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EBA

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## **Interim report on MREL**

We appreciate the opportunity to comment on the EBA interim report on MREL. Already when the EBA presented its first draft of the MREL RTS in November 2014, the Swedish banking industry responded to the consultation. We raised concerns about the interaction between the setting of MREL requirements and existing regulatory requirements on capital.

Since buffers and Pillar 2 requirements were included in both the loss absorption and recapitalization amount in the RTS, but buffer and Pillar 2 regimes differ significantly between member states, we feared that the combination of 1) buffers and Pillar 2 requirements being included in the two basic components of MREL and 2) a relatively high degree of national flexibility, would result in large differences between member states in actual combined capital and bail-inable debt requirements (final MREL requirements). In fact, this scenario seems to be about to become reality. In Sweden, the resolution authority has announced MREL requirements consisting of a loss absorption amount including most Pillar 2 requirements, a recapitalization amount including all buffers and Pillar 2 requirements, and buffers then stacked on top of the loss absorption and recapitalization amount. For the bank with the highest requirement, the three components could end up at some 50 per cent of the risk exposure amount. Other systemically important banks in Sweden are looking at levels of some 40 per cent of the risk exposure amount.

Against this background, the Swedish Bankers' Association would like to express the following:

1. We support to align the denominator – to use RWA instead of total assets. It is in line with TLAC, and it facilitates comparison.
2. The EBA suggests to change the MREL RTS, to make it clear that capital buffers shall sit on top of MREL – the same concept as in TLAC. This would mean that CET 1 capital used to meet capital buffers cannot be used to meet MREL – one would avoid double counting. We support this, if it leads to the conclusion that the buffers do not need to be recapitalized at once if a resolution process is initiated during a financial crisis. We suggest that the



EBA includes a clear statement in the report that if buffers sit on top of the MREL requirement, it would follow that a resolution authority, when setting the MREL requirement, cannot include buffers in the recapitalisation amount. In addition to that, it should also be made even clearer in the RTS, that the recapitalisation amount should really be based on a resolution plan.

Our motivation is that buffers are intended to protect against stress. If they sit on top of the requirement a bank would be allowed to use the buffers, without facing the same consequences as in the case of a breach against the requirement.

3. Consequently, we also support a stricter harmonisation across all EU member states, including member states outside the Banking Union. Even if the EU could agree on stricter harmonisation of the calibration of the MREL requirement, member states would most probably still have the discretion to require more "pillar 2" MREL. In that case, at least the formal requirement would be lower than in e.g. the Swedish proposed implementation model.

SWEDISH BANKERS' ASSOCIATION

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