacity (TLAC), announced on 9 November 2015.

However, in the EBA’s view a fair assessment of the criterion relating to ‘the need to ensure that an institution can be resolved [...] in a way that meets the resolution objectives’ (set out in Article 45(6)(a) of the Directive and to be further specified in the EBA RTS) will often require the resolution authority to consider whether the institution’s internal resources may not be sufficient and whether resolution financing arrangements might therefore need to be accessed. This kind of assessment will also be necessary when drawing up the institution’s resolution plan, which must include an explanation of how the resolution options could be financed (c.f. Article 10(7)(i) of the Directive). In this respect, the EBA would like to underscore that the protection of ‘public funds, minimizing reliance on extraordinary public financial support’ is one of the resolution objectives set out in Article 31(1)(c) of the Directive to be considered when setting the MREL.

Such an assessment of whether resolution funds might need to be accessed in order to resolve the institution is of particular importance when the institution is of systemic significance and its disorderly failure would be likely to have adverse effects on financial stability. Article 45(6)(f) of Directive 2014/59/EU establishes such adverse effects on financial stability as one of the criteria on which resolution authorities have to base the determination of the MREL. The EBA notes that resolution funds have been established in order to provide financing to the resolution in the exceptional circumstances where a resolution scheme cannot be executed using only the financial resources of the failing institution, and failure to execute the scheme would threaten financial stability or other resolution objectives. The burden-sharing requirement that shareholders and creditors should make a contribution to loss absorption and recapitalisation of no less than 8% of total liabilities and own funds before the resolution fund may be used for certain purposes, as established by Article 44(5) of the Directive, therefore represents an important constraint on the actions of resolution authorities. In the EBA’s view, it is therefore essential to take account of this constraint when assessing the criteria, laid down in Article 45(6)(a), relating to the ability to apply the resolution tools in a way that meets the resolution objectives in the case of those systemically important institutions for whom Article 45(6)(f) is relevant. The EBA agrees with the Commission’s proposed amendment in Article 5(1) of the draft RTS, which states that this assessment is not required in the case of institutions for which the resolvability assessment concludes that they could be liquidated under normal insolvency proceedings. The EBA would like to clarify, however,
that this specification is a particular case of the general point that the draft RTS does not require the assessment of the likelihood of the need to access the resolution fund in resolution to be carried out for non-systemic banks. Rather, such an assessment is required by Article 5(1) of the draft RTS only for those institutions that have been designated as G-SIs or O-SIs and for any other institution that is considered reasonably likely to pose a systemic risk of failure. The EBA would therefore like to make sure that it is not interpreted as a general requirement carved out by an exception.

The EBA’s final draft RTS balances all these considerations and, at the same, refrains from determining a harmonised MREL level. In particular, it does not require any institution to have an MREL of at least 8% of total assets. Rather, the EBA draft RTS requires an assessment, for systemic institutions, of whether the burden-sharing requirements of the Directive could be met. This assessment should take note of the fact that resolution funds are intended only as a backstop. As the Commission notes, the primary aim of the MREL is to ensure that institutions have sufficient own funds and eligible liabilities to ensure that losses can be absorbed and the institution recapitalised to the extent needed without resorting to the resolution financing arrangements.

The EBA notes that the Commission’s suggested changes share this reasoning, since the proposed amendments leave the reference in Article 5(1) of the draft RTS unaffected by the requirements set out in Article 44 of the Directive relating to bail-in. The EBA considers that, among the various requirements set out in Article 44, only the burden-sharing requirements are relevant in this context and, therefore, the specific reference to paragraphs (5) and (8) of Article 44, which establish the burden-sharing requirement, should be maintained in the text in order to provide legal certainty.

In light of the above considerations, the EBA disagrees with the Commission’s assessment that the reference to the minimum burden-sharing contribution is an unlawful specification of the MREL criteria. Indeed, resolution authorities that fail to take it into account would not, in the EBA’s view, be acting in accordance with Directive 2014/59/EU.

b. Removal of the test for downward adjustments to the recapitalisation amount and peer group reference for systemic institutions

The EBA notes that the Commission has removed Article 2(3)(c) of the draft RTS. Article 2(3) provides that, when assessing the amount of recapitalisation required following resolution, resolution authorities may take account of reductions in the institution’s total risk exposure amount as a result of the application of the resolution strategy (for example, closure or sale of part of the institution’s business). In the case of systemic institutions, Article 2(3)(c) requires that resolution authorities, before considering such reductions, should be satisfied that the institution’s resolvability assessment has concluded that there are no impediments to a resolution without contributions to loss absorption from the resolution fund. Additionally, Article 2(9) of the draft RTS requires a non-binding comparison between the intended capital level of the institution following resolution with the capital levels of peer institutions. The Commission proposes deleting the requirement that for G-SIs the peer group should consist of the other Union G-SIs. The purpose of the provisions set out in the draft RTS was to further specify how consideration of the
c. Removal of 48 month limit for the transitional period

