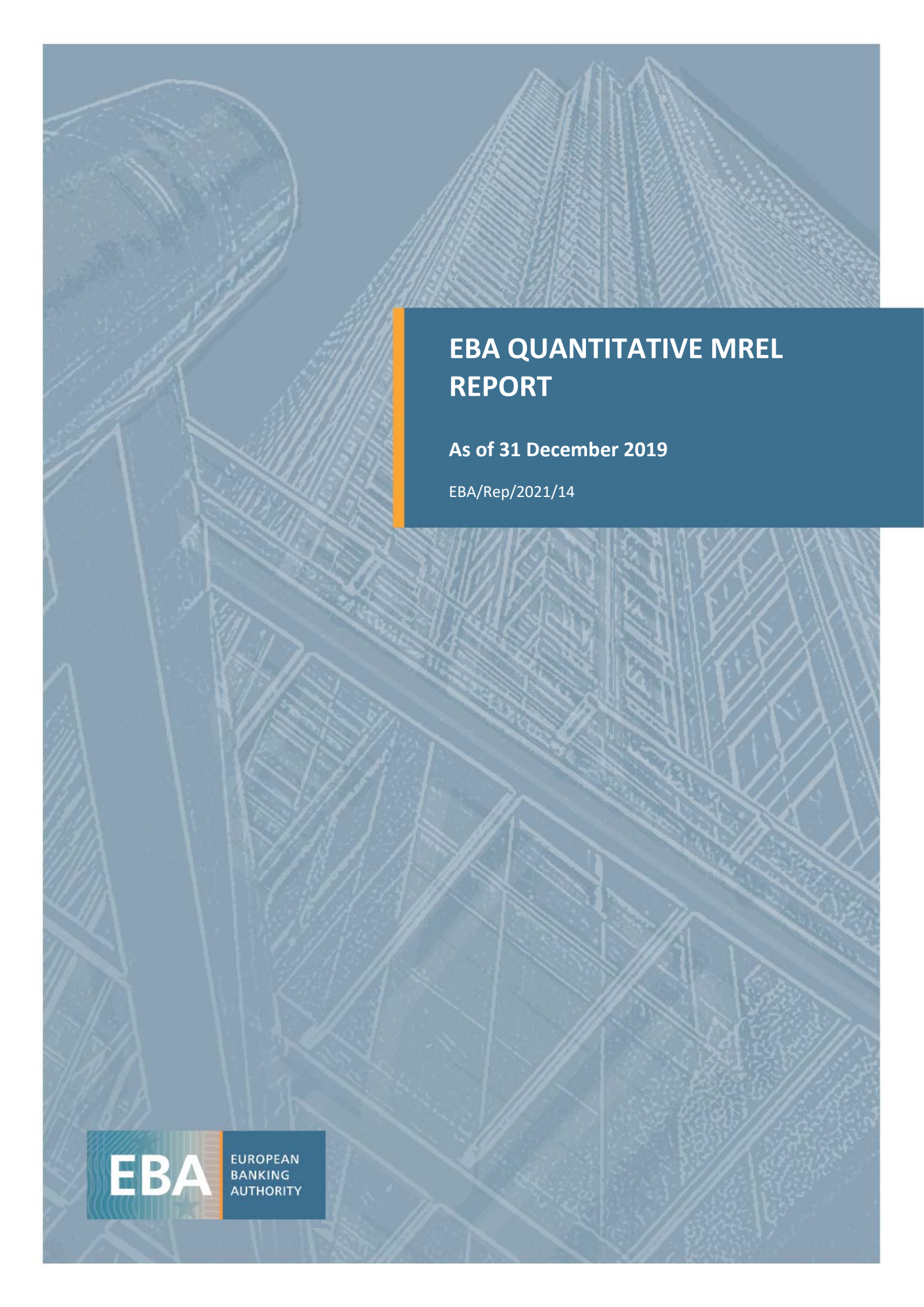




EBA QUANTITATIVE MREL REPORT

As of 31 December 2019

EBA/Rep/2021/14



EBA

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Abbreviations

BRRD	Bank Recovery and Resolution Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EU	European Union
FSB	Financial Stability Board
G-SII	global systemically important institution
MREL	minimum requirement for own funds and eligible liabilities
NCWO	no creditor worse off
OMS	other marketable securities
O-SII	other systemically important institution
RTS	regulatory technical standards
SPE	single point of entry
TLAC	total loss-absorbing capacity
TLOF	total liabilities and own funds
TREA	total risk exposure amount

Executive summary

This report aims to take stock of the increase in MREL capacity in the EU-27

As last year, this report covers the actual population of banks subject to an external minimum requirement for own funds and eligible liabilities (MREL) in application of Article 45 of BRRD which sets out the level of eligible liabilities that banks should meet to support the implementation of the preferred resolution strategy in case of failure. The report is based on the requirements effectively set by authorities, the level of resources effectively eligible and the resulting shortfalls.¹

An estimated 80% of the EU's domestic assets are covered by a strategy other than liquidation – stable compared to 80% last year on a comparable basis²

Although the level of covered assets remained stable on a yearly basis, the amount of decisions has increased and new decisions are expected to be issued in the near future. The EBA received a total of 265 decisions relating to banks where resolution, by either a bail-in or a transfer, would be favoured rather than liquidation. This increase in the number of decisions reflects the continued progress by resolution authorities in agreeing on resolution strategies and setting MREL, but also highlights the fact that more than six years after the adoption of BRRD, some banks are still only now being confirmed their strategy and MREL requirement. Out of those 265 decisions, 27 have been left out of the shortfall analysis on the basis of data quality issues. The relevant sample considered hereafter is therefore 238 decisions.

As at December 2019, out of the 238 resolution groups captured in this report, 111 EU resolution groups³ exhibit an MREL shortfall estimated at EUR 102 bn, down from EUR 172 bn for 111 resolution groups on a comparable basis. In terms of total assets, institutions with a shortfall represent about 28% of EU total domestic assets.

On average, weighted by TREA, European resolution groups reported MREL resources reaching 30.3% of TREA against weighted average requirements of 24.2%. Yet 111 out of 238 resolution groups do exhibit MREL shortfalls representing a total of EUR 102 bn. This shortfall should be considered against strong issuance levels in 2020. Despite the market impairment in light of the pandemic, private market research estimates issuance of senior non-preferred in the range of EUR 130 bn⁴.

¹ This year, UK authorities did not take part in the voluntary data collection exercise underlying this report.

² Excluding UK institutions

³ To be understood as resolution groups or stand-alone resolution entities.

⁴ Including UK institutions

MREL shortfall for EU G-SIIs down significantly to EUR 19 bn with high levels of OMS

This shortfall is down from EUR 51 bn as of December 2018. The sharp decline is reflective of the fact that to some extent, G-SIIs have been setting their requirements before other banks and that they are facing earlier end-state dates for compliance in line with TLAC. This shortfall should be considered against OMS representing 56% of the shortfall. This highlights the relative advantage for G-SIIs, and larger banks in general, in the face of MREL.

The decrease in shortfall is less pronounced for O-SIIs than for G-SIIs, high levels of OMS are observable only for top tier banks

The shortfall for O-SIIs is down from EUR 104bn to EUR 64bn. This is reflective of the effort by O-SIIs in issuing MREL eligible debt. The lesser decrease compared to G-SIIs is in part due to more recent decisions (prioritisation in resolution planning) and offset by somewhat longer transition period granted to O-SIIs.

MREL shortfall for other banks slightly up with limited OMS

The shortfall is slightly up from EUR 18 bn to EUR 19 bn for 'other banks' in light of new MREL decisions and changes in classification (O-SIIs to 'other banks'). It should be noted that these institutions barely report any OMS, but they do benefit from a relatively longer transition period.

This report is a point-in-time estimate

The report is based on decisions submitted to the EBA up to July 2020 and resources as at December 2019. The impact of COVID-19 on banks' balance sheets is thus not reflected here. Also, resolution strategies and MREL decisions are reviewed annually and are likely to change.

This report is based on the BRRD I framework

This report reflects existing MREL policies applicable as at December 2019 and thus does not estimate the impact of BRRD II beyond subordination for G-SIIs and top-tier banks or take into account the impact of other regulatory changes, e.g. Basel III. BRRD II was adopted back in July 2019. Resolution authorities have now started to take new decisions reflecting the revised framework -those will be reported to the EBA starting 31 May 2021. EBA will be mandated to publish a report on the progress by end-September this year.

