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# TOTAL ASSETS VERSUS RISK WEIGHTED ASSETS: DOES IT MATTER FOR MREL?

## Highlights

- The European Union's Bank Recovery and Resolution Directive foresees a 'minimum requirement for own funds and eligible liabilities' (known as MREL) that banks need to comply with in order to ensure the effectiveness of the bail-in tool. The details of how MREL should be constructed in practice are under discussion.
- We look at alternative ways to compute MREL, showing how the choice of the benchmark wssns

# TOTAL ASSETS VERSUS RISK WEIGHTED ASSETS: DOES IT MATTER FOR MREL?

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## 1 INTRODUCTION

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1. DG Competition, accessible under [http://ec.europa.eu/competition/state\\_aid/scoreboard/financial\\_economic\\_crisis\\_aid\\_en.html](http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html).

2. Basel II introduced a three-pillar framework: Pillar 1 defines minimum capital requirements; Pillar 2 is a bank-specific add-on after supervisory review and Pillar 3 concerns disclosure requirements.

3. The EBA develops regulatory technical standards. They are submitted to the European Commission for endorsement. The European Parliament and the Council may, within a specified period of time, object to any RTS adopted by the Commission. If, on the expiry of the objection period, neither the European Parliament nor the Council has objected to the RTS, it is published in the *Official Journal of the European Union* and enters into force on the date stated therein.

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nity to amend the definition of MREL, and align it with both the TLAC standard and the actual methodology used to calculate MREL requirements.

#### 4 WHAT DOES THE DATA TELL US?

In this section, we address two questions. ~~Does MREL (as defined in the new Y—ev36u) differ from~~



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8. Le Leslé and Avramova (2012) show that the differences might also be driven by internal factors such as the banks' business mix, by provision practices or by external factors such as different economic cycles.

9. See Appendix C for all buffer requirements. For the UK-based banks, we refrain from calculating the systemic risk buffer ourselves. Instead, we make the simplifying assumption that the systemic risk buffer does not

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signal would be that small banks will always be liquidated, ie resolution authorities will let them fail

ments for eight out of 12 banks. Co





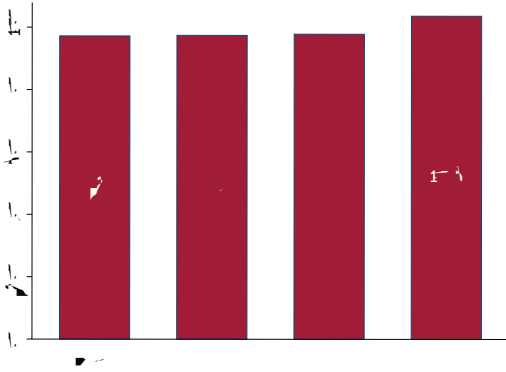
## APPENDIX A: DATA

Our analysis is based on a dataset of 105 banks from the 2015 EBA transparency exercise, which covers about 70 percent of the EU's banking assets as of end-2014 and mid-2015<sup>10</sup>. For 70 out of the 105 banks we use data as of mid-2015, and for the remaining 35 banks we use data as of end-2014.

10. Further information and data are available on <https://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise/2015/results>.

APPENDIX B

Figure B.1: Leverage exposures to total assets



APPENDIX C