By amending Article 8(2) of the draft RTS, the Commission has replaced the 48-month transitional period with more ambiguous wording that makes reference to a transitional period that is ‘as short as possible’. The EBA notes that the legal ground and the logic for such an amendment are not clearly specified in the accompanying letter by the Commission, but it appears to be the case that the setting of an appropriate transitional compliance period is one of the subjects to be covered by the EBA report mandated by Article 45 of the Directive. Should this be the Commission’s concern, the EBA notes that the proposed solution is not consistent, since replacing a clear-cut deadline with more ambiguous wording may affect legal certainty and the harmonised application of the MREL throughout the European Union (EU), thus contradicting the underlying rationale of the enactment of an EU-Delegated Regulation. The EBA agrees with the Commission’s amendment to add the new Recital 12, which explains the reasons why a transitional period is appropriate.

d. Other amendments to recitals and other provisions and minor technical adjustments

As regards other amendments relating to minor issues, the EBA notes that the Commission has made several additional changes to the original text. One of these concerns the deletion in Article 4(1) of the non-binding cross-reference to the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process issued in accordance with Article 97 of Directive 2013/36/EU, and its replacement with a reference to Article 97 of that Directive. The EBA notes that the Commission’s letter does not illustrate the legal ground for that deletion and that the cross-reference contained in the draft RTS reflected wording previously discussed between the EBA and the Commission staff.

The EBA also notes that the Commission has made amendments to several sections of the draft RTS that refer to the consultation of the resolution authority with the competent authority. In Articles 1(6) (relating to determining a loss absorption amounts) and 4(2) (relating to assessment of business model, funding model, and risk profile), the proposed amendments clarify that this consultation takes place within the framework of Article 45(6) of the Directive, providing for the resolution authority to consult the competent authority. The EBA agrees with the proposed clarification that supports the procedure laid down in the draft RTS.

The EBA notes, however, that in Article 2(4) of the draft RTS (relating to determining a recapitalisation amount), and in the related Recitals (2) and (6), the language making reference to such a consultation requirement has instead been deleted with potential prejudice to the legal
certainty of the smooth cooperation process. Such provisions envisage that the resolution authority is required to consider what capital requirements and other measures would be applied to the institution by the competent authority following resolution. The EBA considers that, to maintain good cooperation between resolution and competent authorities, it is essential that this specific judgement is discussed within the framework of the general consultation process provided by Article 45(6). The EBA, therefore, is of the view that the original wording of such provisions should be maintained subject to the same clarification proposed by the Commission for Articles 1(6) and 4(2) of the draft RTS, which clarify that the consultation should be conducted within the framework of Article 45(6) of the Directive.

As to other amendments, the EBA observes that although on some occasions, for instance in Recital (12) and Articles 2(10)(b) and 3 (which, however, already met the required drafting standards), the text actually benefits from the improved wording, in other instances, as in Recitals (6) and (7) and Article 2(4), the amendment adds uncertainty and does not provide significant clarification to the substance of the provision. As already mentioned in paragraph 1(b) above, the EBA would like to take this opportunity to remind the Commission that, according to Recital (23) of Regulation (EU) No 1093/2010, the draft RTS should be amended ‘only in very restricted and extraordinary circumstances’. This is a precondition for the swift and expeditious adoption of binding technical standards, which is instrumental to ensuring legal certainty and market discipline throughout the Union. Such goals may be hampered by lengthy endorsement procedures that do not focus on essential deficiencies of the submitted standards.

3. Conclusions

For the reasons above, the EBA has rejected the amendments to Article 5(1)’s first sub-paragraph, as well as the amendments to Articles 5(2) and (3), 2(3) and 2(9), and 8(2), and has accepted a number of changes that ultimately improve the clarity and simplicity of the original wording. The EBA submits the amended draft RTS to the Commission in the form set out in the Annex.

This Opinion will be published on the EBA’s website.

Done in London, 09 February 2016

[signed]

Andrea Enria

Chairperson

For the Board of Supervisors
Annex
1. CONTEXT OF THE DELEGATED ACT

Article 45(2) of Directive (EU) No 2014/59 empowers the Commission to adopt, following submission of draft standards by the European Banking Authority (EBA), and in accordance with Articles 10 to 14 of Regulation No (EU) 1093/2010, delegated acts specifying relating to the methodology for setting the minimum requirement for own funds and eligible liabilities.