1. Introduction

One of the cornerstones of a credible resolution regime is the requirement placed on institutions to have, at all times, adequate levels of own funds and specific types of liabilities to support resolution actions. This requirement ensures that a resolution, necessary for the continuation of critical functions and/or avoidance of adverse effects on the financial system, can be financed by placing the burden of losses on shareholders and creditors of the institution to minimise the impact of the institution's failure on the wider economy and the financial system and to avoid the use of public funds.

In the European Union (EU), the Bank Recovery and Resolution Directive (BRRD, hereafter BRRD I) introduced the concept of minimum requirement for own funds and eligible liabilities (MREL) to ensure that European banks have financial resources in sufficient quantity and quality to cover losses upon failure and to restore the viability of the going-concern parts of the institution. BRRD I has been updated by a banking package agreed in July 2019 (BRRD II) which harmonises MREL calibration and subordination levels for the largest banks in the EU. These recent changes are not taken into account in this report but estimated in Annex 3.

The purpose of this report is to provide information on the resilience of the European banking system through loss-absorbing capacity and in particular (i) to provide an update on the progress of authorities in setting resolution strategies and MREL across the Union, (ii) to report on the levels at which the requirements are set and (iii) to monitor the build-up of resources against these requirements. This report is the second by the EBA under a revised methodology and will be updated annually as required by the recently agreed banking package⁵.

The EBA has published quantitative analyses on MREL in the past. Namely, it published an interim report on MREL in July 2016 (based on June 2015 data), the final report on MREL mandated by BRRD I and published in December 2016 (using December 2015 data as a reference), and a quantitative MREL update in December 2017 based on December 2016 data⁶.

While this report is based on 31 December 2019 balance sheet data, MREL decisions communicated up to July 2020 have been considered to be as forward-looking as possible. This report is a point-in-time estimate and a number of aspects are not captured in this analysis. In particular the impact of BRRD II is only partially considered at this stage via the impact of the increased subordination levels on larger banks: global systemically important institutions (G-SIIs) and top-tier banks⁷ (see Annex 3 for detailed analysis). Other forthcoming regulations are not taken into account either, e.g. the impact of Basel III on risk-weighted assets (or total risk exposure amount, hereafter TREA).

⁵ Article 45I of the update to BRRD (BRRD II).

⁶ <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution>

⁷ Banks that are not G-SIIs and have total assets above EUR 100 bn.

Further, resolution strategies are always subject to change, as are the specific MREL requirements. The MREL decisions that form the basis of this report reflect the current relevant MREL policies in the respective jurisdictions (see Annex 4). The amount of resources considered eligible to meet the MREL requirement has been provided directly by resolution authorities and thus reflects their general policy as well as discretionary exclusions applied.

Finally, the focus of this report is on external as opposed to internal MREL, that is, MREL expected to be issued to investors in the market and not to a parent company. For many resolution groups, the distribution of MREL within groups still needs to be agreed.

2. Scope of the report

2.1 Progress of resolution strategy and MREL setting

The scope of the report differs from last year's in that it does not include UK banks and a number of new decisions were reported to the EBA. Until the entry into force of the Implementing Technical Standard on MREL and TLAC reporting, this report relied largely on a voluntary data collection exercise. BRRD II is updating the reporting framework for MREL decisions to the EBA and introducing standardised reporting for MREL and TLAC resources - these will contribute to greater quality and improve the coverage and granularity of this report, starting with the September 2022 edition.

As of July 2020, the estimated coverage of the report to be stable with approximately 80% of EU-27 domestic assets covered by a strategy other than liquidation. On a comparative basis, it remains stable compared to 80% last year. 73% of assets are covered by a bail-in strategy and 7% by a transfer strategy. The equivalent of approx. 20% of assets are now either earmarked for liquidation or still awaiting a resolution strategy. The latter is estimated to be marginal, in particular in terms of total assets, but the fact that some MREL decisions remain outstanding six years after the entry into force of BRRD is a concern. EBA will continue to monitor progress going forward.

In the report, resolution strategies are grouped into two main categories: (i) bail-in and (ii) transfer. These two categories are meant to capture the multiple combinations of resolution tools as defined by the BRRD:

- the sale of business tool
- the bridge institution tool
- the asset separation tool and
- the bail-in tool.

The bail-in strategy should be understood as a strategy that aims to resolve a bank on a stand-alone basis and to allow it to continue operating by writing down and converting (into equity) capital instruments and existing debt so as to absorb the losses incurred and recapitalise the failing bank.

These bail-in strategies are sometimes combined with the use of another tool, complementary to bail-in, such as the asset separation tool or even a sale of business.

Transfer strategies should be understood as resolution strategies based on the transfer of all or part of the failed bank to an acquirer.

They therefore include:

- the sale of business tool
- the bridge institution tool and
- the asset separation tool.

Looking at the data⁸, it appears that the share of assets by strategy remains stable on a like-for-like basis. Bail-in continues to be the first-choice strategy for the largest banks, with a total of 122 decisions covering EUR 19.9 tn in assets. It is mostly envisaged within the framework of a single point of entry (SPE) strategy, with approx. 10% of banks, in terms of assets, covered by a multiple point of entry (MPE) strategy, for which bail-in would take place at several entities of the same group.

Transfer is the preferred strategy for 116 banks representing approx. EUR 1.9 tn: mostly resolution groups or stand-alone resolution entities that are relatively limited in size, 101 of them with total assets below EUR 20 bn, 12 with total assets between EUR 20 bn and EUR 100 bn, and 3 with total assets above EUR 100 bn.

Comparing the sum of all decisions with the total EU domestic assets, this leaves about 20% of EU assets as 'other', that is, assets relating to resolution groups or stand-alone resolution entities that are either earmarked for liquidation or are still awaiting a strategy decision or an MREL decision or both.

Table 1: Total assets and number of resolution groups by strategy

Resolution strategy	Total assets (EUR bn)	% of assets	Number of decisions	% of decisions
Bail-in	19,900	73%	122	51%
Transfer	1,908	7%	116	49%
Liquidation or pending decision	5,383	20%	n/a	n/a
Total EU domestic assets*	27,191	100%	n/a	

Sources: EBA data collection, *European Central Bank data statistical data warehouse, n/a= not available

2.2 Scope of the MREL analysis

The following sections of the report cover 238 resolution groups and stand-alone resolution entities from 26 Member States to which decisions have been communicated setting MREL higher than their current minimum capital requirements in order to facilitate a resolution strategy.

⁸ Resolution strategies are defined by the resolution authorities and taken herein as a given. In its monitoring, EBA liaises directly with the authorities to address any potential issues.

From the total population of 265 banks for which resolution authorities have made a determination against liquidation as a strategy and communicated an MREL decision, the following analysis excludes 27 resolution groups on the basis of data quality issues.

The report aims to estimate MREL-related issuance needs in the EU as at 31 December 2019 based on the BRRD I decisions. Given this, entities considered in the report will be only entities or groups that (i) have been set MREL above their total own funds requirements and (ii) would be expected to issue MREL outside their group, i.e. entities that have been designated as points of entry (or resolution entities) for the implementation of a bail-in or a transfer strategy. This excludes subsidiaries of non-EU banks under an SPE strategy⁹.

This report focuses on resolution entities and resolution groups as opposed to banking entities or banking groups. Resolution is a group matter and, in most cases, strategies envisage a single point of entry for the application of resolution tools. However, in some cases, the resolution strategy will envisage the break-up of the group into several parts, usually for operational or business reasons, so multiple entities of the group will be expected to issue external MREL. Those are called resolution groups, each organised around a resolution entity subject to MREL requirements.

Resolution groups and institutions are categorised in the report based on the systemic designation of the banking group they belong to: G-SIIs, other systemically important institutions (O-SIIs) and other banks that are neither G-SIIs nor O-SIIs. G-SIIs have been considered, where possible, at resolution group level on an anonymised basis; O-SIIs and other banks are considered by size category (see Table 2). Throughout the report, numbers by category are weighted by TREA. This gives a sense of the amount of risk effectively covered by MREL, the level and timeline. The population of each category is summarised in Table 2.

Note that resolution entities that are part of a G-SII have been categorised as G-SIIs themselves. This is to reflect the fact that these entities are subject to total loss-absorbing capacity (TLAC), even though on a stand-alone basis, they may not be categorised as G-SIIs. This explains the total of ten G-SII resolution entities despite there being only eight EU-headquartered G-SIIs according to the latest Financial Stability Board (FSB) list¹⁰.

