

SRB MREL Dashboard – Q3.2020

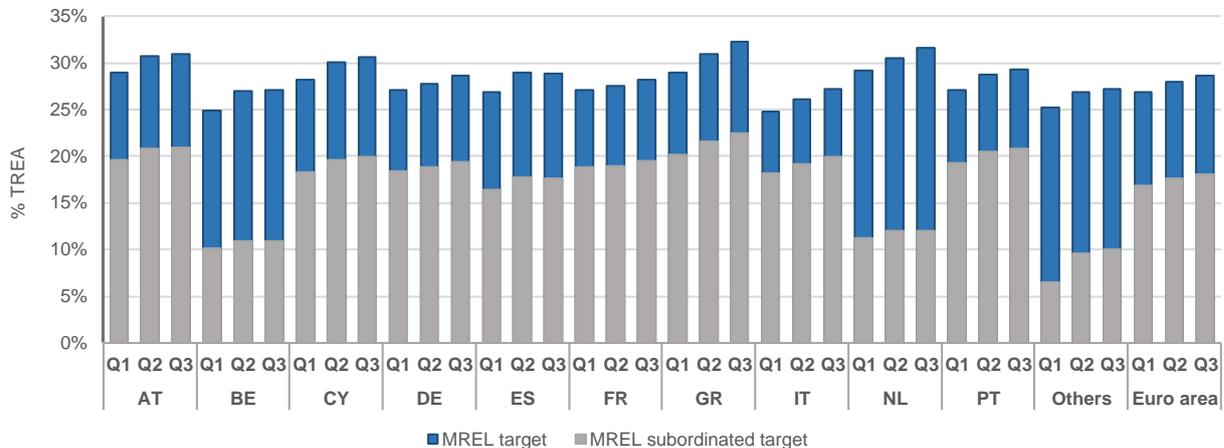
February 2021

The minimum requirement for own funds and eligible liabilities (MREL) dashboards are based on bank data reported to the Single Resolution Board (SRB). The first section of the dashboard focuses on targets, eligible liabilities and shortfalls as of Q3.2020 under the BRRD1 framework. The second section highlights recent developments in the cost of funding. Pro-forma BRRD2 targets and shortfalls were included in the previous issue of the dashboard (MREL dashboard Q2.2020).¹

1. MREL MONITORING – Q3.2020

MREL targets: The average MREL target, in percentage of the total risk exposure amount (TREA), rose by 0.6% from June to September, to 28.6% TREA in September. The overall MREL target across SRB banks in absolute value reached EUR 2,026 bn. The increase in MREL target was mostly driven by the growth in total liabilities and own funds (TLOF) after the significant ECB refinancing operations in the context of Covid-19. The average subordination target followed the same trend, increasing from 17.6% TREA in June to 18.0% TREA in September (cf. Chart 1).

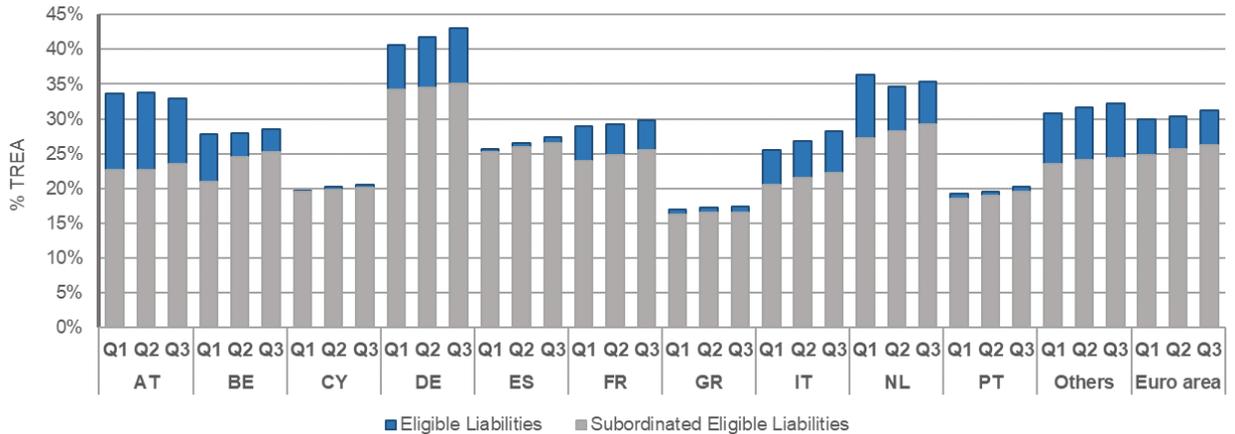
Chart 1: BRRD 1 MREL targets (of which subordinated), % TREA



