Consultation Paper

Draft Implementing Technical Standards

amending the ITS on disclosures and reporting on MREL and TLAC with regard to the disclosures and reporting of information on daisy chains and prior permissions
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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific question summarised in chapter 5.2.

Comments are most helpful if they:
- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 18 August 2023. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive Summary

Institutions have been disclosing information to the market and reporting information to their competent and resolution authorities in accordance with Commission Implementing Regulation (EU) 2021/763 (‘Implementing technical standards (ITS) on disclosures and reporting on MREL and TLAC’) since 2021.

Those ITS need to be adjusted to a minor extent in response to amendments to Regulation (EU) No 575/2013 (‘Capital requirements regulation’, CRR) as well as to clarify some issues raised, among others, as part of Single Rulebook Q&A process, and to make some editorial corrections.

Next steps

Following the public consultation, the EBA will finalise the draft Implementing Technical Standards (ITS) and submit them to the European Commission for adoption. The amendments are envisaged to apply for the reference date of June 2024.

The EBA will also develop a technical package, consisting of the data point model (DPM), validation rules and XBRL taxonomy, reflecting the amendments introduced through these ITS. The technical package will become part of release v3.4 of the EBA reporting framework.
3. Background and rationale

1. The Implementing technical standards (ITS) on disclosures and reporting on MREL and TLAC were adopted by the European Commission and published in 2021 as Commission Implementing Regulation (EU) 2021/763. Institutions have been disclosing information to the market and reporting information to their competent and resolution authorities in accordance with these ITS for approximately two years.

2. In the light of the experience with the reporting in the years since its entry into force, as well as in the light of recent and possible upcoming amendments to Regulation (EU) No 575/2013 (‘Capital requirements regulation’, CRR), minor updates to the ITS are deemed necessary. Those amendments focus on (i) the reflection of the requirement to deduct investments in eligible liabilities instruments of entities belonging to the same resolution group (‘daisy chain’ framework), (ii) the reflection of the prior permission regime for buying back eligible liabilities instruments issued by the reporting entities and groups, and (iii) other minor updates to the ITS and the accompanying technical package to address some identified issues.

Daisy chain framework

3. Regulation (EU) 2022/2036 amending the CRR introduces an obligation for entities that are not resolution entities to deduct their investments in the own funds and eligible liabilities instruments issued by their subsidiaries from their eligible liabilities (‘daisy chain’ framework). Non-resolution entities in a daisy chain will have to deduct the relevant amounts in the context of both the internal TLAC requirement specified in Article 92b CRR, as well as the internal MREL specified in Article 45 in conjunction with Article 45f of Directive 2014/59/EU (‘Bank recovery and resolution directive’, BRRD), where applicable. The requirement to deduct the amounts will apply from 1 January 2024.

4. The ‘daisy chain’ framework had originally been meant to be specified in Regulatory Technical Standards (RTS), to be developed by the EBA, in accordance with Article 45f(6) BRRD. The ITS on...
disclosures and reporting on MREL and TLAC currently in force include a dedicated row in both the reporting and disclosures templates, as a placeholder that would have captured the deduction in accordance with the RTS, once the RTS would have been drafted and entered into force. Eventually the daisy chain framework is being introduced through a direct amendment to the CRR instead of the RTS originally planned, and consequently the mandate of Article 45f(6) BRRD was repealed. Therefore, the draft amending ITS included in this consultation paper update the legal references included in the ITS on disclosures and reporting on MREL and TLAC to align them with the legal basis provided for by the CRR, as amended by Regulation (EU) 2022/2036, but does not entail any change in substance to the already existing row.

5. Recital (13) of Regulation (EU) 2022/2036 asked the Commission to assess potential unintended consequences of the indirect subscription of internal MREL eligible resources, including the deduction regime, among others with regard to entities whose resolution plan provides for their winding up under normal insolvency proceedings in the case of failure (liquidation entities). In the light of such possible future amendments to the daisy chain framework, ‘of which’-items are being added to the templates, that aim to identify the magnitude of the investments of entities subject to an internal TLAC requirement or internal MREL into the own funds and eligible liabilities instruments of subsidiaries that are liquidation entities. If and once such investments are subject to a special treatment, competent and resolution authorities would need some data to estimate the impact of and monitor the application of that special treatment. As the legislative process is only in its early stages, there is still some uncertainty as regards the question how the treatment would look like in the end and when it will come into effect.

