

Policy Statement | PS11/18

Resolution planning: MREL reporting

June 2018



BANK OF ENGLAND
PRUDENTIAL REGULATION
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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 1/18 'Resolution planning: MREL reporting'. It also sets out the PRA's final expectations for the reporting on the minimum requirement for own funds and eligible liabilities (MREL). The appendices to this PS set out the updated Supervisory Statement (SS) 19/13 'Resolution planning' (Appendix 1) and the reporting templates and guidance (Appendix 2).

1.2 This PS is relevant to PRA-authorised UK banks, building societies, UK designated investment firms and their qualifying parent undertakings (collectively referred to as 'firms'), to which the Resolution Pack Part of the PRA Rulebook applies. In particular, this would be most relevant to:

- firms notified by the Bank of England (the Bank) that they are likely to be subject to external interim and/or end-state MREL in excess of regulatory capital requirements¹ as articulated in the Bank's statement of policy on its approach to setting MREL ('MREL Statement of Policy');² and
- firms notified by the Bank that they are likely to be subject to internal interim and/or end-state MREL in excess of regulatory capital requirements, as articulated in the MREL Statement of Policy.

1.3 In CP1/18, the PRA consulted on the proposed reporting expectations for MREL resources, together with the level of application, frequency, format and implementation timetable, through an update to SS19/13.

1.4 The PRA received three responses to CP1/18. Respondents were broadly supportive of the proposals. However, some respondents questioned whether the frequency of reporting would place a disproportionate burden on firms, and some sought further clarity on the details of the draft templates and guidance.

1.5 After considering the responses, the PRA has made minor amendments to the draft SS, to take a more proportionate approach in respect of the frequency of reporting and to add further clarity on the draft templates and guidance. Chapter 2 of this PS summarises the issues raised by respondents and provides further details of the changes.

1.6 The PRA has also made changes to the draft SS as a result of further analysis. These are minor amendments, including changing the numbering of the templates and adding columns to assist reporting of maturity breakdown. These changes are set out in Chapter 3.

1.7 The PRA considers that the above changes enhance the clarity and proportionality of the relevant expectations and will therefore reduce the burden on firms relative to the original proposal in the CP. In the PRA's opinion, the impact on mutuals of the policies set out in the updated SS is not significantly different from the impact on other firms. The more

¹ References to 'regulatory capital requirements' mean the amount of capital required to meet the: (i) overall financial adequacy Rule 2.1 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook or IFPRU 2.2.1R of the Financial Conduct Authority (FCA) Rulebook (as applicable); and (ii) (if applicable) minimum leverage ratio in Rule 3 of the Leverage Ratio of the PRA Rulebook. Unless otherwise specified, this refers to Pillar 1 requirements and Pillar 2A add-ons applicable to an institution, or any higher applicable leverage ratio. Capital and leverage buffers are treated separately.

² June 2018: www.bankofengland.co.uk/-/media/boe/files/paper/2018/statement-of-policy-boes-approach-to-setting-mrel-2018.

proportionate approach set out in the final SS also supports the PRA's secondary objective of facilitating effective competition.

Next steps

1.8 The updated SS19/13 will take effect from 1 January 2019.

1.9 Firms are expected to use the Bank of England Electronic Data Submission (BEEDS) portal for the submission of all returns. The Bank is planning to have this available for firms to submit the MREL returns from January 2019, and will contact firms in preparation for reporting. The PRA will provide further information and materials (as needed) on the Bank's website.¹

1.10 The policy in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the European Union take effect.

2 Feedback to responses

2.1 The PRA must consider representations that are made to it in accordance with its duty to consult on its general policies and practice, and must publish in such manner as it thinks fit responses to the representations.²

2.2 This chapter provides feedback on the main issues raised in consultation responses by topic, and sets out where the PRA has made changes to the policy proposed in the CP. Amendments made to the draft SS are set out in the annex of the updated SS19/13.

Frequency of reporting

2.3 In the CP, the PRA proposed that the MREL Resources Forecast (MRL002) template would be submitted on the same frequency, reporting date and submission due date as firms' Capital+ submissions. Some respondents who submit Capital+ on a monthly basis raised concerns over the proposal that the MREL Resources Forecast (MRL002) template would also be submitted on a monthly basis. They noted that it is impractical and not proportionate, considering that significant changes in the amount of MREL resources from month to month are relatively unlikely.

