EBA QUANTITATIVE MREL REPORT

AS OF 31 DECEMBER 2020

EBA/REP/2022/09

EUROPEAN BANKING AUTHORITY

Contents

Annexes

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
NRA	national resolution authority
O-SII	other systemically important institution
RTS	regulatory technical standards
SPE	single point of entry
SRB	Single Resolution Board
TEM	total exposure measure
TLAC	total loss-absorbing capacity
TLOF	total liabilities and own funds
TREA	total risk exposure amount

Executive summary

Banks with a resolution strategy other than liquidation continue to represent about 80% of EU domestic assets, with BRRD II decisions already covering 74% of EU domestic assets. Good progress has been made in setting internal MREL decisions with 128 received in the first year of BRRD II, covering 73% of risk-weighted assets expected to receive an internal MREL decision.

The report covers 260 resolution groups subject to external MREL and 128 institutions subject to internal MREL – above own funds requirements. As of December 2020, the estimated coverage of external MREL decisions was 80% of EU-27 domestic assets (remaining stable compared to 80% in the 2019 quantitative MREL Report).

Bail-in continued to be the prominent strategy for the largest banks, with a total of 141 decisions covering EUR 22.7tn in assets (75.4% of EU domestic assets). Transfer was the preferred strategy for 107 smaller resolution groups that represent 4% of total assets (3.5% of EU domestic assets). The bail-in strategy aims to restore viability through the write-down and conversion of eligible instruments into equity, with the aim of absorbing the losses and recapitalising the failing bank. In this report, transfer strategies should be understood as resolution strategies based on the transfer of all or part of the failed bank to an acquirer or bridge bank.

The MREL requirement for the 260 banks subject to external MREL was on average 22.9% of TREA

As of December 2020, The MREL requirement for the 260 banks subject to external MREL was on average 22.9% of TREA (22.8% for G-SIIs, 23.1% for O-SIIs and 21.7% for other banks), and the combined buffer that should be fulfilled on top of the MREL requirement was set at a level of 3.4% of TREA (3.6% for G-SIIs, 3.2% for O-SIIs and 3.0% for other banks). As a percentage of TEM, the MREL requirement was 7.0% (6.70% for G-SIIs, 7.34% for O-SIIs and 7.15% for other banks). The breakdown of the MREL requirement by country can be found in the Annex. On average, subordination requirements were 20.4% of TREA (including CBR) for the banks subject to subordination requirements under BRRD II, remaining stable compared to the previous EBA quantitative report on MREL.

The MREL requirement for the 128 non-resolution groups subject to internal MREL was on average 20.2% of TREA (20.33% for G-SIIs, 19.63% for O-SIIs and 21.72% for other banks) with a combined buffer of 3% (2.96% for G-SIIs, 3.15% for O-SIIs and 3.33% for other banks). 64 resolution groups have non-resolution entities that have been set an internal MREL above own funds requirement[1].

As of December 2020, 110 resolution groups presented an external MREL shortfall of EUR 67.6bn against their end-state MREL targets, and 62 non-resolution groups out of a sample 128 presented an internal MREL shortfall of EUR 36bn. The EBA estimates that issuances of

[1] 23 of those groups have more than one subsidiary subject to internal MREL and 41 groups have only one subsidiary.

subordinated, senior non-preferred and senior unsecured debt by banks with a shortfall in 2021 represented 10% of their shortfall as of December 2020.

The 67.6bn shortfall was attributable to 110 resolution groups (EUR 3.8bn for 1 G-SIIs, EUR 46.9bn for 45 O-SIIs and EUR 16.9bn for 64 other banks) that represented 11% of total EU domestic assets. The business models with an above-average MREL shortfall were savings banks, consumer/auto, cooperative and local universal banks.

The shortfall against intermediate targets was limited. Concerning the intermediary target specified by the BRRD for 1 January 2022, as of December 2020 all G-SIIs already met their intermediary target and a limited 38 out of 260 resolution groups had a shortfall, reaching EUR 13.3bn (EUR 10.2bn for O-SIIs and EUR 3.1bn for other banks), attributable to 18 O-SIIs and 20 other banks.

62 non-resolution groups reported an internal MREL shortfall of EUR36bn (17 G-SIIs, 35 O-SIIs and 10 other banks) (EUR 19.7bn for G-SIIs, EUR 15bn for O-SIIs and EUR 1bn for other banks), out of a sample of 128 non-resolution groups for which an internal MREL decision was reported to the EBA. This shortfall would be affected if deductions were applied to the amount of eligible instruments of intermediate parents in cases of indirect subscription of instruments by the resolution entity (‘daisy chains’).