⁹ In the case of an MPE strategy, a subsidiary of a non-EU bank would be subject to MREL and expected to issue externally.

¹⁰ <https://www.fsb.org/wp-content/uploads/P221119-1.pdf>. The G-SIIs identified in PT and PL are in reality part of another G-SII.

Table 2: Banks by category and total assets

Member State	G-SII	O-SIIs Top tier	O-SIIs (100-50)	O-SIIs (50-10)	O-SIIs (<10)	Others (>20)	Others (20-5)	Others (5-1)	Others (<1)	Grand Total
AT			1	1			1	15	2	24
BE			2		1		1			4
CY						1			2	3
DE		1	6	1						8
DK			1		4			2	15	28
EE					1					1
EL				4						4
ES		1	4				8	8		21
FI			2					3		5
FR		4	2				2			8
HR						4				4
HU				1		4			1	6
IE			1	1			1			3
IT		1	4				6			11
LU					1					1
LV						1				1
MT					1					1
NL		1	2	1						4
NO			1				2	5		8
PL		1		1	3	2	1	2	2	29
PT		1		2	1		1	2		7
RO					2	2			2	6
SE			3	1	2	3				9
SI						3				3
SK					2					2
Total Decisions	10	29	13	22	20	23	37	24	60	238
Total Assets (bn EUR)	9,822	8,631	925	636	127	1,213	381	57	17	21,808

Source: EBA data collection

3. MREL levels and subordination

3.1 MREL and subordination for G-SIIs

On average, weighted by TREA, end-state MREL requirements for G-SIIs reach 25.8% of TREA and subordination requirements reach 20% of TREA.

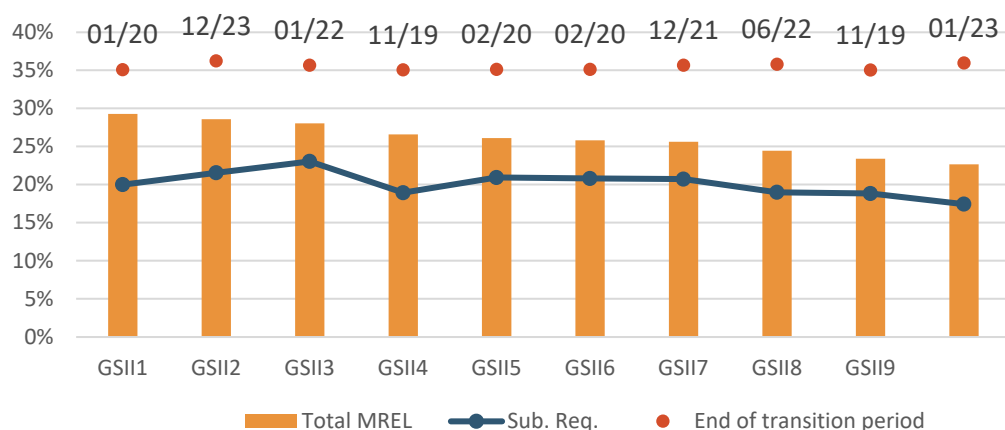
Figure 1 below shows the details of MREL decisions for resolution groups that are part of banking groups designated as G-SIIs.

MREL for G-SII resolution groups varies between 23% and 29% of TREA. Subordination levels vary between 68% and 85% of the total MREL.

Resolution entities of G-SIIs are subject to TLAC which has been introduced into the EU framework through the Capital Requirement Regulation¹¹ (CRR) that came into force in July 2019. The CRR requires G-SIIs to meet as a minimum the higher of 18% TREA + combined buffer requirement (CBR) or 6.75% of leverage exposure by 1 January 2022, in line with the TLAC standard as defined by the TLAC Term Sheet¹². TLAC must be met with subordinated instruments, with the possibility of resolution authorities granting an allowance for senior debt up to 3.5% of TREA.

In Figure 1, current MREL decisions have a transition period running from November 2019 to 2023. This again reflects the different policies adopted by resolution authorities in the EU and applicable as at December 2019, and is subject to change following the implementation of BRRD II.

Figure 1: MREL for G-SIIs – resolution group levels



Source: EBA data collection

3.2 MREL calibration and subordination levels for O-SIIs

On an average basis, weighted by TREA, resolution groups or entities that are part of O-SIIs are expected to comply with MREL requirements varying between 25.6% and 26.2% of TREA.

¹¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0876&from=EN>

¹² <https://www.fsb.org/wp-content/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf>

Data in Figure 2a shows the average MREL and subordination levels weighted by TREA for O-SIIs sorted by their balance sheet size¹³.

As seen below, average levels of subordination weighted by TREA are below total MREL requirement levels for all four groupings of O-SIIs. This reflects the fact that under BRRD, significant leeway was left to authorities in setting the level of subordination. As a result, some resolution authorities opted to set subordination levels equal to total MREL requirements and others have set subordination levels below total MREL. For instance, the Swedish National Debt Office and the Danish Financial Supervisory Authority require full subordination, whereas the Single Resolution Board has adopted a policy of requiring a minimum of 14% TREA + CBR¹⁴; some authorities are not requiring subordination beyond what is required for own funds¹⁵.

The entry into force of BRRD II in 2019 and the roll-out of compliant MREL decisions will increase harmonisation in this area – in particular for G-SIIs, top-tier banks and ‘fished-out’ banks¹⁶. However, a certain level of discretion remains. For a sub-set of G-SIIs, top-tier banks and fished-out, Article 45b(5) and (7) of BRRD II provide resolution authorities with the power to increase subordination beyond harmonised level under the following conditions:

- i. unaddressed impediments to resolvability,
- ii. lack of credibility of the resolution strategy or
- iii. if the bank belongs to the 20% riskiest banks in terms of P2R of its jurisdiction.

Going forward, the EBA will look in more detail into how authorities make use in practice of the power to require subordinated MREL under BRRD II¹⁷.

In terms of transition period, Figure 2b indicates that those are relatively spread out between 2019 and 2023 with a peak in 2024. This is also reflective of the different policies adopted across the EU. Some authorities have set bank-by-bank transition periods – shorter if the bank meets or is close to meeting the target; and longer if the bank is further from meeting the target – or fixed all of them in 2024 for instance in anticipation of BRRD II. A small number of end-state dates were set beyond December 2024.

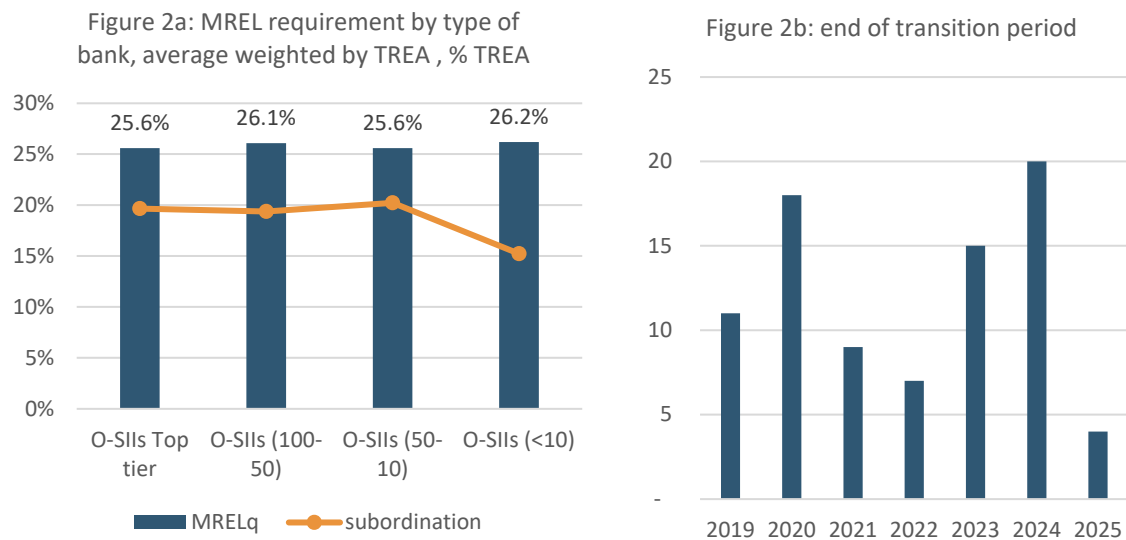
¹³ Where relevant, buffers that sit on top of MREL have been included in the loss absorption amount for simplification.

