Bank of England

This document is Annex 2 of '**Consultation: Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)**'.

Reader notes:

Amendments proposed as part of this consultation are shown with black underline or strikethrough compared to the December 2021 version of the Bank's **statement of policy on its approach to setting MREL**.

Certain of the amendments set out in this proposed revised statement of policy (draft SoP) are proposed on the assumption that some or all of the following take place:

- The revocation of the UK CRR TLAC provisions, set out in Annex 3 of the consultation paper, is brought into force;[*]
- The enactment of the Bank Resolution (Recapitalisation) Bill currently before Parliament and the introduction of the new mechanism for recapitalisation provided for in that Bill;
- Amendments to the Bank Recovery and Resolution (No.2) Order 2014, consequential on the enactment of the Bill; and
- The revocation of the MREL UK Technical Standards is brought into force.

Certain references in this proposed revised statement of policy to the PRA's Rulebook and other PRA policy materials are subject to consultation and final implementation by the PRA.

The final version of the revised statement of policy will reflect the outcomes of the above legislative processes and the final versions of the relevant PRA Rules and policy materials.

[*] As at the date of the consultation on this draft SoP, Article 4 of UK CRR remains in force and HM Treasury has not yet consulted on the timing for bringing into force its revocation. Therefore, certain defined terms used in this draft SoP still cross-refer to Article 4 of UK CRR. However, it is possible that, by the time the revised Statement of Policy is in force, the government may have brought into force the revocation of Article 4 and those definitions may have been restated in either another legislative instrument or in PRA Rules. For the purposes of the consultation, references in this draft SoP to definitions in Article 4 should, therefore, be taken also to include reference to the future applicable successor legislation or PRA Rule which will contain the corresponding definitions. The Bank intends to update the references to Article 4 to reflect the intended destination of the Article 4 definitions once it is known.

Statement of Policy: The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities

This document contains the Bank of England's policy for exercising its power to direct relevant persons to maintain a minimum requirement for own funds and eligible liabilities (MREL) under section 3A (4) and (4B) of the Banking Act 2009.

1 Background and statutory framework

1.1 This Statement of Policy (references to which include Annexes 1 and 2 hereto unless otherwise specified) is issued by the Bank of England (the Bank), as UK resolution authority, under section 3B (9) of the Banking Act 2009 as amended (the Banking Act). The Statement of Policy sets out how the Bank expects to use its power to direct a 'relevant person' to maintain a minimum requirement for own funds and eligible liabilities (MREL).

1.2 In this Statement of Policy, references to an 'institution' shall, unless otherwise stated, be taken also to include 'relevant persons'.

A 'relevant person' means:

(a) an institution[1] authorised for the purpose of the Financial Services and Markets Act 2000 (FSMA) by the Prudential Regulation Authority (PRA) ~~or Financial Conduct Authority (FCA);~~;[2]

(b) a parent of such an institution which (i) is a financial holding company or a mixed financial holding company; and (ii) is established in, or formed under the law of any part of, the United Kingdom; -or

[1] In this Statement of Policy, the term 'institution' means UK-incorporated banks, UK-incorporated building societies and investment firms in scope of the UK's special resolution regime pursuant to section 258A of the Banking Act. From 1 January 2022, ~~subject to Parliamentary approval~~by regulation 33 of the Financial Services Act 2021 (Prudential Regulation of Credit Institutions and Investment Firms) (Consequential Amendments and Miscellaneous Provisions) Regulations 2021, investment firms which are regulated only by the Financial Conduct Authority ~~will be~~(FCA) were removed from the provisions related to the special resolution regime set out in the Banking Act.~~References in this Statement of Policy to an 'institution' shall, in general and unless otherwise stated, be taken to also include 'relevant persons'.~~

[2] The PRA ~~and FCA are~~is the UK competent ~~authorities~~authority in this context. According to article 2 of the No. 2 Order 'competent authority' means the supervisor of an authorised person under FSMA.

This document is Annex 2 of '**Consultation: Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)**'.

(c) a subsidiary of such an institution or of such a parent which (i) is a financial institution[3] authorised by the PRA~~ or FCA ~~; and (ii) is established in, or formed under the law of any part of, the United Kingdom.

1.3 The Bank is required to set MREL for all institutions. MREL must be set on both an individual institution and group consolidated basis. The Bank may set MREL for certain types of other relevant persons in an institution's group, specifically those entities listed under (b) and (c) above. As required by the Bank Recovery and Resolution (No.2) Order 2014 (the No. 2 Order), the Bank will use its ~~power~~powers of direction pursuant to section 3A (4) and (4B) of the Banking Act to set MREL, in consultation with the PRA~~ or FCA~~. References in this Statement of Policy to a 'group' means any group comprising one or more entities referred to in paragraph 1.2 above, whether established and authorised in the United Kingdom or elsewhere.

1.4 MREL must be set in line with the provisions of the No. 2 Order~~ and the retained EU law version of the European Commission Delegated Regulation (EU) 2016/1450, referred to as the MREL UK Technical Standards or MREL UKTS.~~. The Bank will also consider the Financial Stability Board's (FSB) total loss-absorbing capacity (TLAC) standard (FSB TLAC standard) when setting MREL.

1.5 The No. 2 Order requires the Bank to set MREL on the basis of the following criteria~~, which are further specified in the MREL UKTS:~~: [4]

(a) the need to ensure that the institution can be resolved by the application of the stabilisation powers including, where appropriate, by making special bail-in provision within the meaning of section 48B of the Banking Act 2009, in a way that meets the special resolution objectives set out in section 4 of the Banking Act (resolution objectives);

(b) the need to ensure, in appropriate cases, that the institution has sufficient eligible liabilities to ensure that, if mandatory reduction provision within the meaning of section 6B of the Banking Act or special bail-in provision were made, losses could be absorbed and the capital ratio and, as applicable, the leverage ratio of the institution could be restored to a level necessary to enable it to continue to comply with the conditions for authorisation under Part 4A of the Financial Services and Markets Act 2000 (FSMA), to continue to carry out the activities for which it is authorised and to sustain sufficient market confidence in the institution or entity;

[3] The term 'financial institution' has the meaning given by Article 4 (1) (26) of Regulation 575/2013/EU as it forms part of ~~retained EU~~assimilated law (UK CRR).

[4] ~~In accordance with the MREL UKTS, the Bank may reduce MREL to take account of the amount which the UK deposit guarantee scheme is expected to contribute to the financing of the preferred resolution strategy~~ *Paragraphs 1.5 and 1.6 of the draft SoP are subject to change to reflect any relevant amendments which are made to the No. 2 Order consequential on introduction of the new mechanism for small bank resolution in the Bank Resolution (Recapitalisation) Bill. The Bank will update these paragraphs to reflect any amendments made if the relevant legislation is passed.*

(c) the need to ensure that, if the resolution plan anticipates that certain classes of eligible liabilities might be excluded from bail-in under section 48B(10) of the Banking Act or that certain classes of eligible liabilities might be transferred to a recipient in full under a partial transfer, the institution has sufficient other eligible liabilities to ensure that losses could be absorbed and the capital ratio and, as applicable, the leverage ratio of the institution could be restored to a level necessary to enable it to continue to comply with the conditions for authorisation and to continue to carry out the activities for which it is authorised;

(d) the size, the business model, the funding model and the risk profile of the institution;

(e) the extent to which the failure of the institution would have adverse effects on financial stability, including due to its interconnectedness with other institutions or with the rest of the financial system, through contagion to other institutions.

1.6. Where the Bank has determined a transfer preferred resolution strategy would be appropriate, the Bank may take into account when setting MREL the extent to which any recapitalisation payment[5] by the Financial Services Compensation Scheme (FSCS) could be required by the Bank in respect of the institution.

1.7 MREL is an institution-specific requirement, and the Bank will set MREL with the goal that individual institutions and groups can be resolved consistently with the resolution objectives under a preferred resolution strategy. This Statement of Policy describes the general framework the Bank will use when setting MREL but is not definitive of any given relevant person's MREL.

Interaction of MREL and the capital framework

1.~~7~~8 The PRA has published a supervisory statement on the interaction of MREL and the capital framework.[6] The statement sets out the PRA's approach to:

(a) the interaction of MREL and the capital framework; and

(b) the interaction of MREL and the PRA Threshold Conditions.

1.~~8~~9 Please consult the PRA's supervisory statement for further details.

[5] As defined in section 214E(2) of FSMA.

[6] ~~PRA (2020), 'The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions ', PRA Supervisory Statement 16/16, available at https://www.bankofengland.co.uk/prudential-regulation/publication/2016/the-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel-ss~~ **SS16/16 'The minimum requirement for own funds and eligible liabilities (MREL) - buffers and Threshold Conditions' - December 2020 (bankofengland.co.uk)**

~~1.9 In addition to the requirements set out in this Statement of Policy, UK resolution entities of G-SIBs[7] and material subsidiaries of non-UK G-SIBs are subject to additional requirements set by the retained EU law version of Regulation 575/2013/EU (CRR).[8]~~

2 Definitions and interpretation

2.1 'own funds' has the same meaning as in Article 4(1)(118) of ~~the~~UK CRR; and 'own funds instruments' has the same meaning as in Article 4(1)(119) of ~~the~~UK CRR.

2.2 'excluded liabilities' has the same meaning as in section 48B(7A) of the Banking Act.

2.3 'MREL eligible liabilities' means liabilities that are issued by institutions to meet applicable requirements for own funds and eligible liabilities ~~as defined in~~set by the ~~Banking Act which~~Bank, that are not (or no longer qualified as) own funds and are not excluded liabilities, and that meet the ~~MREL eligibility~~ criteria for MREL eligible liabilities set out in the No. 2 Order and this Statement of Policy; and 'eligible liabilities instruments' means instruments representing or constituting MREL eligible liabilities.

2.4 'capital buffers' means both risk-weighted capital and leverage buffers.

2.5 There are two categories of MREL referred to in this document: 'external MREL' and 'internal MREL'.

2.~~5~~6 External MREL instruments are issued from a 'resolution entity' in a group, that is to say, the entity that would be subject to the use of resolution powers under the preferred resolution strategy.

2.~~6~~7 Internal MREL instruments are issued from legal entities in a group that are not themselves resolution entities. They are issued directly or indirectly to the resolution entity in their group.

2.~~7~~8 In developing the preferred resolution strategies, the Bank will identify the institution within the group (if any) to which the Bank would expect to apply its resolution powers and which would therefore be the UK resolution entity[9] for which 'external MREL' is set.