In accordance with Article 10(1) of Regulation No (EU) 1093/2010 establishing the EBA, the Commission shall decide within three months of receipt of the draft standards whether to endorse the drafts submitted. The Commission may also endorse the draft standards in part only, or with amendments, where the Union's interests so require, having regard to the specific procedure laid down in that Article.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

In accordance with the third subparagraph of Article 10(1) of Regulation No (EU) 1093/2010, the EBA has carried out a public consultation on the draft technical standards submitted to the Commission in accordance with Article 45 of Directive (EU) No 2014/59. A consultation paper was published on the EBA internet site on 28 November 2014, and the consultation closed on 27 February 2015. Moreover, the EBA invited the EBA’s Banking Stakeholder Group set up in accordance with Article 37 of Regulation No (EU) 1093/2010 to provide advice on them. Together with the draft technical standards, the EBA has submitted an explanation on how the outcome of these consultations has been taken into account in the development of the final draft technical standards submitted to the Commission.

Together with the draft technical standards, and in accordance with the third subparagraph of Article 10(1) of Regulation No (EU) 1093/2010, the EBA has submitted its Impact Assessment, including its analysis of the costs and benefits, related to the draft technical standards submitted to the Commission. This analysis is available at https://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/regulatory-technical-standards-on-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel-, pages 16-35 of the Final Draft Regulatory Technical Standards package.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

The draft Regulatory Technical Standards further specify criteria for determining the minimum requirement for own funds and eligible liabilities (MREL) as described in Article 45(6) of Directive (EU) No 2014/59.

The standards require the resolution authority to determine an MREL which is sufficient to ensure that an institution under resolution can, through write down or conversion into equity of capital instruments and eligible liabilities, absorb losses, and be recapitalized sufficiently to restore its Common Equity Tier 1 ratio to a level sufficient to comply with conditions for authorisation under Directive 2013/36/EU and Regulation 2014/65/EU, continue to carry out its activities, and maintain market confidence.

Article 45(6)(b) of Directive (EU) No 2014/59 establishes that a criterion for setting the MREL should be whether an institution subject to bail-in has sufficient eligible liabilities to
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...absorb losses and be adequately recapitalised. A similar assessment is required for the purposes of ensuring that an institution can be resolved by application of other resolution tools, established as a criterion for setting MREL by Article 45(6)(a) of Directive (EU) No 2014/59. The assessment of the amount of loss absorption should be closely linked to the current capital requirements of the institution. The assessment of the amount of recapitalisation should be closely linked to the capital requirements which would be applied after the effects of the preferred resolution strategy identified in the resolution plan for the institution are taken into account. Prudential requirements are set by competent authorities following a supervisory review and evaluation process which takes into account, among other factors, the size, business model, funding model, and risk profile of the institution. Resolution authorities should therefore request sufficient information from competent authorities to ensure that these factors are adequately reflected in the MREL due to this close link with capital requirements.

Resolution authorities are required to consider the extent to which the Deposit Guarantee Scheme could contribute to the financing of resolution when setting the MREL. The standards specify that resolution authorities may reduce the MREL from the level which they would otherwise set to take account of such contributions, but the extent to which they do so should be limited by the strict caps on contributions to the cost of resolution by the Deposit Guarantee Scheme provided by Article 109 of Directive (EU) No 2014/59 and also of the overall risk to the Deposit Guarantee Scheme.

Resolution authorities are required to consider the effect of exclusion of some liabilities from the scope of application of the bail-in tool under Article 44(3) of Directive (EU) No 2014/59 when setting MREL. The standards provide that where such exclusions exceed a de minimis percentage of any given insolvency class, the resolution authority must conduct an assessment of whether the MREL set is sufficient to prevent a breach of the protections for creditors provided under Article 73 of Directive (EU) No 2014/59.

The standards provide that for institutions which are determined to be of systemic importance, the resolution authority should take account in setting MREL of the conditions provided in Article 101(2) of Directive (EU) No 2014/59 for use of resolution financing arrangements in ways which indirectly result in part of the losses of an institution or entity being passed onto the resolution fund, in order to ensure that the European system of resolution financing arrangements fulfils its purpose of contributing to financial stability in cases where a systemically important institution is subject to resolution actions.

The standards describe specific considerations for setting MREL when institutions are part of groups, when institutions are subject to capital and prudential requirements pursuant to Regulation (EU) No 648/2012 or Regulation (EU) No 909/2014, and during transitional periods following the initial application of MREL or following resolution of the institution.
COMMISSION DELEGATED REGULATION (EU) No …/..

with regard to regulatory technical standards specifying the criteria relating to the
methodology for setting the minimum requirement for own funds and eligible liabilities

(TEXT WITH EEA RELEVANCE)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,
2014 establishing a framework for the recovery and resolution of credit institutions and investment
firms4, and in particular Article 45(2) thereof,

Whereas:

(1) Effective resolution can only be feasible and credible if adequate internal financial
resources are available to an institution to absorb losses and for recapitalisation
purposes without affecting certain liabilities, in particular those excluded from bail-in.
Directive 2014/59/EU provides that institutions should meet a minimum requirement
for own funds and eligible liabilities (‘MREL’) to avoid that institutions excessively
rely on forms of funding that are excluded from bail-in, since failure to meet MREL
would impact negatively institutions’ loss absorption and recapitalisation capacity and,
ultimately, the overall effectiveness of resolution.

