

Seminar programme 2025



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- Thank you for joining today's '**Ahead of the Curve: Developments in requirements for MREL and the UK bank resolution regime**' seminar. We will begin shortly.
- On joining the session your microphone will be muted and your video turned off. You will not be able to activate these during the session.
- To submit a question please click on  and type your question into the chat box that appears.
- The session is being recorded. The slides and recording will be made available online at seminars.aoshearman.com.
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Ahead of the Curve: Developments in requirements for MREL and the UK bank resolution regime

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But first, the news...

UK Government's Regulation Action Plan

REGULATORY LANDSCAPE

- ♦ AML/CTF supervisor consolidation (FCA)
- ♦ Financial Ombudsman Service Reforms
- ♦ Performance against KPIs and authorisation processing times
- ♦ New Office for Investment: Financial Services



TACKLING BURDENS

- Simplifying/reducing reporting requirements

CHALLENGING EXCESSIVE RISK AVERSION

- Provisional FCA licences
- Addressing concerns about Consumer Duty application to wholesale firms
- Increasing flexibility in mortgage regulations
- Supporting SME finance
- Policy sprints
- AI Growth Lab

Remuneration Reform

FCA AND PRA JOINT POLICY STATEMENT



MATERIAL RISK TAKERS

- Scope simplified and reduced – single quantitative threshold
- Criteria moved from rules into expectations
- Enhanced governance expectations
- Reintroduction of 3-month exemption



VARIABLE REMUNERATION

- Reduced single 4-year minimum deferral period
- Allow to vest on pro-rata basis from time of award
- Allow payment of dividends/interest
- Discretion on appropriate retention policy
- Flexibility over proportion of bonuses paid in case up front
- More proportionate calculation of share of bonuses to be deferred
- Raise threshold to £660,000
- Up management chain adjustments



UK Prudential Reforms

**THE FINANCIAL SERVICES
AND MARKETS ACT 2023
(PRUDENTIAL REGULATION OF
CREDIT INSTITUTIONS)
(CONSEQUENTIAL
AMENDMENTS) REGULATIONS
2025**

**PRA NEAR-FINAL RULES ON
THE RESTATEMENT OF
REMAINING CRR
REQUIREMENTS**



**FCA POLICY STATEMENT
ON THE DEFINITION OF
CAPITAL FOR INVESTMENT
FIRMS**

**PRA NEAR-FINAL RULES ON
A SIMPLIFIED CAPITAL
REGIME FOR SMALL
DOMESTIC DEPOSIT
TAKERS (SDDTS)**

**PRA NEAR-FINAL RULES ON
RETIRING THE REFINED
METHODOLOGY TO PILLAR
2A CAPITAL FRAMEWORK**

UK Markets Regulation Reforms

01

The Public Offers and Admissions to Trading (Amendment and Consequential and Transitional Provisions) Regulations 2025

02

Bank of England and FCA additional Q&As on derivative reporting requirements under UK EMIR

03

FCA consultation on proposed rules and guidance for the UK short selling regime

04

Financial Services and Markets Act 2000 (Regulated Activities) (ESG Ratings) Order 2025

UK Payments Related Updates

Digital pound

Bank of England progress update:

- ◆ no decision yet
- ◆ blueprint for a potential digital pound and design notes



Real-Time Gross Settlement

Synchronisation Lab terms of participation

- ◆ Spring 2026 launch
- ◆ Four six-week testing and development phases

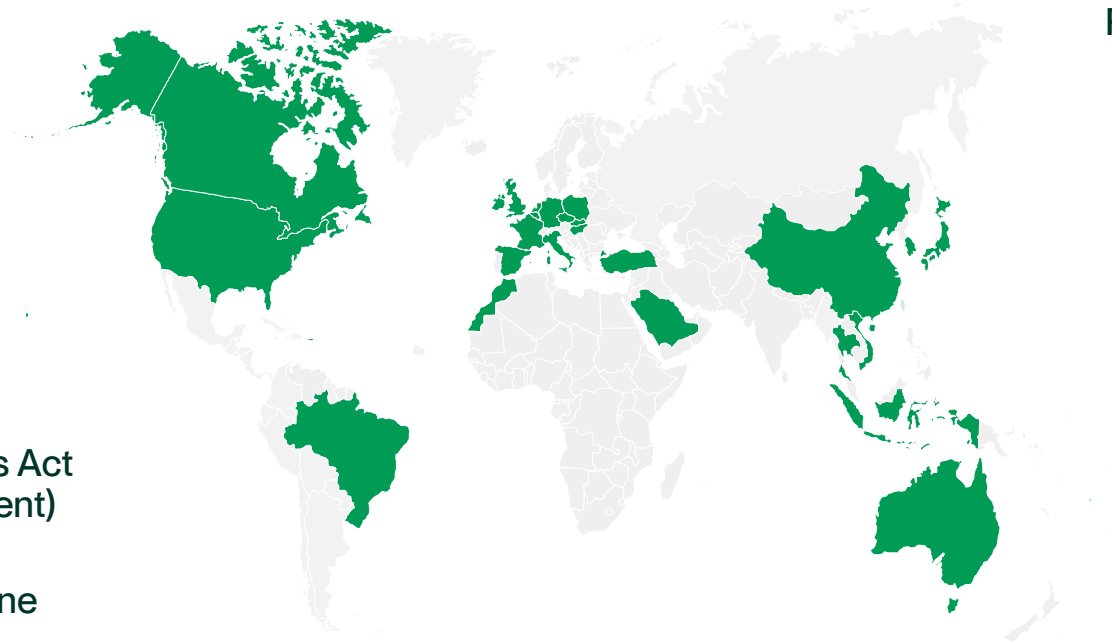
UK—International Coordination

UK—SWITZERLAND

- ♦ The Financial Services and Markets Act 2023 (Mutual Recognition Agreement) (Switzerland) Regulations 2025
- FCA guidelines for firms on the Berne Financial Services Agreement

UK OVERSEAS RECOGNITION REGIME

- ♦ The Financial Services (Overseas Recognition Regime Designations) Regulations 2025



Developments in requirements for MREL and the UK bank resolution regime



Developments in requirements for MREL and the UK bank resolution regime



OVERVIEW

Overview of relevant HM Treasury and Bank of England publications and developments so far



CHANGES TO CURRENT REGIME

Discussion of changes that will apply from
1 December 2026



FURTHER CHANGES AHEAD

Consideration of related consultations and broader implications

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Overview

DEVELOPMENTS TO DATE

MREL

A REFRESHER

The Bank of England must identify a preferred resolution strategy and develop a resolution plan for all firms.

The resolution strategy determines what the firms must do to prepare for a potential failure – including the MREL, and whether this must be above minimum capital requirements.

When setting the preferred resolution strategy for firms, the Bank must therefore keep in mind, whether the potential costs to recapitalise a failed firm should be paid by the firm's own investors (via MREL) or be mutualised across the industry (via the FSCS).



MREL is a requirement for firms to maintain a minimum level of equity and eligible debt.



In 2024, the Bank of England announced an update to the MREL framework which would be effective from **1 January 2026**, publishing a consultation paper on **15 October 2024**.



Mansion House 2025

On 15 July, the Bank of England published updates to the UK's resolution framework, to reflect the regulatory authorities' experience with regards to the failure of Silicon Valley Bank in 2023. This included publications on MREL and resolution.



BANK OF ENGLAND UPDATE

“Maintaining a fit for purpose resolution regime”



MREL POLICY STATEMENT

The Bank's final policy in relation to setting MREL



MREL STATEMENT OF POLICY

Future version of the Bank's MREL SoP, effective from 1 January 2026 (Annex 2 of the Policy Statement)



MREL CONSULTATIONS

CP15/25 on amending MREL reporting to reflect policy changes

CP16/25 on resolvability resources, capital distribution constraints and the basis for firm Pillar 3 disclosure



RESOLUTION ASSESSMENT CONSULTATION

PRA consultation **CP14/25** on amendments to the resolution assessment threshold and recovery plans review frequency

The Recapitalisation Payment Mechanism

On 16 July, the operative provisions of the **Bank Resolution (Recapitalisation) Act 2025** were brought into force, alongside the related PRA rulebook changes, in relation to the Bank's ability (when exercising a stabilisation power) to require the FSCS to make funding available to recapitalise a failing firm to support the sale of all or part of the firm to a private sector purchaser or transfer to a bridge bank, where it is in the public interest to do so.

