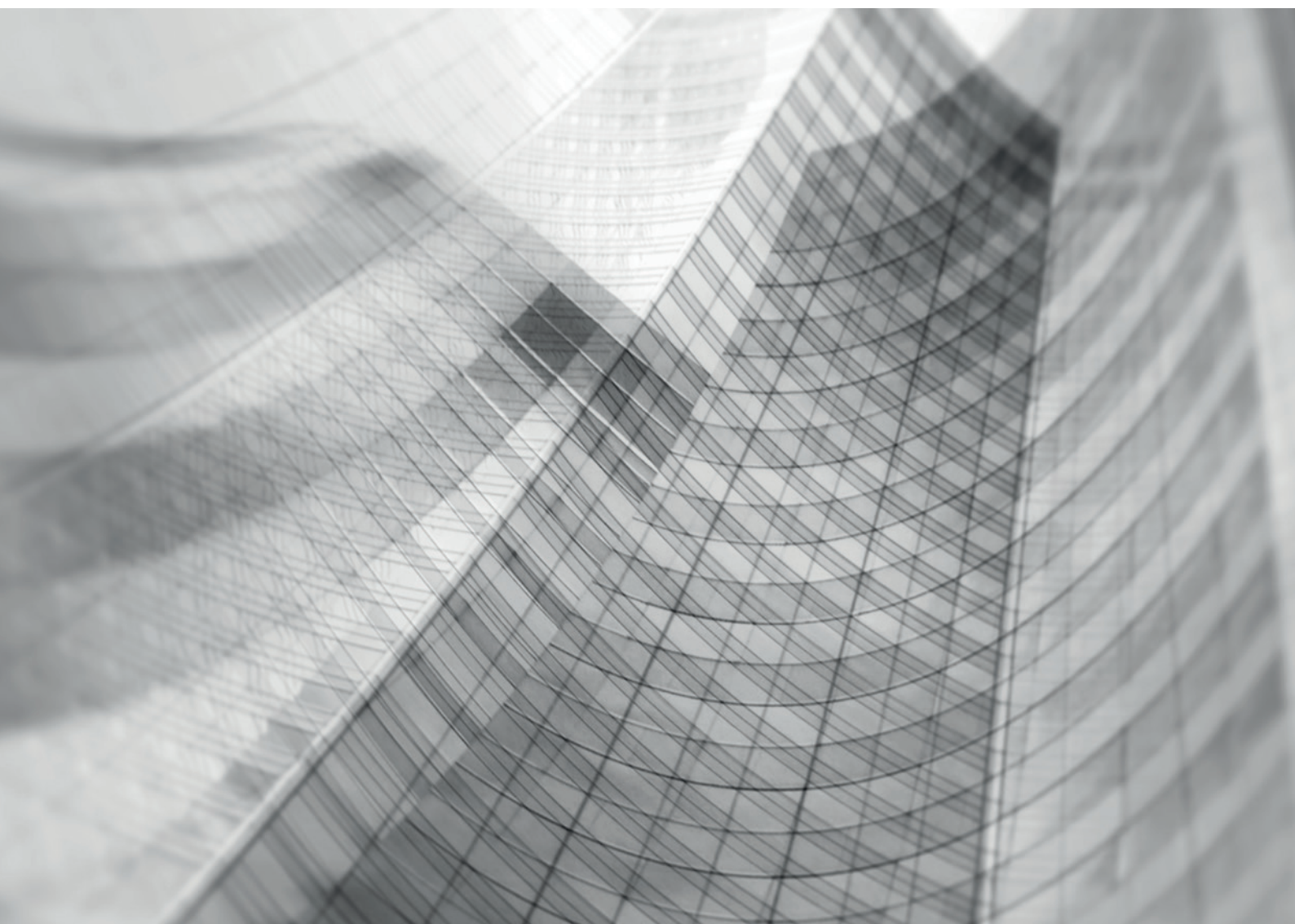


CAPCO

DISCLOSURE AND REPORTING INTEGRATION:

MINIMUM OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)
AND THE TOTAL LOSS ABSORBENCY REQUIREMENTS (TLAC)



The European Banking Authority (EBA) propose harmonized TLAC and MREL reporting and disclosure requirements. What does this mean for banks?

SUMMARY

The Capital Requirements Regulation (referred to as [CRR II - EU Regulation 2019/876](#)) and the Bank Recovery and Resolution Directive (referred to as [BRRD II - EU Regulation 2019/879](#)) introduce the Financial Stability Board (FSB) TLAC standard for globally systemically important banks within the European Union (EU), and amended MREL which originally came into force in 2014.

Following these mandates, the EBA has developed TLAC and MREL reporting and disclosure requirements.