¹⁴ To note that the SRB policy under the BRRD I framework also included an add-on in case of NCWO risk

¹⁵ For these banks, we have assumed a subordination requirement equal to any bank’s expected level of subordinated resources, that is, Pillar 1 + Pillar 2 + combined buffer requirement (that is, the loss absorption amount, itself equal to the prudential requirements).

¹⁶ Article 45c(6) BRRD II. No ‘fished-out’ banks have been identified in the context of this report.

¹⁷ BRRD II, Art 45(c)5-6



Source: EBA data collection

3.3 Other banks

MREL requirements for ‘other banks’ are below those for O-SIIs, varying between 18.8% and 23.9% on a weighted average basis. Subordination requirements around 18% appear relatively low in terms of TREA compared to other O-SIIs and G-SIIs, but remain high when expressed as a proportion of total MREL capacity.

Looking at banks with total assets below EUR 5 bn, the lowest MREL calibration appears driven in particular by lower recapitalisation requirements. This reflects the different approaches for smaller banks in different jurisdictions and the calibration of MREL for transfer strategies. In particular, for transfer strategies that are dominant in the population of banks with assets below EUR 5 bn, MREL is sometimes calibrated in line with the part of the bank that, in resolution, would be transferred to an acquirer or a bridge bank, leading to a lower recapitalisation amount (see Annex 4 setting out the various MREL policies).

Figure 3a: MREL requirement by type of bank, average weighted by TREA, % TREA

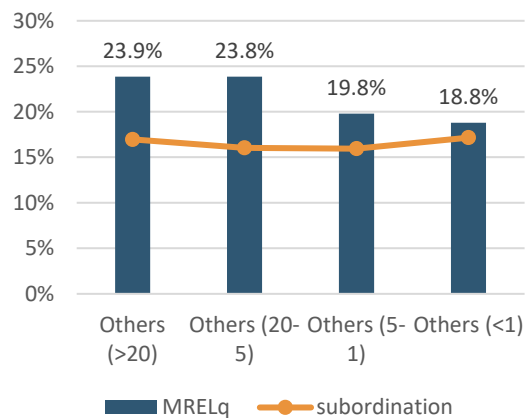
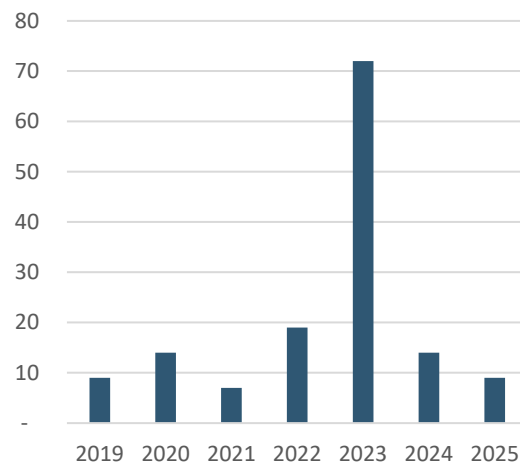


Figure 3b: end of transition period



Source: EBA data collection

4. MREL resources and shortfalls

This section covers MREL shortfalls, defined as the difference between the amount of MREL eligible resources as per the relevant resolution authority's policy as of December 2019¹⁸ and the end-state requirement defined as the requirement banks will be expected to meet at the end of their transition period. These shortfalls underestimate the actual issuance needs of EU resolution groups, as they do not take into account (i) roll-over needs for existing maturing MREL eligible instruments, (ii) potential increase in balance sheet size and TREA due to Basel III impact and (iii) instruments that may become ineligible after the entry into force of BRRD II. In addition, they are based on BRRD I decisions and thus do not reflect the upcoming changes from BRRD II – particularly relevant for G-SIIs and top tier banks – or the impact of COVID19 on banks' balance sheets.¹⁹

But they do give a sense of the share of banks that are in shortfall. To put these shortfalls in perspective, they are presented alongside other types of debt instruments (other marketable securities, OMS) that share many characteristics with MREL-eligible instruments and yet are not MREL-eligible for various reasons (level of subordination, location in a group, residual maturity, law of issuance). The objective is to give a sense of (i) banks' access to an investor base likely to buy long-term senior unsecured instruments and (ii) the impact that MREL will have on a bank's funding structure²⁰.

¹⁸ However, eligible liabilities are considered only at the point of entry level as opposed to group level.

¹⁹ Article 45b BRRD II lays down eligibility criteria for structured notes which can have a positive impact on the MREL resources of some institutions.

²⁰ The amount of OMS for individual resolution groups is capped at the level of the MREL shortfall – see full methodology in Annex 4 of this report.

Ultimately, this gives a sense of the challenge faced by institutions with a shortfall. This challenge varies depending on whether an institution only has to re-issue outstanding instruments from another point in the group or including certain clauses or if it needs to actually build an investor base, obtain a credit rating for a new class of instruments and significantly change its funding structure.

Overall, under BRRD I, out of the 238 resolution groups or stand-alone resolution entities in this report, 111 report a shortfall to their MREL target for a total of EUR 102 bn. This is down from EUR 172 bn as at December 2018²¹. The section below provides a breakdown by types of bank and shows that the strongest decrease (63%) relates to G-SIIs with a shortfall down to EUR 19 bn for four G-SIIs against EUR 51 bn for six G-SIIs as at December 2018²². For O-SIIs the decrease is less pronounced (40%). For other banks the shortfall is slightly up and – as in the previous report – is to be considered in light of a limited amount of other liabilities similar in nature to MREL-eligible instruments. This underlines a greater challenge faced by these banks.

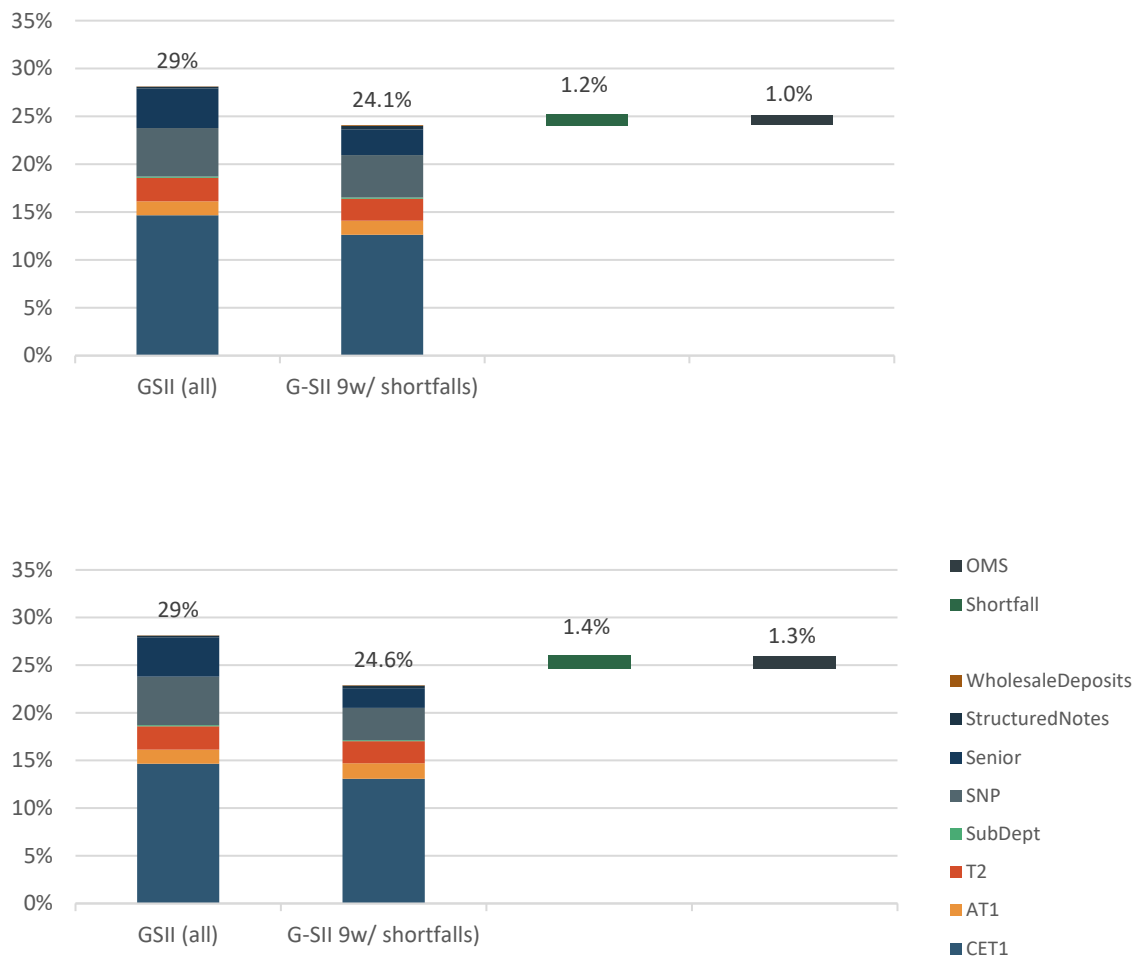
Finally, please note that this section limits year-on-year comparison of weighted averages by types of bank, as with smaller samples, the comparison becomes less reliable due to changes in the composition of each bucket – either due to changes in size, category or exclusions from the sample.