Statutory change

- ♦ Bank Resolution (Recapitalisation) Act 2025, inserting new section 214E FSMA and amending the Banking Act 2009
- ♦ Bank Resolution (Recapitalisation) Act 2025 (Commencement) Regulations 2025 (*which brought operative provisions into force on 16 July 2025*)
- ♦ HM Treasury Banking Act Code of Practice (*updated July 2025 regrading the recapitalisation payment mechanism*)

PRA rule changes

- ♦ CP4/25 – PRA consultation including proposals in relation to (what was then) the Bank Resolution (Recapitalisation) Bill
- ♦ PS13/25 – PRA policy statement confirming changes to the **Depositor Protection Part** of the rulebook
- ♦ PRA Rulebook: CRR Firms, Non CRR Firms and Non-authorised Persons: Depositor Protection (Bank Resolution (Recapitalisation)) Instrument 2025 (*which came into force on 16 July 2025*)

Overview – where we are now

On 15 July, the Bank published the updated MREL Statement of Policy, which is effective as of 1 January 2026 provided that certain legislative changes have been made. The Bank also published further related consultations.

Legislative changes

- ♦ The Financial Services and Markets Act 2023 (Commencement No. 10 and Saving Provisions) Regulations 2025 (*revoking the UK CRR TLAC provisions and the MREL UK technical standards*)
- ♦ The Bank Resolution (Recapitalisation) Act 2025 (Commencement) Regulations 2025
- ♦ The Bank Recovery and Resolution (Amendment) Regulations 2025

Updated MREL SoP

Consultations (closed 31 October)

- ♦ PRA CP14/25 – Amendments to resolution assessment threshold and recovery plans review frequency
- ♦ PRA CP15/25 – Resolution planning: amendments to MREL reporting
- ♦ PRA CP16/25 – Disclosure: resolvability resources, capital distribution constraints and the basis for firm Pillar 3 disclosure

Incoming changes

**MREL AND RESOLUTION REGIME CHANGES DUE TO
COME INTO EFFECT ON 1 DECEMBER 2026**

UK CRR TLAC provisions and related changes

The Bank's policy statement confirms the treatment of key elements of the MREL legislative and regulatory framework, effective as of 1 January 2026

Current framework (key elements)

Primary legislation

- ♦ Banking Act 2009
- ♦ UK CRR TLAC provisions (being revoked)

Secondary legislation

- ♦ Bank Recovery and Resolution No. 2 Order
- ♦ MREL UK technical standards (being revoked)

Bank policy

- ♦ MREL SoP



New framework (key elements)

Primary legislation

- ♦ Banking Act 2009

Secondary legislation

- ♦ Bank Recovery and Resolution No. 2 Order

Bank policy

- ♦ MREL SoP (updated)

UK CRR TLAC provisions and other related changes

ELIGIBILITY CRITERIA FOR ELI

Streamlined and clearer framework

Greater clarity around eligible criteria, especially residual maturity of Tier 2 instruments

Extension of exclusion for liabilities owned by the institution or a group in connection with and only for the duration of initial distribution (amendments made to paragraphs 1(b) and 1(c) of the proposed draft Annex 1)

REDEMPTIONS AND REDUCTIONS OF EXTERNAL INSTRUMENTS

The Bank will stop issuing a general prior permission to UK G-SIBs as per consultation proposal

(Separately, the Bank amended final policy on prior permission for changing the form of internal MREL instruments)



DEDUCTIONS REGIME

Scoped to align with international standards

Extension to all MREL firms

Clarification in paragraph 1(d) of section 1 of Annex 2 about internal MREL requirements for intermediate entities