BACKGROUND

TLAC

The TLAC standard seeks to support failing firms during orderly resolution by ensuring reporting institutions have sufficient loss-absorbing (bail-inable) and recapitalisation capacity available. The purpose of this standard is to mitigate the impact of financial losses to the public whilst seeking to minimise any bearing on financial stability during resolution. The standard outlines a minimum requirement for globally systemically important banks (G-SIBs) of at least 16 percent of the resolution group's risk-weighted assets (TLAC RWA minimum) and from 1 January 2022 hold at least 18 percent. The minimum TLAC must also be at least 6 percent of the Basel III leverage ratio denominator and 6.75 percent from 1 January 2022.

MREL

The BRRD ([BRRD Article 45i](#)) sets a requirement on banks to meet MREL targets. Building on lessons learned following the global financial crisis, the BRRD seeks to address loss absorption during an economic downturn. The directive aims to mitigate the impact on the banks capital position whilst supporting its capacity to continue with critical operating activities during and after a crisis. The MREL standard is a fundamental tool to support a banks ability to be resolved and aligns the requirements to hold sufficient capital with the principles of Basel III.

The Single Resolution Board (SRB) further developed MREL policy in 2019, building upon the requirements for European Banks to meet the binding MREL targets. MREL is set to reflect how a firm would be expected to resolve if it were to fail with minimum disruption to taxpayers and the market. The MREL policy requires banks to hold easily 'bail-inable' instruments. A sufficient level of equity and debt resources must be held as part of the bank's overall resolution strategy, whether under a bail-in or partial transfer.

The Bank of England (BoE) issued a Statement of Policy (SoP) in June 2018 setting actual and minimum requirements for MREL for UK banks, large investment firms and building societies. To ensure compliance with the MREL standard, specific conditions are imposed to ensure financial institutions can depend on their stock of debt or equity during an orderly resolution.

The TLAC and MREL standards share a commonality: ensuring reporting institutions have sufficient loss absorption capacity, pursuant to the same objectives these standards should be viewed as complementary components of a common framework.

PROPOSAL



On Friday 22nd November 2019 the EBA issued a public [consultation](#) on draft implementing technical standards (ITS) on public disclosure and supervisory reporting of MREL and TLAC.

The proposal seeks to maximise consistency and comparability of disclosures. This is the first TLAC and MREL reform from the EBA which seeks to reinforce Pillar III objectives of market discipline. This ITS expands the scope of the Pillar III disclosures and supervisory reporting frameworks in the EU.

The ITS signifies a move towards harmonized reporting and disclosure, aiding comparability and consistency across reporting institutions whilst alleviating some reporting and disclosure burden on banks through a proportionate and efficient supervisory reporting framework.

The introduction of a mapping between both reporting and

disclosures supports the integrated approach proposed by the EBA whilst seeking to maximise consistency and efficiency for reporting institutions.

REQUIREMENTS

The consultation proposes enhancements to the disclosure and reporting requirements for both MREL and TLAC under a single comprehensive ITS which implements both disclosure and reporting requirements.

The proposal follows the recent EBA ITS on Pillar III disclosure and supervisory reporting reform and seeks to align reporting under a single package and in accordance with the mandates in CRR II and BRRD II.

Article 437a of the CRR outlines a requirement on reporting institutions subject to TLAC to make certain disclosures:

- Ranking of eligible liabilities in the creditor hierarchy
- The composition of their own funds and eligible liabilities including their maturity and key features
- The amount of each issuance of eligible liabilities instruments that is subordinated and senior
- Excluded liabilities as required under Article 72(a) CRR.

Article 45i(3) of the BRRD outlines a requirement on reporting firms to disclose the following;

- Amount of own funds and eligible liabilities
- The composition of their own funds including their maturity profile and ranking in insolvency
- MREL requirements applicable to each reporting institution.

The reporting requirements as outlined in Article 45(i)(1) of the BRRD include;

- Amount of own funds and eligible liabilities
- Amount of “other bail-inable liabilities”
- Maturity profile
- Insolvency Ranking
- Governing law (if third country law)
- Report Bail-in recognition clauses, where applicable (BRRD Article 55).

The EBA consultation on TLAC and MREL disclosure and reporting requirements as mandated under CRR II and BRRD II ensures consistency with requirements for reporting institutions under the integrated approach and seeks to address discrepancies with comparability for the regulatory authorities.