2.~~8~~9 The group resolution strategy may either rely upon the use of resolution powers only at the parent of the group — known as a single point of entry (SPE) — or may

~~7 Global systemically important banks (G-SIBs) as identified by the Financial Stability Board in consultation with the Basel Committee on Banking Supervision and national authorities.~~

~~8 The retained EU law version of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.~~

9 Those institutions within a group in respect of which the use of stabilisation powers (other than third country instrument powers) as defined in the Banking Act is envisaged under the preferred resolution strategy.

depend upon resolution powers being used at more than one entity within the group — known as a multiple point of entry (MPE).

2.~~9~~10 Under SPE, the internal MREL will be issued by other entities in the group to the resolution entity. In resolution, the write-down and/or conversion to equity of internal MREL will ~~always~~ result in the whole banking group remaining together as a group during the resolution, although parts of it may in time be wound down or sold off.

2.~~10~~11 Under MPE, some of the resolution entities may issue MREL eligible liabilities either externally or alternatively to another entity higher up in the group. Where an MPE resolution entity has issued MREL eligible liabilities externally, the write-down and/or conversion of the instrument may cause the sub-group that it heads to separate from the rest of the banking group as part of the resolution. This is because the holders of the external MREL resources issued by these resolution entities may become the new shareholders of that entity, leading to a change in control.

3 Framework for setting MREL

3.1 This section sets out the framework the Bank uses to inform the calibration of an institution's MREL. Section 4 describes additional adjustments to calibration which may be made on the basis of the preferred resolution strategy for an institution and introduces the deductions regime set out in Annex 2, Section 5 describes additional criteria which liabilities must meet in order to qualify as external MREL resources, Section 6 sets out the Bank's principles for setting MRELs within groups, Section 7 describes internal MREL scope and calibration, Section 8 sets out internal MREL instrument eligibility, and Section 9 sets out the Bank's approach to the transition to final (end-state) MRELs, including interim requirements, and to setting further 'transitional' MRELs or making other adjustments to reflect changes of circumstances.

3.2 The Bank will communicate to institutions or their parent companies their resolution strategies~~, the critical functions~~[10] ~~(if any) that they or their group provide,~~ and their external and internal MREL (if any).

3.3 The No. 2 Order ~~and~~provides the ~~MREL UKTS provide the~~legislative framework for the calibration of MREL. The Bank will set MREL in accordance with this framework~~.~~ ~~The MREL UKTS uses capital requirements (Pillar 1, Pillar 2A and capital buffer requirements and any applicable leverage ratio requirement)~~ as ~~reference points.~~set out in this Statement of Policy.

3.4 The Bank will calculate an institution's baseline MREL as the sum of two components: a loss absorption amount and a recapitalisation amount.

Loss absorption amount

3.5 The Bank will set the loss absorption amount to cover the losses that would need to be absorbed up to and in resolution. The starting point ~~in the MREL UKTS~~ is

~~[10] See section 3 (1) of The Banking Act.~~

that the loss absorption amount will equal an institution's 'minimum capital requirements'[11] (Pillar 1 plus Pillar 2A or, if applicable and higher, the institution's leverage ratio requirement) plus its applicable capital buffers.

3.6 The ~~MREL UKTS gives the~~ Bank ~~the discretion to~~may remove capital buffers from the loss absorption amount if they are deemed not to be relevant to absorbing losses in resolution involving stabilisation powers. The Bank must take into account information received from the PRA ~~or FCA~~, as the competent authority, relating to the institution's business model, funding model and risk profile.

3.7 In light of the PRA policy on the interaction of MREL and capital buffers, in particular that CET1 cannot be used simultaneously to meet both MREL and capital buffers[12], the Bank expects to exclude capital buffers from the loss absorption amount for institutions subject to that policy. This includes those institutions with a modified insolvency resolution strategy~~, including those for which the FCA is the sole competent authority.~~. Therefore the Bank expects generally to set the loss absorption amount equal to an institution's ~~regulatory~~minimum capital requirements.~~[13]~~

4 Resolution strategies and external MREL

4.1 MREL will be set to ensure that institutions can be resolved in line with the resolution objectives. In particular MREL will be set to enable the preferred resolution strategy for an institution to be effected. This section outlines key factors the Bank will consider when determining the preferred resolution strategy, and how this determination may affect any external MREL that is set for an institution.

4.2 It is important to note that the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy ~~may~~is not necessarily ~~be followed if a different approach would better meet~~determinative of the resolution ~~objectives~~tools which would actually be used in the event of a failure of that institution. The decision as to which resolution tools to use in an actual case depends on the Bank's assessment having regard to the circumstances at the time and may be different to the preferred resolution strategy.

Modified insolvency

4.3 The Banking Act provides for a number of modified insolvency regimes for certain institutions (the bank insolvency procedure (BIP), building society insolvency

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[11] References to 'minimum capital requirements' or 'MCR' mean: (i) the amount and quality of own funds the ~~appropriate regulator (PRA or FCA) thinks the~~ institution ~~should~~must maintain at all times ~~under the overall financial adequacy rule (for PRA-authorised persons the~~to meet Internal Capital Adequacy Assessment 2.1 of the PRA Rulebook ~~and for FCA-authorised persons IFPRU 2.2.1R of the FCA Handbook)~~ as it applies on a solo, sub-consolidated and / or a consolidated level; ~~and~~or (ii) (if applicable and higher) the minimum leverage ratio in Leverage Ratio 3.1 of the PRA Rulebook.

[12] See **PRA Supervisory Statement, SS16/16, paragraph 2.A.**

~~[13] As set out in the MREL UKTS, the loss absorption amount may be adjusted in certain circumstances.~~

procedure (BSIP) and the special administration regime (SAR)).[14] Where such an institution can enter one of these modified insolvency regimes at the point of failure, without adversely affecting the achievement of the resolution objectives, the Bank expects to set the recapitalisation component of external MREL at zero. This would mean that an institution's external MREL would be set at a level equal to its minimum capital requirements excluding capital buffers (Pillar 1 plus Pillar 2A or, if higher, any applicable leverage ratio requirement).

4.4 The Bank will consider a number of factors when determining if it is reasonable to assume that an institution can generally be expected to enter modified insolvency upon failure rather than being resolved using stabilisation powers. Factors indicating that an institution is likely to be able to enter modified insolvency include:

(a) if the institution's failure is unlikely to cause disruption to the wider UK financial system, either directly through the cessation of services it provides or indirectly by negatively affecting confidence in the financial system or similar institutions;

(b) if the institution does not provide significant amounts of transactional banking services or other critical functions, particularly those which depend on continuous access to a service which would not be provided in a modified insolvency. The Bank considers that provision of fewer than around 40,000 to 80,000 transactional bank accounts (accounts from which withdrawals have been made nine or more times within a three-month period) is generally likely to indicate that a modified insolvency would be appropriate.

~~Partial~~ Transfer

4.5 In some cases the Bank may determine that, although modified insolvency would not meet the resolution objectives, an institution could feasibly be resolved without use of the bail-in stabilisation power. Where it is feasible for the critical functions[15] of an institution to be transferred to another entity at the point of the institution's failure, the Bank may determine that use of one or more of the Banking Act's transfer powers is appropriate for the institution.

4.6 Factors indicating that it may be possible to rely on a ~~partial~~ transfer, rather than bail-in, include:

(a) if the institution's business and asset/liability structure are sufficiently simple so as to make rapidly separating and transferring critical functions feasible using the Bank's statutory powers;

(b) if the institution's systems are able to provide the necessary information to support a transfer within the required timeframe;

[14] The special administration regime is set out in the Investment Bank Special Administration Regulations 2011 issued by HM Treasury pursuant to section 233 of the Banking Act.
[15] As defined in section 3 (1) of The Banking Act.

(c) if ownership of the institution or of some or all of the institution's business, assets and liabilities (particularly those associated with critical functions) are reasonably likely to be attractive to a private sector purchaser; and

if the institution is of a size such that the number of potential purchasers is reasonably high.

4.7 The Bank considers that above around £~~15~~20 billion-£~~25~~30 billion in total assets a bail-in strategy is more likely to be appropriate, but will make this assessment on an institution-specific basis.

4.8 Where the Bank is satisfied that an institution meets the necessary conditions for a ~~partial~~preferred transfer resolution strategy to be appropriate, its external MREL will be set taking this into account. The Bank ~~may consider the following principal adjustments~~will also take into account its power to ~~external MREL~~require the FSCS to make a recapitalisation payment in the circumstances and for the purposes set out in section 214E of FSMA. In such ~~institutions relative to that set~~ cases, the Bank expects to ~~enable a bail-in strategy for institutions that are D-SIBs:~~

~~(a) Quantum:~~set the recapitalisation component of external MREL ~~might~~at zero. This would mean that such an institution's external MREL would be ~~reduced~~set at a level equal to ~~reflect the fact that less than the entire balance sheet of~~ its minimum capital requirements excluding capital buffers (Pillar 1 plus Pillar 2A or, if higher, any applicable leverage ratio requirement).[16] To the extent the institution ~~will need to be recapitalised at the point~~is within scope, however, of other, non-MREL but resolution~~. For example, to the extent that an institution's critical liabilities~~[17] ~~represent only a proportion of its total liabilities, the recapitalisation component of external MREL may be reduced to reflect this. The Bank will also consider whether any components of Pillar 2A will cease to be~~-related requirements and expectations under relevant ~~as a result of the transfer.~~

~~Subordination: where a partial transfer resolution strategy assumes that only liabilities benefitting from preference in insolvency~~[18] ~~will be transferred, the Bank may not require~~

[16] ~~*Certain paragraphs of the draft SoP, including in particular paragraphs 4.8, 4.10 and 9.10, have been drafted for consultation on the assumption that the Bank Resolution (Recapitalisation) Bill will be enacted and consequential amendments made to the No. 2 Order. The Bank will update these paragraphs, if necessary, once the relevant legislation has been passed.*~~

[17] ~~Those liabilities necessary for the continuity of a critical function.~~

[18] ~~The Insolvency Act 1986 and equivalent provisions in Northern Ireland provides for preferential treatment in insolvency of the part of deposits covered by the FSCS, and secondary preference for uncovered eligible deposits of natural persons and small and medium-sized enterprises as well as~~

~~MREL resources to be subordinated to senior operating liabilities. This is because the transfer can allow all non-transferred liabilities to receive pari passu treatment in a bank administration procedure.~~Bank and PRA policy materials, such requirements and expectations would nevertheless apply. This ~~reduces the risk of breaches of the 'no creditor worse off than insolvency' (NCWO) safeguard which might occur if the bail-in stabilisation power had been applied but exclusions were made for certain senior liabilities.~~includes the Bank's Statement of Policy on its approach to assessing resolvability.