On a comparable basis, shortfalls are down 41% compared with the previous quantitative EBA report on MREL (69% for G-SIIs,42% for O-SIIs and 22% for other banks).

In the period from January 2021 to October 2021, banks in the sample issued EUR 96.4bn of senior non-preferred debt, EUR 29.2bn of subordinated debt and EUR 15bn of senior unsecured debt[2]. However, banks with a shortfall only issued EUR 7.5bn of senior non-preferred debt, EUR 1.8bn of subordinated debt and EUR 0.98bn of senior unsecured debt.

More than two-thirds of O-SIIs with consolidated assets below EUR 50bn exhibited a shortfall as of December 2020

Within the O-SII category, the two sub-categories of banks with the largest amount of assets (top-tier banks and banks with assets between EUR 50 and 100bn) represented 71% of the total shortfall of the category, but only 27% of the number of banks presented a shortfall. However, 74% of the banks in the other three categories of small banks (those with consolidated assets below EUR 50bn) exhibited a shortfall.

As with the O-SIIs, big banks in the category of other banks were not the most affected, as only 37% of other banks with consolidated assets above EUR 10bn presented a shortfall as of December 2020

For the category of other banks, the first two sub-categories of banks (banks with assets above EUR 50bn and banks with assets between EUR 10bn and 50bn) represented 79% of the total shortfall of

[2] Source: Bloomberg.

the category. However, in terms of the number of banks, only 37% of them presented a shortfall, while 40% of the banks in the other two categories of small banks (those with assets below EUR 10bn) reported a shortfall, which was a higher proportion.

This report is a point-in-time estimate and reflects the MREL decisions received by the EBA up to May 2021 and resources as of December 2020

The report is based on MREL decisions under BRRD II reported under the new reporting framework. However, not all resolution banks have yet been set a new MREL decision under BRRD II. For those banks subject to an external MREL without BRRD II decisions available at the cut-off date, the last reported BRRD I decision was used to compute the shortfalls. For banks subject to an internal MREL only BRRD II decisions have been considered, as the internal MREL was introduced by BRRD II. The collection of MREL resources data for banks subject to both external and internal MREL was made on an ad-hoc and voluntary basis from authorities due to the unavailability of the data at this stage at the EBA.

1. Introduction

This report responds to the mandate set in Article 45l of Directive (EU) 2019/879 of the European Parliament and of the Council for the EBA to submit, in cooperation with the competent authorities and resolution authorities, an annual report to the Commission including an assessment of the requirement for own funds and eligible liabilities set in accordance with Article 45e or Article 45f, the exercise of the power referred to in Article 45b(4), (5) and (7), 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 the European Union (EU), the Bank Recovery and Resolution Directive (BRRD, hereafter BRRD I) introduced the concept of a 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 institution. BRRD I was updated by the 2019 Banking Package, which introduced amendments to the EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD), the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD).

The main changes introduced by these amendments relate to the harmonisation of subordination rules, the introduction of an MREL requirement based on the total exposure measure, an internal MREL for non-resolution entities and the introduction of the total loss-absorbing capacity (TLAC) minimum requirement for global systemically important institutions (G-SIIs), agreed within the Financial Stability Board.

The new harmonised subordination requirements generated new categories of institutions: (i) G-SIIs and material subsidiaries of non-EU G-SIIs, (ii) top-tier banks (i.e. resolution entities that are part of a resolution group the total assets of which exceed EUR 100bn), (iii) non-GSIIs, non-Top Tier but chosen by the respective resolution authority under certain conditions ('other pillar 1 banks') and (iv) other banks, non GSIIs, non-Top Tier Banks and non-other pillar 1 banks with a case-by-case MREL subordination requirement. The subordination requirement must be met with instruments that are subordinated to excluded liabilities.

One of the cornerstones of a credible resolution regime is the requirement for institutions to have, at all times, adequate levels of own funds and specific types of liabilities to ensure a credible and feasible resolution. 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. This aims to minimise the impact of the failure of the institution on the wider economy and the financial system and to avoid the use of public funds.

The purpose of this report as mandated by Article 45l(1) of BRRD is to provide quantitative and qualitative information on the requirements and loss-absorbing capacity of the European banking sector. In particular, the report (i) provides an update on the resolution strategies specified for European banks, (ii) provides an update on the levels at which the requirements are set, both for an internal and external MREL, (iii) estimates shortfalls of eligible debt needed to fulfil the end-state and intermediate targets and (iv) provides an update on the amount of MREL eligible debt issued by EU institutions over the period.