(2) When determining MREL in accordance with Article 45(6)(a) and (b) of Directive
2014/59/EU, the resolution authority should consider the need, in case of application
of the bail-in tool, to ensure that the institution is capable of absorbing an adequate
amount of losses and being recapitalised by an amount sufficient to restore its
Common Equity Tier 1 ratio to a level sufficient to maintain the capital requirements
for authorisation and at the same time to sustain sufficient market confidence. This
close relationship with supervisory decisions requires that such assessments are made
by the resolution authority in close consultation with the competent authority
consistently with the framework set out in Article 45(6) of Directive 2014/59/EU, and
that accordingly the resolution authority should, in the framework of the obligation of
the resolution authority to consult the competent authority under Article 45(6) of
Directive 2014/59/EU, take account of the assessments made by the competent
authority on the business model, funding model, and risk profile of the institution for
the purposes of setting prudential requirements.

(3) In particular, the assessment of the necessary capacity to absorb losses should be
closely linked to the institution’s current capital requirements, and the assessment of
the necessary capacity to restore capital should be closely linked to likely capital
requirements after the application of the resolution strategy, unless there are clear

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4 OJ L 173, 12.06.2014.
reasons why losses in resolution should be assessed differently than in going concern. A similar assessment is necessary to ensure the MREL is sufficient to ensure resolvability of an institution when resolution tools other than bail-in are to be applied.

(4) Article 45(6)(c) of Directive 2014/59/EU also requires that resolution authorities consider the possibility that certain classes of liabilities, identified in resolution plans and in the resolvability assessment, might be excluded from bail-in. Liabilities of that kind should not be relied on for purposes of meeting the MREL. Resolution authorities should also ensure that, when significant amounts of any insolvency class of liabilities are excluded from bail-in on either a mandatory or discretionary basis, this exclusion would not result in liabilities of the same or a more senior class bearing greater losses than they would in insolvency, as this would be an impediment to resolvability.

(5) Resolution authorities may require part of the MREL referred to in Article 45(1) of Directive 2014/59/EU to be met by subordinated contractual bail-in instruments, or by setting a higher minimum requirement, or by alternative measures to address impediments to resolution. If the risk of a breach of the ‘no creditor worse off’ safeguard is sufficiently low, no adjustment to the MREL is necessary.

(6) In order to ensure consistency with prudential supervision, the resolution authority’s assessment of the size, business model, funding model, and risk profile of the institution should, in the framework of the obligation of the resolution authority to consult the competent authority under Article 45(6) of Directive 2014/59/EU, be closely linked to that carried out by the competent authority unless there are clear reasons why losses in resolution should be assessed differently than in going concern. Certain institutions subject to Directive 2014/59/EU, in particular financial market infrastructures which are also authorised as credit institutions, have highly specialised business models and are subject to additional regulations, which should be taken into account when setting MREL.

(7) In order to ensure consistency with prudential supervision, the resolution authority’s assessment of the size, business model, funding model, and risk profile of the institution should take into account outcomes of the supervisory review and evaluation process carried out by the competent authority pursuant to Article 97 of Directive 2013/36/EU unless there are clear reasons why losses in resolution should be assessed differently than in going concern. When conducting the supervisory review and evaluation process and subject to Article 16 of Regulation (EU) No 1093/2010, the competent authority should take into account the guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2014/13) issued by the EBA pursuant to Article 107(3) of that Directive by making every effort to comply with those guidelines in line with Article 16(3) of Regulation (EU) No 1093/2010.

(8) Resolution plans may provide for arrangements for loss absorption and recapitalisation within group structures, including through capital instruments or eligible liabilities issued by institutions to other institutions or entities within the same group. Resolution authorities should set MREL consistently with those arrangements where they are integral to the institution or group’s preferred resolution strategy.

(9) To ensure that resolvability does not depend on the provision of public financial support and that the European system of resolution financing arrangements fulfills its purpose of contributing to ensuring financial stability, resolution authorities, when
setting MREL, should take account of the conditions provided in Article 101(2) of Directive 2014/59/EU for use of resolution financing arrangements in ways which indirectly result in part of the losses of an institution or entity being passed on to the resolution financing arrangement.