2.4 The PRA also proposed in the CP that the MREL Debt (MRL003) template would be submitted every time there is a change to terms or the stock of outstanding issuances that affects any of the reported fields. Some respondents noted that this proposal would not be practical and would be costly. For instance, share issuance under employee share schemes which do not significantly change the amount of MREL resources would create a reporting burden.

2.5 The PRA has considered the respondents' concerns and agrees that a more proportionate approach is warranted with regard to the frequency of reporting. The PRA therefore has amended the reporting frequency for the MREL Resources Forecast (MRL002) template from monthly to quarterly for firms that are required to submit Capital+ on a monthly basis. The submission should be with the same due date as Capital+ submissions and the same reporting dates as would be the case if their Capital+ submissions were quarterly, at all levels of

1 Regulatory reporting – Banking sector webpage: www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector.

2 Sections 2L and 2N of FSMA.

application of reporting.¹ The PRA has also amended the reporting frequency of the MREL Debt (MRL003) template to quarterly, with the same submission due date and reporting dates as COREP C 01.00 submissions.

2.6 The PRA has stated in the SS that in both cases, the PRA may ask firms to submit the information in these templates on a more frequent basis, if needed.

Taking account of internal MREL policy

2.7 In the CP, the PRA set out that the MREL reporting policy is relevant to firms subject to internal interim and/or end-state external or internal MREL in excess of regulatory capital requirements. Some respondents asked for clarity on the scope and level of reporting in the absence of a final internal MREL policy and suggested a longer implementation period to meet the reporting expectations set out in the proposals.

2.8 The Bank published its internal MREL policy on 13 June 2018 and will notify firms about their internal MREL and entities in scope in due course. The PRA does not propose to change the policy implementation dates. Firms will have at least six months to implement MREL reporting after they have been informed about their internal MREL.²

Reporting of operational continuity resources

2.9 In the CP, the PRA proposed that reporting of operational continuity resources would be reported via the relevant PRA-authorized firm. This was in line with the Bank's proposal in the consultation on internal MREL that the Bank will require the group to ensure that each provider of critical services within the group maintains sufficient loss-absorbing resources to continue providing critical services during resolution, and after resolution.

2.10 As set out in the MREL Statement of Policy, the Bank has decided to remove the proposed requirement that critical service providers must maintain financial resources equivalent to at least 25% of the annual operating costs of providing services. The Bank expects to clarify its approach to loss-absorbing capacity for operational continuity in consultation with the PRA at a later stage. In the interim, the PRA does not expect firms to provide information on loss-absorbing capacity for operational continuity.

2.11 To align with the MREL Statement of Policy, the PRA has amended SS19/13 to reflect that it removed its expectation that relevant critical service providers, which are not material subsidiaries, should report via the relevant PRA-authorized firm the information in the MREL Resources (MRL001) and MREL Resources Forecast (MRL002) templates. For the avoidance of doubt, the PRA's expectations relating to financial resilience as set out in Supervisory Statement (SS) 9/16 'Ensuring operational continuity in resolution'³ are unaffected. The expectations include that firms should ensure there are sufficient financial resources to cover all risks, including the critical services provider's financial resources.

Reporting of cross-holdings of MREL

2.12 In the CP, the PRA proposed to collect information on MREL cross-holdings in the MREL Resources (MRL001) and MREL Resources Forecast (MRL002) templates. The PRA also noted that its approach to the treatment of such cross-holdings will be kept under review to take into account relevant amendments to the Capital Requirements Regulation (575/2013) (CRR).

¹ See section A4 of the updated SS19/13.

² For the implementation timelines, please refer to paragraph 3.11 of this PS.

³ July 2016: www.bankofengland.co.uk/prudential-regulation/publication/2016/ensuring-operational-continuity-in-resolution-ss.

2.13 Some respondents noted that it will be challenging for firms to report on MREL cross-holdings in a meaningful and accurate manner in the absence of final policy on MREL cross-holdings. The European Commission has yet to finalise the amendments to the CRR and as such, the PRA has amended SS19/13 and the reporting guidance to clarify that firms are expected to submit information on cross-holdings (MRL001 and MRL002 templates rows 110-140) on a best efforts basis until the policy on MREL cross-holdings is finalised and comes into force. The PRA will review the relevant amendments to the CRR when they are published, and consider if changes to the definitions in the MREL reporting templates are required.