The EBA has published quantitative analyses on MREL in the past. It published an interim report on the MREL in July 2016[3] (data as of June 2015), the final report on the MREL mandated by BRRD I and published in December 2016[4] (data as of December 2015), a quantitative update of the EBA MREL report in December 2017 (data as of December 2016)[5], a quantitative MREL update in February 2020 (data as of December 2018)[6] and a quantitative MREL report in May 2021 based on December 2019 data[7].

While this report is based on balance sheet data as of 31 December 2020, MREL decisions communicated up to May 2021 have been considered to be as forward-looking as possible. Compared to previous reports, this report is partially based on BRRD II decisions reported to EBA by authorities for the first time on 1 May 2021 as per CIR 2021 /622. However BRRD II decisions have not been adopted for all resolution banks, and for completeness, the report continues to consider BRRD I decisions still in place – the latter representing about 31% of the sample.

With regard to resources, as the ITS on MREL reporting and disclosure was delayed, the amount of resources considered eligible to meet the MREL requirement has been provided directly by

[3] Interim report on MREL (June 2015 data).

[4] Final report on MREL. Report on the implementation and design of the MREL framework (December 2015 data).

[5] Quantitative update of the EBA MREL report (December 2016 data).

[6] EBA quantitative MREL report (as of 31 December 2018).

[7] EBA quantitative MREL report (as of 31 December 2019).

resolution authorities following the same procedure as in previous quantitative MREL reports but with the eligibility criteria under BRRD II.

2. Scope of the report

2.1 Progress of the resolution strategy and MREL setting

The report covers all the resolution groups or stand-alone institutions subject to MREL under Articles 45c and 45e or 45f of BRRD II (external and internal MREL), and for which the relevant resolution authority has reported the MREL to the EBA. It also includes resolution groups without a BRRD II MREL decision, but for which a BRRD I decision was available.

As of May 2021, 260 resolution groups or stand-alone institutions had been set an external MREL above minimum own fund requirements and 128 institutions, part of those resolution groups, had been set an internal MREL above minimum own fund requirements. On the basis of December 2020 data of banks' balance sheets, an estimated 80% of EU domestic assets were covered by an external MREL requirement. This proportion remained stable compared to 80% in the 2019 quantitative MREL Report. This included 193 BRRD II decisions representing 74% of EU domestic assets and 67 BRRD I decisions representing 6% of EU-27 domestic assets. Of these, 60 resolution groups are subject to subordination requirements.

According to data as of December 2020, the bail-in strategy represented 75.4% of EU domestic assets, the transfer strategy represented 3.5%, and the rest was understood to be under a liquidation strategy. Overall, the coverage of the report is, as indicated above, 80% of EU domestic assets. To note, under BRRD II the MREL can be set higher than own funds for liquidation banks as well – 12 of such resolution groups are included in this report, representing 0.05% of EU total domestic assets.

An important addition this year is the inclusion of internal MREL decisions formalised by BRRD II. The internal MREL is a key element of the resolution framework, in that it ensures that the externally issued resources are downstreamed and losses upstreamed within the resolution group.

EU resolution authorities have adopted 128 internal MREL decisions for institutions, totalling EUR 5.8tn in assets – or 20% of EU total domestic assets. As a percentage of total risk exposure amount, internal MREL decisions cover 73% of the total risk exposure amount covered by the internal MREL (see table in the Annex).

Table 1a: Total assets and number of resolution groups by MREL approach, data as of December 2020.

Legal basis for decisions	External MREL total assets (EUR bn)	No. of resolution groups or stand-alone institutions	Internal MREL (total assets)	Internal MREL (no. of institutions)
BRRD I	1,790	67	-	0
BRRD II	22,028	193	5,800	128
TOTAL	**23,818**	**260**	**5,800**	**128**
% coverage of EU banking sector assets	80%	NR	20%	NR

Sources: EBA data collection as of Q4 2020.

Resolution plans drawn up by the resolution authority may specify that the group should be kept together or split into different resulting entities. The former implies a single point of entry (SPE) strategy where losses will be upstreamed to the resolution entity – typically the top entity. The latter implies a multiple point of entry (MPE) where several entities are designated as resolution entities that issue an MREL externally and absorb the losses generated individually in each resolution entity.

In this report, resolution strategies are grouped into two main categories (bail-in and transfer) while liquidation is not covered (Table 1b). These two categories are intended to capture the multiple combinations of resolution tools as defined by the BRRD: (i) open bank bail-in, (ii) a bridge institution, (iii) asset separation and (iv) sale of business. The bail-in strategy should be understood as a strategy that aims to resolve a bank on a stand-alone basis in order to restore its viability through the write-down and conversion of eligible instruments into equity, with the aim of absorbing the losses and, in a second stage, recapitalising the failing bank. Transfer strategies should be understood as resolution strategies based on the transfer of all or part of the failed bank to an acquirer or bridge bank (resolution tools (ii) to (iv)).

