SRB – BANKING INDUSTRY DIALOGUE MEETING

Update on MREL Dashboard & Policy

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9 February 2022

Single Resolution Board

https://srb.europa.eu

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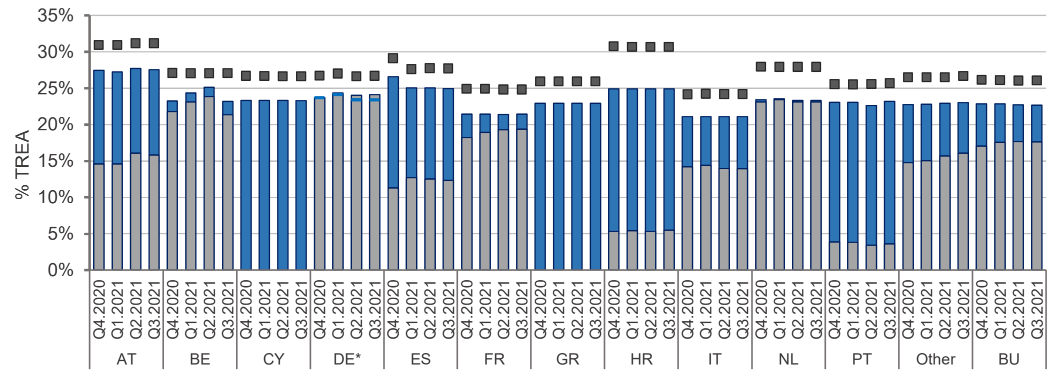
Final external targets

- Q3.2021 data shows that the average MREL target amounted to 26.1% TREA, including the CBR (17.6% TREA for the subordination target)

- Average shortfall including the CBR was about 0.5% TREA, equivalent to EUR 34.6 bn in absolute amount

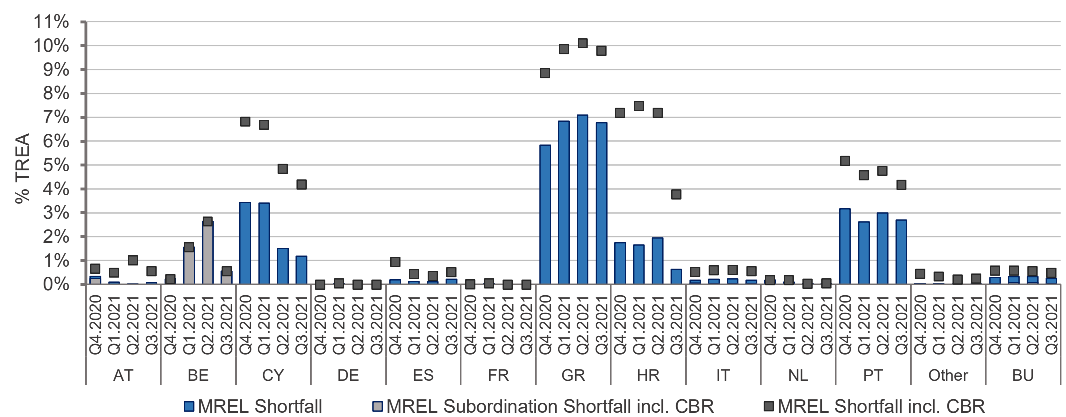
- In absolute amount, the shortfall decreased by 20.5% since Q4.2020*

Final MREL target (of which subordination) for resolution entities, % TREA



* The blue dash symbol represents the MREL target in case the MREL target is lower than the MREL subordination target including the CBR (i.e. for DE).