(10) In accordance with Article 45(6)(f) of Directive 2014/59/EU, resolution authorities should also consider the potential adverse impact of an institution’s failure on financial stability. Resolution authorities should pay particular attention to ensuring that effective resolution of a systemically important institution is not prevented by the exhaustion of its effective loss absorption and recapitalisation capacity, prior to meeting the conditions set forth in Article 44(5) and (8) of Directive 2014/59/EU relating to the extraordinary use of resolution financing arrangements. This should not, however, result in any reduction or replacement of the need to ensure sufficient loss absorption and recapitalisation capacity through write down and conversion of eligible liabilities, or imply that the resolution financing arrangement should be used for these purposes other than in accordance with the principles governing the use of the resolution financing arrangement set out in Article 44 of Directive 2014/59/EU and in any case exclusively to the extent strictly necessary.

(11) In accordance with Article 45(6)(e) of Directive 2014/59/EU, resolution authorities should assess the potential size of contributions to the cost of resolution from the deposit guarantee scheme by estimating the amount the deposit guarantee scheme could feasibly and credibly contribute in lieu of covered deposits, had they been included in the scope of bail in. When making this assessment, resolution authorities should ensure that they and the institution have taken all reasonable and necessary measures that are consistent with its funding model to minimise the requirement for a contribution from the deposit guarantee scheme. Should this assessment conclude that such a contribution is likely, resolution authorities may choose to set a lower MREL. Any such assumed contribution should respect the limits on such contributions set out in Directive 2014/59/EU and are therefore likely to be most relevant for institutions funded primarily by covered deposits.

(12) In order to provide institutions or entities to which resolution tools have been applied with sufficient time to reach MREL, it is appropriate to set a transitional period during which, initially, a lower requirement may be set.

(13) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority to the Commission.

HAS ADOPTED THIS REGULATION:

*Article 1*

*Determining the amount necessary to ensure loss absorption*

1. Resolution authorities shall determine the loss absorption amount which the institution or group should be capable of absorbing.

2. For the purpose of determining the loss absorption amount in accordance with this Article and of any contribution of the deposit guarantee scheme to the resolution costs pursuant to Article 6, the resolution authority shall, consistently with Article 45(6) of Directive 2014/59/EU, request from the competent authority a summary of the capital requirements currently applicable to an institution or group, and in particular the following:

   (a) own funds requirements pursuant to Articles 92 and 458 of Regulation (EU) No 575/2013, which include:
      
      (i) CET1 capital ratio of 4.5% of the total risk exposure amount;
      
      (ii) a Tier 1 capital ratio of 6% of the total risk exposure amount;
      
      (iii) a total capital ratio of 8% of the total risk exposure amount;

   (b) any requirement to hold additional own funds in excess of these requirements, in particular pursuant to Article 104(1)(a), of Directive 2013/36/EU of the European Parliament and of the Council;

   (c) combined buffer requirements as defined in point 6 of Article 128(1) of Directive 2013/36/EU;

   (d) the Basel I floor according to Article 500 of Regulation (EU) No 575/2013;

   (e) any applicable leverage ratio requirement.

3. For the purposes of this Regulation, capital requirements shall be interpreted in accordance with the competent authority’s application of transitional provisions laid down in Chapters 1, 2 and 4 of Title I of Part Ten of Regulation (EU) No 575/2013 and in the provisions of national legislation exercising the options granted to the competent authorities by that Regulation.

4. The loss absorption amount to be determined by the resolution authority shall be the sum of the requirements referred to in points (a) (b), and (c) of paragraph 2, or any higher amount necessary to comply with the requirements referred to in points (d) or (e) of paragraph 2.

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5. The resolution authority may set a loss absorption amount using either of the following methods:

(f) a loss absorption amount equal to the default loss absorption amount determined in accordance with paragraph (4);

(g) a loss absorption amount, which may be either:

(i) higher than the default loss absorption amount determined pursuant to paragraph (4) where:

• the need to absorb losses in resolution is not fully reflected in the default loss absorption amount, taking into account information requested from the competent authority relating to the institution’s business model, funding model, and risk profile pursuant to Article 4; or

• it is necessary to reduce or remove an impediment to resolvability or absorb losses on holdings of MREL instruments issued by other group entities;

(ii) lower than the default loss absorption amount determined pursuant to paragraph (4) to the extent that, taking into account information received from the competent authority relating to the institution’s business model, funding model, and risk profile pursuant to Article 4:

• additional own funds requirements referred to in paragraph 2(b), which have been determined on the basis of the outcome of stress tests or to cover macroprudential risks, are assessed not to be relevant to the need to ensure losses can be absorbed in resolution; or

• part of the combined buffer requirement referred to in paragraph 2(c) is assessed by the resolution authority not to be relevant to the need to ensure losses can be absorbed in resolution.