4.1 MREL shortfalls and OMS for G-SIIs

MREL shortfalls are down significantly for EU G-SIIs with high levels of OMS. On an average basis, weighted by TREA, and as per Figure 4, resolution groups that are part of G-SIIs report total MREL resources reaching 29% of TREA. Four G-SII resolution groups out of ten report an MREL funding need. G-SIIs with MREL shortfalls report lower MREL resources, at 24.6% of TREA, resulting in a shortfall of EUR 19 bn. This shortfall is down from EUR 51 bn as at December 2018. The sharp decline is reflective of the fact that to some extent, G-SIIs have been set their requirements before other banks and they are facing earlier end-state dates for compliance in line with TLAC. This shortfall should be considered against OMS representing 56% of the shortfall. This highlights the relative advantage for G-SIIs, and larger banks in general, in the face of MREL.

²¹ Excluding UK institutions

²² Excluding UK institutions

Figure 4: MREL resources, shortfalls and OMS, average, weighted by TREA (% of TREA)

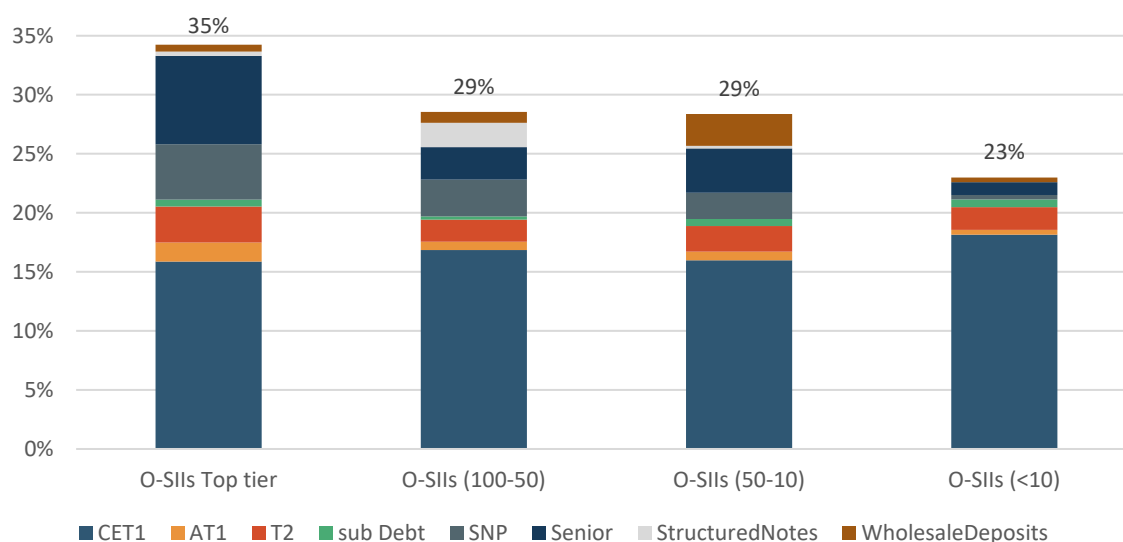
Source: EBA data collection

4.2 MREL resources and shortfalls for O-SIIs

The decrease in shortfall is less pronounced for O-SIIs than for G-SIIs. High levels of OMS are observable only for top-tier banks. Shortfall for O-SIIs is down from EUR 104 bn to EUR 64 bn. This is reflective of the effort by O-SIIs in issuing MREL-eligible debt. The somewhat lesser decrease compared to G-SIIs is in part due to more recent decisions (prioritisation in resolution planning) and is offset by somewhat longer transition periods granted to O-SIIs (see Figure 2b). On average, weighted by TREA, resolution groups that are part of O-SIIs report MREL resources ranging from 23% to 35% of TREA. Larger banks exhibit greater and more subordinated resources – in particular senior non-preferred. And resolution groups with total assets between EUR 100 bn and EUR 50 bn report a significant portion of structured notes as eligible, in particular compared to last year's report. This is reflective of the work done by banks and authorities in anticipation of BRRD II which

clarifies the eligibility of structured notes. Resolution groups with total assets of between EUR 50 bn and EUR 10 bn have a higher proportion of wholesale deposits than other O-SIIs.

Figure 5: MREL resources all O-SIIs, average weighted by TREA (% of TREA)



Source: EBA data collection

Out of 84 O-SII resolution groups, 48 report an MREL shortfall totalling EUR 64 bn (down from EUR 104 bn last year) – to be considered in the light of an estimated EUR 26 bn stock of OMS (40%) spread among 29 groups. However, it should be noted that this stock of OMS is not spread evenly. Top-tier banks exhibit levels of OMS higher than G-SIIs (75%), while other O-SIIs exhibit lower levels ranging from 5% for banks with assets between EUR 100 bn and EUR 50 bn to 32% for banks with assets between 10bn and 50bn). This implies that the relative inequality in the face of MREL is not linked to the size of banks, but of course to the business model/ funding profile. It should be noted that for several banks, OMS more than cover their MREL shortfall and are made of senior preferred debt in the face of a fully subordinated MREL requirement²³.

The nine top-tier banks with MREL funding needs exhibit shortfalls totalling EUR 28 bn. However, this needs to be considered in the light of approx. EUR 21 bn in OMS, mostly senior debt reported.

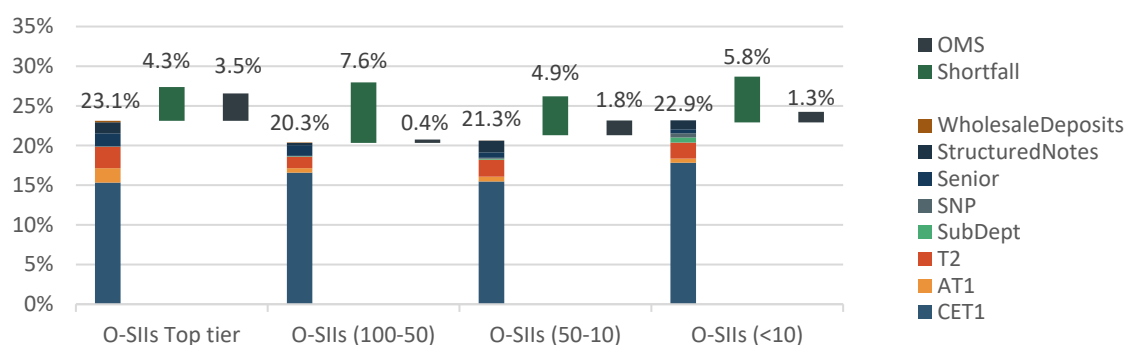
The eight O-SIIs with total assets of between EUR 100 bn and EUR 50 bn with MREL funding needs report MREL shortfalls totalling EUR 23 bn, but with limited OMS at EUR 1 bn spread among seven banks.

17 O-SIIs between EUR 50 bn and EUR 10 bn report shortfalls totalling EUR 11 bn, but a significant amount of OMS of EUR 3 bn spread among 10 banks.

²³ However, when aggregated, OMS levels are capped at the level of the MREL shortfall.

The 14 O-SIIs below EUR 10 bn report total shortfalls totalling EUR 2 bn and less than EUR 0.5 bn in total OMS spread among six banks.

