



Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The European Commission has created a Europe-wide framework for the structured recovery and resolution of credit institutions to avoid future bail-outs of failing banks by taxpayers. The purpose of MREL, within this framework, is to ensure that banks' losses can be offset by sufficient own funds and other liabilities (according to a pre-defined order) within the so-called "bail-in" recovery process.

Regulatory Requirements

A Single Resolution Board (SRB) for significant institutions in Europe has been created analogous to the Single Supervisory Mechanism (SSM). Less significant institutions are monitored directly by National Regulatory Authorities (NRAs). The SRB and NRA determine the individual MREL ratio of a credit institution as a function of its business model, risk profile and resolvability. In general, both parent companies and subsidiaries have to meet their own, individual ratio. In addition, both authorities specify the reporting data, informed by implementation standards of the European Banking Authority (EBA).

The SRB published comprehensive templates and guidance to their completion on February 22, 2016. Based on these, significant institutions and cross-border groups must undertake an initial one-off data collection. These banks have to report the data in encrypted Excel format using the required naming convention for the reporting date December 31, 2015. Banking groups that require a resolution college must report by May 15, 2016. All other institutions must submit their data by June 15, 2016.

In Q3 2016, the resolution authorities will determine individual MREL ratios based on this collected data. The given ratio is binding after a phase-in period of four years. The reporting data, the frequency and submission dates for on-going, regular reporting as well as the determination of the MREL ratio for less significant institutions are still pending. There are also plans for an integration of MREL reporting into an existing report (possibly CoRep).

Challenges for reporting institutions

There are crucial challenges in the implementation of MREL reporting:



Necessary analytical capability: The uncertainty over the required MREL data means a premature consideration of data requirements. A restructuring of liabilities may be necessary, so a detailed overview of the financial structure is essential in order to adjust the strategic orientation.



High granularity of data: The determination of convertible debt instruments is subject to a high level of complexity given their individual design and insolvency law that may vary nationally. This implies a high granularity of data, including down to individual-contract level.



High flexibility in implementation: Individual institutions within a group may need to report different data, due to differing regulatory jurisdictions. Also the uncertainty to date about the final reporting form and data requires a flexible solution. The actual templates of the SRB still have to be filled manually.



Dependency on other reports: MREL-reporting content overlaps with that of CoRep, FinRep and BISTA, among others, with respect to capital requirements and liability structure. This offers an opportunity to realize synergies, but it also implies additional consistency requirements, e.g., potential validation rules, by the resolution authority.

Our Solution

The standard software solution ABACUS/DaVinci is the perfect system solution for MREL reporting. ABACUS/DaVinci offers the optimal response to the above-mentioned challenges of MREL through its unique selling points:

- **Holistic:** ABACUS/DaVinci covers a good portion of national and international banking supervisory reports. Cross-module consistency between different reports is supported by the management of data within one system. Thus, synergies can be realized and consistency ensured.
- **Flexibility:** Data can be delivered through a standardized or manual process. Forms can be changed manually as well. ABACUS/DaVinci also ensures the necessary flexibility to react to expected future changes of MREL reporting. Future regulatory requirements can be efficiently implemented through its integrity to Abacus360.
- **Analysis options:** ABACUS/DaVinci enables an individual drill-down to the underlying data. This supports the analysis of errors as well as the analysis of the liability structure for any necessary adjustments of the MREL ratio. Comparison of reports for various reference dates is possible. The prescribed MREL ratio can thus be optimally controlled.
- **Individuality:** The IT architecture of ABACUS/DaVinci can be configured and customized to meet customers' needs by its modular design and its modern system architecture. Essential parts of this architecture are a flexible client-server-architecture (3-tier-architecture) and a relational data model. The user interface of ABACUS/DaVinci is a web-based, multi-tenant, platform-independent application. The presentation of the data can be individually configured.
- **Experience:** ABACUS/DaVinci has been used successfully for more than 20 years. Well-known companies, representing more than 800 reporting units, including prestigious financial institutions and a major part of the 120 leading European banks under supervision of the SSM, place their trust in ABACUS/DaVinci.

About BearingPoint

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client's individual challenges. This adaptive approach is at the heart of our culture and has led to long-standing relationships with many of the world's leading companies and organizations. Our global consulting network of 9,700 people serves clients in more than 70 countries and engages with them for measurable results and long-lasting success.

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