

Financial Services Policy Update

The government's response to its consultation concerning enhancements to the Special Resolution Regime noted that the Bank of England would consider whether any changes to its indicative minimum requirements for own funds and eligible liabilities (MREL) thresholds would be appropriate.¹ Today, the Bank of England has published a consultation on "Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)". This consultation sets out the Bank's intention to ensure the MREL regime remains proportionate and evolves over time, reflecting the enhancements delivered in the Bank Resolution (Recapitalisation) Bill as well as other wider developments, and taking into account feedback from industry.

The government welcomes the publication of these proposals for consultation and recognises the importance of ensuring the MREL regime maintains financial stability while being calibrated in a way that supports competition and competitiveness within the UK's financial services sector. In this context, the government notes the interaction between some of the proposals set out by the Bank on its approach to setting MREL and the Bank Resolution (Recapitalisation) Bill, and welcomes the Bank's proposal to take the new mechanism for recapitalisation into account when setting MREL for firms with a preferred transfer resolution strategy. This will contribute towards ensuring the MREL regime is proportionate, while remaining consistent with the government's intention that the mechanism is primarily focused on the resolution of smaller banks.

The government is clear that the primary intent of the bill remains to provide a new mechanism to help address the failure of smaller banks when resolution by means of a transfer to a private sector purchaser or a Bank of England owned bridge bank is in the public interest. The government and the Bank are also in agreement that the Bank should not assume use of the new mechanism when setting a preferred resolution strategy of bail-in and corresponding MREL requirements for larger banks, or to rely on the mechanism when resolving such larger banks unless in exceptional circumstances. The Bank's consultation also confirms this position.

The government intends to update the Special Resolution Regime Code of Practice to make this point clear and has published draft updates on gov.uk. These and any subsequent updates will be subject to consultation with the Banking Liaison Panel to ensure appropriate engagement with industry.

The government notes that one of the Bank of England's MREL proposals will require changes to secondary legislation. The government will therefore engage with industry on the necessary changes. Subject to feedback on the Bank's consultation and the government's engagement with industry, the government will look to make the changes necessary to facilitate these proposals.

¹ Enhancing the Special Resolution Regime: Government Response to Consultation, available at: https://assets.publishing.service.gov.uk/media/66992907ce1fd0da7b59285b/Bank_Resolution_Recapitalisation_Bill_-_Consultation_Response.pdf