CONTRACTUAL TRIGGERS

Respondents did not welcome the Bank proposal to require the inclusion of contractual triggers in internal non-CET1 own funds instruments

Significant changes made to proposal

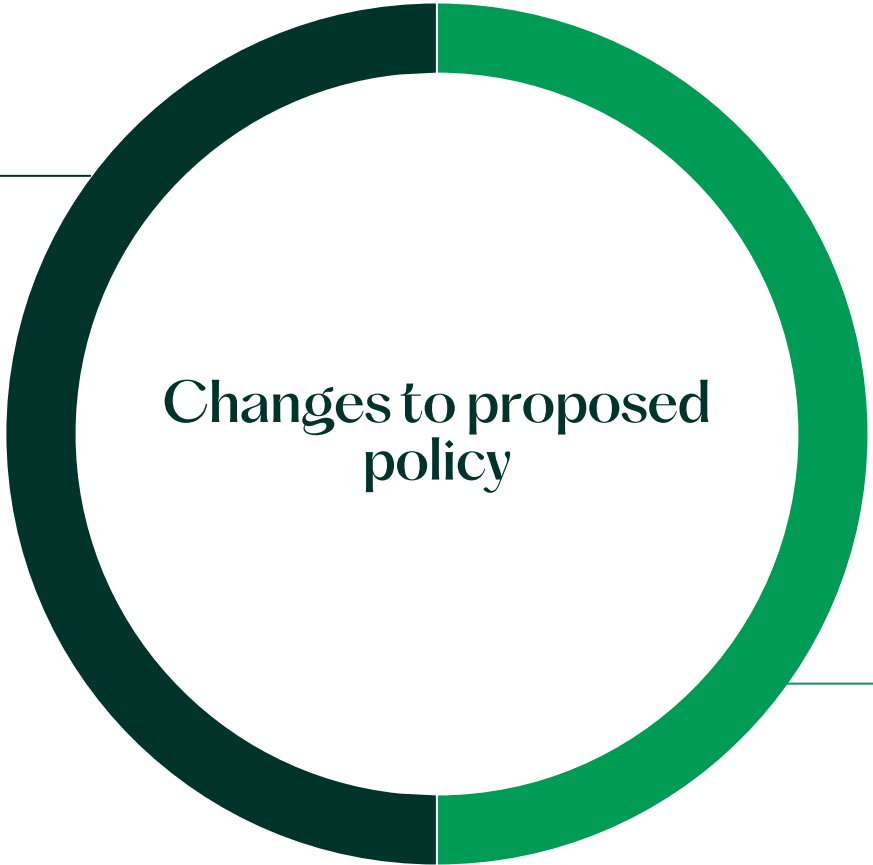
The Bank has reduced the scope of non-CET1 own funds internal MREL instruments subject to revised policy on contractual triggers

Contractual triggers

NON UK ENTITIES

The Bank will not generally expect firms to include contractual triggers in non-CET1 own funds instruments or ELIs issued by non-UK material subsidiaries and other non-UK entities

The Bank may require contractual triggers when using its discretion to propose an internal MREL for non-UK material subsidiaries where there is no MREL-equivalent regulations or regulatory proposals in the relevant host state



Changes to proposed policy

BACK-BOOK EXEMPTION

Internal AT1 and Tier 2 instruments in issue prior to 1 January 2026 will be permanently exempted from the requirement to include contractual triggers

Revisions to reflect findings from the Resolvability Assessment Framework and lessons from policy implementation

01

Appropriate basis for measuring MREL liabilities

- ♦ The Bank proposed clarifying that the accounting value of an eligible liability should be used to measure ELIs
- ♦ Feedback questioned how Tier 2 capital instruments should be treated
- ♦ PRA has proposed to clarify that Tier 2 instruments should be measured at the full accounting value – **CP 15/25**

02

Independent legal advice

- ♦ The Bank has proposed clarifications to the requirement to obtain legal advice on MREL eligibility
- ♦ The Bank is introducing a “repeat issuance” exemption where the “material issuance terms” are substantially the same as for previous issuances of an ELI which received an eligibility legal opinion
- ♦ Certain restrictions apply
- ♦ Requirements set out in **Annex 3 of the MREL SoP**