Based on the decisions reported by authorities to the EBA, the bail-in continues to be the prominent strategy for the largest banks, with a total of 141 decisions covering EUR 22.7tn in assets, which represents 75.4% of total EU domestic assets (54% of resolution banks in the sample). A single point of entry (SPE) strategy is currently the favoured approach chosen by resolution authorities (71% of EU domestic assets) with a multiple point of entry strategy applied to 11% of resolution banks (8% of EU domestic assets), implying a stable proportion compared with the previous EBA quantitative report on the MREL.

Transfer strategies are the preferred strategy for 107 institutions that represent 3.5% of EU domestic assets (41% resolution banks in the sample) and are mostly resolution groups or stand-alone resolution entities that are relatively limited in size, with only ten of them classified as O-SIIs (one top-tier bank, one with assets between EUR 50bn and 100bn, three with assets between EUR 10bn and 50bn, one with assets between EUR 5bn and 10bn and four with assets below EUR 5bn) and 97 of them classified as other banks. Lastly, the MREL has been set above own funds for 12 resolution groups with liquidation as their preferred resolution strategy[8] – as is now possible under BRRD II – representing 0.07% of total assets of the external MREL sample (0.05% of EU domestic assets).

Table 1b: Total assets and number of resolution groups by strategy for entities subject to an external MREL, data as of December 2020.

Resolution strategy	No. of decisions	% of decisions	Total assets (EUR bn)	% of assets (of resolution banks in the sample)
Bail-in	141	54%	22,700	95.3%
Transfer	107	41%	1,102	4.6%
Liquidation	12	5%	16	0.1%
Total	**260**		**23,818**	

Sources: EBA data collection as of Q4 2020.

2.2 Scope of the MREL analysis

The following sections of the report cover 260 external MREL decisions and 128 internal MREL decisions (in total 388 decisions) setting MREL higher than their current regulatory minimum capital requirements in order to facilitate a resolution strategy in 27 EU Member States and one EEA member country.

Resolution groups and stand-alone institutions are categorised in the report based on both the systemic importance (G-SIIs, other systemically important institutions and other banks that are neither G-SIIs nor O-SIIs) and the classification of banks under BRRD II (top-tier banks). For the purposes of the figures included in the charts, G-SIIs have been considered, at resolution group level (material subsidiaries of EU and non-EU G-SIIs included, even if individually they are not classified as G-SIIs themselves); while O-SIIs and other banks are also considered by size category. Throughout the report, numbers by category are weighted by TREA and TEM, as the MREL total requirement and total subordination requirement are also expressed as a percentage of TEM. The sample summary of each category of banks is set out in Table 2. The coverage of the sample in terms of total assets of the EU banking sector can be found in the Annex.

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) list[9].

Table 2a: Number of banks with external MREL decisions, by type of bank, data as of Q4 2020.

[8] Liquidation banks are from BE, CY, DK and SI.

[9] https://www.fsb.org/2020/11/2020-list-of-global-systemically-important-banks-g-sibs/

Country	G-SII	O-SII Top Tier	O-SII 100-50bn	O-SII 50-10bn	O-SII 10-5bn	O-SII <5bn	Others >50bn	Others 50-10bn	Others 10-5bn	Others <5bn	Total
AT		1	2	3				6	9	2	23
BE		2		1				1	1	4	9
CY				2		2				2	6
CZ			1	1					4		6
DE	1	6	1					1		1	10
DK		1	1	2				2		40	46
ES	1	3					5	5		1	15
FI		2						1	3		6
FR	4	2									6
GR			4								4
HR				1	1	2					4
HU			1	1	1	2				1	6
IE		2					1	1			4
IT	1	3					4	3			11
LU			1	1						1	3
NL	1	2	1								4
NO		1						6	4	3	14
PL	1		2	5	2			2	1	31	44
PT	1		2	1				2	1		7
RO				3	1	1				1	6
SE		3					1	2	3		9
SI				1	1					4	6
SK				2							2
Others				4		4				1	9
Total	**10**	**29**	**16**	**26**	**6**	**11**	**11**	**32**	**26**	**93**	**260**

Sources: EBA data collection as of 2020-Q4. The category of others includes resolution groups from BG, EE, LT, LV, MT.

