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

This is a tracked changes version of the MREL SoP published on 15 July 2025 (effective 1 January 2026) relative to the version published on 3 December 2021 (effective 1 January 2022). This document has been prepared on a best-efforts basis and readers should always refer to the official text of the **MREL SoP** (in which the footnote numbering is different).

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

~~December2021 (updating June 2018)~~

Published on 15 July 2025 (updating December 2021)

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.

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

1: Background and statutory framework

1.1 This Statement of Policy (references to which include Annexes 1, 2 and 3 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 Bank Recovery and Resolution (No. 2) Order 2014, 'competent authority' means the supervisor of an authorised person under FSMA.

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(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

[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 law.~~ The term 'financial institution' has the meaning given by Article 4 (1) (26) of Regulation 575/2013/EU as it forms part of assimilated law (UK CRR). As at the publication date of this Statement of Policy, Article 4 of UK CRR remains in force. Therefore, the definitions of certain terms used in this Statement of Policy cross-refer to Article 4 of UK CRR. The government has signalled its intention to commence the revocation of the definitions in Article 4 of UK CRR. Most of those definitions are expected to be either restated in another legislative instrument or replaced with PRA Rules. A reference in this Statement of Policy to a term having the same meaning as in Article 4 of UK CRR should, therefore, be taken to include reference to the future applicable successor legislation or PRA Rule which will contain the corresponding definition.

[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.~~

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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, taking into account whether any recapitalisation payment[5] by the Financial Services Compensation Scheme (FSCS) may be available in respect of the institution if required by the Bank, 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~~),~~) and to continue to carry out the activities for which it is authorised ~~and to sustain sufficient market confidence in the institution or entity;~~;

(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 or own funds 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~~.~~; and

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

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(f) other assessment criteria specified in this Statement of Policy (as amended from time to time).

1.6 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 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~~ Please consult the PRA's supervisory statement for further details.

~~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~~.~~

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**.

~~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.~~

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~~2.2~~ ;[9] and 'own funds instruments' means instruments issued by an institution that qualify as Common Equity Tier 1 capital, Additional Tier 1 instruments or Tier 2 instruments.

2.2 'excluded liabilities' has the same meaning as in ~~article 4(1)(119~~section 48B(7A) of the ~~CRR~~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 the Banking Act which meet the MREL eligibility~~ set by the Bank, that are not (or no longer qualified as) own funds and are not excluded liabilities, and that meet the 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 'Common Equity Tier 1 capital' (CET1) has the same meaning as in Article 50 of the Own Funds (CRR) Part of the PRA Rulebook.

2.5 'Additional Tier 1 instruments' are instruments that meet the conditions set out in ~~this Statement~~Article 52 of ~~Policy~~the Own Funds (CRR) Part of the PRA Rulebook.

~~2.4~~2.6 'Tier 2 instruments' are instruments that meet the conditions set out in Article 63 of the Own Funds (CRR) Part of the PRA Rulebook.

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

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

2.~~5~~9 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.

[9] See footnote 3.

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2.~~6~~10 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~~11 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[10] for which 'external MREL' is set.

2.~~8~~12 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 depend upon resolution powers being used at more than one entity within the group — known as a multiple point of entry (MPE).

2.~~9~~13 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~~14 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

[10] 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.

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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[11] (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 that the loss absorption amount will equal an institution's 'minimum capital requirements'[12] ~~(Pillar 1~~ plus ~~Pillar 2A or, if~~its applicable ~~and higher, the institution's leverage ratio requirement) plus its~~ capital buffers.

~~[11] See section 3 (1) of The Banking Act.~~

[12] 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~~to meet rule ~~(for PRA-authorised persons~~2.1 in the Internal Capital Adequacy Assessment ~~2.1~~Part 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

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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~~will 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,[13] 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.~~[14]~~

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. The preferred resolution strategy for an institution may be modified insolvency, transfer or bail-in as determined by the Bank. In this Statement of Policy, an institution for which a preferred resolution strategy has been determined is referred to as a 'modified insolvency institution', 'transfer institution' or 'bail-in institution', as appropriate. 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

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and higher) the minimum leverage ratio in rule 3.1 of the Leverage Ratio ~~3.1~~ – Capital Requirements and Buffers Part of the PRA Rulebook.

