Council of the
European Union

Brussels, 26 January 2023
(OR. en)

5742/23

EF 22
ECOFIN 72

COVER NOTE

From:	European Banking Authority (EBA)
To:	General Secretariat of the Council
Subject:	EBA Annual Quantitative Monitoring Report and Impact Assessment mandated by BRRD Articles 45 I (1) and (2)

Delegations will find attached a letter on the subject mentioned above.

The EBA’s full report is available online and can be downloaded via this link:

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2023/MREL%20quantitative%20report/1050872/EBA%20MREL%20quantitative%20monitoring%20report%20and%20impact%20assessment%20%28Art.45l%20BRRD%20II%29.pdf

THE CHAIRPERSON

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EBA-2023-D-4167

John Berrigan
Director General
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union (FISMA)
European Commission
Rue de Spa 2
1049 Brussels
Belgium

16 January 2023

Subject: MREL quantitative monitoring mandates under BRRD Articles 45 l (1) and (2).

Dear Mr Berrigan,

The EBA is mandated to submit, under Article 45l(1) of Directive (EU) 2019/879 (BRRD), an annual report to the Commission including an assessment of the requirement for own funds and eligible liabilities, the aggregate level and composition of own funds and eligible liabilities of institutions and entities, and the amounts of instruments issued in the period. In addition, this year, this report also responds to the mandate set in Article 45l(2) of BRRD for EBA to submit an impact assessment of MREL.

It is thus my pleasure to submit to you today the requested analysis including the results of both parts of the request.

As of December 2021, a total of 245 banks were subject to external MREL and 133 non-resolution entities subject to internal MREL (typically material subsidiaries of resolution group). The MREL requirement for the 245 banks subject to an external MREL requirement was on average 22.6% of Total Risk Exposure Amount (TREA) with a combined buffer requirement of 3.3% of TREA. The MREL requirement for the 133 non-resolution entities subject to an internal MREL was on average 20.2% of TREA with a combined buffer of 2.9%.

The shortfall against external MREL was 33bn (0.44% of TREA), attributed to 70 banks (34 O-SIIs and 36 other banks). For a year-on-year comparable sample, the shortfall declined by 42% compared to the previous year, but at a lower rate for smaller banks (100% for G-SIIs, 50% for O-SIIs and only 27% for other banks).

The report shows that resolution entities have closed their MREL shortfalls by increasing the stock of eligible instruments rather than from deleveraging. Resolution entities have increased eligible instruments in both absolute amounts and in percentage points of TREA.

On average, EU resolution banks reported total MREL resources of 31% of TREA. Own funds were the main component of MREL at 19.8% of TREA (19.4% for G-SIIs, 20.6% for O-SIIs and 18.1% for other banks), while eligible debt represents 11.6% of TREA (11.2% for G-SIIs, 12.7% for O-SIIs and 7.4% for other banks). Wholesale deposits remain limited apart for banks below EUR10bn for which they reach up to 5% of TREA.

The way of meeting MREL is not symmetrical across banks and reflects subordination requirement. G-SIIs rely on subordinated instruments (mainly senior non-preferred), O-SIIs rely on both senior non-preferred and senior debt and other banks rely almost entirely on senior debt. On an aggregated basis, senior non-preferred has become the most important type of eligible debt, representing 5.5% of TREA (6% for G-SIIs, 5.8% for O-SIIs and 1.2% for other banks), while senior preferred debt represents 4.5% TREA (3% for G-SIIs, 5.8% for O-SIIs and 5.6% for other banks).

The report also finds that the impact of closing the shortfall on banks' profitability is limited overall, but that some banks face difficulties. The cost of closing the shortfall for the sector overall represents a limited 0.125% of NII (nil for G-SIIs, 0.08% for O-SIIs and 1.28% for other banks). The cost of closing the shortfall, calculated only considering the 23 banks within this sample with a shortfall as of December 2021, would be 2% of NII (nothing for G-SIIs, 1.5% for O-SIIs and 2.34% for other banks). The 23 banks with a shortfall as of 2021 included in these calculations represent 4% of EU banking sector assets. Among these banks, 2 are loss making, and 2 exhibited an estimated cost of closing the shortfall above their net earnings. The cost of existing amount of eligible debt, obtained for the 97 banks of the sample, is estimated at 1.22% of NII (0.96% for G-SIIs, 1.44% for O-SIIs and 1.70% for other banks). Still, the impact tends to be heterogeneous between types of bank and member states reflecting different funding condition in different member states. Funding conditions are tightening but overall, this is not expected to represent major difficulties for any specific types of banks. However, weaker banks may face greater difficulties.

At aggregated level, banks facing difficulties to issue remain limited in terms of total assets, but they can represent a significant share of total assets in some member states. Banks funding conditions vary by member state and types of banks. But banks appearing effectively limited in their capacity to issue - those still reporting a shortfall as of December 2021 and that have not increased their

MREL over the first half of 2022 - seem to suffer from intrinsic financial health issues, as evidenced by below investment grade credit rating, or from more external factors such as their sovereign rating or the apparent lack of market in their home jurisdiction.

Yours sincerely,

José Manuel Campa

CC: Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, European Parliament
Claudia Lindemann, Head of ECON Secretariat
Elisabeth Svantesson, Swedish Minister of Finance, Presidency of the rotating Council of the European Union
Tuomas Saarenheimo, Chair of Economic and Finance Committee, Council of the European Union
Thérèse Blanchet, Secretary-General, Council of the European Union
Martin Merlin, Director Dir D, Banking, Insurance and Financial Crime, DG FISMA
Almoro Rubin de Cervin, Head of Unit D1, Bank regulation and supervision, DG FISMA
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Dominique Thienpont, Legal Counsellor to Dir D, DG FISMA