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 ≥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?