Final MREL shortfalls (of which subordination) for resolution entities, % TREA



*Considering the same sample
Source: MREL Dashboard Q3.2021

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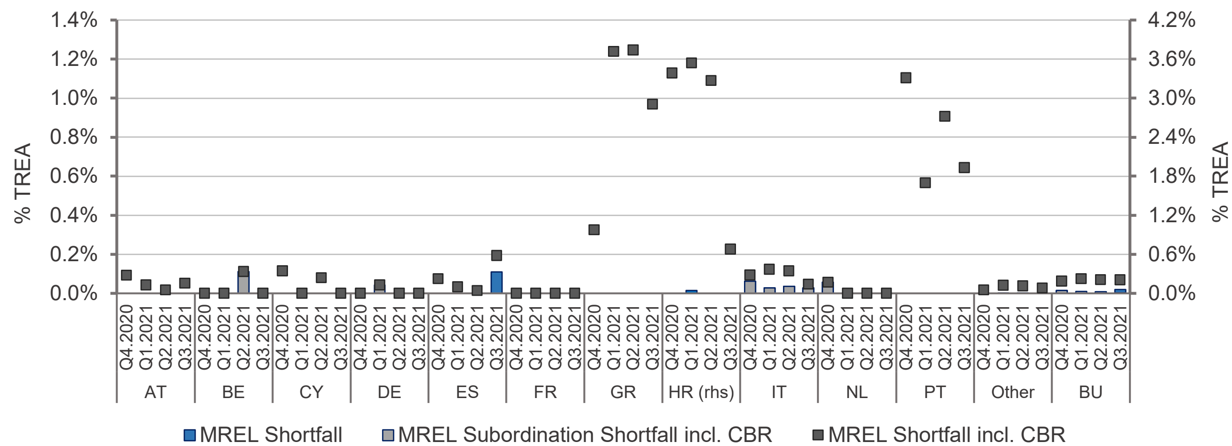
Intermediate external targets

- At the same date, the average MREL intermediate target stood at 25.3% TREA including CBR (17.5% TREA for the subordination target)

- Average MREL shortfall including the CBR amounted to 0.07% TREA or EUR 4.9 bn (of which EUR 282 mn for the subordination part)

- In absolute amount, the shortfall reduced by about a third since Q4.2020*

Intermediate MREL shortfalls (of which subordination) for resolution entities, % TREA



*Considering the same sample
Source: MREL Dashboard Q3.2021
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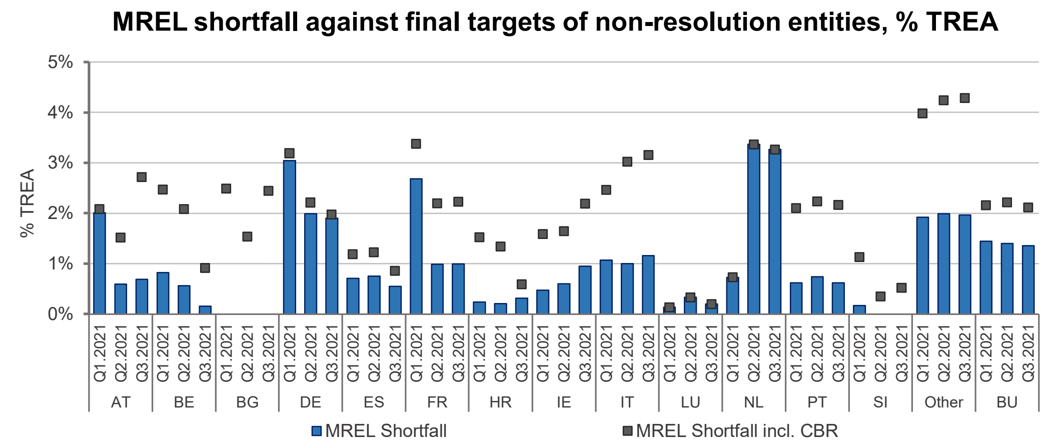
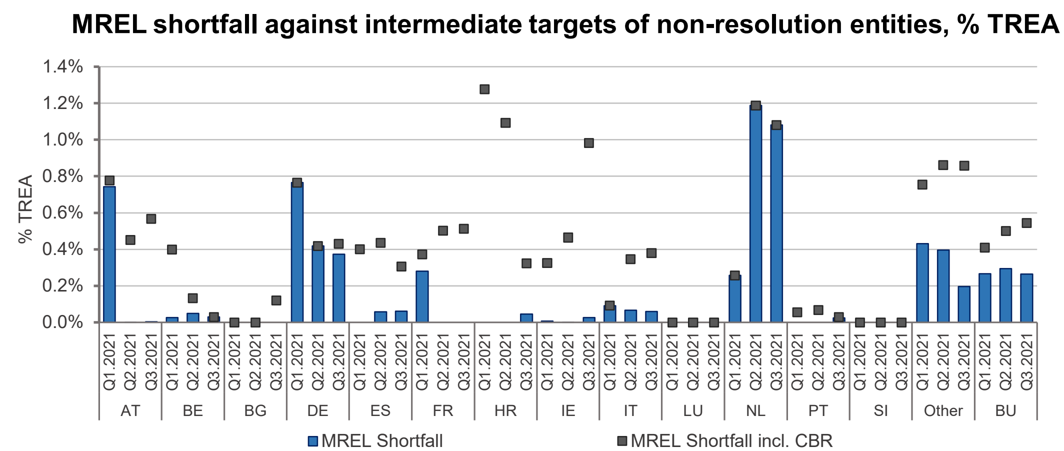
Internal targets