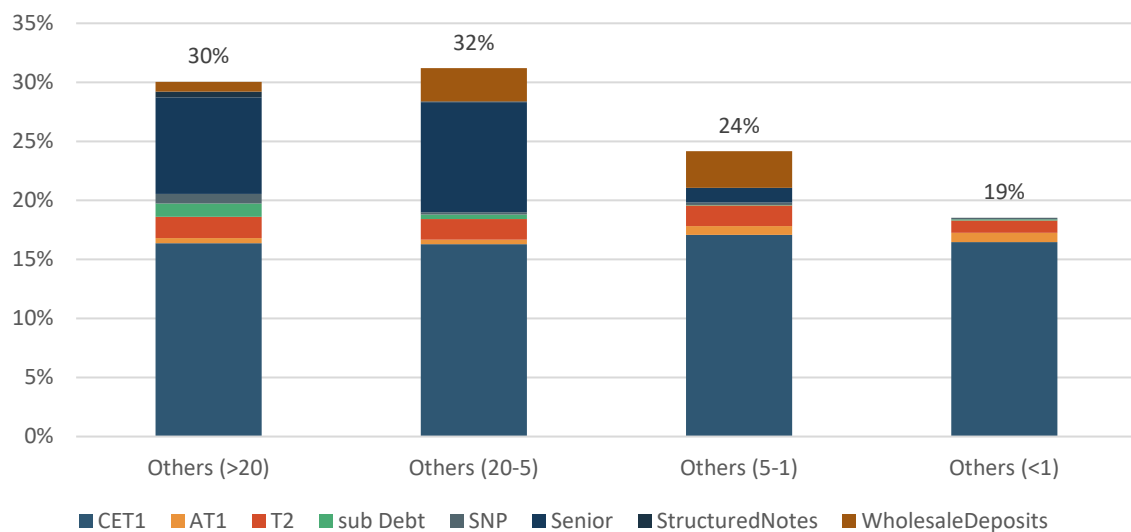
Figure 6: MREL resources, funding needs and OMS for O-SIIs with an MREL shortfall, average weighted by TREA (% of TREA)



Source: EBA data collection

4.3 MREL shortfalls for ‘other banks’

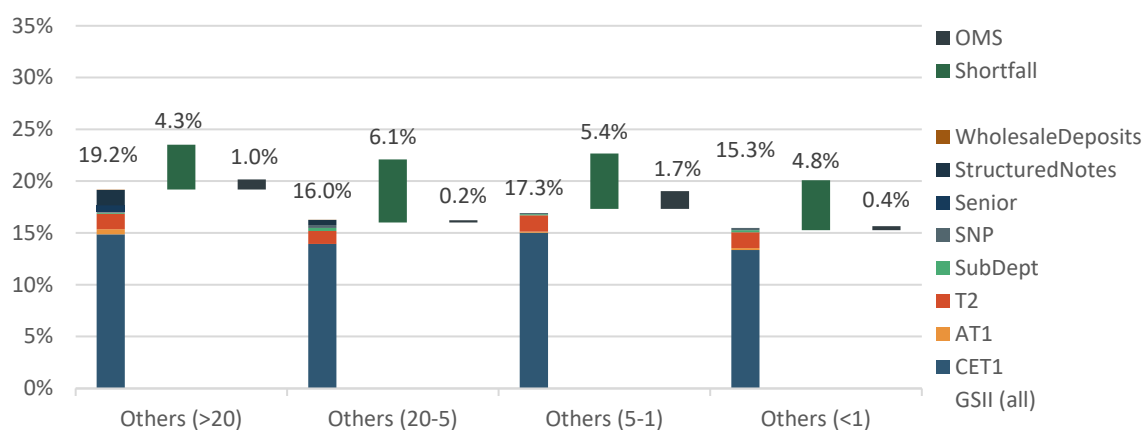
The shortfall is slightly up from EUR 18 bn to EUR 19 bn for ‘other banks’ in the light of new MREL decisions, and changes in classification (O-SIIs to ‘other banks’). It should be noted that these institutions barely report any OMS, but they do benefit from a relatively longer transition period (see Figure 3b). Overall, on average, weighted by TREA, resolution groups that are part of ‘other banks’ report MREL resources ranging from 19% to 32% of TREA. As for O-SIIs, own funds constitute the majority of MREL resources and we note that, beyond own funds, MREL resources are only marginally subordinated (at best, 1% weighted average for institutions with total assets greater than EUR 20 bn). The amount of MREL resources is particularly high for banks with assets between EUR 20 bn and EUR 5 bn, driven mostly by senior MREL instruments but also wholesale deposits – this reflects both the banks’ funding structures, the work done by resolution authorities in assessing the actual long-term maturity of these deposits and the varying eligibility criteria between jurisdictions under BRRD I.

Figure 7: MREL resources for all other banks, average weighted by TREA (% of TREA)

Source: EBA data collection

Out of 147 'other resolution groups', 61 report a funding need totalling EUR 25 bn, with a limited stock of OMS at EUR 4.8 bn, of which EUR 4 bn is spread among eight institutions with total assets greater than EUR 20 bn and EUR 800 mn spread among 17 groups or entities.

Figure 9 shows weighted averages for banks with funding needs in each category. Those vary between 4.3% and 6.1% of TREA, with little to no OMS apart for institutions above EUR 20 bn in total assets. 31 resolution groups report MREL shortfalls and no OMS.

Figure 8: MREL resources, funding needs and OMS, average weighted by TREA (% of TREA)

Source: EBA data collection

Conclusions and next steps

Authorities have continued to progress in setting resolution strategies and adopting MREL decisions. The EBA has received a total of 265 MREL decisions for institutions whose preferred strategy is resolution as opposed to insolvency, compared to 250 last year on a comparable basis²⁴. Those decisions represent approx. 80% of EU-27 total domestic assets, leaving approx. 20% of total assets as part of resolution groups or stand-alone banks either earmarked for liquidation or awaiting a strategy and/or MREL decisions. Yet when it comes to the number of credit institutions, this shows that six years after the adoption of BRRD, many institutions in the EU are still only now being communicated their resolution strategy and corresponding MREL decision, a situation which reflects a lengthy approach prioritising larger and more complex banks - in particular across the Eurozone CAs.

Out of the 238 resolution groups that have been considered in the shortfall analysis, 111 show an MREL shortfall totalling EUR 102 bn. This funding need should be considered in the light of a reported EUR 41 bn stock of debt instruments that are similar in nature to MREL-eligible debt but not effectively eligible for various reasons (subordination level, location, law of issuance, residual maturity). This shows that, for some 56 out of 111 banks with funding needs, MREL requires them not to issue completely new types of debt instrument but, at least in part, to roll over existing debt. While this does not come without friction, it does highlight that MREL has a greater impact on some banks than on others, depending on their existing funding profiles.

Overall EBA estimates that the total MREL shortfall is down significantly to EUR 102 bn from EUR 173 bn on a comparable basis. The strongest decrease (-63%) relates to G-SIIs now exhibiting a shortfall of EUR 19 bn vs. EUR 51 bn last year. The shortfall for O-SIIs has also decreased from EUR 104 bn to EUR 64 bn (-40%). For other banks, the overall shortfall has increased slightly from EUR 18 bn to EUR 19 bn, reflecting the increased number of decisions and changes in classification.

This shortfall should be considered in the light of significant issuances in 2020. Despite the market close-out due to the COVID-19 crisis in 2020, private market research estimates MREL-eligible issuances in the range of EUR 130 bn. This, of course, includes roll-over needs, but shows that in a difficult year, record amounts of MREL-eligible debt were placed.

But shortfalls vary depending on the type and size of the bank and its resolution group. And, as expected, OMS tend to benefit larger banks and, to some extent, to dry up as institutions decrease in size. On an aggregated level, the 'other banks' category reported an increase in the shortfall. This reflects (i) new decisions, (ii) changes in classification of banks and (iii) changes in MREL eligibility.

The EBA will continue to monitor progress in closing shortfalls. In particular, the entry into force of the EBA ITS on MREL and TLAC reporting and disclosure will greatly simplify the monitoring both by authorities themselves and by the EBA. In addition, the EBA, also via its action in resolution and

²⁴ Excluding UK banks

supervisory colleges, will continue to focus on the effectiveness of debt and capital planning of institutions and groups in order to understand how the different options available to banks (earnings retention, issuance of eligible liabilities, de-risking, consolidation) may be used in order to meet MREL targets.