03

Mismatching of internal and external MREL

- ♦ Originally the Bank had maintained the MREL SoP requirement for pre-approval of changes in the form of internal MREL
- ♦ This requirement is being removed
- ♦ Institutions will now only need to notify the Bank, 15 days in advance, if they propose actively to make a material change that significantly reduces the amount of internal MREL ELIs
- ♦ Amendments made to **paragraph 8.13 of the MREL SoP**

Resolution strategies – *a refresher*

Strategy	Detail
Bail-in	• Used for the largest UK firms • Bank uses powers to recapitalise the firm by imposing losses on the firm's shareholders and certain other investors • Avoids the need to find a buyer for the business or split up operations over a period of time • Provides continuity • Firms must meet MREL requirements above the minimum capital requirements, set by the PRA
Transfer	• Bank uses powers to transfer all or part of the firm's business to a private sector purchaser or a temporary Bank-owned bridge bank • For partial transfers, the rest of the firm's assets and liabilities could be placed into an insolvency process • Associated losses or recapitalisation needs may now be covered by the new industry-funded safety net
Modified insolvency	• Smaller firms will be sold or wound down after protected depositors have been compensated by the Financial Services Compensation Scheme (FSCS) • Shareholders, uncovered depositors and unsecured creditors are left to bear the losses • Firms do not need to hold MREL above the minimum capital requirement

Total assets indicative threshold

THRESHOLD INCREASE

The Bank had proposed to increase the threshold from £15 billion-£25 billion to £20 billion-£30 billion.

The Bank has revised this proposal and the new indicative thresholds range will be **£25 billion-£40 billion**.

The Bank expects to update the thresholds every three years as necessary, to take into account changes in nominal economic growth.

The next expected update is **H1 2028**.



Firms above £25 million: bail-in *or* transfer?

New paragraph 4.6 in the MREL SoP

For institutions with between £25 billion and £40 billion in total assets, the Bank will consider which of a transfer or a bail-in strategy is more likely to be appropriate, but will make this assessment on an institution-specific basis taking into account the factors set out in paragraph 4.7. The Bank will keep the determination based on this assessment under review. In the case of transfer institutions, the Bank does not expect to set MREL above minimum capital requirements.