Bail-in

4.9 The stabilisation power that is most likely to be appropriate for large complex institutions and groups is bail-in. The Bank will consider whether a bail-in strategy is appropriate for institutions and groups with total assets above £~~15~~20 billion-£~~25~~30 billion. The Bank's case-by-case assessment will depend on each institution's business model, scale and complexity. The Bank expects UK resolution entities subject to a bail-in strategy to ensure that their MREL resources are subordinated to operating liabilities, using structural subordination except in the case of building societies which may use contractual subordination or statutory subordination.[19] Subordination of MREL resources reduces the risk of breaches of the 'no creditor worse off than in insolvency (NCWO)' safeguard in the event of a bail-in. Further detail is provided in Section 6.

Calibration

4.10 The Bank expects to direct UK resolution entities in respect of which bail-in is the preferred resolution strategy to comply with the following end-state external MREL, as applicable:

(a) G-SIBs[20] will be required to meet an external MREL equivalent to the higher of:

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

(ii) the higher of two times the applicable leverage ratio requirement or 6.75% (in line with the FSB's TLAC standard) of leverage exposures[21]~~.~~; or

~~deposits that would be eligible deposits of natural persons and small and medium-sized enterprises were they not made through branches located outside the UK.~~

[19] As effected by section 176AZA of the Insolvency Act 1986.

[20] Global systemically important banks as identified by the FSB from time to time e.g. **2023 List of Global Systemically Important Banks (G-SIBs).**

[21] Leverage exposures to be calculated on the same basis as the 'total exposure measure', as defined in the Leverage Ratio (CRR) Part of the PRA Rulebook (LEM). ~~The LEM excludes assets constituting claims on central banks, where they are matched by liabilities denominated in the same currency and of identical or longer maturity.~~ See PRA **Supervisory Statement | SS45/15 The UK leverage ratio framework October 2021**, effective from 1 January 2022.

(iii) 18% of risk-weighted assets (in line with the FSB's TLAC standard).[22]

(b) D-SIBs[23] and any other UK bail-in resolution entities will be required to meet an external MREL equivalent to the higher of:

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

(ii) if subject to a leverage ratio requirement, two times the applicable requirement (ie 6.5% if the leverage ratio is 3.25%).

In so directing UK resolution entities in respect of which bail-in is the preferred resolution strategy, the Bank does not intend to take into account its power to require the FSCS to make a recapitalisation payment.

Deductions from and measurement of MREL resources

4.11 For purposes of measuring and reporting their MREL resources, institutions that are set external or internal MREL above minimum capital requirements should apply deductions to their MREL eligible liabilities resources as set out in Annex 2. Annex 2 will apply to each institution in scope from the date at which end-state MREL is first required to be reached, provided that SDDTs and SDDT consolidation entities (together SDDTs)) will not be required to apply deductions for holdings of eligible liabilities instruments issued by G-SIBs. [24]

4.12 The Bank's expectation in the case of SDDTs that are set MREL above minimum capital requirements is that these firms should generally not invest in or hold ELIs issued by G-SIBs more than on isolated occasions and only for a short period of time (not more than 30 days). Any such SDDT which holds, or intends to hold, ELIs issued by G-SIBs other than on a very occasional and short-term basis should notify the Bank as soon as reasonably practicable, so that its MREL may be reviewed and (if in the Bank's view appropriate) re-set by the Bank in the light of that notification.

4.13 All firms that have been set MREL above minimum capital requirements should measure eligible liability instruments intended to count towards MREL resources at their full accounting value (i.e. including accrued interest and fair value hedge adjustments if applicable). The Bank considers that consistency across firms in this

[22] The Bank does not expect that setting a level below the internationally agreed minimum for G-SIBs as set out in the FSB's TLAC standard would be sufficient to ensure market confidence.

[23] Domestic systemically important banks (D-SIBs) are institutions with retail deposits over £50 billion and/or any institutions that are designated as an O-SII (other systemically important institution) by the PRA pursuant to ~~article 131(~~Part 3~~)~~ of the Capital ~~Requirements Directive (EU Directive 2019/878 amending Directive 2013/36/EU) (CRD) as implemented in the Capital Requirements (Capital~~ Buffers and ~~Macroprudential measures)~~Macro-prudential Measures Regulations ~~2014~~2024, and (for this purpose) which have a resolution entity in the United Kingdom.

[24] "SDDT" and "SDDT consolidation entity" are defined respectively in rules 3.1 and 3.2 of SDDT Regime - General Application Part of the PRA Rulebook.

regard is important. In the Bank's view, the full accounting value of the instrument, plus any amount removed from, or minus any amount added to, CET1 through the prudential filter for changes in own creditworthiness, reflects the amount available to absorb, and recapitalise for, potential losses in the event of write-down or conversion of an eligible liability instrument to equity.

5 External MREL instrument eligibility

5.1 In order for MREL resources to fulfil their intended purpose, it must be practically straightforward for the Bank to apply its stabilisation powers to them, including the bail-in stabilisation power.

MREL eligible liabilities

5.2 The No. 2 Order sets out a number of requirements that liabilities must meet in order to qualify as MREL eligible liabilities.[25] One of these is that the liability must have an effective remaining maturity (taking account of any rights for early repayment available to the investor) of greater than one year.

5.3 Further eligibility criteria are set out in this Statement of Policy (including Annex 1). In addition, the Bank expects institutions to consider the overall maturity profile of their externally issued MREL eligible liabilities, and to ensure that temporary difficulties in accessing capital markets would not be likely to cause a breach of their MREL. The average maturity of institutions' MREL eligible liabilities may decrease in periods of market stress, and the Bank does not intend to apply a minimum maturity requirement to eligible liabilities beyond that applicable under the No. 2 Order. The Bank may use its powers of direction to further specify eligibility criteria for MREL eligible liabilities for individual institutions.

5.4 The No. 2 Order states that where a liability confers a right to early reimbursement upon its owner the maturity date of the liability shall, for the purposes of determining whether it is an MREL eligible liability, be considered to be the first date at which such a right arises. The Bank expects institutions not to structure their MREL eligible liabilities in such a way as to reduce their effective maturity, for example liabilities which create incentives for the issuer to redeem them ahead of the contractual maturity date. An increase in the interest rate payable on a liability (a 'step up') coinciding with an issuer call option is an example of an incentive to redeem in this context. Where liabilities do include such an incentive, the maturity date of the liability shall, for the purposes of determining whether it is an MREL eligible liability, be considered to be the date at which the incentive arises.

5.5 An institution should not redeem, repay, call, repurchase, choose to treat as ineligible or ~~redeem~~derecognised or otherwise reduce (together, reduce) an MREL eligible liability if that would cause it to breach its MREL or start to deplete its applicable

[25] See in particular article 123(4).

capital buffers[26], or if the institution is already in breach of its MREL or has started to deplete its applicable capital buffers, unless the Bank approves ~~such a transaction.~~the specific reduction.

5.6 The Bank does not consider liabilities the value of which is dependent on derivatives to be appropriate to qualify as MREL eligible liabilities. The Bank does not consider liabilities which only include put or call options to be dependent on derivatives for this purpose.

5.7 ~~Liabilities subject~~ Where a liability intended to ~~contractual set-off or netting arrangements are not appropriate~~be an MREL eligible ~~liabilities.~~

~~5.8 Where a~~ liability is governed principally by non-UK law,[27] institutions will need to ensure that the liability could absorb losses and contribute to recapitalisation costs in resolution, having regard to the terms of the contract and legal opinions, in line with ~~the EU Bank Recovery and Resolution Directive[28] and contractual recognition of bail-in rules in the PRA Rulebook and FCA Handbook.[29]~~Part 9 of the No. 2 Order and contractual recognition of bail-in rules in the PRA Rulebook .[30] Under the No. 2 Order, an eligible liability must be excluded from MREL resources if the instrument creating the liability is governed by non-UK law and the Bank is not satisfied that a decision by the Bank to convert or write down the liability would be effective under that law. Unless the Bank agrees otherwise, institutions should obtain, from an appropriately qualified external source, a legal opinion on the effectiveness under the relevant law of a decision by the Bank to convert or write down any MREL eligible liability governed principally by non-UK law (whether externally or internally issued) at the time of its issuance, and provide this to the Bank on request.

5.~~9~~8 MREL eligible liabilities should be issued externally from the resolution entity, subject to the provision in paragraph 6.6 permitting internal issuance for MPE resolution entities.

[26] The amount of CET1 that a firm is required to maintain (in sterling terms) in addition to the largest minimum of either the risk-weighted capital or leverage regimes. See **PRA Supervisory Statement, SS16/16, paragraph 2.B.**

[27] As regards liabilities governed by the law of an EEA State that were made before the IP completion date, as defined in section 39(1) of the European Union (Withdrawal Agreement) Act 2020, all references in this Statement of Policy to liabilities governed by non-UK law should be considered in line with Rules 2.1B and 2.1C of the Contractual Recognition of Bail-in Part of the PRA Rulebook.

~~[28] Directive 2014/59/EU.~~

~~[29] See **https://www.prarulebook.co.uk/rulebook/Content/Part/211722** and **https://www.handbook.fca.org.uk/handbook/IFPRU/11/6.html**.~~

[30] The Rulebook published by the PRA containing rules made by the PRA under FSMA 2000 as those rules have effect from time to time. See **https://www.prarulebook.co.uk/rulebook/Content/Part/211722**

Non-CET1 own funds instruments

5.~~10~~9 The Bank's view is that institutions should consider whether having non-CET1 own funds instruments that do not meet the eligibility criteria for MREL eligible liabilities, as described above, could create difficulties for resolution. The ~~resolution authority~~Bank will want assurance ~~about~~as to the quantum of loss-absorbing capacity that will be available should the institution find itself in stress. In cases (either outside or in the course of resolution proceedings) where it is not possible to write down and/or convert the non-CET1 own funds instruments to CET1 using statutory powers,~~[31]~~ for example instruments governed by non-UK law where there is no statutory or contractual recognition of UK bail-in rules, the Bank could:

(a) direct an institution to exclude the relevant non-CET1 own funds instruments from its MREL resources; and / or

(b) determine that it needs to use its powers under section 3A of the Banking Act to direct relevant persons to address impediments to resolution, in particular through a direction to endeavour to renegotiate instruments under section 3A(~~4~~ 4B) or (5).