The topic of the impact of MREL on banks' profitability will be considered in more detail in the impact assessment that the EBA will have to deliver to the European Commission by December 2022²⁵.

²⁵ EU Directive 2014/59 Article 45I (2)

Annexes

Annex 1: Total MREL shortfalls and OMS by type of banks²⁶

Type of banks	MREL shortfall (EUR billions) Dec 2018	MREL shortfall (EUR billions) Dec 2019	Number of groups with shortfalls	OMS (% of shortfall)	Number of groups	OMS (EUR billions)	Number of groups with OMS
G-SII	51	19	4	56%	10	11	2
O-SIIs Top tier	64	28	9	75%	29	21	6
O-SIIs (100-50)	28	23	8	5%	13	1	7
O-SIIs (50-10)	10	10	17	32%	22	3	10
O-SIIs (<10)	2	2	14	8%	20	0	6
Others (>20)	13	14	14	31%	23	4	8
Others (20-5)	4	5	14	4%	37	0	14
Others (5-1)	1	0	5	32%	24	0	2
Others (<1)	0	0	26	8%	60	0	1
Total	173	102	111	40%	238	41	56

Annex 2: Impact of CRR2/BRRD II on subordinated shortfalls

Key changes introduced by CRR2/BRRD II

The recent banking package (CRR2/BRRD II) introduces a number of changes to the loss absorbency requirement for the purpose of resolution. In particular, it introduces TLAC, harmonises the MREL calibration, clarifies eligibility criteria and harmonises subordination levels for the largest banks. However, the full extent of these changes will be difficult to assess until (i) authorities have started to take MREL decisions under the BRRD II framework and (ii) reporting starts to reflect the new eligibility criteria.

One of the key impacts of BRRD II, and one that is relatively straightforward to estimate, is the impact on minimum subordination levels for G-SIIs and top-tier banks²⁷.

²⁶ OMS at individual resolution group level is capped at the level of the resolution group's MREL shortfall.

²⁷ Fished banks under Article 45c(6) BRRD II and their subordination requirements are not considered in this report, as they were not identified under BRRD I.

CRR2 introduces non-bank-specific subordination levels for G-SIIs as the highest of 18% of TREA + CBR and 6.75% of leverage exposure in line with the FSB's TLAC Term Sheet requirements and 8% of total liabilities and own funds (TLOF). Resolution authorities have the possibility of granting an allowance of 3.5% of TREA for the TLAC calibration (and as per the Term Sheet) and applying an 'allowance' scalar for the TLOF calibration (1-3.5%/18%).

BRRD II introduces a non-bank-specific subordination requirement for top-tier banks (banks with total assets above EUR 100 bn) as the highest of 13.5% TREA + CBR, 5% of leverage exposures and 8% of TLOF, with the possibility of applying the following allowance scalar to the 8% of TLOF: 1-3.5%/18%.

Beyond this new pillar 1 subordination requirement for G-SIIs and top-tier banks²⁸, resolution authorities can raise subordination via a discretionary pillar 2, applicable to all entities under certain conditions and for specific reasons.

What are we calculating?

We have computed subordinated shortfalls under two scenarios: a high one where no adjustment is applied and a low one where the 3.5% allowance is applied in full to all G-SIIs and the allowance scalar is applied to the 8% TLOF formula for both G-SIIs and top-tier banks. It should be noted that subordination levels are not changed in a holding company structure.

What are we not capturing?

BRRD II also harmonises the MREL calibration and clarifies the treatment of buffers; this will have an impact on the total MREL levels. However, it was decided not to seek to estimate those changes but to focus on subordinated shortfalls with reference to pillar 1 subordination requirements.

The impact of pillar 2 subordination requirement is not considered here, as these will remain at authorities' discretion. BRRD II also introduces changes to eligibility criteria for MREL. The impact of those is not captured due to the limitations of the existing reporting.

As for the rest of the report, roll-over needs and balance sheet changes are not taken into account.

Conclusion

As shown in Figure 11, we estimate that BRRD II increases the subordinated MREL shortfall by EUR 13 bn under the high-impact scenario and would alleviate the MREL shortfall by EUR 19 bn under the low-impact scenario.

However, a number of factors could influence this estimate:

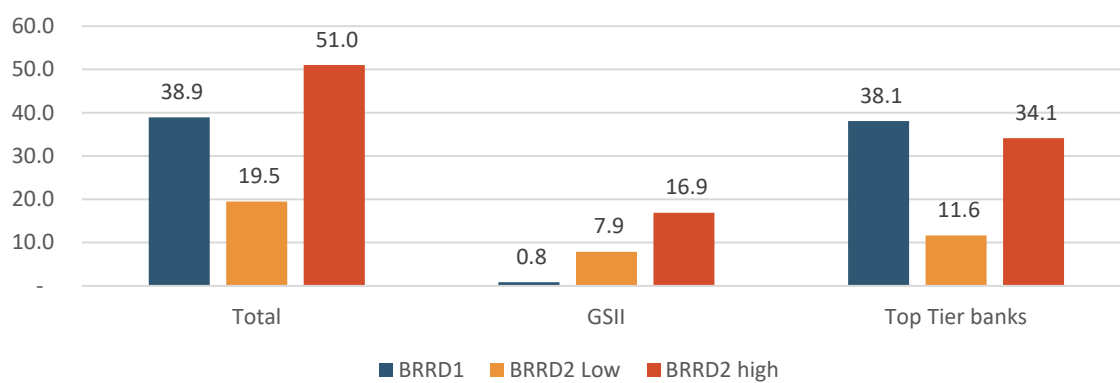
- (i) Subordination levels can be set higher than the levels estimated below. Under Article 45(b)5 and 7, resolution authorities can increase the minimum level of subordination on the basis of (i) unaddressed impediments to resolvability, (ii) lack of credibility of the

²⁸ Under Article 45b(8) BRRD II, authorities should limit the increase of subordination requirements as per Article 45b(7) to 30% maximum of the resolution entities that are G-SIIs, top-tier banks or fished-out banks.

resolution strategy or (iii) if the bank belongs to the 20% riskiest banks in terms of P2R of its jurisdiction.

- (ii) The COVID-19 crisis has led to a significant increase in total liabilities and own funds, which is an input to calibrate BRRD II subordination levels

Figure 11: Subordinated shortfalls for G-SIIs and top-tier banks under BRRD I and BRRD II (EUR bn)



Annex 3: Methodological annex

i. Scope and common principles

The MREL report covers all entities in the scope of MREL decisions with a positive recapitalisation amount to be issued externally. This approach aims to ensure that the results of the report represent the population of all institutions subject to MREL requirements above minimum capital requirements.

For all building blocks, we have followed a common approach, which is to rely on data from resolution authorities and, when required, assumptions in sufficient detail to enable the EBA to fulfil its mandate. MREL decisions and MREL resources are considered based on BRRD I requirements.

BRRD II provisions were considered only to the extent that the impact of minimum subordination levels for G-SIIs and top-tier banks can be estimated or where resolution authorities provided an estimate of the subordination requirement to be applied to entities, where such a decision has still not been taken.

The data for both MREL decisions and resources has been provided by resolution authorities. This guarantees the highest degree of quality of the data.

Data on total TREA and total assets by Member State and for the EU are sourced from the European Central Bank's statistical database.

ii. MREL decisions

The MREL report is based on actual decisions as much as possible, but also includes pending MREL decisions including any subordination requirements if foreseen by resolution authorities.

Regarding MREL decisions for institutions for which resolution planning has not started or is still ongoing, or for those institutions for which authorities were not in a position to provide an indicative MREL level, an estimation of the missing MREL decisions is made according to the following approach:

- in Member States with missing decisions estimated at below 5% of domestic TREA, entities for which either a decision or an indicative target does not exist are not included in the analysis for the 2019 report;
- in Member States with missing decisions above 5% of domestic TREA, the relevant authorities were given the choice to (i) submit an estimate (preferred option), (ii) apply the weighted average of MREL decisions in the Member State concerned or (iii) apply a standard calibration as per the EBA RTS including full subordination.

iii. MREL resources

MREL resources were considered on the basis of local policies and of the most recent choices on eligibility made by the resolution authorities under the discretion allowed by BRRD I. However, MREL capacity of institutions was computed including only resources at the point of entry rather than own funds. Although some local policies consider resources at consolidated levels, these were moved towards a point of entry eligibility for resources beyond capital. The assumption above raises the question of the transition period for institutions currently meeting the consolidated MREL target and thus without a set timeline to meet their target. For those banks, a period of four years is assumed.

