

Daisy chain of internal MREL

Position paper – Executive summary

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The “daisy chain” deduction framework increases the necessity of legal certainty, predictability, and proportionality in the internal MREL (iMREL) regulation. Resolution groups with entities in only one member state should be exempted from the “daisy chain” deduction framework. The transitional period for applying the requirements should also be extended to 1 January 2024. Moreover, ESBG warns that the introduction of the “daisy chain” [proposed by the European Commission](#) in late October should explicitly not increase other prudential requirements for banks. Finally, the scope of application of iMREL should be fixed at 5% of Total Risk Exposure Amount (TREA) for non-resolution entities in the level 1 text and not left at the discretion of the Single Resolution Board (SRB) as is currently the case.

Resolution groups with entities in only one member states should be exempted from the daisy chains deduction framework

Considering the intention of the lawmaker to protect subsidiaries in host countries in cases of cross-border holding structures, relevant in both Multiple Point of Entry (MPE) or Single Point of Entry (SPE) resolution strategies, the exemption of resolution groups with entities established only in one member state should be added to Article 72e (5) CRR and therefore exempted from the deduction requirements (for both SPE and MPE strategies).

The transitional period should be extended to 1 January 2024

As “daisy chain” deductions have no impact on the final iMREL targets to be met by 1 January 2024, but could well impact the MREL linear build-up by reducing the available iMREL capacity and thus result in shortfalls and the need to update the funding plans of entities in the scope of the “daisy chain” framework, an extension of the transitional period to the 1 January 2024 seems necessary in order to allow the industry to prepare for the new framework.

No extension of the “daisy chain” framework into the prudential regime of institutions

Considering the original mandate of Art. 45f (6) BRRD2, the purpose of which was to avoid that indirectly subscribed instruments would hamper the smooth implementation of the resolution strategy, the “daisy chain” deductions should prevent double counting of loss absorption capacity for resolution purposes while preventing the additional capital deductions in the prudential framework. It should therefore be explicitly clarified that the “daisy chain” framework does not impact the capital ratios and the prudential regime of the non-resolution entities in scope of the “daisy chain” deductions.

More predictability for the scope of application of internal MREL is needed

The threshold for non-resolution entities in the scope of the iMREL requirement should be fixed at level 1 at 5% of the resolution group’s TREA or leverage exposure or total operating income, while being continuously lowered by the SRB over the years as part of its MREL policies (from 5% to 3%). This will ultimately impose iMREL – irrespective of whether it exceeds the Loss Absorption Amount (LAA) – on all banks, regardless of their materiality and might inflate the “daisy chain” framework to cover situations not foreseen by the Level 1 framework.