

Amendments to the Capital Requirements Regulation in the area of resolution (“daisy chain” proposal)

2021/0343(COD) - 13/09/2022 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 465 votes to 42, with 116 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities.

As a reminder, the ‘Daisy Chain’ proposal is part of the single rulebook of the Banking Union and amends the rules in the Capital Requirements Regulation and the Bank Recovery and Resolution Directive. Regulation (EU) No 575/2013 of the European Parliament and of the Council (the Capital Requirements Regulation or CRR) establishes together with Directive 2013/36/EU of the European Parliament and of the Council (the Capital Requirements Directive or CRD) the prudential regulatory framework for credit institutions operating in the Union.

The European Parliament's position adopted at first reading under the ordinary legislative procedure amends the Commission's proposal as follows:

Aims

The ‘Daisy Chain’ proposal introduces targeted adjustments that will help improve the resolvability of bank institutions. It amends the EU framework for bank resolution by:

- incorporating a dedicated treatment for the indirect subscription of instruments eligible for internal minimum requirement for own funds and eligible liabilities (MREL);
- further aligning the treatment of global systemically important institution (G-SII) groups with a Multiple Point of Entry (MPE) resolution strategy with the treatment outlined in the Financial Stability Board's (FSB) international Total Loss-absorbing Capacity Term Sheet (the ‘TLAC standard’);
- clarifying the eligibility of instruments in the context of the internal TLAC.

The objective of the proposed amending regulation is to fully harmonise the prudential treatment of the holdings by intermediate entities of internal MREL eligible resources of entities in the same resolution group and to revise in a targeted manner the requirements for own funds and eligible liabilities for G-SIIs and for material subsidiaries of non-EU G-SIIs.

Consolidated calculation for G-SIIs with multiple resolution entities

The amended text provides that where at least two G-SII entities that are part of the same G-SII are resolution entities or third-country entities that would be resolution entities if they were established in the Union, the EU parent institution of that G-SII should calculate the amount of own funds and eligible

liabilities: (a) for each resolution entity or third-country entity that would be a resolution entity if it were established in the Union; (b) for the EU parent institution as if it were the only resolution entity of the G-SII.

Revised deduction regime

The Regulation addresses the deduction regime for own funds and eligible liabilities meeting the requirements for loss-absorption in resolution (MREL) that are channelled through an intermediate entity in the context of their upstreaming within complex resolution groups, so-called ‘Daisy Chains’. The amended Regulation provides for a revised deduction regime to avoid in particular double counting of MREL elements at the level of intermediate entities, thus ensuring that EU banking groups always keep a robust loss-absorption capacity in line with their disclosed MREL.

Another issue in the Regulation concerns the treatment of groups with a multiple-point-of-entry resolution strategy (MPE groups), as opposed to a single-point-of-entry (SPE) resolution strategy, especially as regards aligning such treatment on the regime foreseen under TLAC international standards and taking into account third-country entities within such groups. The issue arises especially in cases where the resolution regime of a third country is not equivalent to the regime in force in the Union. The amended text provides for a **transitional regime until end 2024** is introduced for MPE groups, subject to an assessment by EU resolution authorities.

Review clause

By **31 December 2022**, the Commission should review the impact of the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities on the level playing field between different types of banking group structures, including where groups have an operating company between the holding company identified as a resolution entity and its subsidiaries. It should assess in particular the following:

- the possibility to allow entities that are not themselves resolution entities to comply with the minimum requirement for own funds and eligible liabilities on a consolidated basis;
- the treatment, under the rules governing the minimum requirement for own funds and eligible liabilities, of entities whose resolution plan provides that they are to be wound up under normal insolvency proceedings;
- the appropriateness of limiting the amount of deductions required under the CCR Regulation.

The Commission should submit a report thereon to the European Parliament and to the Council. Where appropriate, that report should be accompanied by a **legislative proposal**.

Implementation

In order to ensure that institutions have sufficient time to implement the dedicated treatment for the indirect subscription of internal MREL eligible resources, including the new deduction regime, and that markets can absorb additional issuances of internal MREL eligible resources, where needed, the provisions laying down that treatment should become applicable on **1 January 2024**, in line with the deadline for compliance with MREL.