Own funds and liabilities recognised as meeting the subordination requirement include by default own funds, subordinated liabilities (not recognised as own funds) and senior non-preferred liabilities. Resolution authorities were given the option to overrule the above-mentioned classification by providing a duly justified rationale (e.g. in cases of structural subordination).

iv. Other marketable securities

OMS are liabilities that meet some, but not all, of the requirements for adequate loss absorbency and that banks may replace with MREL-eligible instruments. Namely, OMS equal all long-term senior, senior non-preferred or subordinated instruments that are not MREL-eligible.

Some resources, although bail-inable and not MREL-eligible, are not considered to qualify as OMS, in particular:

- non-covered preferred deposits – core deposits are directly connected to the business models of institutions, which are not very likely to be modified, and are in general closely connected to other banking products such as loans, credit lines, credit cards, pensions, investments;
- non-covered non-preferred deposits with a maturity below one year – short-term wholesale deposits are not considered OMS, as it is assumed that their short-term nature is valued by both the depositor and the bank and therefore would not easily be recycled into long-term debt instruments;
- non-covered non-preferred deposits with a maturity above one year – they are considered to be close enough to long-term unsecured debt instruments to be considered OMS; however, because those deposits may be linked to the franchise of the bank and thus difficult to recycle as MREL-eligible debt, MREL shortfalls are considered without including these long-term deposits as OMS.

In addition, liabilities arising from derivatives and uncollateralised liabilities arising from secured instruments, although they would be bail-inable, are usually issued for specific reasons and thus would not be simple to replace with MREL-eligible debt.

Overall, it is assumed that short-term liabilities should not be considered OMS.

Given this, liabilities with an original maturity below one year should not be considered OMS, but liabilities that have fallen below the one-year threshold should.

Due to reporting constraints (it was not possible to distinguish between original and remaining maturity below one year), the following sets out how various types of instruments have been treated:

- (i) Senior unsecured liabilities with maturities below one year do not count as OMS.
- (ii) Structured notes, senior non-preferred, subordinated liabilities and Tier 2 instruments with maturity below one year are considered OMS. Resolution authorities were given the option to overrule the above-mentioned provision with a duly justified rationale.

Annex 4 Summary of published MREL policies

Annex 4.1: Austria, Czechia, Denmark, Hungary

MREL calibration	FMA (AT)	CNB (CZ)	Danish FSA and FSC (DK)	MNB (HU)
End-state calibration	LAA (P1+P2R+CBR) + RCA (P1+P2R) + MCC – 125bp	2*(P1+P2)	For systemic institutions: 2*(P1+P2) + 2*CBR – 1*CCyB For non-systemic institutions: P1+P2+ institution-specific MREL add-on 3.5% and 6% of REA	Higher of: (LAA+RCA, TLOF*8%)+(P1+P2R+CBR)+(P1+P2R)*Adj, TLOF*8%
Adjustments	Balance sheet depletion (in line with SRB methodology)	Bail-in: no transfer: consider size of B/S and TREA subject to transfer upon failing or likely to fail (defined by critical functions and their representation in B/S and TREA)	For systemic institutions: counter-cyclical buffer excluded from recapitalisation amount. Non-systemic institutions: loss absorption amount adjusted upwards relative to default. Recapitalisation amount set at 8% of the REA that remains after sale of business.	To RCA: Bail-in: balance sheet depletion effect Transfer: balance sheet adjustment based on resolution plan. Bail-in + transfer: based on validated restructuring plan
Subordination	End-state: bank-specific add-on in case - of a potential NCWO risk; - implementing the PRS is otherwise impeded	Fully structural, contractual or statutory. May not be required for transfer firms if the transfer perimeter only assumes transfer of preferred liabilities.	Full subordination requirement for all institutions Regulatory subordination	No subordination requirement
Additional eligibility criteria	- eligibility criteria pursuant to Article 45 of BRRD; - bank-specific analysis required regarding MREL	No additional eligibility criteria as specified in BRRD II, other than the following:	N/A	- effective maturity > 1 year; - issued externally by the resolution entity

MREL calibration	FMA (AT)	CNB (CZ)	Danish FSA and FSC (DK)	MNB (HU)
	eligibility of non-covered, non-preferential deposits	- instrument has no derivative features (only early redemption options are permitted)		(exemption for multiple points of entry); - no liabilities whose value is linked to a derivative; - no set-off/netting arrangements; - no incentive to redeem; - no deposit unless maturity above 1 year is demonstrated
End-state	2020	31/12/2023	Systemic institutions: 01/07/2019 for compliance with MREL level. Until 01/01/2022, non-subordinated liabilities can be included in MREL-eligible liabilities if issued prior to 01/01/2018. Non-systemic institutions: 01/01/2023	2023
Phase-in	No phase-in, if MREL target is already met, otherwise bank-specific (max. 4 years)	Interim target to be met by 31/12/2021	Systemic institutions: subordination requirement to be met fully by 01/01/2022. Non-systemic institutions: linear build-up from 01/01/2019 to 01/01/2023	4-year transitional period with annual interim targets
MREL to transfer strategies	Transfer: balance sheet depletion + 20% scaling	End-state calibration: $2 \cdot (P1+P2) \cdot (\text{transfer perimeter} / \text{total assets})$	N/A	RCA based on individual analysis,

MREL calibration	FMA (AT)	CNB (CZ)	Danish FSA and FSC (DK)	MNB (HU)
	factor of the post-balance sheet depletion RCA *Further development of the methodology to be considered (e.g. based on separability analyses)	Subordination not required if transfer limited to preferred liabilities		depending on the transferable portfolio

Annex 4.2: Poland, Romania, Sweden, BU

	BGF (PL)	NBR (RO)	SNDO (SE)	SRB (BU)
End-state calibration	LAA= [P1+ P2R - requirement set to cover systemic risk referred to in Art. 4 (15) of the Act on Macroprudential Supervision + O-SIIs buffer]; RA = scaling factor * [P1 + P2R+ CBR]	$2 * (P1 + P2) + CBR + MCC$	LAA: $P1 + P2R - P2_{macro}$ RCA: $P1 + P2R$	LAA: $P1 + P2R + CBR$ RCA: $P1 + P2R$ MCC: CBR-125 bps
Adjustments	Bail-in strategy: balance sheet depletion: TREA post resolution = TREA prior resolution * scaling factor (1 - LAA for bail-in strategy; 70% for commercial banks for P&A strategy; 70% or 55% for selected cooperative banks for P&A strategy)	Balance sheet depletion (loss = LAA) Adjusting the implicit value of MCC according to Article 2(8) of the MREL RTS (i.e. benchmarked against capital position of peer institutions).	No ex ante adjustments	Recovery actions Balance sheet depletion Binding divestment plans

	BGF (PL)	NBR (RO)	SNDO (SE)	SRB (BU)
Subordination	Expectation of full subordination at the solo level. Eligible liabilities issued to cover MREL requirement at the consolidated level constituting a surplus over the minimum amount of own funds and eligible liabilities subject to write-down and conversion set at individual level may not be subordinated	No specific requirement for the time being	Full subordination (mandated via resolvability principle)	16% G-SIIS + CBR 14% other banks + CBR
Additional eligibility criteria	In addition to the above: - debt instruments included in the MREL shall be purchased by professional clients within the meaning of Annex II of Directive 2014/65, that is to say, they will not be offered to retail clients; - nominal value per unit of an MREL-eligible debt instrument shall amount at least PLN 400 000	No deposits were included in the MREL capacity	RCA to be met with eligible liabilities only, resulting in an effective MREL requirement equal to $2 \cdot (P1 + P2R) + CBR$. (Mandated via resolvability principle)	N/A
End-state	21/12/ 2023	31/12/2023	01/01/2024	< 4 years

	BGF (PL)	NBR (RO)	SNDO (SE)	SRB (BU)
Phase-in	According to Article 8 of Commission Delegated Regulation (EU) 2016/1450 the transitional periods will be communicated to the banks	Transition period until 30/12/2023	Same phase-in period for all resolution banks (towards end-state with 100% subordination)	No interim targets
MREL to transfer strategies	End-state calibration	Post-resolution TREA adjusted to reflect assets transferred	Same as end-state calibration (no specific adjustments)	Scaling factor: 0.8

FSA, Financial Supervisory Authority; LAA, loss absorption amount



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