KEY CHANGES

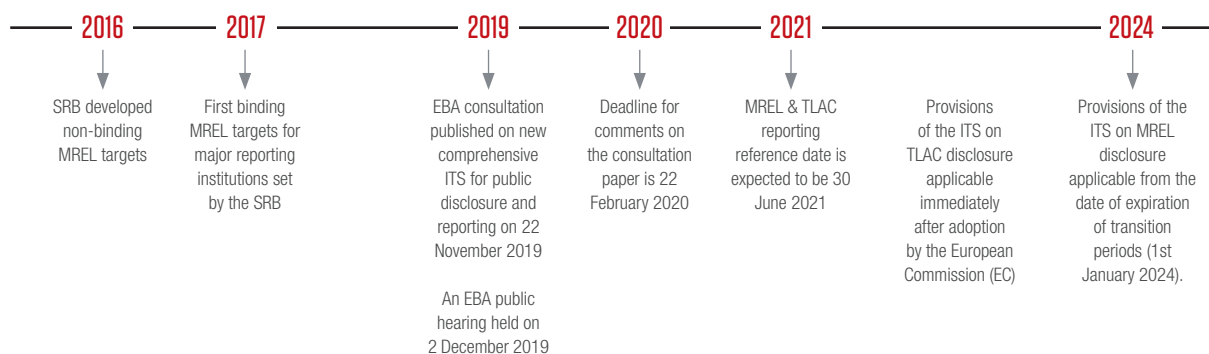
The EBA consultation on the new draft ITS for public disclosure and reporting of MREL and TLAC focuses on the following key areas:

- Standardized insolvency rankings as described in Article 54i (5) of the BRRD
- Frequency of reporting for in scope firms will be on a quarterly basis
- TLAC Disclosure frequency defined as follows;
 - i. Large and complex institutions will submit quarterly disclosures of key metrics and semi-annual disclosure of other templates by large institutions
 - ii. Small and non-complex institutions will disclose key metrics on a semi-annual basis

- MREL Disclosure frequency defined as follows;
 - i. G-SIIs disclosure frequency is aligned with TLAC (as above)
 - ii. Non-GSIIs will disclose key metrics on a semi-annual basis and annual disclosure of other templates
- Standardized formats and definitions
- Addition of new templates including instruments covered by third-country law (MTCI)
- Introduction of new reporting requirements presented in forward-looking forecasting templates
- Disclosure template reform with proposed uniform disclosure formats to align with disclosure and reporting mandates in CRR II and BRRD II
- Uniform reporting templates
- Integration of MREL and TLAC reporting and disclosure standards
- Where differences exist between both reporting requirements, comparable items of MREL and TLAC will be shown side by side on the revised reporting templates
- ITS implementation requirements are based on the resolution group and not on the reporting firms' prudential scope of consolidation.

A fundamental benefit of the EBA proposal is that reporting institutions should see synergies through the alignment of MREL and TLAC reporting and disclosures (Article 45i(5,6) BRRD) including added consistency with international standards on TLAC disclosure (Article 434a CRR) with the Pillar III framework.

TIMELINE



The new TLAC and MREL reporting and disclosure framework seeks to improve any data overlap and thus reduce the production burden on reporting institutions whilst facilitating compliance with both requirements.

CHALLENGES

A key challenge for banks is to hold eligible liabilities under MREL rules (instruments issued in EU markets). And whether in scope firms eligible TLAC instruments will be available in sufficient amounts during an economic downturn; these instruments must be subordinated to other liabilities which are excluded from bail-in during a resolution.

Subordination of liabilities supports resolvability of an institution with minimal disruption to taxpayers, banks should be mindful of the implications of subordinated liabilities as a more expensive funding source.

Fundamental challenges to compliantly implement the ITS include:

Reporting challenges

- Reporting Software capability and integration with finance and risk architecture
- Revised disclosure and reporting template formats
- CRR II and BRRD II impact on requirements

- Judgement and interpretation of requirements
- Compliance and Governance.

Data and processing challenges

- Legacy system capability
- Data Validation
- Data Quality, granularity and availability
- Volume of disclosures.

Market challenges

- Risk of shortfall in the European market of certain funding instruments.

CONSIDERATION FOR BANKS

Banks should begin to review their existing stock of eligible liabilities and undertake analysis to determine if their resolution strategy and eligible stock falls short of the requirements set out by the regulator.

Institutions in scope for MREL and TLAC should contemplate the implications of this ITS and start to draft their implementation and monitoring plans. Consideration should be given to the enhanced disclosure requirements on liabilities and banks may look to review their capability to meet MREL and TLAC compliance.



CAPCO FINANCE, RISK AND COMPLIANCE (FRC)

For financial institutions, new regulations increase complexity and cost. Through guiding and implementing FRC strategies operationally and harnessing new and emerging technologies for regtech, Capco has built a reputation of empowering clients to turn finance, risk and compliance into a competitive advantage.

To support in your understanding and assessment of how this integrated TLAC and MREL disclosure and reporting ITS impacts your business, Capco FRC is a team of experts in regulatory change execution.

CAPCO SOLUTION DELIVERY FOR CLIENTS

The financial services sector has seen an overhaul to the reporting, disclosure and regulatory requirements set by regulators globally. Post-crisis regulatory reform is ongoing, and the magnitude of change has motivated the banking

sector to dedicate time, money and resources to support the sea of change whilst managing the complexities of regulatory compliance.

Here's how we can support your organization with these challenges:

- Impact analysis of the TLAC and MREL requirements
- Operating model review
- Integration of TLAC and MREL requirements to comply with harmonized standards
- Template changes and data mapping capability
- Data automation
- Front to back implementation support.

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Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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