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

~~[14] As set out in the MREL UKTS, the loss absorption amount may be adjusted in certain circumstances.~~

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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**~~

Institutions with total assets not exceeding £25 billion

4.3 The Banking Act provides for a number of modified insolvency regimes for certain institutions (the bank insolvency procedure (BIP), building society insolvency procedure (BSIP) and the special administration regime ~~(SAR)~~ for investment banks).[15] Where such an institution has total assets not exceeding £25 billion and it is reasonable to assume that it can, in the Bank's view, 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 determine the institution is a modified insolvency institution and therefore 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). Consistently with this, the Bank does not expect to set MREL above minimum capital requirements for SDDTs or SDDT consolidation entities.[16]

4.4 The Bank will consider a number of factors when determining if it is reasonable to assume that an institution with total assets not exceeding £25 billion can generally be expected to enter modified insolvency upon failure rather than being resolved using stabilisation powers. Factors indicating that such 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,

[15] The special administration regime is set out in the Investment Bank Special Administration Regulations 2011 ~~issued~~made by HM Treasury pursuant to section 233 of the Banking Act.
[16] '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. The PRA is now expected to commence the SDDT regime in January 2027.

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including with respect to protected and non-protected deposits, or indirectly by negatively affecting confidence in the financial system or similar institutions; and

(b) if the institution does not provide significant amounts of transactional banking services or other critical functions,[17] 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~~this condition would generally be met if the institution provides 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~~ Where the Bank ~~may determine~~ determines that~~, although~~ modified insolvency would not meet the resolution objectives~~,~~ in the case of an institution ~~could feasibly be resolved without use of the bail-in stabilisation power. Where it is feasible for the critical functions of an institution~~with total assets not exceeding £25 billion, the Bank expects to ~~be transferred to another entity at~~ determine 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 is a transfer institution. In such cases, the Bank does not expect to set MREL above minimum capital requirements.

Institutions with total assets between £25 billion and £40 billion

4.6 For institutions with between £25 billion and £40 billion in total assets, the Bank will consider which of a transfer or a bail-in strategy is more likely to be appropriate, but will make this assessment on an institution-specific basis taking into account the factors set out in paragraph 4.7. The Bank will keep the determination based on this

[17] As defined in section 3(1) of the Banking Act.

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assessment under review. In the case of transfer institutions, the Bank does not expect to set MREL above minimum capital requirements.

4.7 Factors indicating ~~that~~ it may be possible to ~~rely on~~set a ~~partial~~ transfer, rather than bail-in, preferred resolution strategy for an institution with between £25 billion and £40 billion in total assets include:

(a) if the institution's business and asset/liability structure are sufficiently simple so as to make rapidly separating and / or 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;

~~if~~(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~~

(d) if the institution is of a size such that the number of potential purchasers is reasonably high~~.~~; and

(e) if the Bank has a reasonable basis for assuming the institution can be resolved using the transfer power (including for this purpose the power to require the FSCS to make a payment in respect of the costs of recapitalisation of the institution and related expenses in the circumstances and for the purposes set out in section 214E of FSMA) without reliance on public funds in order to make the payment under section 214E of FSMA.[18]

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

[18] Inserted in FSMA by section 1 of the Bank Resolution (Recapitalisation) Act 2025.