For the internal MREL, resolution groups and stand-alone institutions have been categorised in the resolution group that they are part of.

Table 2b: Number of banks with internal MREL decisions, classified according to the systemic label of the parent entity, data as of Q4 2020.

Ctry	G-SII	O-SII Top Tier	O-SII 100 -50 bn	O-SII 50 -10 bn	O-SII 10 -5bn	O-SII <5bn	Others >50 bn	Others 50 -10 bn	Others 10 -5bn	Others <5bn	Total
AT	1	4	1	8							**14**
BE	4	2									**6**
BG	1	1	1	1							**4**
CZ	3	1	1	1							**6**
DE	9	4						1			**14**
ES	2						1	1			**4**
FI		2								1	**3**
FR	4	4		1							**9**
HR	1	1	1					1			**4**
HU	1	1		1				1		1	**5**
IE	3	7		1			1				**12**
IT	3			1			6				**10**

LU	3	1		2							**6**
NL	1	3									**4**
PT	1	1	1					1			**4**
RO	2	2				1					**5**
SI	1	1				1		1			**4**
Others	1	2	2	3	2	1	0	1	1	1	**14**
Total	**40**	**38**	**7**	**19**	**2**	**3**	**8**	**7**	**1**	**3**	**128**

Sources: EBA data collection as of 2020-Q4. For the purposes of this table, entities subject to internal MREL are classified according to the systemic label of the parent entity (e.g. if the parent entity is classified as G-SII, the entity is classified as G-SII). Standalone institutions are classified according to their own systemic label. The category of others includes non-resolution groups from CY, DK, EE, LT, LV, MT, NO, SK.

Table 2c: Number of banks with internal MREL decisions, classified with their own systemic label, data as of Q4 2020.

Country	G-SII	O-SII Top Tier	O-SII 100-50bn	O-SII 50-10bn	O-SII 10-5bn	O-SII <5bn	Others >50bn	Others 50-10bn	Others 10-5bn	Others <5bn	Total
AT		1						3	2	8	**14**
BE	1	3		1				1			**6**
BG				2	2						**4**
CZ				2	1	1				2	**6**
DE	4	4					2	3		1	**14**
ES	2							2			**4**
FI								2		1	**3**
FR	4	1					1	3			**9**
HR				2	1					1	**4**
HU				2	1					2	**5**
IE	1	1	2	1			3	4			**12**
IT	3							4		3	**10**
LU	2		2	2							**6**
NL	1	1						1		1	**4**
PT	1			1						2	**4**
RO				2		1				2	**5**
SI						3				1	**4**
Others	0	0	0	5	5	2	0	0	1	1	**14**
Total	**20**	**11**	**4**	**21**	**10**	**7**	**6**	**21**	**3**	**25**	**128**

Sources: EBA data collection as of 2020-Q4. For the purposes of this table, entities subject to internal MREL are classified according to their own systemic label, independently of the classification of the parent entity. The category of others includes non-resolution entities from CY, DK, EE, LT, LV, MT, NO, SK.

3. MREL levels and subordination

The MREL requirement for the 260 banks subject to an external MREL requirement was on average 22.9% of TREA (22.8% for G-SIIs, 23.1% for O-SIIs and 21.7% for other banks) with a combined buffer requirement of 3.4% of TREA (3.6% for G-SIIs, 3.2% for O-SIIs and 3.0% for other banks) that is applicable on top of the MREL requirement. It essentially reflects the going concern requirements. As a percentage of TEM, the MREL requirement was 7.0% (6.70% for G-SIIs, 7.34% for O-SIIs and 7.15% for other banks). The lower MREL requirement for G-SIIs compared to O-SIIs reflects, among other things, lower average own fund requirements (pillar 2 requirements). Other banks exhibit a lower MREL requirement than O-SIIs partially because they exhibit lower overall capital requirements (13% vs. 13.3%) but also because smaller other banks are more likely to have been set a transfer strategy, which can mean a lower recapitalisation amount and thus a lower overall MREL.

The breakdown of the MREL requirement by country can be found in the Annex.

The MREL requirement for the 128 non-resolution groups subject to an internal MREL was on average 20.2% of TREA (20.33% for G-SIIs, 19.63% for O-SIIs and 21.72% for other banks) with a combined buffer of 3.1% (2.99% for G-SIIs, 3.15% for O-SIIs and 3.33% for other banks). This is in line with the calibration, essentially mirroring the going concern requirements.

