

The main elements of BRRD

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The BRRD

– A range of instruments for three phases

- Preparatory and preventive (e.g. recovery plans)
- Early intervention (e.g. Special managers)
- **Resolution:**
 - ✓ The sale of business tool
 - ✓ Bridge institution tool
 - ✓ Asset separation tool (only in conjunction with other tools)
 - ✓ Bail-in tool (write-down or conversion into equity)

Bail-in tool

- **Statutory tool for all liabilities, except:**
 - Covered deposits (but DGS contribute ‘as if’ they were bailed in)
 - Secured liabilities (but not under-collateralised parts)
 - Liabilities to employees, or that are arising from commercial claims relating to good and services critical for the operation
 - Liabilities arising from payment systems and interbank liabilities which have a remaining maturity of less than 7 days
- **To enter into force 4 years after the BRRD:**
 - 1 January 2019, at the latest.

Bail-in tool - flexibility

- **Resolution authority have power to exclude liabilities on a discretionary basis:**
 - They cannot be bailed in within a reasonable timeframe
 - To ensure continuity of critical functions
 - To avoid contagion
 - To avoid destruction of value that would increase the losses for the other creditors
- **The resolution fund can, in exceptional cases, absorb losses or recap an institution, but only:**
 - After a minimum of 8% of total liabilities have been bailed in (or 20% of RWA, if the RF have $\geq 3\%$ funding)
 - This funding is capped at 5% of total liabilities, until all liabilities apart from eligible deposits have been used

MREL for bail-in and RF

- **Resolution authority to determine for each institution a minimum requirement of own funds and eligible liabilities (e.g. >1 year maturity):**
 - As % of total liabilities (excl. deriv.) and own funds
 - Based on size, risk and business model
 - A review in 2016 by EC, based on recommendations from EBA to harmonise MREL
- **The resolution fund should be 0.8% of covered deposits within 10 years:**
 - Fees based on liabilities, excluding own funds and adjusted for risk
 - Freedom to choose not to set up a fund (if fees are paid and available upon request) or to merge with DGS

DGS and dep. preference

- **DGS always steps in and protect insured depositors**
 - By taking the loss, haircut etcetera that insured depositor would have been subjected to according to the ranking of their claims.
- **Introduction of depositor preference:**
 - Eligible deposits from natural persons and micro, small and medium-sized enterprises (and EIB) would have preference over other senior unsecured creditors
 - Insured deposits would have preference over eligible deposits from natural persons and micro, small and medium-sized enterprises

Questions

- **Impact on cost of senior unsecured debt?**
- **What level of MREL?**
- **Bail-in at 2018, or is it priced in already?**