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~~4.8 Where an institution meets the necessary conditions for a partial transfer resolution strategy to be appropriate, its external MREL will be set taking this into account. The Bank may consider the following principal adjustments to external MREL for such institutions relative to that set to enable a bail-in strategy for institutions that are D-SIBs:~~

~~(a) Quantum: the recapitalisation component of external MREL might be reduced to reflect the fact that less than the entire balance sheet of the institution will need to be recapitalised at the point of resolution. For example, to the extent that an institution's critical liabilities[19] 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 relevant as a result of the transfer.~~

~~(b) Subordination: where a partial transfer resolution strategy assumes that only liabilities benefitting from preference in insolvency[20] will be transferred, the Bank may not require 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. 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.~~

Institutions with total assets exceeding £40 billion

~~**Bail-in**~~

4.8 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 billion-£25 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~~

~~[19] Those liabilities necessary for the continuity of a critical function.~~
~~[20] 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 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.~~

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~~strategy to ensure that their MREL resources are subordinated to operating liabilities, using structural~~ Institutions with more than £40 billion in total assets should expect to be set a bail-in strategy. Only in exceptional circumstances (up to an amount to be determined by the Bank in each individual case and subject to review) might firms above £40 billion in total assets, with specialist business models that do not involve material maturity transformation or credit intermediation, continue to be set a transfer strategy with MREL set equal to minimum capital requirements. Other resolvability requirements, including those set out in the Bank's Statement of Policy on its approach to assessing resolvability, will apply.[21]

Resolvability requirements for transfer and bail-in institutions

4.9 The Bank does not expect to set MREL above minimum capital requirements in the case of transfer institutions. But transfer institutions may fall within scope of other, non-MREL but resolution-related requirements and expectations under relevant Bank and PRA policy materials, in which case those other such requirements and expectations would nevertheless apply. This includes the Bank's Statement of Policy on its approach to assessing resolvability.

4.10 Bail-in institutions will generally be required to meet MREL above minimum capital requirements as set out in paragraph 4.11, and will be subject to subordination ~~except in the case of building societies which may use contractual subordination or statutory subordination.[22] Subordination~~requirements as set out in Section 6. Other resolvability requirements, including those set out in the Bank's Statement of Policy on its approach to assessing resolvability, will apply to bail-in institutions.

Calibration of MREL for bail-in institutions

4.~~10~~11 The Bank expects to direct UK resolution entities ~~in respect of~~ which are bail-in ~~is the preferred resolution strategy~~institutions to comply with the following end-state external MREL, as applicable:

[21] **Statement of Policy: The Bank of England's Approach to Assessing Resolvability - May 2021 (updating July 2019)**
~~[22] As effected by section 176AZA of the Insolvency Act 1986.~~

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(a) G-SIBs[23] 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~~i.e. 2x(Pillar 1 plus Pillar 2A); ~~or~~

(ii) the higher of two times the applicable leverage ratio requirement or 6.75% ~~of leverage exposures~~[24] (in line with the FSB's TLAC standard)~~.~~[25]) of leverage exposures;[26] or

(iii) 18% of risk-weighted assets (in line with the FSB's TLAC standard).[27]

(b) D-SIBs[28] 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~~i.e. 2x(Pillar 1 plus Pillar 2A); or

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

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

~~24 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.~~

~~25 The Bank does not expect that setting a level below the internationally agreed minimum for G-SIBs would be sufficient to ensure market confidence.~~

26 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. See PRA **Supervisory Statement | SS45/15 The UK leverage ratio framework October 2021**, effective from 1 January 2022.

27 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.

28 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) Regulations 2014, and~~**The Capital Buffers and Macro-prudential Measures Regulations 2025**, and (for this purpose) which have a resolution entity in the United Kingdom.

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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

4.12 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.

4.13 All institutions that have been set external or internal 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 institutions in this regard is important, and that the full accounting value of the instrument best reflects the amount that would be available to absorb, and recapitalise for, potential losses in the event of write-down or conversion of an eligible liability instrument to equity.[29]

Periodic update and indexation of MREL indicative thresholds

4.14 The Bank intends to keep the indicative total assets thresholds set out in this Section up to date by updating the thresholds every three years as necessary to take account of changes in nominal economic growth, beginning in the first six months of 2028 to take account of the impact of nominal economic growth between end-2024 and end-2027. Any future changes to the thresholds driven specifically by such indexation updates will not be subject to further public consultation, but will take effect as amendments to this Statement of Policy once published by the Bank on its website.