¹ This publication is based on an SRB proprietary database built upon quarterly reporting received from banks under the SRB remit and SRB staff computations. Coverage and definitions have broadened over time, evolving with policy enhancements and the new regulatory framework, cf. methodological annex for further details. The data in this publication is provided for information purposes only. This document shall neither be binding nor construed as constituting a commitment by the SRB on how it will exercise its tasks and shall be without prejudice to any stance that the SRB may take with respect to the subject of this publication. The SRB shall not be held liable for any use of the data therein.

MREL outstanding stock: The average stock of MREL eligible liabilities and own funds, in percentage of TREA, rose by 0.8% to 31.2% TREA from June to September. The overall outstanding MREL eligible amount across SRB banks in absolute value increased to EUR 2,209 bn in September from EUR 2,181 bn in June, showing that new issuances counterbalanced outflows. In September 2020, the portion of subordinated liabilities increased to 26.3% TREA (EUR 1,863 bn) compared to 25.7% TREA (EUR 1,840 bn) in June 2020 (cf. Chart 2).

Chart 2: BRRD 1 MREL eligible liabilities (of which subordinated), % TREA



Shortfalls: After recording an increase in Q2.2020, average MREL shortfalls reduced to 1.9% TREA in Q3.2020, as the increase in eligible amounts offset the growth of MREL targets. The overall shortfall dropped to EUR 133.9 bn in Q3.2020 from EUR 146.7bn in Q2.2020, albeit remaining above the level reported in Q1.2020 (EUR 128.4 bn). In Q3.2020, subordinated shortfalls remained broadly stable at 0.3% TREA, equal to EUR 17.9 bn. Although in line with Q2.2020 level, subordinated shortfalls remained higher than the Q1.2020 value (EUR 13.6 bn) (cf. Charts 3 and 4).