6. Where the option in paragraph 5(b) is applied, the resolution authority shall provide the competent authority with a reasoned explanation of the loss absorption amount that has been set, in the framework of the obligation of the resolution authority to consult the competent authority under Article 45(6) of Directive 2014/59/EU.

**Article 2**

*Determination of the amount necessary to continue to comply with conditions for authorisation and to carry out activities and sustain market confidence in the institution*

1. Resolution authorities shall determine an amount of recapitalisation which would be necessary to implement the preferred resolution strategy, as identified in the resolution planning process.

2. Where the resolvability assessment concludes that liquidation of the institution under normal insolvency proceedings is feasible and credible, the recapitalisation amount shall be zero, unless the resolution authority determines that a positive amount is necessary on the grounds that liquidation would not achieve the resolution objectives to the same extent as an alternative resolution strategy.
3. When estimating the institution’s regulatory capital needs after implementation of the preferred resolution strategy, the resolution authority shall use the most recent reported values for the relevant total risk exposure amount or leverage ratio denominator, as applicable, unless all the following factors apply:

(a) the resolution plan identifies, explains, and quantifies any change in regulatory capital needs immediately as a result of resolution action;

(b) the change referred to in point (a) is considered in the resolvability assessment to be both feasible and credible without adversely affecting the provision of critical functions by the institution, and without recourse to extraordinary financial support other than contributions from resolution financing arrangements, consistently with Article 101(2) of Directive 2014/59/EU and the principles governing their use set out in Article 44(5) and (8) of that Directive;

(c) for systemically important institutions identified pursuant to Article 5(1), that the conditions provided in Article 5(3) are met.

4. The resolution authority shall identify and quantify any such changes in regulatory capital needs, and consult with the competent authority before applying them, in the framework of the obligation of the resolution authority to consult the competent authority under Article 45(6) of Directive 2014/59/EU.

5. Where the changes referred to in paragraph 3 are dependent on the actions of a purchaser of assets or business lines of the institution under resolution, or of third parties, the resolution authority shall prepare a reasoned explanation to the competent authority regarding the feasibility and credibility of that change.

6. The recapitalisation amount shall be at least equal to the amount necessary to satisfy applicable capital requirements necessary to comply with the conditions for authorisation after the implementation of the preferred resolution strategy.

7. The capital requirements referred to in paragraph 5 shall include the following:

(a) own funds requirements pursuant to Articles 92 and 458 of Regulation (EU) No 575/2013, which include:
   (i) a CET1 capital ratio of 4.5% of the total risk exposure amount;
   (ii) a Tier 1 capital ratio of 6% of the total risk exposure amount;
   (iii) a total capital ratio of 8% of the total risk exposure amount;

(b) any requirement to hold own funds in excess of these requirements, in particular pursuant to Article 104(1)(a) of Directive 2013/36/EU;

(c) the Basel I floor according to Article 500 of Regulation (EU) No 575/2013;

(d) any applicable leverage ratio requirement.

8. The recapitalisation amount shall also include any additional amount that the resolution authority considers necessary to maintain sufficient market confidence after resolution.

9. The default additional amount shall be equal to the combined buffer requirement, as specified in Chapter 4, Section 1 of Directive 2013/36/EU which would apply to the institution after the application of resolution tools.
10. The additional amount required by the resolution authority may be lower than the default amount, if the resolution authority determines that a lower amount would be sufficient to sustain market confidence and ensure both the continued provision of critical economic functions by the institution and the access to funding without recourse to extraordinary financial support other than contributions from resolution financing arrangements, consistently with Article 101(2) and Article 44(5) and (8) of Directive 2014/59/EU.

11. The assessment of the amount necessary to support market confidence shall take into account whether the capital position of the institution after the resolution would be appropriate in comparison with the current capital position of peer institutions. For G-SIIs, the relevant peer group should consist of all G-SIIs established in the Union.

12. The resolution authority may determine, in consultation with the competent authority and taking into account information received from the competent authority relating to the institution’s business model, funding model, and risk profile pursuant to Article 4, that, notwithstanding the provisions of paragraph 3, it would be feasible and credible for all or part of any additional own funds requirement or buffer requirements currently applicable to the entity not to apply after implementation of the resolution strategy. In this case that part of the requirement may be disregarded for the purposes of determining the recapitalisation amount.

13. The assessment referred to in paragraph 7 shall take account of capital resources in other group entities which would credibly and feasibly be available to support market confidence in the entity following resolution, in the case of entities which:

(a) are subsidiaries of a group subject to a consolidated MREL;
(b) would continue to fulfil the conditions referred to in point (a) following implementation of the preferred resolution strategy; and
(c) would not be expected to maintain market confidence and access to funding on an individual basis following implementation of the preferred resolution strategy.