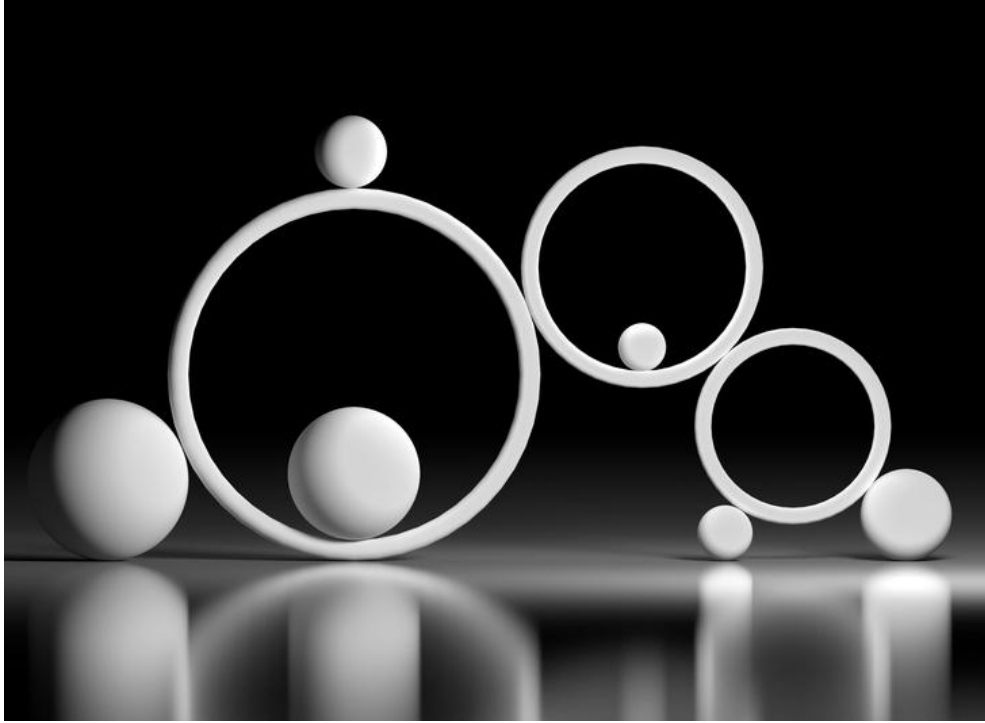


Section 214E FSMA inserted by the Bank Resolution (Recapitalisation) Act 2025

Amended paragraph 4.7 in the MREL SoP (key changes highlighted)

Factors indicating it may be possible to **set a transfer**, rather than bail-in, **preferred resolution strategy for an institution with between £25 billion and £40 billion in total assets** include:

- (a) if the institution's business and asset/liability structure are sufficiently simple so as to make rapidly separating and/or transferring critical functions feasible using the Bank's statutory powers;
- (b) if the institution's systems are able to provide the necessary information to support a transfer within the required timeframe;
- (c) **if ownership of the institution** or of some or all of the institution's business, assets and liabilities (particularly those associated with critical functions) are reasonably likely to be attractive to a private sector purchaser;
- (d) if the institution is of a size such that the number of potential purchasers is reasonably high; and
- (e) **if the Bank has a reasonable basis for assuming the institution can be resolved using the transfer power (including for this purpose the power to require the FSCS to make a payment in respect of the costs of recapitalisation of the institution and related expenses in the circumstances and for the purposes set out in section 214E of FSMA) without reliance on public funds in order to make the payment under section 214E of FSMA.**



Firms above £25 million: *bail-in or transfer?*

Policy statement commentary



The higher the firm is in the £25 billion - £40 billion range, the more likely the Bank will set a bail-in strategy



For firms above £40 billion, the Bank's policy is staying the same – a bail-in strategy is likely to be appropriate



In exceptional circumstances, firms above £40 billion but with specialist business models may be able to maintain a transfer strategy for longer

Firms under £25 million: transfer or *modified insolvency*?

Generally, these firms will have a **modified insolvency strategy**.

However, in some circumstances the Bank may consider whether a transfer preferred resolution strategy should be set.

UNACCEPTABLE RISK

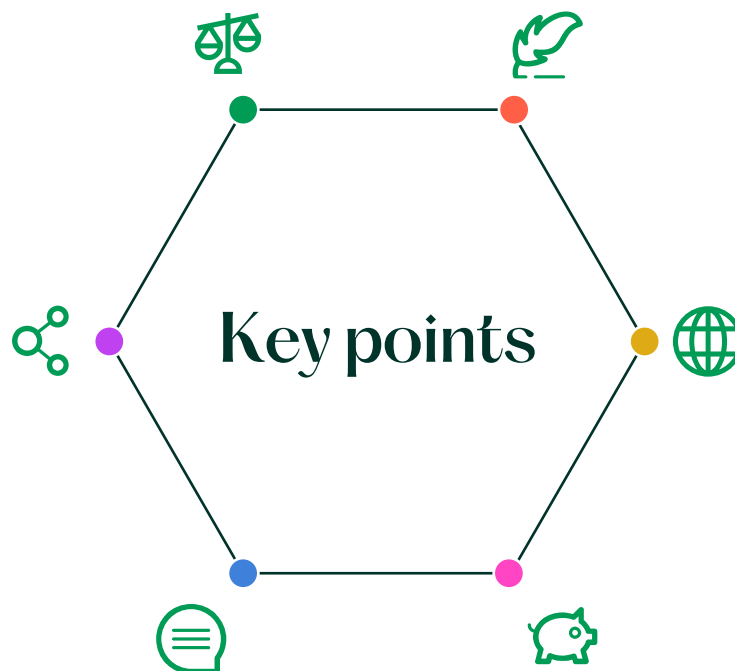
A transfer strategy may be set where the Bank assesses that if the firm entered into modified insolvency, this would pose an unacceptable risk