[29] Subject in those circumstances to the adjustment of accounting value to reverse any previous subtraction from, or addition to, CET1 through the prudential filter for changes in own creditworthiness.

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References in this Statement of Policy to total assets thresholds of '£25 billion' and '£40 billion' should be read as references to those thresholds as amended from time to time.

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.[30] 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 or more.

~~5.3~~ 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

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

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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 capital buffers,[31] 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,[32] 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~~[33] ~~and contractual recognition of bail-in rules in the PRA Rulebook and FCA Handbook.~~[34]Part 9 of the No. 2 Order and the

[31] 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.**

[32] 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.

~~[33] Directive 2014/59/EU.~~

~~[34] See **https://www.prarulebook.co.uk/rulebook/Content/Part/211722** and **https://www.handbook.fca.org.uk/handbook/IFPRU/11/6.html**.~~

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Contractual Recognition Of Bail-in Part of the PRA Rulebook.[35] 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.

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,[36] 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

[35] 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**.

~~[36] Under sections 6A to 6D of the Banking Act.~~

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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.[37]

~~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~~opinion on ~~a~~that specific liability's eligibility~~,~~ and provide this to the Bank ~~where required~~on request, subject to the possible application of the 'repeat issuance exemption' set out in Annex 3.

5.~~13~~12 In line with the continuous resolvability assessment process, and~~, where relevant, the~~ consistent with the Bank's Approach to Assessing Resolvability

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

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~~Assessment Framework,~~,[38] 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

[38] 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**.

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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. 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.

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 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.

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External MREL for MPE resolution entities

6.5 For groups with an MPE resolution 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 if required, 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

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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 4.11(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 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.~~[39] 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.

[39] ~~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.~~

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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

(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.[40] 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

[40] 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.

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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:

(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~~~~[41]~~ ~~which will require them~~required under FSMA to carry out their core UK financial services activities within a ring-fenced body (RFB) ~~and~~that is separate ~~these ~~from certain other activities of the wider group. Where an RFB is part of a material sub-

~~[41] The Financial Services and Markets Act 2000, as amended by the Financial Services (Banking Reform) Act 2013.~~

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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.[42] 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 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.

[42] 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).

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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;

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(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.

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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 TLAC standard provides that such externally issued~~ As mentioned in paragraph 5.10, since~~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,~~ 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, at the direction of the Bank, 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. Such contractual triggers support the ability to co-ordinate the write-down and/or conversion of internal MREL instruments across other subsidiaries, where this is deemed helpful to support the group resolution, so that all relevant subsidiaries are well-capitalised. The requirement applies to internal eligible liabilities of:

(a) (UK) material subsidiaries and other (UK) institutions that are set internal MREL above minimum capital requirements; and

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(b) exceptionally, a non-UK material subsidiary of a UK-headquartered parent in relation to which the Bank has used its discretion under paragraph 7.13 to propose an internal MREL where the host authority has not published relevant regulations or regulatory proposals. With the Bank's agreement following a request from the parent, this may be subject to an exception for 'impracticability' that may be available where contractual triggers cannot be included for reasons outside the issuing entity's control; for example, if the non-UK 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 or other institution 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~~subsidiary or other institution's group, which is a direct or indirect parent of ~~the material subsidiary~~that entity, is subject to resolution proceedings in the United Kingdom or elsewhere. [43]

8.9 The contractual trigger should provide the Bank (or exceptionally the host resolution authority of ~~the~~a non-UK material subsidiary) with the opportunity to direct either a write-down or a conversion (as directed by the ~~resolution~~relevant 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

[43] 'Resolution proceedings' mean the exercise by the Bank of a stabilisation power ~~under~~(as defined in section 1(4) of the Banking Act), or a third country resolution action (as defined in section 89H(7) of the Banking Act) taken by a third-country resolution authority.

