

<b>Question ID</b>	2017_3212
<b>Status</b>	Final Q&A
<b>Legal act</b>	Directive 2014/59/EU (BRRD)
<b>Topic</b>	MREL
<b>Article</b>	47
<b>Paragraph</b>	1
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	n.a.
<b>Date of submission</b>	07/03/2017
<b>Published as Final Q&amp;A</b>	21/01/2022
<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Competent authority
<b>Subject matter</b>	Meaning of “rate of conversion that severely dilutes existing holdings of shares or other instruments of ownership”
<b>Question</b>	What is the exact meaning of “rate of conversion that severely dilutes existing holdings of shares or other instruments of ownership” in Article 47(1) of Directive 2014/59/EU (BRRD)?
<b>Background on the question</b>	Article 47(1) of Directive 2014/59/EU (BRRD) states that “with regard to point (b) of the first paragraph, the conversion shall be conducted at a rate of conversion that severely dilutes existing holdings of shares or other instruments of ownership”. It is no clear how a “rate of conversion that severely dilutes existing holdings of shares or other instruments of ownership” is defined. Is it a rate that allows to respect the “resolution objectives” referred to in Article 31?
<b>Final answer</b>	<p>The Final Guidelines on the rate of conversion of debt to equity in bail-in (<a href="#">EBA/GL/2017/03 05</a> April 2017) issued by EBA pursuant to Article 47(6) BRRD provide for the following:</p> <p>“When setting conversion rates resolution authorities should seek to ensure</p>

that no shareholder or creditor is expected to receive worse treatment than in insolvency (the 'no creditor worse off' principle), when applying both the bail-in tool and, to the extent necessary to uphold fundamental property rights, the power to write down or convert relevant capital instruments. This determination should be made on the basis of the valuation carried pursuant to Article 36 (4)(b) to (g) of the BRRD.

Subject to achieving the above, resolution authorities should set differential conversion rates only in order to respect the other principles in Article 34 of the BRRD".

In further detail, if the shares and other instruments of ownership in question are not written down, resolution authorities should ensure that shareholders and holders of other instruments of ownership are diluted to such an extent that does not grant them a better treatment than the one reserved to the holders of liabilities that were converted.

**Disclaimer:**

The answers clarify provisions already contained in the applicable legislation. They do not extend in any way the rights and obligations deriving from such legislation nor do they introduce any additional requirements for the concerned operators and competent authorities. The answers are merely intended to assist natural or legal persons, including competent authorities and Union institutions and bodies in clarifying the application or implementation of the relevant legal provisions. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The views expressed in the internal Commission Decision cannot prejudice the position that the European Commission might take before the Union and national courts.

<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3212">https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3212</a>
-------------	---