14. Where the assets, liabilities or business lines of the institution are to be split between more than one entity following implementation of the preferred resolution strategy, references to risk exposure amounts and capital requirements in paragraphs 1 to 10 should be understood as the aggregate amounts across these entities.

Article 3

Exclusions from bail-in or partial transfer which are an impediment to resolvability

1. The resolution authority shall identify any liabilities which are excluded from bail-in under Article 44(2) of Directive 2014/59/EU or are reasonably likely to be fully or partially excluded from bail-in under Article 44(3) of that Directive, or transferred to a recipient in full, using other resolution tools based on the resolution plan.

2. Without prejudice to Article 6, if any liability which qualifies for inclusion in MREL is identified as being potentially fully or partially excluded pursuant to paragraph 1, the resolution authority shall ensure that the MREL is sufficient for purposes of the loss absorption amount determined pursuant to Article 1 and for achieving the
amount of recapitalisation determined pursuant to Article 2 without write down or conversion of those liabilities.

3. The resolution authority shall determine whether liabilities identified in accordance with paragraph 1, rank equally or junior in the insolvency creditor hierarchy to any class of liabilities which includes liabilities that qualify for inclusion in MREL and, for each such class, whether the amount of liabilities identified totals more than 10% of that class.

Where the resolution authority determines that conditions referred to in the first subparagraph are met, it shall also assess whether the need to absorb losses and to contribute to the recapitalisation which would be borne by the liabilities referred to in the first subparagraph, were they not excluded from bail-in, can be satisfied by liabilities which qualify for inclusion in MREL and are not excluded from loss absorption or recapitalisation without breaching the creditor safeguards provided in Article 73 of Directive 2014/59/EU.

4. The resolution authority shall keep a record of any assumptions, valuations or other information used to determine that the MREL meets the conditions set out in paragraph 3.

**Article 4**

*Business model, funding model and risk profile*

1. For purposes of Article 45(6)(d) of Directive 2014/59/EU and within the framework of the consultation required by Article 45(6) of Directive 2014/59/EU, the resolution authority shall take into account information received from the competent authority, in the framework of the consultation required by Article 45(6) of Directive 2014/59/EU, the summary and explanation received from the competent authority of the outcomes of the supervisory review and evaluation process conducted pursuant to Article 97 of Directive 2013/36/EU and taking into account, in accordance with Article 16(3) of Regulation (EU) No 1093/2010, Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA/GL/2014/13 issued by the EBA pursuant to Article 107(3) of that Directive, and in particular:

(a) a summary of the assessment of each of the business model, funding model, and overall risk profile of the institution;

(b) a summary of the assessment of whether capital and liquidity held by an institution ensure sound coverage of the risks posed by the business model, funding model, and overall risk profile of the institution;

(c) information on how risks and vulnerabilities arising from the business model, funding model, and overall risk profile of the institution identified in the supervisory review and evaluation process are reflected, directly or indirectly, in the additional own fund requirements applied to an institution pursuant to Article 104(1), letter (a), of Directive 2013/36/EU, based on the outcomes of the supervisory review and evaluation process;
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(d) information on other prudential requirements applied to an institution to address risks and vulnerabilities arising from the business model, funding model and overall risk profile of the institution identified in the supervisory review and evaluation process.

2. The information referred to in paragraph 1 shall be taken into account by the resolution authority where it makes any adjustments to the default loss absorption and recapitalisation amounts, as described in Article 1(5) and Article 2(9), in order to ensure that the adjusted MREL, adequately reflects risks affecting resolvability arising from the institution’s business model, funding profile and overall risk profile.

The resolution authority shall provide the competent authority with a reasoned explanation on how that information has been taken into account in any such adjustment, in the framework of the obligation of the resolution authority to consult the competent authority under Article 45 (6) of Directive 2014/59/EU.

3. In the case of an entity or group which is subject to capital and prudential requirements pursuant to Regulation (EU) No 648/2012 of the European Parliament and of the Council or Regulation (EU) No 909/2014 of the European Parliament and the Council, only capital requirements pursuant to Regulation (EU) No 575/2013 and Directive 2013/36/EU should be taken into account for assessing the default loss absorption and recapitalisation requirements pursuant to Articles 1 and 2 of this Regulation.

The resolution authority may adjust the loss absorption amount to take account of feasible and credible contributions to loss absorption or recapitalisation envisaged by specific sources required by Regulation (EU) No 648/2012 or Regulation (EU) No 909/2014.

4. In the case of entities which are subsidiaries of a group subject to a consolidated MREL, the resolution authority may exclude from its assessment of the loss absorption amount and recapitalisation amount any buffer which is set only on a consolidated basis.