- The average **iMREL final target** amounted to 23.7% TREA including the CBR
  - More than half of non-resolution entities in scope reported a shortfall (2.1% TREA, or EUR 42.4 bn) against their final iMREL targets including the CBR
- The average **iMREL intermediate target** amounted to 21.3% TREA, including the CBR
  - 29 non-resolution entities reported a shortfall (0.5% TREA, or EUR 10.9 bn) against their intermediate iMREL targets including the CBR



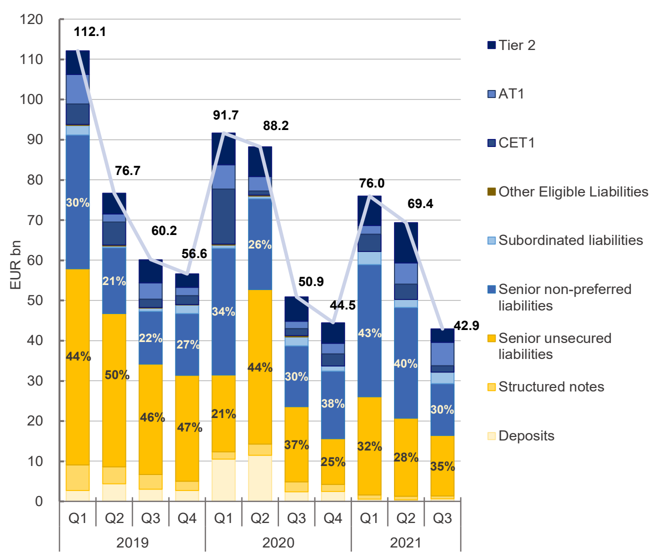


Source: [MREL Dashboard Q3.2021]

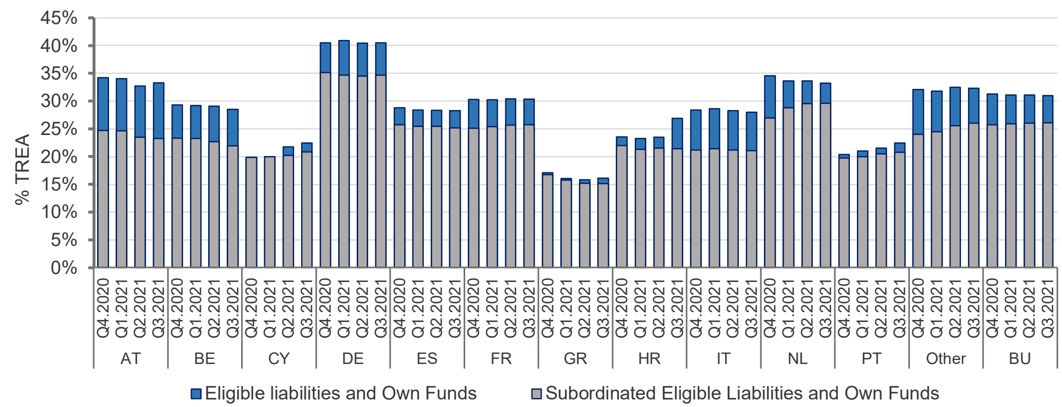
MREL build-up (Q3.2021)

- The stock of MREL eligible liabilities and own funds amounted to 31% TREA (or EUR 2,221 bn)
  - Stable over the quarter, but +1.2% from Q4.2020*
  - The subordinated capacity reached EUR 1,866 bn

MREL gross issuances by type of instrument, EUR bn



MREL eligible liabilities (of which subordinated) and own funds of resolution entities, % TREA



