The Bank's approach to setting MREL

BSA response to Bank of England consultation paper

September 2021

Building Societies Association

Introduction and summary

We welcome the opportunity to respond to the Bank's consultation, following our detailed response[1] to the preceding Discussion Paper. As previously stated, we support appropriate MREL, as our members are exposed, through the FSCS, to the greater costs of bank failures that could otherwise arise. And several of our largest members are likely to be in scope for the MREL regime.

We are broadly in agreement with the Bank's proposed approach, though we feel that the simplified and low- risk business models of our members could have been further recognised, to promote both financial stability and competition. Nevertheless, we are content with certain aspects of the revised calibration, and make a couple of further suggestions for improvement.

In this response, we address those proposals - where relevant to our members - in the order they are presented in the consultation paper. We have encouraged those members directly affected by the MREL proposals to contribute their own perspectives directly, by way of individual responses, drawing on their hands-on experience.

Transactional accounts threshold

We support the idea of looking for technology-enabled solutions that could mitigate the disruption caused by failure of a mid-tier bank offering transactional accounts, with a view to raising or removing the transactional accounts threshold. Although the majority of BSA members do not offer transactional accounts, they are a significant product line for a few of our members, and we are sure that those members would be pleased to work with the Bank and other authorities to develop the alternative processes suggested. This approach can remove an MREL threshold risk than would impact far earlier than the asset threshold and so could otherwise inadvertently capture much less systemically significant institutions.

[1] https://www.bsa.org.uk/information/industry-responses/mrel-approach-discussion-paper

When refining the exact definition of transaction accounts, the Bank should also ensure that the focus and scope remains on current accounts as generally understood, rather than savings accounts that may be accidentally caught by the present framing.

Total assets thresholds and glide paths

We accept the Bank's conclusion that a bail-in resolution strategy, providing for continuity of banking services, is more likely to be appropriate – in general - for deposit-takers above £15-25 million total assets. (Though we remain of the view that the simple low-risk nature of the building society model could have some form of positive differentiation.) At the same time, as the Bank has recognised, too rapid application of MREL would prove a significant barrier to a successful, growing bank, and therefore have anti-competitive effect. However, particularly with the benefit of the stepped glide-path now proposed, and the resulting greater predictability of future requirements, we think a reasonable balance has been struck for the £15-25 mn threshold range. Indeed, the BSA suggested a form of extended glide path in our response to the DP.

But we also need a clear transition path where the capital binding constraint changes materially, especially with leverage impacting some of our larger members when they first reach £50bn retail savings. We strongly advocate applying at this point the same glide path of three years as outlined for the lower MREL threshold.

Impact on public funds

While acknowledging the importance of protecting public funds, we reiterate the points we made in our DP response [2]as to the comparable importance of avoiding excessive calls on the FSCS. These are ultimately paid for by sound deposit takers and their customers: the FSCS's resources are not a "free good". This does not call for any change to the Bank's approach, rather it is (we feel) an important part of the overall context that should never be overlooked.

[2] https://www.bsa.org.uk/information/industry-responses/mrel-approach-discussion-paper

Proportionality and competition

Our major reservations about the Bank's previous calibration of MREL related to the linkage with the leverage ratio derived from the EU's BRRD. We need not rehearse those arguments here, but we therefore support the outcome from the recent FPC and PRA proposals (CP 14/21) on the leverage ratio, for the calibration of MREL for non-systemic firms. In brief, we welcome and support the proposition that, since MREL is set with reference only to regulatory requirements, the supervisory expectations set out in CP 14/21 as to the leverage ratio will not feed through into MREL calibration at all.

Other matters

The further consultations on (i) MREL eligibility of legacy instruments issued by other group entities; and (ii) intragroup MREL distribution do not particularly affect our members directly, but what the Bank proposes seems sensible and prudent. However, we would wish to be certain that (i) does not affect the MREL eligibility of legacy instruments, such as for instance old PIBS, issued previously by societies themselves – i.e. from within the resolution entity.

The CP acknowledges that feedback from the earlier Discussion Paper included, *"..strong concerns of refinancing risk during times of market stress"* and that *"proposals on thresholds and calibration have been developed with a view to addressing this feedback."* The proposals appear to address issues in fast-growing firms / firms moving between strategies, but members are curious to know how established firms will be treated in the case where market conditions at a point in time preclude refinancing of existing MREL at reasonable cost (or at all). This is not a concern about 'growing into' MREL, rather, it is seeking clarity on how the regulator will address a feasible (but temporary) scenario of market inaccessibility for firms simply looking to keep their 'business as usual' MREL levels in place in future.s

Jeremy Palmer
Head of Financial Policy
jeremy.palmer@bsa.org.uk
020 7520 5912

York House
23 Kingsway
London WC2B 6UJ

020 7520 5900
@BSABuildingSocs
www.bsa.org.uk

www.bsa.org.uk

The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £435 billion, and account for 23% of the UK mortgage market and 17% of the UK savings market.