

Public Hearing - Draft RTS on estimation of P2/CBR for setting MREL (art 45c(4) BRRD)

29 September 2020

Opening 10:00 a.m. CET

Overview



Public hearing structure

EBA staff to introduce:

- Background: Article 45c(4) BRRD
- Overview of the draft RTS
- Specific questions for consultation
- Next steps

Q&A session

Suggestions for an efficient session

Should you need assistance or would like to intervene:

- write on WebEx chat to any of the hosts or publicly;
- reach us by email resolution@eba.europa.eu;
- raise your hand on WebEx.

To avoid background noise, please stay muted unless you take the floor.

To increase audio quality please turn off video streaming.

Please identify yourself (if you don't use full name on WebEx).

Article 45c(4) BRRD – main considerations



BRRD 2 introduces new mandates for the EBA.

Article 45e(1) of BRRD specifies that MREL is set at resolution group level, however in certain cases, the perimeter of the resolution group differs from the perimeter of the banking group.

This can, in particular, be the case with multiple point of entry resolution strategies which foresee the split-up of the banking group into several distinct entities post-resolution. But capital requirements are set at the prudential group level and thus may not effectively reflect the risk at the level of the resolution group.

The EBA was thus tasked with developing a methodology for resolution authorities to estimate capital requirements and combined buffer requirements to use as an input when calibrating MREL.

Proposed approach - capturing the right resolution groups

Issue	Proposed solution
<p>“EBA shall develop draft regulatory technical standards specifying the methodology to be used by resolution authorities to estimate the requirement referred to in Article 104a of Directive 2013/36/EU and the combined buffer requirement for resolution entities at the resolution group consolidated level where the resolution group is not subject to those requirements under that Directive. “</p>	<p>The EBA, in collaboration with EU resolution authorities, and in consultation with competent authorities, has developed an approach based on the following objectives:</p> <ol style="list-style-type: none">1. Avoid require sub-consolidation at resolution group level2. Avoid confusion regarding the roles between resolution authorities and supervisors in relation to capital setting3. Create a framework for a dialogue between the bank, the relevant competent and resolution authorities to improve the accuracy of the estimate over time4. Be straightforward and avoid overburdening resolution authorities5. Avoid preventing further adjustments as per usual MREL setting process

Proposed approach - capturing the right resolution groups

Mandate

The mandate aims to address issues relating to MPE groups where capital requirements and we want to avoid overburdening RAs

Proposed solution

Introduce a threshold
Threshold set at 5% of RWAs
5% stems from materiality threshold in FSB + empirical verification

Proposed approach – estimating P2

A mix between two approaches

Top-down

Use the P2R of the closest available P2R

The RA should use either:

- The group P2R
- The P2R of the largest entity composing the resolution group ($\neq 0$)

Adjust

1. The RA should seek to adjust the P2R On the basis of data provided by the supervisor (e.g. on the basis of the SREP decision)
2. No adjustment if the RA considers that no significant risk lies outside of the group

Pick the largest of the two

1. Compare the EUR amount between the top-down and bottom up approach
2. Use the largest of the two approaches to set MREL

Bottom-up

Do a sum of the parts

If one of the P2R set within the resolution is higher than the groups P2R then:

1. Calculate a weighted average of P2R of all entities composing the resolution group
2. Waived P2R or not set counted as 0

Proposed approach – estimating CBR

	CBR and MREL calibration	CBR feeds into MREL calibration of the recapitalisation amount under Article 45c(3), sixth subparagraph and the Article 45c(7), sixth subparagraph of BRRD
Combined Buffer Requirements	Capital Conservation Buffer	RA shall use the group buffer requirement
	G-SII buffer	
	OSIs buffer	RA shall use the buffer applicable to what is the closest in size between: <ol style="list-style-type: none">1. The group2. The largest entity composing the resolution group
	Systemic Risk Buffer	
	Counter Cyclical Buffer	Not part of MREL calibration

Specific questions for the public consultation



1. Do you agree with the proposed 5% materiality threshold?
2. Do you agree with the proposed approach to estimating pillar 2?
3. Do you agree with the proposed approach to estimating Combined buffer Requirement?

Next steps

Public consultation
closes on 24 October
2020

Draft RTS to be
finalised in Q4 2020
and published as Final
Draft RTS by the EBA

Final Draft RTS to be
submitted to the
European Commission

1. Questions sent in advance
2. “Live questions”:
 - i. Via WebEx chat (private or public)
 - ii. resolution@eba.europa.eu
 - iii. Requesting the floor





29 September 2020



Public Hearing on draft Regulatory Technical Standards (RTS) methodology to estimate P2 and CBR for setting MREL requirements (EBA/CP/2020/16)



Public Hearing has ended (opening was at 10:00 am CET)



Public consultation still open until 24 October 2020



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