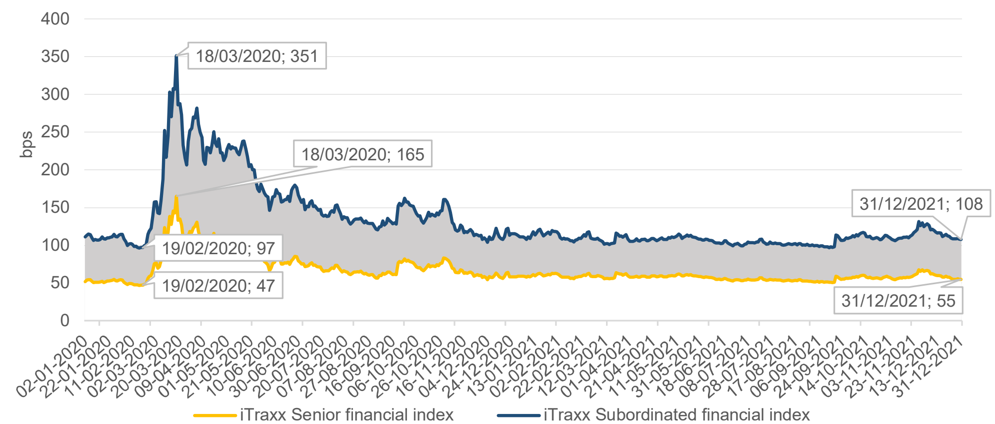
- In Q3.2021 banks under the SRB remit issued EUR 42.9 bn of MREL eligible instruments
  - Decreased from Q2.2021 (by 38.2%)
  - Issuers' focus was mainly on senior bonds (35.1% of total issuances)
  - G-SIIs banks issued the highest proportion of instruments (42.6% of the total), followed by Top Tier (42.3%), Non Pillar 1 and Other Pillar 1 banks (15.1%)

*Considering the same sample
Source: [MREL Dashboard Q3.2021]

Cost of funding

- At the end of December 2021, iTraxx indexes on subordinated and senior financial debt were respectively 1.1 and 1.2 times their pre-Covid-19 levels
- Despite the volatility seen in the funding markets, the spread between the subordinated and senior financial debt remained tight

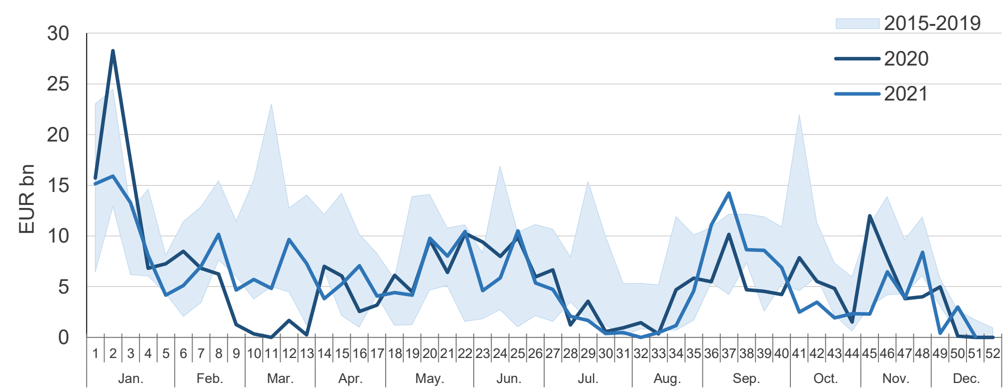
iTraxx on EU financial Subordinated and senior instruments



Source: Bloomberg Finance L.P.

- Bond issuance volume in Q4.2021 was slightly lower than in Q4.2020, fluctuated around the lower bound of the 2015-2019 average issuance corridor
- Primary banks issuance activity was accommodative during October and November, despite market volatility in the funding markets, while it slowed down in December

Weekly euro-banks issuances (EUR bn)
(weeks start on Wednesday and ends on Tuesday)