The Bank may consider the challenges to resolvability presented by such instruments as part of assessing institutions' resolvability, including, where relevant, through the Resolvability Assessment Framework.[32]

~~5.11 Where own funds instruments issued externally by non-resolution entity subsidiaries count towards group consolidated capital, such instruments can count towards group consolidated MREL.~~ 5.10 The ~~FSB's~~FSB's TLAC standard provides that ~~such externally issued~~ non-CET1 own funds instruments issued externally by non-resolution entity subsidiaries should not count towards TLAC from 1 January 2022. ~~Institutions should consider whether the location of external MREL outside the resolution entity could create difficulties for resolution.~~This is notwithstanding that such instruments may count towards group consolidated capital. The Bank ~~may consider any challenges to resolvability presented by such instruments as part of assessing institutions' resolvability, including, where relevant, through the Resolvability Assessment Framework.~~implemented this aspect of the FSB's TLAC standard with effect from 1 January 2022. Since that date, outstanding non-CET1 own funds instruments issued from non-resolution entity subsidiaries to holders outside the group ~~will~~have not ~~be~~been eligible to count towards external or internal MREL.

All liabilities

5.~~12~~11 The responsibility for ensuring that liabilities, including own funds instruments, are eligible as MREL rests with institutions. Institutions should obtain ~~independent~~at the time of issuance of each liability intended to be an MREL eligible liability an external legal ~~advice on a~~opinion specific to that liability's eligibility and provide this to the Bank ~~where required~~on request.

~~[31] Under sections 6A to 6D of the Banking Act.~~

[32] See 'The Bank of England's Approach to Assessing Resolvability', in particular Chapter 4.

5.~~13~~12 In line with the continuous resolvability assessment process, and~~, where relevant, the~~ consistent with the Bank's Approach to Assessing Resolvability ~~Assessment Framework,~~[33], the Bank expects all institutions ~~will also~~to maintain and document effective internal processes for monitoring and ensuring:

(a) the continuing eligibility of liabilities, including own funds instruments, intended to count towards MREL; and

(b) the accuracy and completeness of their reported data relating to MREL,

and institutions should be ~~expected~~able to demonstrate to the Bank compliance with ~~the eligibility criteria~~these expectations on request.

5.13 The Bank will have regard to the substantial features of instruments and not only their legal form when considering the eligibility of instruments to count towards MREL. The Bank may take into account all arrangements related to the instruments, even where those are not explicitly set out in the terms and conditions of the instruments themselves, for the purpose of determining that the combined economic effects of such arrangements are compliant with the objectives of this Statement of Policy.

6 MREL in the context of groups

6.1 The Bank will set an external MREL at the group consolidated level. In addition, the Bank will set individual MRELs for all institutions within the group. The Bank may also set individual MRELs for relevant persons that are important from a resolution perspective (for example holding companies) on an entity-specific basis. The individual MRELs may be determined on the basis of consolidated or sub-consolidated balance sheets, in addition to an entity's own balance sheet (see paragraphs 7.4-7.5 below).

6.2 The Bank will require groups or institutions in respect of which bail-in is the preferred resolution strategy to structure their liabilities to achieve structural subordination of external MREL resources issued by resolution entities. MREL resources which are structurally subordinated may also be contractually or statutorily subordinated. Mutually owned institutions such as building societies may not be able to operate with holding companies without changes to their form of incorporation, limiting their ability to achieve structural subordination of MREL resources. In such cases the Bank expects institutions with a bail-in strategy to issue contractually or statutorily subordinated liabilities to satisfy their MRELs.

6.3 For institutions subject to structural subordination, MREL resources issued externally by resolution entities should not rank pari passu with significant amounts of other liabilities that do not meet the MREL eligibility criteria set out in the No. 2 Order and this Statement of Policy. Accordingly, the sum of a resolution entity's liabilities that do not qualify as MREL (excluding liabilities that previously met the MREL eligibility criteria but no longer meet the minimum maturity requirement as referred to in

[33] For example, see MREL Principle 5 'Documentation and internal policies' of chapter 4 'Outcome: adequate financial resources' in the **Bank of England's Approach to Assessing Resolvability**.

paragraph 5.2 above) should not exceed 5% of the resolution entity’s overall external MREL resources. In addition, the sum of those liabilities that do not qualify as MREL in each creditor class should not exceed 10% of the resolution entity’s MREL resources in that same creditor class.

Availability of surplus MREL in groups

6.4 Resolution entities will be required to issue external MREL resources at least equal to all the internal MREL resources that are issued to them from their subsidiaries or, in other jurisdictions, equivalent subordinated instruments that can absorb losses and recapitalise a subsidiary, such as through being written down and/or converted to equity, without the use of stabilisation or resolution powers at the subsidiary level (internal loss-absorbing resources). For groups with UK resolution entities, the Bank expects that any ‘surplus MREL’ – the difference in requirements between external MREL and the sum of what must be issued to the resolution entity as internal loss-absorbing resources – should be readily available to recapitalise any direct or indirect subsidiary as necessary to support the execution of the resolution strategy and there should be no legal or operational barriers to this. The Bank thinks it is appropriate to consider in more detail the issues relating to surplus MREL, in consultation with other authorities in crisis management groups (CMGs), and may review its approach as part of assessing institutions’ resolvability.

External MREL for MPE resolution entities

6.5 For groups with an MPE strategy, the Bank expects that each resolution entity will be set an external MREL or an equivalent requirement if applicable in non-UK jurisdictions. The Bank will set MREL for any UK resolution entity, based on the balance sheet of the local resolution group, in line with the calibration framework set out in this Statement of Policy. As this is external MREL, there will be no scaling of the requirement applicable at a resolution entity even if it issues MREL instruments to another member of its group. This is because each resolution group needs to have sufficient MREL resources to be self-sufficient in resolution.

6.6 The Bank ~~proposes to permit~~permits the resolution entities of UK headquartered groups with an MPE resolution strategy to issue MREL eligible liabilities either to investors outside the group or, alternatively, to another entity higher up in the group provided the Bank is given sufficient assurance that any issuance strategy proposed by an MPE group supports a feasible and credible resolution plan. Where MREL liabilities of a resolution entity ~~is~~are issued internally, the Bank will require ~~this~~these internally issued MREL liabilities to meet the same eligibility criteria, including the inclusion of the contractual triggers set out in Section 8, as internal MREL resources of a material subsidiary.

6.7 A UK resolution entity should not double count MREL resources. In order to achieve this, the Bank expects that the external MREL for a UK MPE resolution entity will be increased by the amount of any MREL or equivalent investments its resolution group has made in its other resolution groups or entities or sub-groups located outside these resolution groups, where the investments are not covered by arrangements that ensure this outcome (such as a capital deductions regime for investments in own funds instruments in subsidiaries or the deductions regime set out in Annex 2).

Group consolidated MREL for MPE groups

6.8 Where it is the home authority for the ultimate parent company of an MPE banking group, the Bank expects to set a consolidated external MREL that the group as a whole must meet, in addition to any requirement that it imposes on the UK resolution entity in respect of its resolution group (which would be calibrated in accordance with Section 4). This is consistent with the FSB's TLAC standard for G-SIBs. It reduces the risk that there will be insufficient MREL resources if losses arise in parts of the group that have no or low levels of MREL resources.

6.9 Accordingly, where the Bank is the home authority for the ultimate parent of a G-SIB that is an MPE banking group, the Bank proposes that in end-state the group consolidated MREL that would apply to the parent ~~reflect~~reflects the FSB's TLAC standard and therefore ~~constitute~~constitutes the ~~highest~~higher of: (i) ~~18% of risk-weighted assets; (ii) 6.75% of leverage exposures~~the MREL that would be applicable under paragraph 4.10(a) on a consolidated basis; and (~~iii~~ii) the sum of requirements relating to each of its resolution groups and entities or sub-groups located outside these resolution groups. The 'sum of requirements' is the sum of the binding MREL (or equivalent requirement) or capital requirement for each of the resolution groups or other entities or sub-groups outside these resolution groups.

7 Internal MREL

Scope

7.1 Internal MREL above minimum capital requirements is likely to be necessary only where the Bank considers that the insolvency of the institution would put the resolution objectives at risk.[34] The Bank expects to set internal MREL above minimum capital requirements for a 'material subsidiary' of a group where either (a) there is a UK resolution entity in the same group which is, or will become, subject to an external MREL above its minimum capital requirements or (b) in the case of UK subsidiaries of overseas groups, the subsidiary delivers critical functions in the United Kingdom.

7.2 The Bank expects to set internal MREL equal to minimum capital requirements (where applicable) for institutions that are not material but for which the Bank is required to set MREL.

7.3 An institution is a 'material subsidiary' if it is incorporated in the United Kingdom, is not a UK resolution entity, and it meets at least one of the following criteria:

(a) has more than 5% of the consolidated risk-weighted assets of the group; or

[34] For example, paragraph 4.4 provides an indicative threshold that institutions with below 40,000-80,000 transactional accounts would have a modified insolvency resolution strategy.

(b) generates more than 5% of the total operating income of the group; or

(c) has a total leverage exposure measure larger than 5% of the group's consolidated leverage exposure measure; or

(d) exceptionally, is otherwise 'material', either directly or through its subsidiaries, to the delivery of a group's critical functions.[35] The Bank will continue to review groups' structures and critical functions to judge if this criterion applies to any entities.

7.4 Internal MREL will generally apply to the parent institution in an existing prudential consolidation or sub-consolidation – where the consolidated or sub-consolidated regulatory group meets the criteria in paragraphs 7.1-7.3 – which will be calculated with reference to its consolidated or sub-consolidated prudential requirements. The consolidation or sub-consolidation which is used to calculate internal MREL in such cases is referred to as a 'material sub-group'. A material subsidiary that heads up such a sub-group will be bound by the higher of its internal MREL calculated on an individual or consolidated /sub-consolidated balance sheet basis.

7.5 Where no prudential sub-consolidation currently exists for a material subsidiary, the Bank reserves the right to require the institution to draw up a sub-consolidated balance sheet to enable the Bank to calculate internal MREL for that material subsidiary on a consolidated or sub-consolidated basis. Such circumstances might arise if the material subsidiary owned a group of subsidiaries that did not meet the conditions for internal MREL themselves but together constituted a significant proportion of the group's risk-weighted assets. This is independent from any decision by the PRA or FCA on whether to set prudential requirements for the material subsidiary on a consolidated or sub-consolidated basis.

Calibration

7.6 The intra-group distribution of internal MREL resources must ensure that sufficient loss-absorbing capacity is pre-positioned within the group to ensure that losses can be absorbed and passed up to the resolution entity or entities from material subsidiaries.

7.7 The Bank expects that internal MREL for a material subsidiary will be scaled in the range of 75% to 90% of the full amount of external MREL that it would otherwise be required to maintain if the material subsidiary were itself a UK resolution entity and its external MREL were set in accordance with Section 4. In deciding whether to set internal MREL for a material sub-group or subsidiary above 75% scaling, the Bank will take into account the following considerations:

[35] The definition of 'critical functions' in section 3(1) of the Banking Act encompasses activities, services or operations 'wherever carried out', if discontinuance would be likely to cause disruption of services that are essential to the economy of the United Kingdom, or to disrupt UK financial stability. An institution could therefore be a 'material subsidiary' if it is incorporated in the United Kingdom and it is material to the delivery of critical functions by its group, even though the critical functions are carried out by other parts of the group from outside the United Kingdom.

