BANK OF ENGLAND

News release

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

8 November 2016

New Bank of England rules bring UK closer to ending taxpayer bailouts

The Bank of England is today announcing new rules designed to make it easier to manage the failure of banks and building societies in an orderly way, as part of reforms to end taxpayer bailouts in the UK.

During the financial crisis, governments were forced to bail out failing banks, rather than risk the damage that a disorderly failure would have had on the wider economy and financial system. Some banks were too big to be allowed to fail.

Today, following a public consultation, the Bank of England is publishing its policy on setting the Minimum Requirement for own funds and Eligible Liabilities (MREL), which is a requirement under the EU Bank Recovery and Resolution Directive. These requirements will make it possible to resolve failing banks by ensuring that banks hold sufficient equity and debt that can absorb losses. It will enable the recapitalisation of businesses that need to keep operating during the process because they provide important financial services to households and businesses. This process is called “bail-in”.

These rules represent one of the last pillars of post-crisis reforms designed to make banks safer and more resilient, and to avoid taxpayer bailouts in future. Banks are now required to hold several times more loss-absorbing resources than they did before the crisis, while annual stress tests check firms’ resilience to severe but plausible shocks. Banks are now also structured in a way that supports resolution. The Bank of England now has the legal powers necessary to manage the failure of a bank, and significant progress has been made to ensure there is coordination between national authorities should a large international bank fail.

The new rules will be introduced in two phases. Banks will be obliged to comply with interim requirements by 2020. From 1 January 2022, the largest UK banks will hold sufficient resources to allow the Bank of England to resolve them in an orderly way.

Mark Carney, Governor of the Bank of England, said:

“This policy is a significant milestone on the journey to end Too Big To Fail in the UK. The implementation of MREL will ensure that banks that provide essential economic functions hold sufficient resources to be resolved in an orderly way, without recourse to public funds, and whilst allowing households and businesses to continue to access the services they need."

Summary of the MREL policy

Where does MREL fit in to the resolution framework?

The Bank of England is the UK's resolution authority and is responsible for developing resolution plans for banks, building societies and the larger investment firms. The resolution regimes and the plans developed under it are designed to ensure that if these firms fail they can be resolved in an orderly manner; that is to say, without the use of public funds or disruption to broader financial stability.

MREL is a key part of making resolution credible. MREL is a minimum requirement for institutions to maintain equity and eligible debt liabilities, and is a requirement under the EU Bank Recovery and Resolution Directive. The purpose of MREL is to help ensure that when institutions fail, the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business. As a result, MREL is a critical element of an effective resolution strategy.

The Bank will set MREL for individual institutions by reference to three broad resolution strategies. These strategies reflect our legal obligations, judgement of risk over the potential disruption to critical economic functions and need to apply a proportionate approach:

- **Modified insolvency process** - for small firms, which we assess do not provide services of a scale considered critical. A pay-out by the Financial Services Compensation Scheme (FSCS) of covered depositors would meet the Bank's resolution objectives. These institutions will meet their MREL simply by meeting their existing capital requirements.
- **Partial transfer** - where firms are considered to be too large for a modified insolvency process. MREL will be set at a level which permits a transfer of critical parts of the business to take place.
- **Bail-in** - the largest and most complex firms will be required to maintain sufficient MREL to absorb losses and, in the event of their failure, be recapitalised so that they continue to meet the Prudential Regulation Authority's conditions for authorisation. The aim is that the firm is able to operate without public support.

The Bank will set MREL in two phases:

- Interim requirements by 2020 (with a 2019 requirement for G-SIBs); and
- End-state requirements by 2022, subject to a review by the end of 2020.

The Bank will communicate more detail to firms on the MREL policy that applies to them by the end of 2016.

Resolution strategies and calibration of MREL

The Bank will set MREL on a firm-specific basis, informed by the resolution strategy for that firm.

a. **From 1 January 2019** UK G-SIBs will be required to meet the minimum requirements set out in the Financial Stability Board's standard for Total Loss-Absorbing Capacity (TLAC) of the higher of 16% of risk weighted assets (RWAs) or 6% of leverage exposures.

b. **From 1 January 2020:**

   a. UK G-SIBs and D-SIBs (which have bail-in resolution strategies) will be required to meet an interim MREL equivalent to the higher of:

      i. two times their Pillar 1 capital requirements and one times their Pillar 2A capital requirements, i.e. (2 x Pillar 1) plus (1 x Pillar 2A); or

      ii. 6% leverage exposures.

   b. Other bail-in / partial transfer institutions will be required to meet an MREL of 18% RWA.

c. **From 1 January 2022**, and subject to review before the end of 2020:

   a. UK G-SIBs will be required to meet an end-state MREL equivalent to the higher of:

      i. two times the sum of Pillar 1 and Pillar 2A, i.e. 2 x (Pillar 1 plus Pillar 2A); or

      ii. the higher of two times the applicable leverage ratio requirement or 6.75% of leverage exposures (in line with the TLAC standard);

   b. D-SIBs and any other bail-in/transfer institutions will be required to meet an end-state MREL equivalent to the higher of:

      i. two times the sum of Pillar 1 and Pillar 2A, ie 2 x (Pillar 1 plus Pillar 2A) or

      ii. if subject to a leverage ratio requirement, two times the applicable requirement (e.g. 6% if the leverage ratio is 3%).

In light of the consultation, the Bank has decided that modified insolvency would not be an appropriate resolution strategy for firms that provide more than 40,000 to 80,000 transactional bank accounts (accounts from which more than 9 withdrawals have been made within a three-month period). The original proposal was for a threshold of 40,000 accounts. Firms with fewer than 40,000 such accounts will therefore have a modified insolvency resolution strategy with MREL set at the level of regulatory capital requirements.

Timing of MREL implementation

In light of changes to the EBA Regulatory Technical Standards that govern the implementation of MREL in EU member states, and in response to feedback from the consultation, the Bank will extend the deadline for firms to meet their MREL by two years to 1 January 2022. However, to ensure that firms make progress towards meeting their end-state requirements, firms will be required to meet interim MRELs by 1 January 2020. The Bank will review the timing and calibration of the end-state requirement before the end of 2020.

ENDS

Notes to Editors:

The Bank of England's approach to setting a Minimum Requirement for own funds and Eligible Liabilities (MREL) – Responses to Consultation and Statement of Policy is available here:
http://www.bankofengland.co.uk/financialstability/Pages/role/risk_reduction/srr/framework.aspx
The PRA is today publishing the following documents:
PS30/16 - The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions
http://www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps3016.aspx
SS16/16 - The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions
http://www.bankofengland.co.uk/pra/Pages/publications/ss/2016/ss1616.aspx