Source: Dealogic, SRB calculations

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2022 MREL Policy Update

General overview

- The 2022 MREL policy will be substantially stable, subject only to **targeted amendments and incorporating the 2021 Banking Package "quick fixes"**: :
  - **NCWO approach**: ongoing work on evolving balance sheet;
  - CRR/BRRD "Quick-Fixes" on **MPE strategy and daisy chains:** implementation of the proposal in line with the application date of the new legislation;
  - **iMREL:** Updated threshold to identify non-resolution entities subject to iMREL;
  - **CRR discretion on leverage ratio:** update by SRB regarding temporary measures by the ECB;
  - **EBA RTS on permission regime into the SRB policy**: provisions of draft RTS have been implemented by SRB, the policy will be further amended, if needed, after the adoption of the delegated regulation;
  - **Eligibility:** revised eligibility checklists (more flexibility for the level of management sign-off, updated sign-off form and checklist published on SRB website on 17.12.2021 and to be used for MREL/TLAC reporting as at 31 Dec 2021 due for submission by 18.02.2022).

Refinement of NCWO methodology and changes to the MREL methodology for MPE banks

- The SRB is assessing the possibility to reflect more elements in the **NCWO methodology**, notably the evolution of the bank's balance sheet approaching failure, i.e. part of the short-term unsecured funding would be considered withdrawn and replaced by secured liabilities. In future resolution planning cycles, the potential impact of the discretionary exclusions on the NCWO risk will also be considered.
- The CRR/BRRD "Quick-Fixes" proposal clarifies that banks under **MPE strategies** cannot use surpluses held in third countries without a resolution framework to lower their MPE deduction for the EU parent entity. For **daisy chains**, SRB expects banks to prepare for the new deduction mechanism and will monitor compliance with iMREL accordingly.

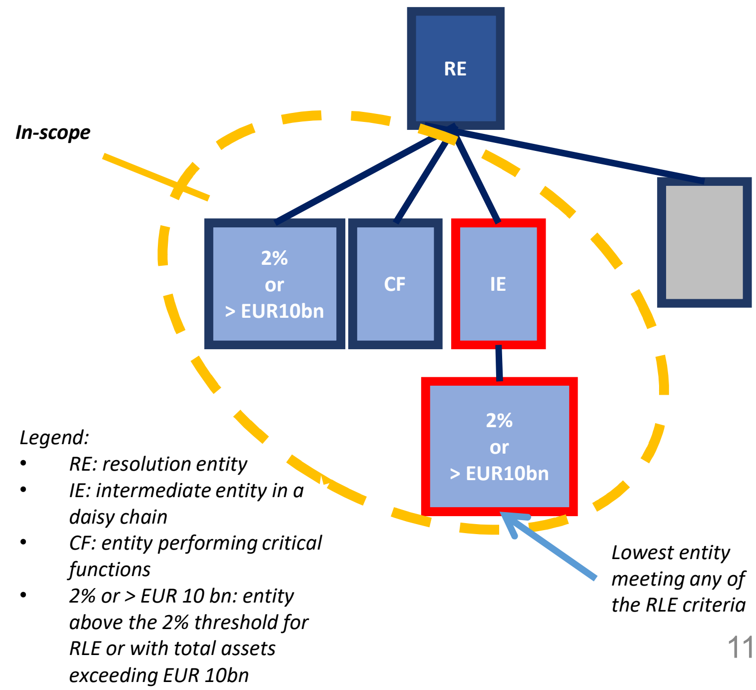
Update of the threshold to identify non-resolution entities subject to iMREL

Over past RPCs, SRB has been progressively extending the scope of entities subject to **internal MREL targets.** The entities qualified as **Relevant Legal Entities** (RLEs) if they met any of the following conditions: i) provision of **critical functions**; or ii) size of the subsidiary relative to the group above a certain **threshold,** currently expressed in x% of the group's total risk exposure amount or leverage exposure or total operating income.

RPC	2018/19	2020	2021
RLE threshold	5%	4%	3%

In the 2022 Policy, the iMREL scope will be enlarged as follows:

- Decrease of the **RLE threshold from 3% to 2%.**
- **Total assets above EUR 10 bn** irrespective of the threshold.
- Scope of entities: CRR institutions (i.e. credit institutions and investment firms) and financial holding companies.



CRR discretion on leverage and MREL calibration

- In September 2020 the ECB used its discretion under the CRR to **temporary exclude certain exposures to central banks from the calculation of an institution's total exposure measure** (i.e. leverage amount) to facilitate the implementation of its monetary policy during the Covid-19 pandemic. As announced by the ECB, banks may benefit from the relief measure until the end of March 2022.
- The leverage ratio requirement and the leverage amount can influence the calibration of the final MREL targets as well as the compliance with the requirements at 1 January 2024.