TRANSACTIONAL ACCOUNTS THRESHOLD

The 40,000-80,000 transactional account threshold is still relevant – the Bank still considers it “an important supervisory intervention point”

ENGAGEMENT WITH INDIVIDUAL FIRMS

The Bank intends to increase engagement with individual modified insolvency firms to inform when it may be appropriate in certain situations for the Bank to set a transfer strategy for sub-£25 million firms



POSSIBLE UPDATE TO DEFINITION OF TRANSACTIONAL ACCOUNTS

The Bank is considering updating this definition and will be engaging with firms who provide transactional banking

PUBLIC INTEREST TEST

The actual failure of a small firm may be capable of meeting the public interest test for the use of stabilisation powers – the Bank notes the importance of the Bank and firms having access to the right information at the right time

SMALL DOMESTIC DEPOSIT TAKERS

The Bank does not expect to set MREL for small domestic deposit takers (SDDTs) or SDDT consolidation entities

Overview of resolution requirements

Increasing policy expectations and engagement with resolution authority, commensurate to size and complexity of firm

		Firm	RAF public disclosure	MREL	RAF policies	Resolution reporting
£100 billion in retail deposits (subject to consultation)		Bail-in	✓	✓	✓	✓
		Bail-in	x	✓	✓	✓
£40 billion total assets		Bail-in	x	✓	✓	✓
		Transfer	x	x	✓	✓
£25 billion total assets		Transfer	x	x	✓	✓
		Modified insolvency procedure	x	x	x	✓

Adapted from Figure 1, Bank of England paper **Maintaining a fit for purpose resolution regime**, published 15 July 2025

MREL and RAF transitions

Bail-in firms

- ♦ End-state MREL of the greater of 2x MCR or the international TLAC standard minima applies
- ♦ Notification usually given 3 years before coming into scope of stabilisation powers
- ♦ At least 6 years to meet end-state MREL (from the point at which the bail-in resolution strategy is set) with up to 2 further years if needed
- ♦ RAF requirements continue to apply

Firms transitioning (upwards) into bail-in or transfer strategies

- ♦ Firm requirement to notify the Bank (on a three-year forward-looking basis) of expected indicative threshold breach
- ♦ Bank expects to send a periodic resolution letter to establish dialogue with the firm and support the Bank's heightened engagement with the firm
- ♦ Bank will work with PRA to set strategy and will try to provide an indication of the expected strategy ahead of time
- ♦ RAF SoP applies once the strategy is adopted with (usually) an 18-month timeline for compliance
- ♦ Usually a 6-year flexible glide path for meeting MREL requirements

Firms transitioning (downwards) out of bail-in or transfer strategies

- ♦ Lower MREL would apply from the point when the Bank changes the firm's MREL direction under the Banking Act
- ♦ No application of the transitional provisions in the MREL SoP

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Further proposals

PRA CONSULTATION PAPERS

RAF, Recovery Plans & Reporting / Disclosure

On 31 October 2025, three PRA consultations that relate to MREL closed

CP14/25: Amendments to Resolution Assessment threshold and Recovery Plans review frequency

01

Proposal 1: increasing the Resolution Assessment threshold

The PRA proposes to increase the threshold at which firms come into scope of the **Resolution Assessment Part** of the Rulebook.

Currently, it applies to firms with retail deposits equal to or greater than £50 billion.

The proposal is to amend this to £100 billion.

02

Proposal 2: reducing Recovery Plans review frequency

The PRA proposes to reduce the frequency of required recovery plan reviews by SDDTs.

The proposal is to amend the annual requirement to “at least every two years”.

The PRA anticipates that firms will be able to produce higher quality recovery plans as a result of being able to invest additional time and effort.

CP15/25: Amendments to MREL reporting

CP16/25: Disclosure: resolvability resources, capital distribution constraints and the basis for firm Pillar 3 disclosure

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