(a) The resolution strategy applicable to the group and the credibility of the resolution plan for delivering it.

(b) The availability of other uncommitted resources within the group that could be readily deployed to support the material subsidiary.

(c) The scaling of internal loss-absorbing resources applied by overseas authorities to material subsidiaries located in their jurisdiction.

7.8 These factors allow the Bank to set internal MREL based on discussion with other authorities in CMGs – as envisaged in the TLAC standard, or other forums.

7.9 The largest banking groups in the United Kingdom are subject to legislation[36] ~~which will require~~that requires them to carry out their core UK financial services activities within a ring-fenced body (RFB) ~~and~~that are separate ~~these~~ from certain other activities of the wider group. Where an RFB is part of a material sub-group (see paragraph 7.4), the Bank expects to scale the internal MREL for the top entity of the material sub-group at 90%, as a starting point, unless the Bank is satisfied that the wider group has sufficient readily-deployable resources to justify moving to a lower calibration in the 75% to 90% range.[37] This approach is intended to ensure that the setting of internal MREL for RFBs is in line with the range set out in the FSB's TLAC standard while minimising the RFB's dependence on the rest of the group, consistent with the PRA's ring-fencing objectives. The Bank is committed to working with overseas resolution authorities to build confidence in each other's resolution regimes. This could help contribute towards circumstances in which this scaling can be reduced in future.

7.10 Within an RFB's material sub-group, the Bank intends to set internal MREL for individual RFBs in line with the approach for setting internal MREL for other types of material subsidiary.

7.11 For UK groups with a simple structure – for example, a single material subsidiary that sits below a UK resolution entity with few, if any, other subsidiaries – the Bank would not expect to adjust downwards the internal MREL for that UK material subsidiary. This means the internal MREL would be set at 100% of the external MREL that would have applied to the material subsidiary if it were a resolution entity. The Bank would also apply this approach for the top entity of material sub-groups containing an RFB or for an RFB which is not part of a material sub-group if the RFB's group has a simple structure. The Bank's approach will be judgement-based, and decided on a case-by-case basis, giving due consideration to the relationship between the risk profile of a material subsidiary and its wider group. The Bank reserves the right

[36] The Financial Services and Markets Act 2000, as amended by the Financial Services (Banking Reform) Act 2013.

[37] This may not apply in certain cases, including: (1) where the top entity within an RFB's material sub-group is a resolution entity, it will be subject to external MREL and so scaling will not apply to it; and (2) where the RFB's group has a simple structure, the Bank would not expect to adjust downwards the internal MREL (see paragraph 7.11).

to take appropriate steps using its statutory powers to ensure that MREL is distributed within groups in such a way as to support the group resolution strategy, including, in the case of MPE groups, so as to ensure that a resolution group has sufficient MREL to be self-sufficient in resolution.

7.12 In the case of an institution that is a material subsidiary of a banking group that is not headquartered in the United Kingdom, the Bank will set the amount of internal MREL following discussion with the home authority in CMGs or other forums.

7.13 The Bank expects to propose a quantum for internal MREL for non-UK material subsidiaries – where the host authority has not published regulations or regulatory proposals. In doing so, the Bank expects to be guided by the principles set out in this Statement of Policy.

7.14 A subsidiary or sub-group should only count the internal MREL resources that it issues itself towards meeting its own internal MREL. Where an institution has subsidiaries that also have internal MREL or equivalent resources, it should ensure that it has sufficient internal MREL resources to match both its own individual MREL as well as the internal MREL or equivalent resources of its subsidiaries. In order to achieve this, the Bank expects that internal MREL for an institution will be increased by the amount of any internal MREL or equivalent investments it has made in other entities in the same group, where the investments are not covered by arrangements that ensure this outcome (such as a capital deductions regime for investments in own funds instruments in subsidiaries or the deductions regime set out in Annex 2).

8 Internal MREL instrument eligibility

8.1 All the eligibility criteria and other provisions set out in paragraphs 5.2–5.~~8~~10 and in Annex 1 that apply to external MREL eligible liabilities apply equally to internal MREL eligible liabilities~~.~~, except as otherwise specified in this Statement of Policy. The considerations in paragraph 5.~~10~~9 apply to non-CET1 own funds instruments in respect of internal MREL.

8.2 In addition to these eligibility criteria, internal MREL eligible liabilities will be subject to some additional eligibility criteria in order to achieve their purpose. In summary, these are eligibility criteria relating to:

(a) subordination;

(b) the holder of the instrument;

(c) contractual triggers; and

(d) mismatching of internal and external MREL.

Subordination

8.3 As in the case of eligibility for external MREL liabilities, internal MREL resources must be subordinated to the operating liabilities of the group entities issuing them. This is necessary to ensure that, in converting internal MREL, the Bank is not required to bail-in liabilities that might otherwise rank pari passu and which may either be difficult to bail in or would result in a change of ownership of the entity if converted into equity. Internal MREL eligible liabilities will need to be contractually or statutorily subordinated. However, if the entity is a holding company, it may be permitted to issue internal MREL instruments as senior liabilities provided that the sum of its liabilities that do not meet the other internal MREL eligibility criteria (excluding liabilities that previously met the internal MREL eligibility criteria but no longer meet the minimum maturity requirement referred to in paragraph 5.2) do not exceed 5% of the entity's overall internal MREL resources (see Section 6). In addition, the sum of those liabilities that do not qualify as internal MREL in each creditor class should not exceed 10% of the entity's internal MREL resources in that same creditor class.

The holder of the instrument

8.4 Institutions and groups should ensure that the issuance of internal MREL by a material subsidiary or sub-group credibly supports the resolution strategy and the passing of losses and recapitalisation needs to the resolution entity. Internal MREL eligible liabilities must be issued either directly or indirectly via other entities in the same resolution group to the parent resolution entity. The Bank generally expects to accept issuance indirectly to the resolution entity along the chain of ownership, as long as there are no technical obstacles to the resolution entity becoming exposed to losses through this chain. Direct issuance, or indirect issuance to the resolution entity that is not along the chain of ownership, could also be acceptable unless this poses a technical obstacle; for example, there are circumstances in which writing down or converting internal MREL could result in a change of control or if there were significant governance or tax issues as a result.

8.5 As part of resolution planning, the Bank will consider the extent to which subsidiaries' non-CET1 MREL resources are issued to group entities other than their direct parent in relation to their potential effects on a group resolution as well as on post-resolution restructuring options. The Bank will discuss the distribution of MREL resources generally with institutions as part of the process of setting MREL.

8.6 Internal MREL eligible liabilities should be issued internally from non-resolution entity subsidiaries. ~~Where own funds instruments issued externally by a non-resolution entity subsidiary count towards that subsidiary's individual capital requirement, such instruments can count towards that subsidiary's individual internal MREL. The FSB's~~As in the case of external TLAC, the FSB's TLAC standard provides that such externally issued non-CET1 own funds instruments should not count towards internal TLAC from 1 January 2022~~. Institutions should consider whether the conversion to CET1 of externally issued non-CET1 own funds instruments counting towards MREL could lead to a change in control of a subsidiary. The Bank may consider any challenges to resolvability presented by such instruments as part of assessing institutions' resolvability, including, where relevant, through the Resolvability Assessment Framework. From 1 January 2022~~ and the Bank implemented this aspect of the FSB's TLAC standard with effect from 1 January 2022. Accordingly, since that date, outstanding non-CET1 own funds instruments issued from non-resolution entity subsidiaries to holders outside the group ~~will~~have not ~~be~~been eligible to count towards external or internal MREL.

Contractual triggers

8.7 Internal MREL eligible liabilities must be capable of being written down and/or converted to equity without or ahead of any use of stabilisation or (in the case of paragraph 8.8(b)) other statutory powers in relation to the entity which issues them. The requirement applies to internal eligible liabilities of:

(a) UK material subsidiaries of UK headquartered parents;

(b) UK material subsidiaries of non-UK headquartered parents; and

(c) non-UK material subsidiaries of UK-headquartered parents, but subject in this case to an exception for 'impracticability' that may be available, with the Bank's agreement, where contractual triggers cannot be included for reasons outside the issuing entity's control; for example, if the material subsidiary's host regulatory authority will not permit the inclusion of contractual triggers in the form required by the Bank.

8.8 As a general matter, the trigger for an internal MREL eligible liability will need to provide the Bank as resolution authority of the material subsidiary with the opportunity to direct an immediate write-down or conversion to CET1 of the instrument, to an extent (which could be in full) determined by the Bank at the time of the triggering, where:

(a) any own funds instruments of the material subsidiary have been written down and/or converted into equity pursuant to any statutory or regulatory power linked to the financial condition or viability of the institution; provided that, in the case of eligible liability instruments issued by subsidiaries of non-UK groups, the Bank includes in its direction a statement that the home resolution authority has either consented or has not, within 24 hours of the Bank having given it notice, objected to the write-down or conversion; or

(b) a resolution entity in the material subsidiary's group, which is a direct or indirect parent of the material subsidiary, is subject to resolution proceedings in the United Kingdom or elsewhere.[38]

8.9 The contractual trigger should provide the resolution authority of the material subsidiary with the opportunity to direct either a write-down or a conversion (as directed by the resolution authority) in the circumstances specified in paragraph 8.8 above. However, the contractual trigger may be limited to provide for only write-down or only conversion if institutions can demonstrate to the Bank that this credibly supports the group resolution strategy and the passing of losses and recapitalisation needs to the resolution entity. Institutions should consider whether the specification of only write-down or only conversion in the contractual trigger could pose a technical obstacle to resolution; for example, if there are circumstances in which writing down or converting

[38] 'Resolution proceedings' mean the exercise by the Bank of a stabilisation power under the Banking Act, or a third country resolution action taken by a third-country resolution authority.

internal MREL instruments could result in a change of control or significant governance or tax issues as a result. The Bank may consider any challenges to resolvability presented by the specification of contractual triggers as part of assessing institutions' resolvability, including, where relevant, through the Resolvability Assessment Framework.