What steps will the SRB take?

- As communicated in the press release on 22 December 2021, the SRB will collect the necessary data in order to recalibrate **the final targets in 2022 RPC on the basis of changed leverage amounts and requirements**.
- The monitoring of compliance towards the final MREL targets will also take this into account.

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SRB Permission Regime to reduce eligible liabilities

Background

- In accordance with **Art.78a CRR**, banks need to obtain a permission from the SRB to reduce MREL eligible liabilities. The SRB can grant two types of authorisations: **general prior permissions** for maximum one year, or **ad hoc permissions** to redeem specific instruments.
- On 26 May 2021, the EBA published its Final Report on the draft RTS on the Permission Regime.
- On 28 July, the SRB published an **Information Notice** explaining that it would have applied the draft RTS on the Permission Regime as of 1 January 2022. This choice ensured policy stability, as banks will not need to apply again for permission provided the Delegated Regulation will not introduce substantial changes.
- In September SRB also published a **Communication** to assist banks in understanding the new provisions and to allow banks to send applications by 1 October.

General prior permission applications

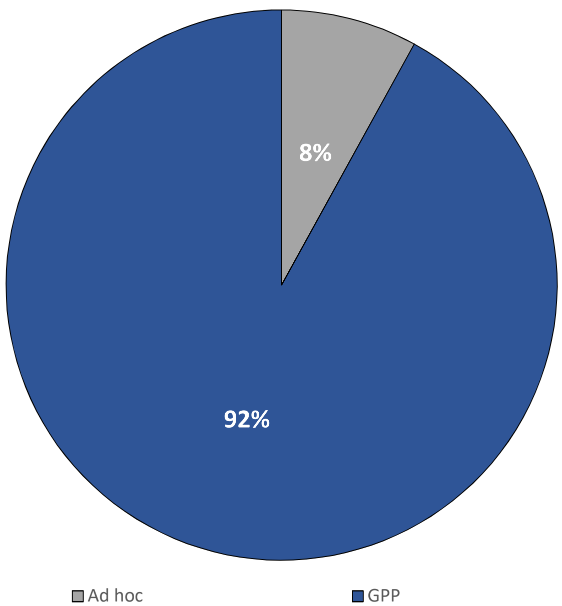
Substantial requirements

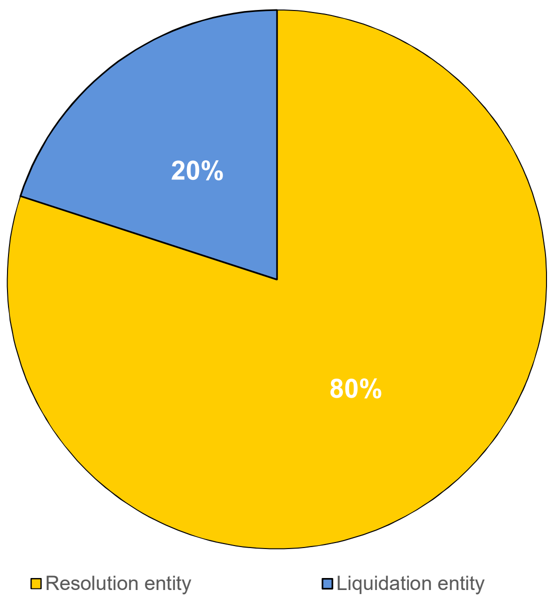
- A GPP shall be granted for a certain predetermined amount and for a specified period (maximum one year).
- According to the draft RTS, the predetermined amount cannot exceed 10% of the total amount of outstanding eligible liabilities. Banks that applied for a GPP in 2022 have not used the full predetermined amount available under the GPP, except for a few examples.
- The CRR establishes that banks are eligible for a GPP only if they meet a margin above the MREL requirement after deducting the GPP predetermined amount. The margin has been agreed between the ECB and the SRB.

GPP applications

Trends and figures

- The SRB received 51 permission applications, 46 for a GPP (92%) and 5 for ad hoc reduction (8%). Out of 51 applications, 40 were from resolution banks, while 11 were from liquidation entities.





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