Subordination requirements, including CBR, were set at a level of 20.4% (19.9% of TREA for G-SIIs, 20.3% of TREA for top-tier banks and 31% of TREA for other pillar 1 banks). Out of the total sample of 260 banks subject to an external MREL, subordination requirements have been set for 60 resolution groups (10 G-SIIs, 34 O-SIIs, 16 other pillar 1 banks).

Most banks in the sample were set an end-state date in January 2024, as specified in Article 45m of BRRD II. A small proportion of the banks of the sample (13 banks out of 260) had a compliance date beyond 2024.

3.1 Calibration of the total, subordinated and internal MREL for G-SIIs

On a weighted average basis, the total MREL for G-SIIs reaches 22.8% of TREA, of which 19.9% subordinated. On top of this requirement comes the combined buffer requirement of 3.6% on a weighted average basis to be met with CET1. As a percentage of total exposure, the total MREL and subordination requirements for G-SIIs reached 6.70% for both. Data in Figure 1 shows the total MREL targets (as a percentage of TREA and of TEM).

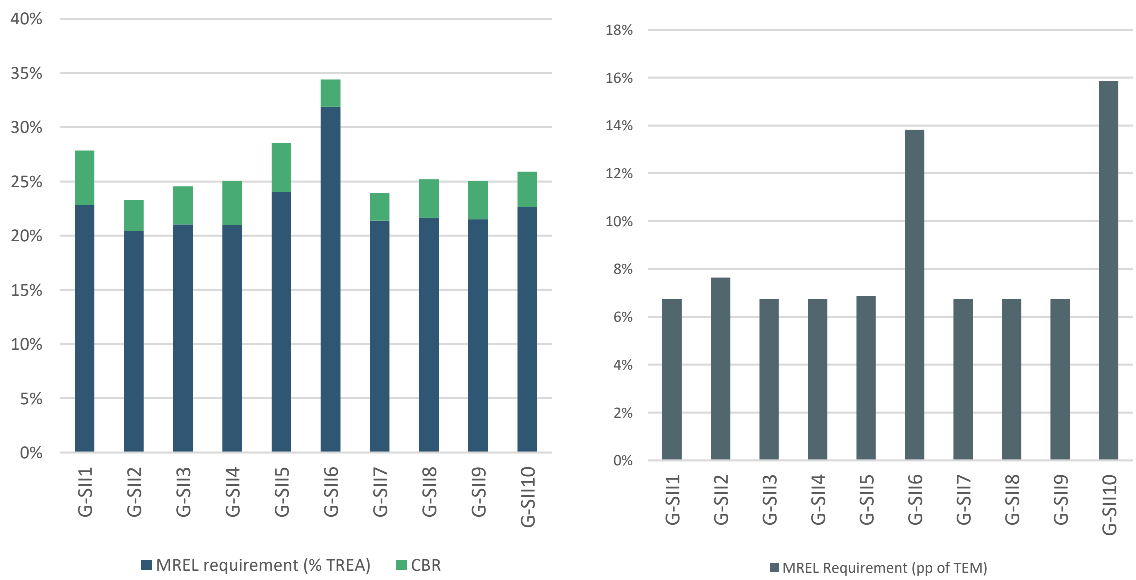
Resolution entities that are part of G-SIIs are subject to TLAC. This was introduced into the EU framework through the Capital Requirement Regulation (CRR), which came into force in July 2019. Article 92a and 92b CRR require G-SIIs to meet at all times a risk-based minimum requirement of

18% of the total risk exposure amount (TREA) and a non-risk-based metric of 6.75% of the total exposure measure (TEM), in line with the TLAC standard as defined by the TLAC Term Sheet[10]. TLAC must be met with subordinated instruments, with the possibility of resolution authorities granting an allowance for senior debt of up to 3.5% of TREA. In addition, Article 72e CRR introduced a deduction regime for eligible liabilities items for G-SII.

BRRD II harmonised the subordination requirements in Article 45b(4), (5) and (7) of BRRD II, which relates to the level of the subordination requirement for G-SIIs, top-tier banks and other pillar 1 banks[11].[12]

Transitional arrangements were introduced in Article 45m of BRRD II, which specifies that current MREL decisions of G-SIIs have an intermediate target that should be met by 1 January 2022 and a final target to be met as of 1 January 2024. GSIIs are also subject to TLAC deadlines and thus, the targets of 18% TREA + CBR and 6.75% TEM should be met from 1 January 2022.

Figure 1: Max of the MREL and TLAC requirements for G-SIIs as a % of TREA (left) and of TEM (right), data as of Q4 2020.



Sources: EBA data collection as of Q4 2020.