Chart 3: BRRD 1 MREL shortfall (of which subordinated), % TREA

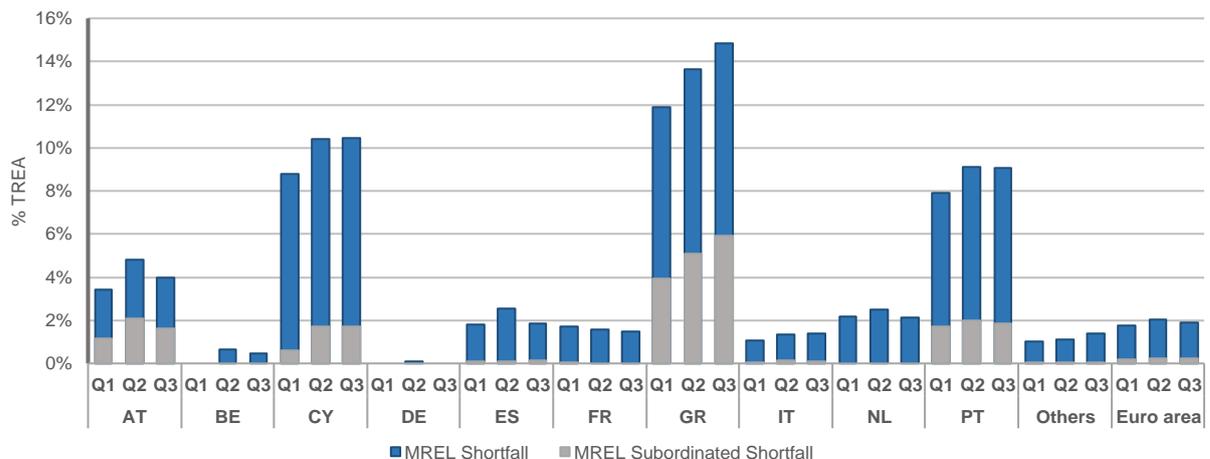
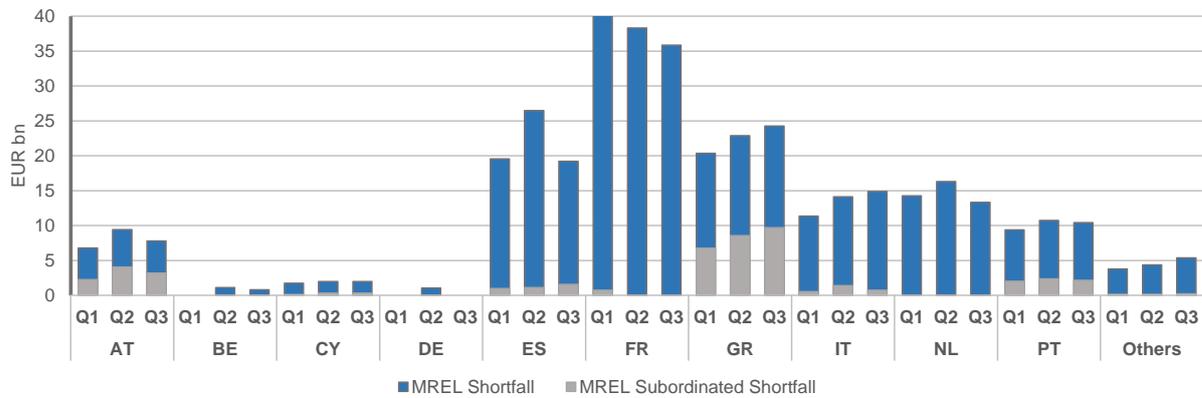


Chart 4: BRRD 1 MREL shortfall (of which subordinated), EUR bn



MREL gross issuances: In Q3.2020, MREL issuances amounted to EUR 50.9 bn, a reduction of 42% (EUR 37.3 bn) in comparison to Q2.2020. The pronounced reduction can be attributed, beyond seasonal effects, to the additional central bank funding available in the context of the Covid-19 crisis. Between Q1.2020 and Q2.2020, issuances decreased by 4%. The average MREL issuances, in percentage of TREA decreased to 0.7% TREA in Q3.2020. In Q3.2020, issuers' preference was towards senior unsecured liabilities (37% of total issuances), followed by senior non-preferred liabilities (30%) (cf. Charts 5, 6 and 7). In Q3.2020, issuances by G-SIIs account for 39% of total, with respect to 31% in Q2.2020. Overall, during the first three quarters of 2020, banks have issued about EUR 230.7 bn, 7% lower than in the same period of the previous year (EUR 249 bn).