8.10 With respect to internal non-CET1 own funds instruments, institutions should ~~consider whether the absence of such~~ include a contractual ~~triggers,~~trigger covering the circumstances described in (b) in paragraph 8.8 ~~above could create difficulties for resolution. Such contractual triggers~~in order to support the ability to co-ordinate the write-down and/or conversion of internal MREL instruments across other subsidiaries~~, where~~. For the avoidance of doubt, this ~~is deemed helpful to supporting the group resolution, so that all relevant subsidiaries are well-capitalised. In cases (either outside or in the course of resolution proceedings)[39] where it is not possible~~trigger should be included in addition to any other write--down ~~and/or convert the~~or conversion trigger, in different terms, that would be included in the instruments to meet other requirements. From 1 January 2026, outstanding internal non-CET1 own funds instruments ~~to CET1 using statutory powers, for example instruments governed by non-UK law where there is no statutory or contractual recognition of UK bail-in rules,~~that do not include a contractual trigger covering the circumstances described in (b) in paragraph 8.8 will not be eligible to count towards internal MREL, unless the Bank ~~may use its powers under section 3A of the Banking Act to direct relevant persons~~has agreed that the exception for impracticability referred to ~~address impediments~~above applies to ~~resolution, in particular through a direction to endeavour to renegotiate instruments under section 3A(4-5). The Bank may consider any challenges to resolvability presented by such instruments as part of assessing institutions' resolvability, including, where relevant, through the Resolvability Assessment Framework.~~a specific instrument.

8.11 In the Bank's opinion, there is likely to be significant merit in including the contractual trigger features in a single 'umbrella' agreement. This approach has the benefit of providing greater simplicity, transparency and assurance on the circumstances under which a group's internal MREL or equivalent instruments in other jurisdictions will trigger.

Responsibility for eligibility

8.12 The particular features of the contractual terms of an institution's internal MREL may depend on the group's or institution's resolution strategy and may require discussion between the group and the Bank. Having confirmed these features, the responsibility for ensuring that instruments, including own funds instruments, are eligible as MREL rests with the institution.

8.13 Institutions should obtain ~~independent~~at the time of issuance of each liability intended to be an MREL eligible liability an external legal ~~advice on a~~opinion specific to that liability's eligibility as MREL and provide this to the Bank ~~where required.~~on

[39] ~~Under sections 6A and/or 12A of the Banking Act.~~

request. Institutions are expected to notify the Bank where they do not intend to include the additional contractual provisions in MREL eligible liabilities or own funds instruments on grounds of impracticability or for any other reason. In line with the continuous resolvability assessment process and, where relevant, the Resolvability Assessment Framework, institutions will also be expected to demonstrate compliance with the eligibility criteria on request.

Mismatching of internal and external MREL

8.~~13~~14 The Bank will periodically review the extent to which internal MREL resources of a material subsidiary differ in form – such as equity or debt, currency, maturity, interest rate, and other terms and covenants – from the MREL issued externally from the resolution entity where this may pose risks to the resilience and resolvability of the group. Institutions should notify the Bank if they expect there to be any material change in the form of their internal MREL resources. Institutions should not change the form of their internal MREL resources in any way, such as through cancellation or conversion to equity, that reduces the amount of MREL eligible liabilities, unless the Bank approves such a transaction.

8.~~14~~15 Where the Bank identifies instruments that constitute an impediment to successful resolution, including ~~those that are~~non-CET1 own funds instruments that it is not possible to write down and/or convert to CET1 using statutory powers, for example instruments governed by non-UK law where there is no statutory or contractual recognition of UK bail-in rules, instruments pari passu with internal MREL resources, or features or mismatches, ~~that constitute an impediment to successful resolution~~, the Bank may consider using its powers under section 3A of the Banking Act to direct relevant persons to address impediments to resolvability. The Bank will consult with the ~~competent authority~~PRA on any actions that the Bank proposes to take under section 3A. The Bank may consider any challenges to resolvability presented by such instruments as part of assessing institutions' resolvability, including, where relevant, through the Resolvability Assessment Framework.

9 Transitional arrangements and adjustments

9.1 ~~The~~ For an institution exceeding or forecasting to exceed either of the two thresholds for MREL ~~UKTS allows~~set out below, the Bank ~~to~~will determine an appropriate transitional period for ~~an~~that institution to reach its end-state MREL. In so doing, the Bank will apply the principle that the transitional period ~~must~~should generally be as short as ~~possible~~practicable, but subject to the subsequent provisions set out in this Section 9, where applicable. This section sets out the Bank's approach to the transition to end-state MREL, including interim requirements, as well as the Bank's approach to setting further 'transitional' MRELs or making other adjustments to reflect changes of circumstances occurring during or after the initial transitional period.

9.2 Historically, end-state external MRELs (set in accordance with the methodology described in Sections 3 and 4 above) and internal MRELs (set in accordance with the methodology described in Section 7 above) ~~will apply~~applied from the following dates, unless the Bank ~~has~~ notified institutions that a later deadline ~~will~~would apply to them:

(a) 1 January 2022 for UK resolution entities of G-SIBs and D-SIBs, as well as material subsidiaries of G-SIBs or D-SIBs ~~that are~~ incorporated in the United Kingdom.

(b) 1 January 2023 for UK resolution entities which are not G-SIBs or D-SIBs, as well as material subsidiaries of these institutions ~~that are~~ incorporated in the United Kingdom.

9.3 The clean holding company requirements described in paragraph 6.3 ~~will~~ also ~~apply~~applied from the same dates.

9.4 The Bank expects institutions to produce a plan for how they intend to meet their MRELs, and to discuss this plan with the Bank and the ~~relevant competent authority (the PRA or the FCA)~~PRA at the earliest possible opportunity. Relevant persons may also be asked to discuss their plans to meet clean holding company requirements with the Bank and the ~~relevant competent authority (the PRA or the FCA).~~PRA.

9.5 As set out in the PRA's supervisory statement on the interaction of MREL and the capital framework, the PRA's policies on the interaction of MREL and capital buffers and Threshold Conditions apply with respect to both interim and end-state MRELs[40]. Please ~~consult~~see Chapter 4 of the PRA supervisory statement for further details on transitional arrangements.

9.6 The ~~MREL UKTS allows~~Bank may reduce the MREL applicable to an institution ~~to be reduced~~ where that institution has entered resolution and been subject to stabilisation powers. This allows MREL resources to be 'used' in resolution and for the institution (or its successor entities) to rebuild these resources over time. The Bank expects to reduce the external and/or internal MREL applicable to an institution which has been resolved as necessary, such that the institution would not be in breach of MREL immediately following resolution.

Institutions and groups forecasting to exceed the total assets threshold

9.7 Any institution or group forecasting, at any point in time, that their total assets will exceed £~~15~~20 billion in the following three years should inform the Bank. This includes any institution for which the Bank's most recent relevant determination was that a transfer preferred resolution strategy was appropriate. The Bank will notify each of these institutions that have not previously commenced their MREL transition or been so notified of the point in time (T) at which their MREL transition will start, which will be determined on a case-by-case basis. The Bank may set T as a point in time at or after the time at which the institution expects to surpass £~~15~~20 billion total assets, but would generally not expect to do so before it, other than in exceptional circumstances. Ordinarily, this would give institutions an effective three--year notice period before their

[40] See **PRA Supervisory Statement, SS16/16, paragraph 4. 2.**

transition to MREL is expected to start. However, in setting T for any such institution, the Bank may also consider institution-specific factors including (but not limited to):

(a) the institution's business model and its growth trajectory;

(b) the funding structure of the institution, including the balance between retail and wholesale funding;

(c) whether the institution provides critical economic functions, including the impact and substitutability of functions provided; ~~and~~

(d) whether the institution is already subject to a transfer preferred resolution strategy; and

(e) the potential disruption caused by the insolvency of the institution.

In addition:

- in exceptional cases where an institution experiences growth far beyond its initial projections, such as following a merger or acquisition, the Bank may bring forward T to an earlier point in time; and
- institutions which had not been set a T, but which exceed the £~~15~~20 billion-£~~25~~30 billion total assets threshold as a result of merger or acquisition, can expect to be set a T that may be less than three years in the future if the resulting institution is significantly above that threshold.

Determination of T will be a judgement for the Bank to exercise, taking into account the factors above to the extent the Bank considers appropriate in the individual case.

9.8 The Bank will also notify each institution of the indicative MRELs that will likely apply to it as it transitions ~~into~~to end-state MREL. These are expected to be set according to either a three-step or a two-step approach as follows, chosen in the case of each institution at the Bank's discretion:

Three-step approach

- Step 1 (T + 2 years): two years after an institution enters the MREL transition, MREL steps up to ~~P1+P2A + 33%x(P1+P2A~~MCR[41] + (1/3 x MCR);
- Step 2 (T + 4 years): two years after Step 1~~ (ie four years after T),~~, MREL steps up to ~~P1+P2A + 66%~~MCR + (2/3 x~~(P1+P2A~~ MCR); and
- Step 3 (T + 6 years): two years after Step 2~~ (ie six years after T),~~, MREL steps up to its end-state of ~~2x(P1+P2A).~~2 x MCR.

Two-step approach

- Step 1 (T + 3 years): three years after an institution enters the MREL transition, MREL steps up to ~~P1+P2A + 50%x(P1+P2A~~MCR + (1/2 x MCR); and

[41] Minimum capital requirements.

- Step 2 (T + 6 years): three years after Step 1~~ (ie six years after T),~~, MREL steps up to its end-state of ~~2x(P1+P2A).~~2 x MCR.

9.9 In addition to the stepped approach outlined above, once an institution that has been set an external MREL has entered its MREL transition, it may request a maximum of two additional years of transition time (the flexible add-on), which may be granted, in full or in part, and in more than one block of time, at the Bank's discretion. In deciding whether or not to grant any such add-on, the Bank may consider a number of factors which may justify an extension in the context of the Bank's objectives and legal obligations, including the ~~obligation~~principle that the transitional period for an institution ~~is~~should be as short as ~~possible~~practicable. These include:

(a) whether the institution has taken all necessary steps and actions to meet its target by the relevant deadline, including whether it has already benefitted from an add-on;

(b) whether there is market dislocation which impacts capital markets issuance conditions; and

(c) whether the institution's business model faces idiosyncratic challenges which justify an extension.

The Bank does not expect to grant the flexible add-on to institutions ~~who~~which have met their end-state MRELs but will give consideration to each application on its merits taking into account, among other things, prevailing market conditions.