6. In the disclosures, only the references are updated, replacing the references to the RTS by references to the CRR.

Amounts covered by a prior permission to buy back or redeem own instruments

7. In accordance with Article 77(2) CRR, institutions need to obtain the resolution authority’s prior permission to call, redeem, repay or repurchase eligible liabilities instruments. That permission can be granted either for a specific period and a certain predetermined amount (‘general permission’) or for specific instruments (‘ad hoc permission’).

8. By the reference date of the disclosures or of the reporting, an entity may have used up already parts of the predetermined amount approved by the resolution authority, but not the entire predetermined amount.

9. While the prior permission regime has been in force the whole time, the ITS did not specify how the prior permissions were to be reflected in the data submitted or made public. The treatment of the used part of the predetermined amount in the reported or disclosed data is implicitly clear (see

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highlights in red in the example below). However, the ITS remained silent on the treatment of the unused part of the predetermined amount approved by the resolution authority, which reduces the stock of eligible liabilities recognised for complying with the MREL and TLAC requirements (see highlights in green in the example below).

**Example:**
The prior permission allows the entity to buy back subordinated eligible liabilities instruments worth 60 CUs (predetermined amount).

<table>
<thead>
<tr>
<th>Situation before prior permission was granted (e.g. December 2022)</th>
<th>Situation after the prior permission was granted (e.g. June 2023)</th>
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<tbody>
<tr>
<td>Instrument X was issued at 100 currency units (CU) and qualifies as subordinated eligible liability.</td>
<td>As of the reference date, the entity had bought back 10 CU of instrument X. The remaining 50 CUs of the predetermined amount have not been used up yet.</td>
</tr>
<tr>
<td>400 CU</td>
<td>Eligible liabilities, net (total)</td>
</tr>
<tr>
<td>[e.g. {M 02.00, r0060}, {M 03.00, r0251}]</td>
<td>0.00</td>
</tr>
<tr>
<td>100 CU</td>
<td>Eligible liabilities instruments, subordinated, not grandfathered</td>
</tr>
<tr>
<td>[e.g. {M 02.00, r0100 or r0110}, {M 03.00, r0260}]</td>
<td>0.00</td>
</tr>
<tr>
<td>---</td>
<td>Unused part of the predetermined amount</td>
</tr>
<tr>
<td>[e.g. {M 02.00, r0132 and r0135}, {M 03.00, r0265}]</td>
<td>0.00</td>
</tr>
<tr>
<td>300 CU</td>
<td>Other eligible liabilities instruments</td>
</tr>
</tbody>
</table>

10. Competent and resolution authorities will monitor and scrutinise the implementation of prior permission granted to entities subject to the obligation to comply with the MREL or MREL and TLAC framework. Therefore, it is envisaged to single them out in the data provided to authorities.

11. The proposal included in this consultation paper foresees that the reporting of (unused) amounts covered by prior permission to buy back own eligible liabilities instruments will be aligned with the approach applied in case of prior permissions to buy back own funds instruments, i.e. with the approach applied in COREP: In template C 01.00 of Annex I to Regulation (EU) 2021/451 (ITS on Supervisory Reporting, ITS) 6, the unused part of the predetermined amount covered by a permission to buy back own funds requirements – effectively a ‘reduction of the stock’ – is being reported together with investments in (own) own funds instruments (formally, a ‘deduction’). Consequently, and considering subordinated and non-subordinated eligible liabilities instruments

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as two distinct ‘capital classes’ (see also Q&A 6651), it is envisaged to add two new rows to templates M 02.00 (external MREL and TLAC) respectively M 03.00 (internal TLAC).

12. For the period until the ITS are updated as described above, Q&A 6576 provides guidance to reporting entities on how to reflect the impact of the prior permissions on the reported data. The guidance provided in the Q&A is aligned with the amendments proposed in this consultation paper.