Chart 5: MREL gross issuances by type of instrument, EUR bn

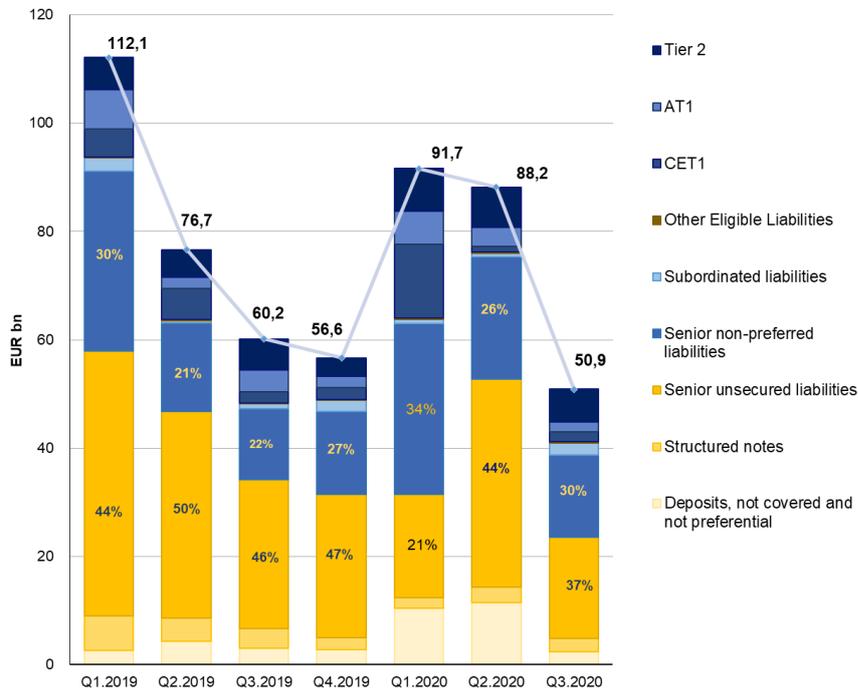


Chart 6: MREL gross issuances by country, EUR bn

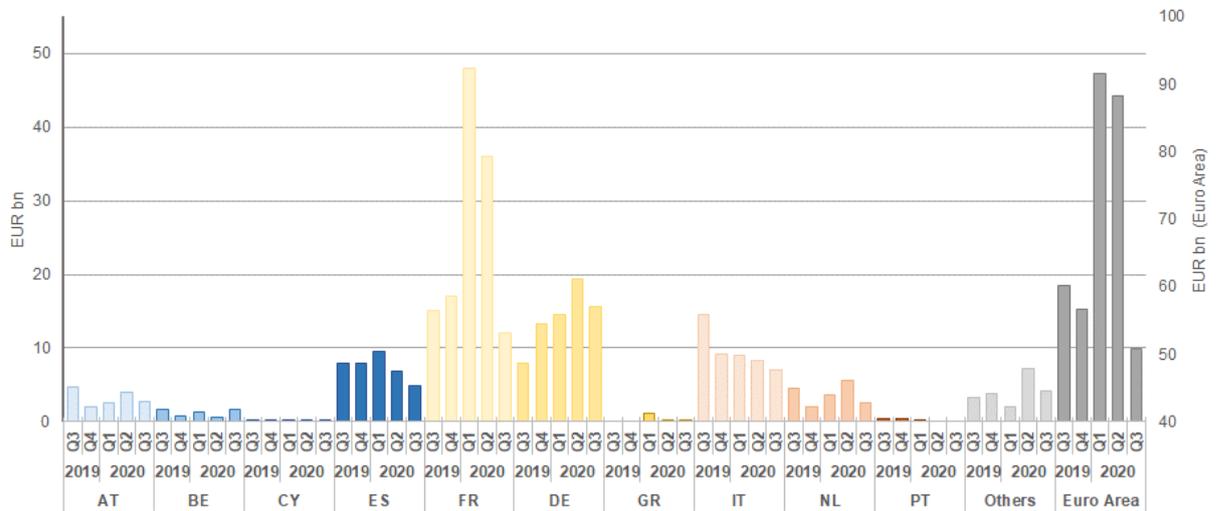


Chart 7: MREL gross issuances by country, % TREA

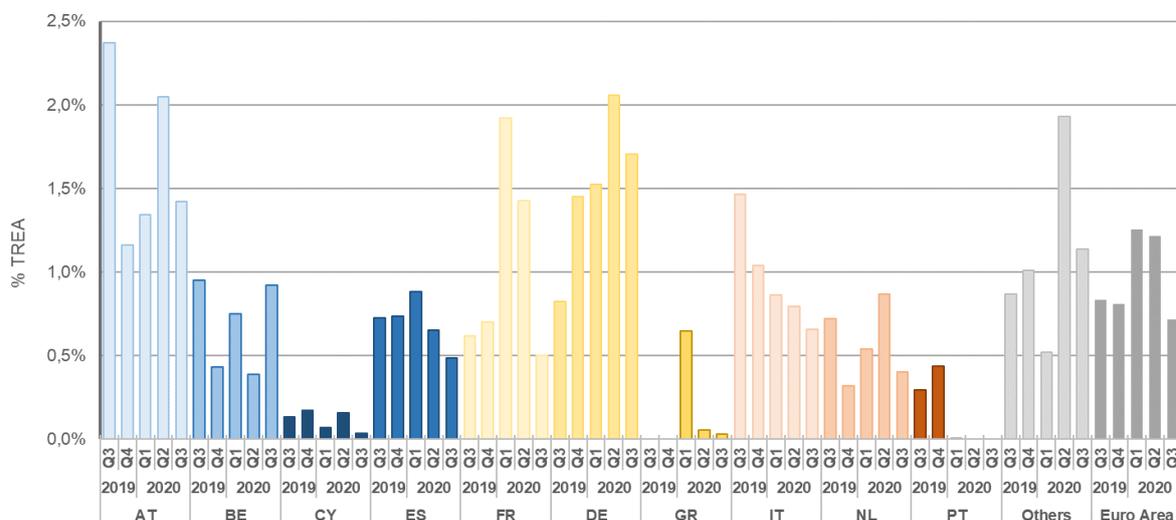


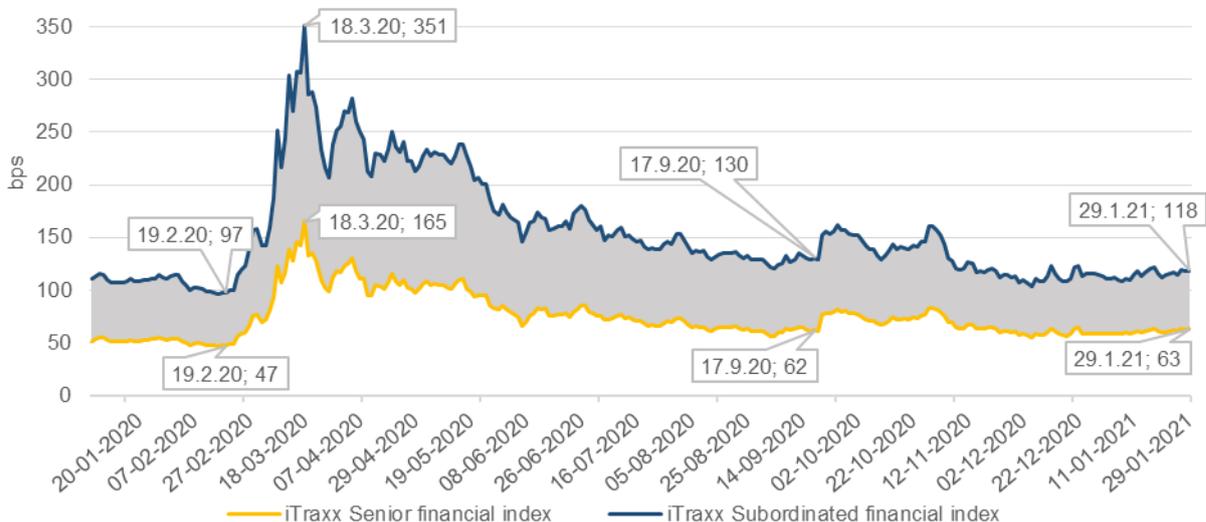
Table 1. Q3.2020 key MREL metrics

Country	MREL overall target	MREL subordinated target	Outstanding Amount at 30/09/2020			Amount Issued during Q3.2020		Overall shortfall		Subordinated shortfall	
	%TREA	%TREA	EUR mn	%TREA	%TLOF	EUR mn	%TREA	EUR mn	%TREA	EUR mn	%TREA
AT	30,9%	20,9%	64.390	32,9%	16,4%	2.787	1,4%	7.811	4,0%	3.185	1,6%