Institutions forecasting to exceed the transactional accounts threshold

9.10 Institutions forecasting, at any point in time, that they will exceed 40,000-80,000 transactional accounts in the following three years should inform the Bank. ~~In relation to~~ For such institutions~~ that exceed, or expect they will exceed, 40,000-80,000 transactional accounts, ~~, where the Bank ~~will make ~~determines that a ~~case-by-case judgement when setting their~~transfer preferred resolution strategy would be appropriate and ~~will consider a number of factors, including if the institution provides significant amounts of transactional banking services or other critical functions.~~that external MREL would be set at a level equal to an institution's minimum capital requirements, the Bank will provide ~~institutions with a ~~a notice period~~, whose length may depend on their transactional accounts' growth rate, and~~ after which the institution will become subject to a transfer preferred resolution strategy. Exceptionally, where the Bank determines that an institution with a transfer preferred resolution strategy should be set an external MREL above minimum capital requirements, the Bank will also set the point in time (T) at which ~~they~~the institution would need to start ~~their~~its transition to meeting MREL, as well as the length of the transition itself~~. The transition will be set on an institution-specific basis~~, taking into account relevant institution-specific factors, such as the institution's ability to access capital markets. ~~As a starting point the Bank expects, where possible, to adopt a similar transitional~~For all institutions that are set a transfer preferred resolution strategy, the Bank's approach to ~~institutions that exceed, or expect~~

~~they will exceed, 40,000-80,000 transactional accounts as to institutions that exceed, or expect they will exceed, £15 billion of total assets. This~~setting a notice period or T will include consideration, to the extent the Bank considers appropriate in the individual case, of the factors ~~listed in paragraph 9.7 and, on the principles set out in paragraph 9.9, of the flexible add-on if requested~~set out in paragraph 9.7. In the event that the flexible add-on is requested, the Bank will take into consideration the factors set out in paragraph 9.9. Any transitional provisions for meeting other, non-MREL but resolution-related expectations and requirements associated with firms with a preferred transfer resolution strategy would apply as set out in the relevant Bank or PRA policy materials.

Other transitional arrangements and adjustments

9.11 Institutions which are not G-SIBs or D-SIBs that, as at 1 January 2022, have been notified by the Bank that their end-state MREL is expected to exceed minimum capital requirements may also request the flexible add-on mentioned in paragraph 9.9. The Bank may grant the add-on at its discretion, acting on the basis of the principles set out in paragraph 9.9~~,~~., including the ~~obligation~~principle that the transitional period for an institution ~~is~~should be as short as ~~possible~~practicable.

9.12 The Bank reserves the right, on an institution-specific basis, to set an earlier compliance date during the transitional period for interim and/or end-state MRELs, for example where the Bank has concerns about the resolvability of a group or institution, or set a shorter notice period or period to T, if an institution is unable to provide the Bank with sufficient notice of when it expects to exceed 40,000-80,000 transactional accounts or total assets of £~~15~~20 billion.

9.13 The Bank may set further 'transitional' MRELs or make other adjustments, including after the end of the initial transitional period, if the necessary MREL for an institution changes~~.~~ or there is a change in an institution's group corporate structure. This might occur, for example, as a result of a notification to the Bank by an SDDT under paragraph 4.12, a merger or acquisition, if the preferred resolution strategy applicable to the institution changes, or if the regulatory requirements for the institution change in a way that affects its MREL~~.~~ or the MREL eligibility of its liabilities. The Bank will determine the appropriate transitional period or other adjustment on an institution-specific basis, having regard to the principle that the transitional period should be as short as practicable. The Bank would expect to determine similar transitional arrangements for a group's internal MREL as for its external MREL. However, where groups are already subject to external MREL in excess of minimum capital requirements, the Bank will determine the appropriate transitional ~~period~~arrangements to meet internal MREL on an institution-specific basis for any subsidiaries or sub-groups that are newly designated as material.

Annex 1: MREL eligible liabilities – additional eligibility criteria

1. Liabilities may be counted and reported by institutions as MREL eligible liabilities, provided that (and for so long as) they meet all the criteria set out in the No.2 Order and the MREL SoP (including this Annex), as applicable, and only to the extent specified in the No.2 Order and the MREL SoP (including this Annex). Such criteria include the following:

(a) the liabilities are directly issued or raised, as applicable, by an institution and are fully paid up;

(b) the liabilities are not:

(i) owned by the institution or an entity in the same resolution group;

(ii) owned, other than in connection with and only for the duration of their initial distribution, by an entity in which the institution has a direct or indirect participation in the form of ownership, direct or by way of control, of 20% or more of the voting rights or capital of that entity;

(c) the acquisition of ownership of the liabilities is not funded directly or indirectly by the institution or an entity in the same resolution group;

(d) the claim on the principal amount of the liabilities under the provisions governing the instruments is wholly subordinated in the circumstances, to the extent and in the manner set out in the MREL SoP;

(e) the liabilities are neither secured, nor subject to a guarantee or any other arrangement that enhances the seniority of the claim by any of the following:

(i) the institution or its subsidiaries;

(ii) the parent of the institution or its subsidiaries;

(iii) any entity that has close links[42] with entities referred to in points (i) and (ii);

(f) the liabilities are not subject to set-off or netting arrangements that:

(i) are contractual; or

(ii) would undermine their capacity to absorb losses in resolution;

(g) if the provisions governing the liabilities include any incentive for their principal amount to be called, redeemed or repurchased prior to their maturity or repaid early by the institution, as applicable, paragraph 5.4 of the MREL SoP will apply;

[42] As defined in Article 4(38) of UK CRR.

(h) if the liabilities are redeemable by the holders of the instruments prior to their maturity, paragraph 5.4 of the MREL SoP will apply;

(i) where the liabilities include one or more early repayment options, including call options, the options are exercisable at the sole discretion of the issuer, except where paragraph 5.4 of the MREL SoP applies;

(j) the liabilities may only be called, redeemed, repaid or repurchased early where the conditions set out in paragraph 5.5 of the MREL SoP are met;

(k) the provisions governing the liabilities do not give the holders or their representative the right to accelerate the future scheduled payment of interest or principal, other than in the case of the insolvency or liquidation of the institution;

(l) the level of interest due on the liabilities is not amended on the basis of the credit standing of the institution or its parent; and

(m) for instruments issued after 28 June 2021, the relevant contractual documentation and, where applicable, the prospectus related to the issuance explicitly refer to the possible exercise by the Bank of its write-down and conversion powers under the Banking Act 2009.

2. Liabilities in relation to which an institution has the sole discretion to pay distributions in a form other than cash or own funds instruments will not be eligible to qualify as MREL eligible liabilities, unless the institution has received the prior permission of the Bank.

3. Liabilities in relation to which a legal entity other than the issuing institution has the discretion to decide or require that the payment of distributions on those liabilities shall be made in a form other than cash or own funds instruments will not be eligible to qualify as MREL eligible liabilities.

4. Institutions may use a broad market index as one of the bases for determining the level of distributions on MREL eligible liabilities. However, if an institution is a reference entity in that broad market index, it may only use the broad market index as a basis for determination if:

(a) the institution considers that movements in that broad market index are not significantly correlated to the credit standing of the institution, its parent or any other entity in the institution's group; and

(b) neither the PRA nor the Bank has reached a different determination from that referred to in point (a).

For the purposes of this paragraph, an interest rate index shall be deemed to be a 'broad market index' if it fulfils all of the conditions set out in Article 24A of the Rules

Supplementing the CRR with regards to Own Funds Requirements[43] in Chapter 4 of the Own Funds (CRR) Part of the PRA Rulebook.

5. (a) In the case of liabilities intended to count towards internal MREL, the criteria set out in paragraphs 1(b)(i) and (c) do not apply.

   (b) Liabilities issued prior to 27 June 2019 are not required to meet the criteria set out in paragraphs 1(b)(ii), (k) or (l).

6. (a) MREL eligible liabilities may remain fully qualified as such for as long as they have a residual maturity of at least one year, but cease to be so qualified once their residual maturity is less than one year.

   (b) Tier 2 instruments with a residual maturity of at least one year may qualify as MREL eligible liabilities to the extent that they no longer qualify as Tier 2 instruments due to having reached the final five years of their contractual tenor, provided not rendered ineligible to meet MREL by any other provision of the MREL SoP (including this Annex). However, once a Tier 2 instrument has reached a residual maturity of less than one year, it may contribute to MREL resources only to the extent of its reported daily amortising Tier 2 regulatory capital value.

[43] Previously Regulation (EU) No 241 / 2014.

Annex 2: Deductions from MREL eligible liabilities resources[44]

Section 1 - Deductions from MREL eligible liabilities resources (restating UK CRR Article 72e)

1. For purposes of measuring and reporting their MREL resources as at any date on or after that on which they are required to meet their respective end-state MRELs, institutions that are set external or internal MREL above minimum capital requirements should deduct each of the following from their eligible liabilities resources, provided that an institution that is an SDDT or SDDT consolidation entity[45] should so deduct only (a) and (b):

(a) direct, indirect and synthetic holdings by the institution of eligible liabilities instruments issued by the institution (own issued eligible liabilities instruments), including such liabilities that the institution could be obliged to purchase as a result of existing contractual obligations;

(b) direct, indirect and synthetic holdings by the institution of eligible liabilities instruments of other entities with which the institution has reciprocal cross holdings that the Bank considers have been designed to artificially inflate the loss absorption and recapitalisation capacity of the institution;

(c) the amount determined in accordance with Section 5 of this Annex of direct, indirect and synthetic holdings of eligible liabilities instruments of G-SIB entities, where the institution does not have a significant investment in those entities;

(d) direct, indirect and synthetic holdings by the institution of eligible liabilities instruments of G-SIB entities, where the institution has a significant investment in those entities, excluding underwriting positions held for five business days or fewer.

For the purposes of this Annex, 'significant investment' should be interpreted in accordance with Article 43 of the Own Funds (CRR) Part of the PRA's Rulebook.

2. For the purposes of this Annex, all instruments ranking *pari passu* with eligible liabilities instruments[46] should be treated as eligible liabilities instruments.

[44] For firms that are subject to the PRA's Interim Capital Regime (ICR firms), references in this Annex to Articles of the Own Funds (CRR) Part of the PRA Rulebook which do not apply to ICR firms should be read as references to the equivalent reproduced CRR provisions as set out in Annex 1 of the SDDT Regime – Interim Capital Regime Part of the PRA Rulebook.

[45] "SDDT" and "SDDT consolidation entity" are defined respectively in rules 3.1 and 3.2 of SDDT Regime - General Application Part of the PRA Rulebook.

[46] As defined in paragraph 2.3 of the MREL SoP.

3. Where:

(a) the Bank is the home authority for the ultimate parent of a G-SIB that is an MPE banking group; and

(b) the group's parent is a resolution entity that has direct, indirect or synthetic holdings of own funds instruments or eligible liabilities instruments of a subsidiary established in another country with a broadly equivalent resolution regime that is the resolution entity for a different resolution group,

the Bank, after consultation with relevant overseas authorities including those within CMGs[47], as contemplated by the FSB's TLAC standard[48], may permit the parent to apply the provisions of this Annex to such holdings by deducting a lower amount as determined by the Bank than would otherwise have been deductible under point (d) of paragraph 1.

