ESBG

SRB consultation on the future MREL policy

High-level position paper – Executive summary

February 2024

ESBG Transparency Register ID 8765978796-80

The European Savings and Retail Banking Group (ESBG) submitted its response to the consultation launched by the Single Resolution Board (SRB) in December 2023 on the future of the MREL policy. While most of banks in the SRB's remit have completed their journey towards meeting their final MREL target, this consultation is part of their strategic review which aims to make the SRB optimally equipped to deal with upcoming challenges. Based on lessons learned from recent crises, the SRB will shift its focus to make sure that all resolution strategies can be effectively implemented, with sufficient and available loss-absorbing resources.

MREL policy should be kept stable for the future.

It shall be ensured that the MREL calibration methodology is transparent, understandable and does not violate the level playing field for banks competing in the Common Market. ESBG expects the SRB to keep, to a large extent, the MREL calibration, as defined in its 2023 MREL policy, unchanged and stable for the future so that banks can reliably plan the issuance of MREL eligible instruments. ESBG also considers that the current MREL policy should continue to capture the elements reflecting each bank's resolution strategy, business model, size, complexity, risk profile, governance, and balance sheet structure in order to guarantee an adequate amount of MREL resources to be available and to ensure the smooth implementation of the preferred resolution strategy.

MREL calibration: no link with the resolvability assessment.

ESBG members are critical regarding the link between the MREL calibration and the resolvability assessment and believe that MREL is not the obvious solution for all resolvability impediments. Such a link would only provide an illusion of transparency but would not remove the inherent subjectivity attached to that kind of assessment. We also reject the introduction of a harmonized floor and a single adjustment driver. It is unclear whether such an approach should also apply to institutions for which normal insolvency proceedings have been defined in the resolution planning. For these institutions, the competent resolution authorities regularly do not set MREL that exceed the own funds requirements.

Market confidence: external MCC should be set at zero.

Assuming a bank in going concern already anticipates market confidence after resolution is too optimistic. We also believe that a key factor for the bank to sustain market confidence after resolution is a reliable business reorganization plan and most notably, an access to stable short and long-term funding sources. Market confidence does not equate to more capital of MREL-capacity, surely when facing liquidity crises. For those reasons, the external MCC for resolution entities should be set at zero. Moreover, there is no justified need to factor an internal MCC for subsidiaries that are not resolution entities, especially when entities are located in the same Member State, as there is no see legal impediment that would prohibit the local parent bank to downstream an amount of capital over the minimum regulatory requirement to its subsidiary.

Monitoring of MREL eligibility: a simplified process and a clear allocation of the roles.

ESBG encouraged the SRB to clearly allocate roles and responsibilities with the ECB to avoid any duplication of work for both the authorities and the institutions with regard to any reporting queries. This is the case for own funds which are already analysed and discussed with the ECB. The SRB can perform its eligibility check off-site, limiting the operational impact for banks. A simplified process could consist in sending a self-assessment on the issuance programs each time they are updated (once a year), instead of producing the self-assessment at each issuance.

Your contact: Christophe Hennebelle – christophe.hennebelle@wsbi-esbg.org www.wsbi-esbg.org