13. The amendments to the templates and instructions of disclosures to reflect the prior permissions are kept to the absolute minimum. Unused prior permission amounts are envisaged to be disclosed together with any deductions applicable in the context of MREL or TLAC; information on the nature of the deduction or reduction of the stock of eligible liabilities, beyond the level of information currently provided, is deemed not to be relevant for investors. If needed, explanations can be provided in the qualitative information narrative accompanying the template. In order to reflect the prior permissions, one cell in template EU TLAC 1 is envisaged to be opened, and the instructions are being amended. The way prior permissions are reflected differs between reporting and disclosures, but has the advantage of minimising the changes to the disclosures while maintaining the mappability of information between both frameworks.

Other technical amendments

14. A number of minor amendments to the templates and instructions on reporting were made, which aim to improve the clarity of the reporting requirements without entailing substantive changes. These amendments are driven by answers to questions raised in the context of the Single Rulebook Q&A mechanism, the experience of analysing the reported data or the feedback received from institutions compiling the data in the data quality assurance process. In addition, typos, references (including a change of referencing style) and formatting inconsistencies have been corrected. Minor changes may also be made to the technical package consisting of the data point model (DPM), validation rules and XBRL taxonomy after the finalisation of the draft amending ITS.

15. The most notable amendment among the ‘technical amendments’ is a clarification of the information to be reported in the insolvency ranking templates (M 05.00 and M 06.00). As Q&A 5833 showed, it was not clear if, and possibly how, own funds items other than instruments (e.g. retained earnings, IRB surplus), adjustments to the own funds (prudential filters) and deductions from own funds instruments were to be treated in the data reported. These questions would, to some extent, also arise with regard to eligible liabilities. While the substance remains unchanged, the proposed amended wording in the ITS clarifies that only items ‘on the right side of the balance sheet’ (i.e. items qualifying as liabilities or equity in the accounting sense) are to be considered; deductions, with the exception of holdings of own instruments, and regulatory adjustments such as the prudential filters, are to be disregarded.

Timelines

16. As the envisaged changes to the ITS on disclosures and reporting on MREL and TLAC are of minor nature, the amendments are consulted for a period of six weeks.
17. The amendments are expected to apply from the later of June 2024 and six months after the entry into force of the amending implementing regulation.
4. Draft implementing technical standards

In between the text of the draft ITS, including the annexes, that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.
amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/763 as regards the disclosures and reporting of information on certain elements reducing the TLAC or MREL capacity

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012\(^7\), and in particular Article 430(7), subparagraph (5), thereof,

Whereas:

(1) Regulation (EU) 2022/2036\(^8\) introduced the requirement that intermediate entities in a resolution group should deduct their holdings of internal resources eligible for the compliance with the requirements of Article 92b of Regulation (EU) No 575/2013 (‘internal TLAC requirement’) or Article 45 of Directive 2014/59/EU\(^9\) (‘internal MREL’) issued by entities that are not themselves resolution entities and which belong to the same resolution group. Recital (11) of that Regulation emphasizes the need to reflect this requirement also in the templates for the public disclosure of harmonised information on internal MREL and internal TLAC set out in Implementing Regulation (EU) 2021/763\(^10\). This deduction should, equally, be reflected in the harmonised information provided to competent and resolution authorities.

(2) Entities subject to the requirements of Article 92a or 92b of Regulation (EU) No 575/2013 (‘TLAC requirement’) or Article 45 of Directive 2014/59/EU (‘MREL’) may, with the prior permission of their resolution authority, call, redeem, repay or repurchase eligible liabilities instruments in accordance

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\(^7\) OJ L 176, 27.06.2013, p. 1.


with Article 78a of Regulation (EU) No 575/2013. Amounts covered by such a permission reduce the entities’ capacity to meet the MREL or TLAC requirement. Implementing Regulation (EU) 2021/763 should clearly state how the impact of the prior permissions is to be reflected in the public disclosures and the reporting to authorities.

(3) The amendments introduced by this Regulation should not be applicable earlier than six months from the date of the entry into force of this Regulation. Entities subject to the obligation to report or disclose information in accordance with Regulation (EU) No 575/2013 or Directive 2014/59/EU\(^\text{11}\) should also not start reporting the amended set of information earlier than for the reference date 30 June 2024.

(4) Implementing Regulation (EU) 2021/763 should be further amended to improve the ability of competent and resolution authorities to effectively monitor entities’ compliance with the MREL and TLAC requirements.