Reporting templates and guidance

2.14 Some respondents asked for clarification on the definition of MREL eligible subordinated liabilities (row 50) and MREL eligible senior unsecured liabilities (row 60) in the MREL Resources (MRL001) and MREL Resources Forecast (MRL002) templates.

2.15 Firms are expected to report their MREL subordinated and senior unsecured liabilities which meet the eligibility criteria set out in the MREL Statement of Policy. The PRA has added a reference to the eligibility criteria set out in the MREL Statement of Policy to the reporting guidance.

2.16 Some respondents noted that in other regulatory returns there is a maturity category of 'No specified maturity', and asked the PRA to clarify whether instruments that do not have a maturity date should be reported in column 'Five years and greater'. The PRA can confirm that these instruments should be reported separately, and to enhance clarity of reporting has added 'Perpetual' as a column for instruments that do not have a fixed maturity date (column 050) to the MREL Resources (MRL001) template and updated the reporting guidance in the SS.

2.17 The PRA also acknowledges that these instruments do not have a final legal maturity date which firms are asked to provide in the MREL Debt (MRL003) template. To assist reporting, the PRA has added 'Maturity' as a new column (updated number 110) which determines whether the 'Final legal maturity date' column is relevant for the reported instrument. The PRA renumbered all subsequent columns due to the insertion of the new column.

2.18 The reporting instructions for row 20 'Tier 2 capital issued by subsidiaries' in the MREL Resources (MRL001) and MREL Resources Forecast (MRL002) templates specify that the reported value should include 'transitional adjustments as defined in row 900 of COREP template CA 01.00'.

2.19 Respondents asked the PRA to confirm that the transitional adjustments will become obsolete at the end of the transitional provisions for own funds, which are set out in rule 11.13 in the Definition of Capital Part of the PRA Rulebook. The PRA has amended the reporting guidance and deleted the reference to transitional adjustments as the transition period ended on 31 December 2017.

2.20 Some respondents also asked the PRA to clarify the reporting instructions for row 100 'Investment in own non-regulatory capital MREL eligible liabilities' in the MREL Resources (MRL001) and MREL Resources Forecast (MRL002) templates. The PRA has amended the reporting guidance in the SS to clarify that firms should report their investments in liabilities issued by the reported entity.

3 Further amendments to the draft Supervisory Statement and templates

3.1 This chapter sets out by topic other amendments to SS19/13, the reporting templates and guidance following further PRA analysis. The PRA considers that the changes do not represent a significant departure from the policy consulted on in CP1/18, as they improve clarity of reporting or remove redundant data.

Reporting templates and guidance

3.2 In the CP, the PRA proposed that the MREL Debt (MRL003) template collect data on individual characteristics of internal and external MREL resources issued by entities within the UK consolidation group, in order to monitor compliance with eligibility criteria. The PRA also proposed in the reporting guidance that 'All MREL resources should meet the eligibility criteria set out in the Bank of England's MREL Statement of Policy'.

3.3 The Bank has now updated the MREL Statement of Policy to set out its policy on internal MREL. As set out in the MREL Statement of Policy, internal loss-absorbing resources also include equivalent subordinated instruments issued in other jurisdictions that can absorb losses and recapitalise a subsidiary (eg through being written down or converted to equity without the use of stabilisation or resolution powers at the subsidiary level).

3.4 To ensure consistency of wording between the reporting guidance and the MREL Statement of Policy, the PRA has updated the reporting guidance in the SS to be:

'All MREL resources should meet the eligibility criteria set out in the Bank of England's MREL Statement of Policy or be equivalent instruments issued in other jurisdictions'.

3.5 The PRA considers this to be consistent with the policy consulted in CP1/18 and does not consider this to change the scope of instruments to be reported in the MREL Debt (MRL003) template.

3.6 Following further analysis, the PRA recognises that the requested information on the maturity profile of MREL resources in the MREL Resources (MRL001) template cannot be provided in some instances. An example is the reporting of Tier 2 capital issued by consolidated subsidiaries that is held by third parties (ie minority interest) in row 10, where the calculation requires certain deductions that do not have a maturity. To enhance clarity of reporting in such cases, the PRA has added a column for the calculated amount that does not have maturity (column 060) to the MREL Resources (MRL001) template and updated the reporting guidance in the SS.