BE	27,0%	10,9%	49.546	28,6%	9,8%	1.598	0,9%	793	0,5%	0	0,0%
CY	30,6%	19,9%	3.891	20,5%	9,4%	6	0,0%	1.985	10,5%	323	1,7%
DE	28,6%	19,4%	397.300	43,1%	13,5%	15.708	1,7%	0	0,0%	0	0,0%
ES	28,8%	17,6%	282.975	27,4%	12,2%	4.991	0,5%	19.213	1,9%	1.564	0,2%
FR	28,2%	19,5%	716.986	29,8%	9,9%	11.978	0,5%	35.836	1,5%	0	0,0%
GR	32,3%	22,5%	28.448	17,4%	10,7%	48	0,0%	24.258	14,8%	9.707	5,9%
IT	27,2%	20,0%	300.927	28,3%	11,4%	6.990	0,7%	14.887	1,4%	737	0,1%
NL	31,6%	12,0%	221.332	35,3%	10,8%	2.520	0,4%	13.317	2,1%	0	0,0%
PT	29,3%	20,8%	23.266	20,2%	9,4%	0	0,0%	10.442	9,1%	2.148	1,9%
Others	27,2%	10,0%	120.195	32,2%	11,6%	4.243	1,1%	5.365	1,4%	224	0,1%
Total	28,6%	18,0%	2.209.257	31,2%	11,2%	50.869	0,7%	133.907	1,9%	17.888	0,3%