The requirement for subsidiaries that are part of a G-SII resolution group subject to an internal MREL was on average 20.33% of TREA (5.90% of TEM), above the average of the sample and above

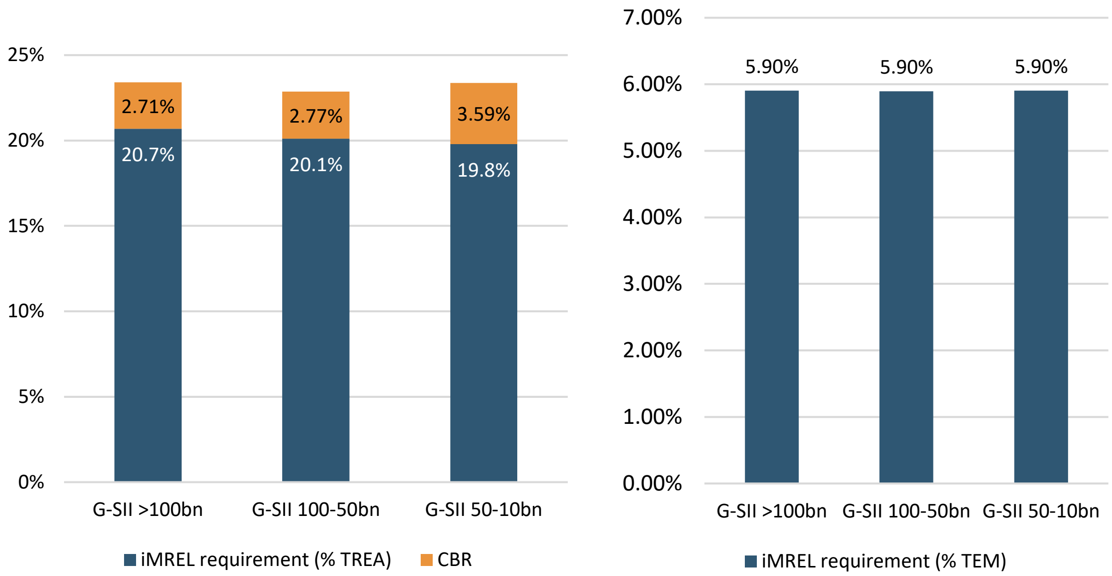
[10] https://www.fsb.org/wp-content/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf

[11] According to Article 45b(8) BRRD II, for 'other pillar 1 banks' (i.e. those assessed as likely to pose a systemic risk in the event of failure), these increases would be applicable for a maximum of 30% of resolution entities of this type, where: (a) substantive impediments to resolvability have been identified in the preceding resolvability assessment; (b) the credibility and feasibility of the resolution strategy is limited; or (c) the bank is among the top 20% in terms of riskiness (measured by the level of the P2R).

[12] See Annex 1 for full details about MREL calibration under BRRD II.

the level for O-SII but below the level for other banks. The combined buffer requirement (CBR) for non-resolution entities that are part of a G-SII resolution group subject to an internal MREL was on average 2.96%. This is in line with expectations in that these requirements mirror the going concern requirements. For G-SIIs, the assets of the non-resolution entities subject to an internal MREL cover 38% of the assets of the resolution groups.

Figure 2: Internal MREL requirement for G-SIIs as a percentage of TREA (left) and of TEM (right), data as of Q4 2020.



Sources: EBA data collection as of Q4 2020.

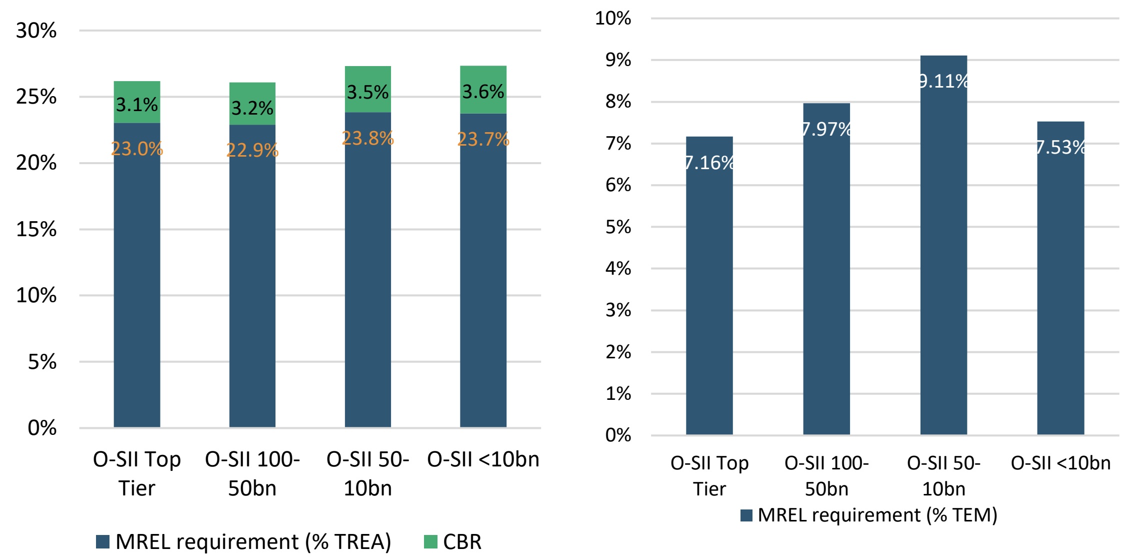
3.2 Calibration of total, subordinated and internal MREL for O-SIIs