3.7 As the Bank has now updated the MREL Statement of Policy to set out its policy on internal MREL and changed the numbering of the paragraphs, the PRA has updated the guidance in the SS for 'Liabilities that are not MREL eligible' (row 70) in the MREL Resources (MRL001) and MREL Resources Forecast (MRL002) templates, to remove the specific reference to paragraph 6.5 of the MREL Statement of Policy.

3.8 The PRA has updated the guidance in the SS and removed submission number from the mandatory fields to reflect that each submission will be given a unique submission number automatically by the BEEDS portal, so firms do not need to provide this information.

3.9 In the CP, the PRA proposed that firms would submit the details of the paying agent and trustee in the 'Details of paying agent and trustee' (in updated column 420) in the MREL Debt (MRL003) template. The PRA has recognised that this could entail the submission of personal

data, specifically the names and addresses of contacts. Following further assessment and for the purposes of ensuring compliance with data protection legislation (notably General Data Protection Regulation (GDPR)), the PRA has concluded that this specific information is not materially important for MREL reporting purposes and has removed it from the guidance.

3.10 The PRA has also amended the template numbers from the CP to MRL001, MRL002 and MRL003 from MRL01.00, MRL02.00 and MRL03.00 to align with other PRA data collections. The MREL reporting templates are a new addition to the Bank's taxonomy and therefore the PRA does not expect there to be any costs to firms from these changes.

Level of application

3.11 To enhance clarity of reporting, the PRA has added a reference to 'a UK Resolution group' to the SS as set out in the CP.

Implementation

3.12 To enhance clarity and to reflect that the internal MREL policy is now published, the PRA has updated the implementation dates in the SS. As noted in paragraphs 2.3-2.6, firms that submit Capital+ on a monthly basis may submit MRL002 template on a quarterly basis, with the same submission due date as Capital+ submissions and the same reporting dates as would be the case if their Capital+ submissions were quarterly, at all levels of application of reporting. The PRA may ask these firms to submit MRL002 template on a more frequent basis, if needed. All firms should submit MRL002 on a quarterly basis. The PRA may also ask firms to submit MRL003 on a more frequent basis.

External MREL

- Firms that have been notified by the Bank prior to 1 January 2017 that they are likely to be set external MREL in excess of regulatory capital requirements (whether interim and/or end-state) should start reporting, at the same time and frequency as their Capital+ and COREP C 01.00 reporting from 1 January 2019.¹
- Firms that have been notified after 1 January 2017 that they are likely to be set external MREL in excess of regulatory capital requirements (whether interim and/or end-state) by the Bank, should start reporting at the same time and frequency as their Capital+ and COREP C 01.00 reporting, starting at least 12 months prior to the end of the transitional period set by the Bank. The Bank intends to communicate to firms the first expected reporting date at the same time as it communicates external MREL to firms.

Internal MREL

- Firms that have been notified by the Bank prior to 1 January 2020 that they are likely to be set internal MREL in excess of regulatory capital requirements (whether interim and/or end-state) should start reporting, at the same time and frequency as their Capital+ and COREP C 01.00 reporting, starting six months after the Bank has communicated their internal MREL, but not before 1 January 2019.²
- Firms that have been notified after 1 January 2020 that they are likely to be set internal MREL in excess of regulatory capital requirements (whether interim and/or end-state) by the Bank, should start reporting at the same time and frequency as their Capital+ and COREP C 01.00 reporting, starting at least 12 months prior to the end of the transitional period set by the Bank. The Bank will communicate to firms the first expected reporting date at the same time as it communicates internal MREL to firms.

1 Similarly to firms' Capital+ and COREP C 01.00 reporting, the first submission for most firms will be based on figures as at 31 December 2018.

2 Reference as in footnote 1.

Appendices

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- 1** **Supervisory Statement 19/13 'Resolution planning', available at:**
www.bankofengland.co.uk/prudential-regulation/publication/2013/resolution-planning-ss
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- 2** **Reporting templates and guidance- MRL001-MRL003, available at:**
www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-planning-mrel-reporting