5. Where an authority other than the competent authority has been designated as the responsible authority for setting the countercyclical buffer rate, the resolution authority may request additional information from the designated authority.

Article 5

Size and systemic risk

1. For institutions and groups which have been designated as G-SIIs or O-SIIs by the relevant competent authorities, and for any other institution which the competent authority or the resolution authority considers reasonably likely to pose a systemic risk in case of failure and which does not fall within Article 2(2) of this Regulation, the resolution authority shall take into account the requirements set out in Article 44

(5)(a) and 44(8)(a) of Directive 2014/59/EU relating to a contribution to loss absorption and recapitalisation by the resolution financing arrangement.

2. Resolution authorities may opt not to apply the assessment referred to in paragraph 1 if the resolvability assessment concludes all of the following:
   (a) there are no impediments to a feasible and credible resolution without a contribution to loss absorption from the resolution financing arrangement;
   (b) except in accordance with the principles governing the use of the resolution financing arrangement set out in Article 44 of Directive 2014/59/EU, a contribution from the resolution financing arrangement would not be necessary to avoid a breach of the safeguards provided in Title IV, Chapter VII of Directive 2014/59/EU;
   (c) the preferred resolution strategy does not assume that an amount of own funds and liabilities exceeding the MREL requirement would be necessary to absorb losses.

3. Where a joint decision on MREL by the resolution college is required in accordance with Article 45 of Directive 2014/59/EU, for institutions which have been designated as G-SIIs or O-SIIs by the relevant competent authorities, and institutions within them, and for any other institution which the competent authority or the resolution authority considers reasonably likely to pose a systemic risk in case of failure, any downward adjustment to estimate capital requirements after resolution pursuant to Article 2(3) shall be documented and explained in the information provided to the members of the resolution college.

Article 6
Contributions by the deposit guarantee scheme to the financing of resolution

1. The resolution authority may reduce the MREL to take account of the amount which a deposit guarantee scheme is expected to contribute to the financing of the preferred resolution strategy in accordance with Article 109 of Directive 2014/59/EU.

2. The size of any such reduction shall be based on a credible assessment of the potential contribution from the deposit guarantee scheme, and shall at least:
   (a) be less than a prudent estimate of the potential losses which the deposit guarantee scheme would have had to bear, had the institution been wound up under normal insolvency proceedings, taking into account the priority ranking of the deposit guarantee scheme pursuant to Article 108 of Directive 2014/59/EU;
   (b) be less than the limit on deposit guarantee scheme contributions set out in the second subparagraph of Article 109(5) of Directive 2014/59/EU;
   (c) take account of the overall risk of exhausting the available financial means of the deposit guarantee scheme due to contributing to multiple bank failures or resolutions; and
(d) be consistent with any other relevant provisions in national law and the duties and responsibilities of the authority responsible for the deposit guarantee scheme.

3. The resolution authority shall, after consulting the authority responsible for the deposit guarantee scheme, document its approach as regards the assessment of the overall risk of exhausting the available financial means of the deposit guarantee scheme and apply reductions in accordance with paragraph 1, provided that that risk is not excessive.

**Article 7**

*Combined assessment of MREL*

1. Resolution authorities shall ensure that MREL is sufficient to allow the write down or conversion of an amount of own funds and qualifying eligible liabilities at least equal to the sum of loss absorption and the recapitalisation amounts, as determined by the resolution authorities in accordance with Articles 1 and 2, subject to provisions laid down in Articles 3 to 6.

2. Resolution authorities shall express the calculated MREL as a percentage of total liabilities and own funds of the institution, with derivative liabilities included in the total liabilities on the basis that full recognition is given to counterparty netting rights.

3. Resolution authorities shall establish a schedule or process for updating the MREL, taking into account:
   (a) the need to update the MREL in parallel with the assessment of resolvability;
   (b) whether the volatility of the entity or group’s total liabilities and own funds as a result of its business model would be likely to result in the MREL no longer being appropriate at an earlier date.

**Article 8**

*Transitional and post-resolution arrangements*

1. By way of derogation from Article 7, resolution authorities may determine an appropriate transitional period to reach the final MREL or for an institution or entity to which resolution tools have been applied.

2. For the purposes of paragraph 1, resolution authorities shall determine an appropriate transitional period which shall cover a reasonable time period and in any case be not longer than 48 months. They shall also communicate to the institution a planned MREL for each 12 month period during the transitional period. At the end of the transitional period, the final MREL shall be equal to the amount determined under Article 7.

3. Resolution authorities shall not be prevented from subsequently revising either the transitional period or any planned MREL.
Article 9

Entry into Force

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

For the Commission
On behalf of the President
[Position]