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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 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 non-CET1 own funds instruments~~8.10 With respect to internal non-CET1 own funds instruments issued from 1 January 2026 onwards by institutions within scope of (a) or (b) of paragraph 8.7,[44] institutions should include a contractual trigger covering the circumstances described in (b) in paragraph 8.8 in order to support the ability to co-ordinate the write-down and/or conversion of internal MREL instruments across other subsidiaries. For the avoidance of doubt, this trigger should be included in addition to any other write-down or conversion trigger, in different terms, that would be included in the instruments to meet other requirements. Internal non-CET1 own funds instruments issued from 1 January 2026 onwards by institutions in scope 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 has agreed that the exception for impracticability referred to in paragraph 8.7(b) applies to a specific instrument.

8.11 With respect to internal non-CET1 own funds instruments issued prior to 1 January 2026 by institutions within scope of (a) or (b) of paragraph 8.7, institutions should consider whether the absence of such contractual triggers, covering the circumstances described in (b) in paragraph 8.8 ~~above~~, could create difficulties for resolution. ~~Such contractual triggers support the ability to co-ordinate the write-down and/or conversion of internal MREL instruments across other subsidiaries, where this is deemed helpful to supporting the group resolution, so that all relevant subsidiaries are~~

[44] An instrument will be considered to have been issued from 1 January 2026 onwards if subject to an amendment made on or after that date that changes the maturity date or any other potential redemption date of the instrument to a later date.

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~~well-capitalised.~~ In cases (either outside or in the course of resolution proceedings)[45] where it is not possible to write down and/or convert the non-CET1 own funds instruments to CET1 using statutory powers,[46] for example instruments governed by non-UK law where there is no statutory or contractual recognition of UK bail-in rules, the Bank may 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(4-5). ~~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.~~

~~8.11~~ 8.12 Legal documents should be drafted to ensure any direction of the Bank to write down or convert internal MREL liabilities is legally binding on the instrument parties and legally enforceable by the Bank. 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~~13 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.

8.14 Institutions should obtain ~~independent~~at the time of issuance of each liability intended to be an MREL eligible liability an external legal ~~advice~~opinion on ~~a~~that specific liability's eligibility~~,~~ as MREL and provide this to the Bank ~~where required.~~on request, subject to the possible application of the 'repeat issuance exemption' set out in Annex 3. Institutions or their parents are expected to notify the Bank where they do not

~~45 Under sections 6A and/or 12A of the Banking Act.~~
46 Under, for example, sections 6B and 12AA of the Banking Act.

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intend to include the additional contractual provisions in MREL eligible liabilities or own funds instruments~~.~~ on grounds of impracticability as set out in paragraph 8.7(b). 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~~15 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 liabilities issued externally from the resolution entity where this may pose risks to the resilience and resolvability of the group. Institutions should notify the Bank, at least 15 days in advance, if they ~~expect there~~propose actively to ~~be~~make any material change ~~in~~to the form of their internal MREL resources~~. Institutions should not change the form of their internal MREL resources in~~, including any ~~way, such as through~~prospective cancellation or conversion to equity, that significantly reduces the amount of MREL eligible liabilities~~, unless the Bank approves such a transaction~~.

8.~~14~~16 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.

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9: Transitional arrangements and adjustments

9.1 ~~The MREL UKTS allows~~Where the Bank determines that a bail-in strategy should be set, or is likely to be set, in the next three years on the basis of forecasts provided in accordance with paragraph 9.7, the Bank will determine an appropriate transitional period for ~~an~~that institution to reach its end-state MREL. 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~~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

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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.[47] 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.