In any event, the amount of the deduction by the parent may be no lower than the amount of the parent's exposure to the subsidiary's own funds and eligible liabilities, less the amount of eligible liabilities above the subsidiary's MREL that is attributable to the parent (that is, excluding MREL resources surplus to the requirement that are attributable to third party investors).

Where the Bank agrees that the parent may deduct a lower amount in accordance with the first subparagraph, the Bank may make such agreement conditional on the overseas resolution authority with responsibility for the subsidiary resolution entity requiring an additional amount to be deducted by the subsidiary from its own eligible liabilities resources equal to the difference between the amount that would otherwise have been deductible by the parent under point (d) of paragraph 1 and that lower amount.

Where the Bank is the host authority for a subsidiary of a G-SIB MPE banking group, the Bank may, at its discretion, consider a proposal from an overseas authority that is the home authority for the group's ultimate parent that a portion of a UK resolution entity's surplus resources are counted towards the parent's MREL resources, on the basis that they could be made available to the parent in a resolution without, in the Bank's judgement, putting the resolution objectives[49] at risk.

Before the Bank agreed to any such redistribution of the requirement to deduct, whether as home authority for a parent or host authority for a subsidiary, the Bank would have to be satisfied that a proposed redistribution would not compromise the feasibility or credibility of the relevant resolution plan, and that any practical concerns as to the ability to transfer resources from subsidiary to parent in a resolution situation have been or could be addressed.

[47] As defined in paragraph 6.4 of the MREL SoP.

[48] As defined in paragraph 1.4 of the MREL SoP.

[49] As defined in paragraph 1.5(a) of the MREL SoP.

Section 2 - Deduction of holdings of own issued eligible liabilities instruments (restating UK CRR Article 72f)

For the purposes of point (a) of Section 1(1), institutions should calculate holdings on the basis of the gross long positions subject to the following exceptions:

(a) institutions may calculate the amount of holdings on the basis of the net long position, provided that both the following conditions are met:

(i) the long and short positions are in the same underlying exposure and the short positions involve no counterparty risk; and

(ii) either both the long and the short positions are held in the trading book or both are held in the non-trading book;

(b) institutions should determine the amount to be deducted for direct, indirect and synthetic holdings of index securities by calculating the underlying exposure to own issued eligible liabilities instruments in those indices;

(c) institutions may net gross long positions in own issued eligible liabilities instruments resulting from holdings of index securities against short positions in own issued eligible liabilities instruments resulting from short positions in underlying indices, including where those short positions involve counterparty risk, provided that both the following conditions are met:

(i) the long and short positions are in the same underlying indices; and

(ii) either both the long and the short positions are held in the trading book or both are held in the non-trading book.

Section 3 - Deductions for the purposes of points (b), (c) and (d) of Section 1(1) (restating UK CRR Article 72g)

For the purposes of points (b), (c) and (d) of Section 1(1), institutions should deduct the gross long positions subject to the exceptions laid down in Sections 4 and 5.

Section 4 - Deduction of holdings of eligible liabilities of (other) G-SIB entities (restating UK CRR Article 72h)

Institutions not making use of the exception set out in Section 6 should make the deductions referred to in points (c) and (d) of Section 1(1) in accordance with the following:

(a) they may calculate direct, indirect and synthetic holdings of eligible liabilities instruments on the basis of the net long position in the same underlying exposure, provided that both the following conditions are met:

(i) the maturity date of the short position is either the same as, or later than, the maturity date of the long position or the residual maturity of the

short position is at least one year;
and

(ii) either or both the long position and the short position are held in the trading book or both are held in the non-trading book; and

(b) they should determine the amount to be deducted for direct, indirect and synthetic holdings of index securities by looking through to the underlying exposure to the eligible liabilities instruments in those indices.

Section 5 - Deduction of eligible liabilities where the institution does not have a significant investment in G-SIB entities (restating UK CRR Article 72i)

1. For the purposes of point (c) of Section 1(1), institutions should calculate the applicable amount to be deducted from their eligible liabilities resources by multiplying the amount referred to in point (a) of this paragraph by the factor derived from the calculation referred to in point (b) of this paragraph:

(a) the aggregate amount by which the direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments of financial sector entities and eligible liabilities instruments of G-SIB entities, in none of which the institution has a significant investment, exceeds 10% of the Common Equity Tier 1 items of the institution after applying the following:

(i) Articles 32 to 35 of the Own Funds (CRR) Part of the PRA's Rulebook;

(ii) points (a) to (g), points (k)(ii) to (k)(iv) and point (l) of Article 36(1) of the Own Funds (CRR) Part of the PRA's Rulebook, excluding the amount to be deducted for deferred tax assets that rely on future profitability and arise from temporary differences;

(iii) Articles 44 and 45 of the Own Funds (CRR) Part of the PRA's Rulebook;

(b) the amount of direct, indirect and synthetic holdings by the institution of the eligible liabilities instruments of G-SIB entities, in which the institution does not have a significant investment, divided by the aggregate amount of the direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments of financial sector entities and eligible liabilities instruments of G-SIB entities, in which the institution does not have a significant investment.

2. Institutions should exclude underwriting positions held for five business days or fewer from the amounts referred to in point (a) of paragraph 1 and from the calculation of the factor in accordance with point (b) of paragraph 1.

3. The amount to be deducted by institutions from their eligible liabilities resources pursuant to paragraph 1 should be apportioned across each eligible liabilities instrument of a G-SIB entity held by the institution. Institutions should determine the

amount of each eligible liabilities instrument of a G-SIB entity that is deducted pursuant to paragraph 1 by multiplying the amount specified in point (a) of this paragraph by the proportion specified in point (b) of this paragraph:

(a) the amount of holdings required to be deducted pursuant to paragraph 1;

(b) the proportion of the aggregate amount of direct, indirect and synthetic holdings by the institution of the eligible liabilities instruments of G-SIB entities, in which the institution does not have a significant investment, represented by each eligible liabilities instrument held by the institution.

4. The amount of holdings referred to in point (c) of Section 1(1) that is equal to or less than 10 % of the Common Equity Tier 1 items of the institution after applying the provisions laid down in points (a)(i), (a)(ii) and (a)(iii) of paragraph 1 of this Section should not be deducted and should be subject to the applicable risk weights in accordance with the Credit Risk: Standardised Approach (CRR) Part and the Credit Risk: Internal Ratings Based Approach (CRR) Part and the requirements laid down in the Market Risk: General Provisions (CRR), Market Risk: Advanced Standardised Approach (CRR), Market Risk: Simplified Standardised Approach (CRR) and Market Risk: Internal Model Approach (CRR) Parts of the PRA Rulebook, as applicable.

5. Institutions shall determine the amount of each eligible liabilities instrument that is risk weighted pursuant to paragraph 4 by multiplying the amount of holdings required to be risk weighted pursuant to paragraph 4 by the proportion resulting from the calculation specified in point (b) of paragraph 3.

Section 6 - Trading book exception from deductions from eligible liabilities resources (restating UK CRR Article 72j)

1. Institutions may decide not to deduct a designated part of their direct, indirect and synthetic holdings of eligible liabilities instruments, that in aggregate and measured on a gross long basis is equal to or less than 5% of the Common Equity Tier 1 items of the relevant person after applying Articles 32 to 36 of the Own Funds (CRR) Part of the PRA's Rulebook, provided that all the following conditions are met:

(a) the holdings are in the trading book;

(b) the eligible liabilities instruments are held for no longer than 30 business days.

2. The amounts of the items that are not deducted pursuant to paragraph 1 will be subject to the PRA's requirements for items in the trading book.

3. Where, in the case of holdings not deducted in accordance with paragraph 1, the conditions set out in that paragraph cease to be met, the holdings shall be deducted in accordance with Section 3 without applying the exceptions laid down in Sections 4 and 5.

Section 7 - Deduction and maturity requirements for short positions (restating UK CRR Article 75)

The maturity requirements for short positions referred to in point (a) of Section 4 shall be considered to be met in respect of positions held where both the following conditions are met:

(a) the institution has the contractual right to sell on a specific future date to the counterparty providing the hedge the long position that is being hedged; and

(b) the counterparty providing the hedge to the institution is contractually obliged to purchase from the institution on that specific future date the long position referred to in point (a).

Section 8 - Index holdings of eligible liabilities instruments (restating UK CRR Article 76)

1. For the purposes of point (a) of Section 4, institutions may reduce the amount of a long position in an eligible liabilities instrument by the portion of an index that is made up of the same underlying exposure that is being hedged, provided that all the following conditions are met:

(a) either both the long position being hedged and the short position in an index used to hedge that long position are held in the trading book or both are held in the non-trading book;

(b) the positions referred to in point (a) are held at fair value on the balance sheet of the institution;

(c) the short position referred to in point (a) qualifies as an effective hedge under the internal control processes of the institution;

(d) the internal control processes referred to in point (c) are not considered to be inadequate.

2. Where the PRA under Article 76(2) of the Own Funds (CRR) Part of the PRA Rulebook or (as applicable) the Bank has granted its prior permission, an institution may use a conservative estimate of the underlying exposure of the institution to instruments included in indices as an alternative to the institution calculating its exposure to the items referred to in one or more of the following points:

(a) own Common Equity Tier 1, Additional Tier 1, Tier 2 and eligible liabilities instruments included in indices;

(b) Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments of financial sector entities, included in indices; and

(c) eligible liabilities instruments of institutions included in indices.

3. When considering whether to grant the prior permission referred to in point (c) of paragraph 2 for an institution to use a conservative estimate of the underlying exposure of the institution to eligible liabilities instruments included in indices, the Bank will take into account whether the institution has demonstrated to the Bank's satisfaction that it would be operationally burdensome for the institution to monitor its underlying exposure to eligible liabilities instruments of institutions included in indices.

4. For the purposes of paragraph 3, 'operationally burdensome' should be interpreted to mean situations under which look-through approaches to holdings of eligible liabilities instruments in financial sector entities on an ongoing basis are unjustified. In its assessment of the nature of operationally burdensome situations, the institution should take into account the low materiality and short holding period of such positions. A holding period of short duration should require the strong liquidity of the index to be evidenced by the institution. In its assessment of materiality, the institution should have regard to the conditions for low materiality set out in Article 26(2) of the Rules Supplementing the CRR with regards to Own Funds Requirements in Chapter 4 of the Own Funds (CRR) Part of the PRA's Rulebook.

Section 9 - Temporary adjustment from deduction from own funds and eligible liabilities (restating UK CRR Article 79)

Where an institution holds liabilities that qualify as eligible liabilities instruments and the Bank considers those holdings to be for the purposes of a financial assistance operation designed to reorganise and restore the viability of the issuer of those instruments, the Bank may consider adjusting on a temporary basis the provisions on deduction that would otherwise apply to those instruments.