(5) This Regulation is based on the draft implementing technical standards submitted to the Commission by the European Banking Authority.

(6) The European Banking Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council\(^\text{12}\); HAS ADOPTED THIS REGULATION:

**Article 1**

Implementing Regulation (EU) 2021/763 is amended as follows:

1. Templates M 02.00 and M 03.00 of Annex I are replaced by the templates M 02.00 and M 03.00 set out in Annex I to this Regulation.
2. Annex II is replaced by the text set out in Annex II to this Regulation.
3. Templates EU TLAC1 and EU ILAC of Annex V are replaced by templates EU TLAC1 and EU ILAC set out in Annex III to this Regulation.
4. Annex VI is replaced by the text set out in Annex IV to this Regulation.

**Article 2**

This Regulation shall enter into force on the twentieth day following that of its publication in the **Official Journal of the European Union**. It shall apply from \[OJ please insert the date as the later of 16 June 2024 and six months after entry into force\].


This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

On behalf of the President
[Position]

Question – Comments on the overall proposal

a) Did you identify any issues regarding the representation of the policy framework for MREL and TLAC, including the representation of the ‘daisy chain’ framework and the prior permission regime, in these amending ITS?

b) Are the templates, and the instructions provided for filling them in, clear? If you identify any issues, please clearly specify the affected templates and instructions, and include suggestions how to rectify the issues.
ANNEXES

Please refer to separate files:

- Annex I – Annex I, Reporting, Templates
- Annex II – Annex II, Reporting, Instructions
- Annex III – Annex V, Disclosures, Templates
- Annex IV – Annex VI, Disclosures, Instructions
5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

As per Article 15 of Regulation (EU) No 1093/2010 (EBA Regulation), any draft implementing technical standards (ITS) developed by the EBA shall be accompanied by an Impact Assessment (IA), which analyses ‘the potential related costs and benefits’.

This analysis presents the IA of the main policy options included in this Consultation Paper on the draft ITS amending the ITS on disclosures and reporting on MREL and TLAC with regard to the disclosures and reporting of information on daisy chains and prior permissions (‘The draft amending ITS’). The analysis provides an overview of the identified problem, the proposed options to address this problem as well as the potential impact of these options. The IA is high level and qualitative in nature.

A. Problem identification and background

Regulation (EU) 2019/876 (the revised Capital Requirements Regulation – CRR2) and Directive (EU) 2019/879 (the revised Bank Recovery and Resolution Directive – BRRD2) implemented the Financial Stability Board’s (FSB) total loss-absorbing capacity (TLAC) standard in the EU and amended the minimum requirement for own funds and eligible liabilities (MREL) that has been in force since 2014. To enable markets and authorities to scrutinise compliance with MREL and TLAC requirements, CRR2 and BRRD2 also include Pillar 3 disclosure requirements and supervisory reporting requirements on TLAC and MREL respectively and mandate the EBA to develop draft implementing technical standards (ITS) on those requirements. On the basis of the mandates in CRR2 and BRRD2, the ITS on disclosures and reporting on MREL and TLAC were published in 2021 - as Commission Implementing Regulation (EU) 2021/763. These ITS include templates specifying the details of the TLAC/MREL Pillar 3 disclosure requirements and the supervisory reporting requirements. In accordance with these ITS, Institutions have been using, for approximately two years, those templates to disclose information to the market and report information to their competent and resolution authorities. In the light of the experience with the reporting during those two years, as well as in the light of recent and upcoming amendments to the CRR2, the templates and associated instructions might need to be updated.
B. Policy objectives

The objectives of the draft amending ITS is to ensure that the information on the compliance with the MREL/TLAC reported and disclosed by Institutions correctly reflects the policy framework for TLAC and MREL, allows resolution and competent authorities to properly perform their duty of supervision, and enables stakeholders to better assess their possible losses where an entity has to be resolved.

C. Options considered, assessment of the options and preferred options

Section C. presents the main policy options discussed and the decisions made by the EBA during the development of the Draft amending ITS. Advantages and disadvantages, as well as potential costs and benefits from the qualitative perspective of the policy options and the preferred options resulting from this analysis, are provided.