~~9.7~~ Transitional arrangements for institutions and groups forecasting~~, at any point in time,~~ to exceed either total assets threshold

9.7 Any institution, or group, forecasting that ~~their~~its total assets will ~~exceed £15~~, for the first time, exceed either of the two indicative total assets thresholds (£25 billion and £40 billion),[48] in the following three years, should inform the Bank. This includes any institution which is a modified insolvency institution or transfer institution at the time of forecast. On receiving such an institution's forecast, the Bank will determine whether the appropriate preferred resolution strategy for that institution is transfer or bail-in in accordance with Section 4. If such an institution is subsequently determined by the Bank to be a bail-in institution but has not previously commenced its MREL transition, or been so notified, the Bank will notify ~~each of these institutions~~ the institution of the point in time (T) at which ~~their~~its MREL transition will start, which will be determined on

[47] See **PRA Supervisory Statement, SS16/16, paragraph 4.2.**
[48] As amended from time to time. See paragraph 4.14.

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a case-by-case basis. The Bank ~~may~~would generally not expect to set T ~~as a point in time~~ at ~~or after~~a point in time before the ~~time at which the~~bail-in institution expects to ~~surpass £15~~exceed £25 billion total assets~~, but would generally not expect to do so before it~~, other than in exceptional circumstances. Ordinarily, this would give bail-in institutions an effective three-year notice period before their 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 a transfer institution; 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~~have not been set a T~~,~~ but which exceed either of the £~~15 billion-£~~25 billion or £40 billion total assets ~~threshold~~thresholds as a result of merger or acquisition, if determined by the Bank to be bail-in institutions, 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.

Any transitional provisions for meeting other, non-MREL but resolution-related expectations and requirements associated with a bail-in institution's preferred resolution strategy would apply as set out in the relevant Bank or PRA policy materials.

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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[49] + (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
- 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.

Flexible add-on

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:

[49] Minimum capital requirements.

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(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 ordinarily 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. In the case of an application for the flexible add-on by an institution that is facing challenges to maintain sufficient MREL resources (including those by institutions which have previously met end-state MRELs), the Bank will take into account whether any need for resources is attributable in whole or in part to the requirement to measure MREL resources at full accounting value or whether the shortfall is attributable to inadequate capital and debt planning.

Transitional arrangements for transfer institutions

9.10 Institutions forecasting, at any point in time, that they will exceed 40,000-80,000 transactional accounts and/or (as mentioned in paragraph 9.7) £25 billion total assets, in the following three years, should inform the Bank. ~~In relation to~~ For those institutions ~~that exceed, or expect they will exceed, 40,000-80,000 transactional accounts,~~for which the Bank ~~will make~~ determines that a ~~case-by-case judgement when setting their~~transfer preferred resolution strategy ~~and will consider a number of factors, including if the institution provides significant amounts of transactional banking services or other critical functions.~~would be appropriate, the Bank will provide ~~institutions with a~~ a notice period, ~~whose length may depend on their transactional accounts' growth rate, and set the point in time (T) at which they would need to start their transition to meeting MREL, as well as the length of the transition itself. The transition will be set on an~~of no more than three years, after which the institution will become a transfer institution~~-specific basis, taking into account relevant factors, such as the~~. Any transitional provisions for meeting other, non-MREL but resolution-related expectations and

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requirements associated with a transfer institution's ~~ability to access capital markets. As a starting point the Bank expects, where possible, to adopt a similar transitional 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 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~~ preferred resolution strategy would apply as set out in ~~paragraph 9.9, of the flexible add-on if requested~~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 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~~either £25 billion or £40 billion as applicable.

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 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,[50] provided that (and for so long as) they meet all the criteria set out in the No.2 Order and the MREL Statement of Policy (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, other than in connection with and only for the duration of their initial distribution:

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

(ii) owned 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, other than in connection with and only for the duration of their initial distribution, funded directly or indirectly by the institution or an entity in the same resolution group;

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

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(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[51] 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;

(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;

[51] As defined in Article 4(38) of UK CRR. See footnote 3 on the future destination of definitions in Article 4 of UK CRR.

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(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

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Supplementing the CRR with regards to Own Funds Requirements[52] 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) of this Annex 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) of this Annex.