2. COST OF FUNDING AND MARKET ACCESS

Cost of funding: Despite funding markets' adverse reaction to the surge of Covid-19 during Q1.2020, funding costs stabilised in Q3.2020 and approached pre-pandemic levels in Q4.2020. The indexes on subordinated and senior debt rose sharply from mid-February and peaked in mid-March. From Q2.2020 onwards, both indexes experienced high volatility periods and a progressive correction of the upward trend, driven by easing lockdown restrictions in some countries and development of tests and vaccines. The downward tendency continued in Q3 and Q4.2020, despite some hick-ups. As of end-January 2021, the indexes' values are about 1.3 times those registered before the COVID-19 outbreak (cf. Chart 8).

Chart 8: Cost of funding (iTraxx Europe Financials)



Source: Bloomberg Finance L.P.

Gross issuances: From mid-February to end-March 2020, banks' gross bond issuances dropped below the 2015-2019 average issuance corridor, driven by the market disruption and the rise of funding costs brought by the Covid-19 outbreak. Since April, gross bond issuances mildly recovered and remained within the average issuance corridor for almost the entire period between Q2.2020 and Q4.2020, despite displaying some fluctuations. After touching a lower bound in July, issuances recovered and were in the average issuance corridor until early December, with peaks at the beginning of September and November. During January 2021, bank's bond issuances were lower than the 2015-2019 range and lower than issuances in January 2020 (cf. Chart 9).

METHODOLOGICAL ANNEX

Section	Sample ²	Reference Date	Data Sources
MREL monitoring	77 groups, excluding groups whose preferred strategy is liquidation	Q1.2020, Q2.2020, Q3.2020	MREL quarterly data collection
Cost of funding	-	Until Q4.2020	Bloomberg Finance L.P., Dealogic, ECB

Country	Number of groups
AT	8
BE	4
CY	3
DE	8
ES	12
FR	6
GR	4
IT	11
NL	4
PT	4
Others (EE, FI, IE, LU, LV, MT, SI, SK)	13
Euro area	77

MREL monitoring

The MREL targets (%TLOF) – set by the SRB under the 2018 and 2019 resolution-planning cycles – are multiplied by TLOF as of Q1.2020, Q2.2020 and Q3.2020 and expressed as percentages of TREA. MREL targets (%TREA) are weighted average of targets of institutions in the same country. MREL shortfalls are calculated including those of banks with transition period in place.

Cost of funding

The chart on cost of funding plots the iTraxx subordinated financial index (ticker ITRXEUE Curncy, 5y daily) and the iTraxx senior financial index (ticker ITRXESE Curncy, 5y daily), from Bloomberg.

Confidentiality criteria

² BU subsidiaries of third country groups and groups with European resolution college are not in scope.

Country data are presented only when there are at least three institutions in the same country. Countries that do not meet this criterion have been grouped and labelled in graphs as “Others”.

ABBREVIATIONS

AT1	Additional Tier 1
BRRD	Bank Recovery and Resolution Directive
CBR	Combined Buffer Requirement
CET1	Common Equity Tier 1
ECB	European Central Bank
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MS	Member State(s)
SNP	Senior Non-Preferred Instruments
SRB	Single Resolution Board
SRMR	Single Resolution Mechanism Regulation
TLAC	Total Loss-Absorbing Capacity
TLOF	Total Liabilities and Own Funds
TREA	Total Risk Exposure Amount