Modifications of Templates

As mentioned above, the experience with the reporting during the past two years together with the amendments to the CRR2 raised the question of the necessity of modifying the MREL/TLAC templates for reporting and disclosures. In this context, the EBA considered two policy options.

Option 1a: To keep the MREL/TLAC templates for reporting and disclosures unchanged.

Option 1b: To modify the MREL/TLAC templates for reporting and disclosures to a limited extent.

The CRR2 was recently amended by Regulation (EU) 2022/2036 which introduced an obligation for non-resolution entities to deduct, from their eligible liabilities, their investments in the own funds and eligible liabilities instruments issued by their subsidiaries (‘daisy chain’ framework). Non-resolution entities will have to deduct the relevant amounts in the context of both the internal TLAC requirement specified in Article 92b CRR, as well as the internal MREL specified in Article 45 in conjunction with Article 45f of the BRRD. The requirement to deduct the amounts will apply from 1 January 2024. While the MREL reporting and disclosures had already accounted for that ‘Daisy chain’ framework, albeit pointing to a soon outdated legal provision, the templates do not permit to report information on it for TLAC. This new requirement to make the ‘daisy chain’ deduction also in the context of TLAC, and the need to update the relevant references for MREL, led the EBA to exclude option 1a to keep the MREL/TLAC templates unchanged.

Together with the above-mentioned modifications of the templates related to the ‘daisy chain’, some other modifications of the templates were deemed necessary by the EBA. The main one is related to the prior permission to buy back or redeem own eligible liabilities instruments. The instructions, as they are currently in place, do not specify how entities should reflect the unused part of the predetermined amount approved by the resolution authority (which reduces the stock of eligible liabilities recognized for complying with the MREL and TLAC requirements). Also, the
absence of dedicated information on the use of the predetermined amount hampers competent and resolution authorities’ ability to properly monitor and scrutinize the implementation of the permission granted. To keep modifications limited, but reflect all relevant aspects of the prior permission regime, only information on the (i) predetermined amount, by nature of the permission granted and (ii) the unused part of the predetermined amount at the level of the two main categories of eligible liabilities (subordinated / non-subordinated) would be requested.

The EBA also saw the need of other minor technical amendments. Those are mainly driven by questions raised in the context of the Single Rulebook Q&A mechanism that pointed out misleading, ambiguous or missing elements in the instructions.

The modifications related to the ‘daisy chain’ have the benefit of (re-)aligning the templates to be reported and disclosed information with the applicable policy framework. Entities will also benefit from the modifications of the templates and instructions, which, by providing clarifications and better guidance, support them in the production of the templates and facilitate the compliance with the relevant reporting and disclosures requirements. The main benefit of the modifications for resolution and competent authorities would be the enhanced ability to monitor some specific aspects of the MREL/TLAC framework.

The costs related to the modifications of the templates will be insignificant or even nil for the resolution and competent authorities. For the entities, the costs will be related to the provision of the additional information requested. However, this additional information is, mostly, supposed to be already available on the entities side, so those costs are deemed to be very low. Overall, benefits will exceed the costs both for the authorities and the entities.

Based on the above, the Option 1b has been chosen as the preferred option and thus the draft amending ITS envisages to modify the MREL/TLAC templates for reporting and disclosures to a limited extent.

D. Conclusion

The draft amending ITS will amend the ITS on disclosures and reporting on MREL and TLAC with regard to the disclosures and reporting of information on daisy chains and prior permissions. This update of the reporting requirements will require the reporting entities to provide additional information. However, the costs related to this provision of data will be exceeded by the benefit of having a reporting that is in line with the regulatory requirements and the benefit of providing the resolution and competent authorities with better means to monitor and follow up some MREL/TLAC elements. Overall, the impact assessment on the draft amending ITS suggests that the expected benefits are higher than the incurred expected costs.
5.2 Overview of questions for consultation

**Question—Comments on the overall proposal**

a) Did you identify any issues regarding the representation of the policy framework for MREL and TLAC, including the representation of the ‘daisy chain’ framework and the prior permission regime, in these ITS?

b) Are the templates, and the instructions provided for filling them in, clear? If you identify any issues, please clearly specify the affected templates and instructions, and include suggestions how to rectify the issues.