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[53] 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 own funds value.

Annex 2: Deductions from MREL eligible liabilities resources

Provisions 'restated' from UK CRR have been restated with modifications considered by the Bank to be necessary or appropriate for inclusion in this Annex to the MREL Statement of Policy (SoP). References in this Annex to a 'Section' or 'paragraph' are to a section or (as applicable) paragraph of this Annex unless otherwise specified.

[52] Previously Regulation (EU) No 241 / 2014.
[53] As defined in paragraph 2.6 of the MREL SoP.

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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 MREL eligible liabilities resources:

(a) direct, indirect and synthetic holdings by the institution of eligible liabilities instruments[54] 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 (and in this case paragraph 7.14 of the MREL SoP will not apply to require an increase of the institution's internal MREL in respect of such holdings).

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 Rulebook.

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

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

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3. Where:

(a) the Bank is the home authority for the ultimate parent of a G-SIB that is an MPE[55] 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[56], as contemplated by the FSB's TLAC standard[57], 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 MREL 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

[55] As defined in paragraph 2.12 of the MREL SoP.
[56] As defined in paragraph 6.4 of the MREL SoP.
[57] As defined in paragraph 1.4 of the MREL SoP.

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[58] 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.

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

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

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

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.

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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 MREL 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[59], Additional Tier 1[60] and Tier 2[61] 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 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 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 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.

[59] As defined in paragraph 2.4 of the MREL SoP.
[60] As defined in paragraph 2.5 of the MREL SoP.
[61] As defined in paragraph 2.6 of the MREL SoP.

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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 MREL 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 Chapter 2 or 3 of Title II of Part Three, Articles 132a to 132c of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part of the PRA Rulebook and the requirements laid down in Title IV of Part Three, as applicable.[62]

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

[62] As at the publication date of the MREL SoP, these provisions of UK CRR remain in force although the government has signalled its intention to commence their revocation. References to these provisions of UK CRR should, therefore, be taken to include reference to the future applicable PRA Rules containing the corresponding successor provisions. See footnote 3.

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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 MREL 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 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).

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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

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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 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.

Annex 3: Repeat issuance exemption from the requirement for an issuance-specific legal opinion on eligibility as MREL

1. In this Annex, a 'repeat issuance' is an issuance of eligible liabilities instruments (whether external or internal MREL) where the 'material issuance terms' relevant to MREL eligibility are substantially the same as for a previous issuance of eligible liabilities instruments that received an external legal opinion specifically on the eligibility of those instruments (the previous issuance).

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2. A 'repeat issuance' does not include one in which, compared to the previous issuance, there is any change to the material issuance terms, i.e. the provisions governing subordination/ranking, conversion or write-down mechanism (in the case of internal MREL), types of call options, frequency of interest payments, any feature that might be considered a barrier to recapitalisation or an incentive to redeem, investor acceleration rights or the governing law of the instruments.

3. Institutions that have obtained a satisfactory individual issuance-specific eligibility legal opinion for a previous issuance may choose to rely on that legal opinion for a repeat issuance, provided that:

(a) for issuances under medium term note programmes, both issuances take place after the most recent annual technical update of the programme; and

(b) in all cases: (i) there has been no relevant change in the applicable eligibility criteria or legal framework since the previous issuance; and (ii) a legal opinion for a previous issuance should not be relied on for any issuance taking place more than two years after the date on which the legal opinion was issued.

4. The repeat issuance exemption applies only with respect to legal opinions on the eligibility of instruments as MREL. The exemption does not apply to the requirements of paragraph 5.7 of the MREL SoP (with respect to external MREL and as applied to internal MREL by paragraph 8.1) applicable to eligible liabilities instruments governed principally by non-UK law.

5. In line with paragraphs 5.11 and 5.12 of the MREL SoP, an institution that has relied on the repeat issuance exemption should be able to demonstrate to the Bank on request that in doing so it has complied with the conditions set out in this Annex.