The total MREL requirements for O-SIIs were 23.1% of TREA (7.34% of TEM). On top of this requirement, one should consider additional resources (CET1) to meet the combined buffer requirement of 3.2% on a weighted average basis. The higher MREL requirement for O-SIIs compared to G-SIIs is partially explained by the higher own fund requirements[13] (10.14% vs. 9.64% of TREA, on a weighted average basis).

BRRD II has increased harmonisation for the end-state date. In terms of the deadline to meet the full MREL target, 79% of the O-SIIs of the sample report 1 January 2024 as the date of compliance with the total MREL requirement, with a few banks reporting 1 January 2025 and 1 January 2026.

[13] Total SREP capital requirements are the sum of pillar 1 requirements and pillar 2 requirements.

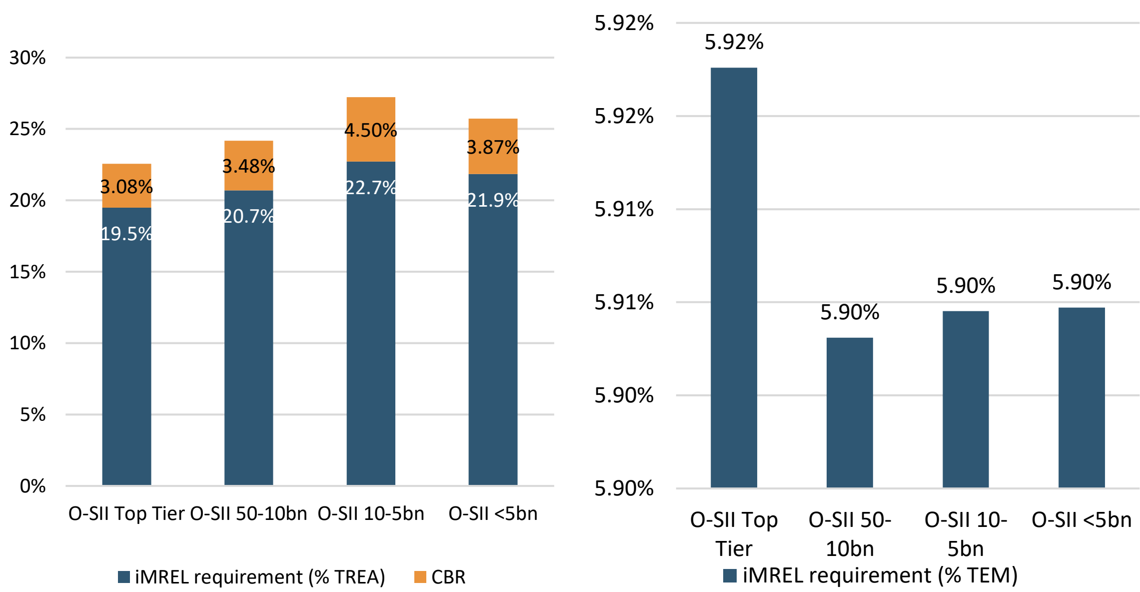
Figure 3: MREL requirement for O-SIIs, as a percentage of TREA (left) and TEM (right), data as of Q4 2020.



Sources: EBA data collection as of Q4 2020.

The requirement for the O-SIIs subject to an internal MREL was on average 19.63% of TREA (5.92% of TEM), which was below the level observed for G-SIIs and for other banks. The combined buffer requirement for O-SIIs subject to an internal MREL was on average 3.15%, below the level observed for other banks. The IMREL was set in line with expectations, mirroring the going concern requirements. For O-SIIs, the internal MREL covers 41% of the assets of the resolution groups.

Figure 4: Internal MREL requirement for O-SIIs as a percentage of TREA (left) and of TEM (right), data as of Q4 2020.



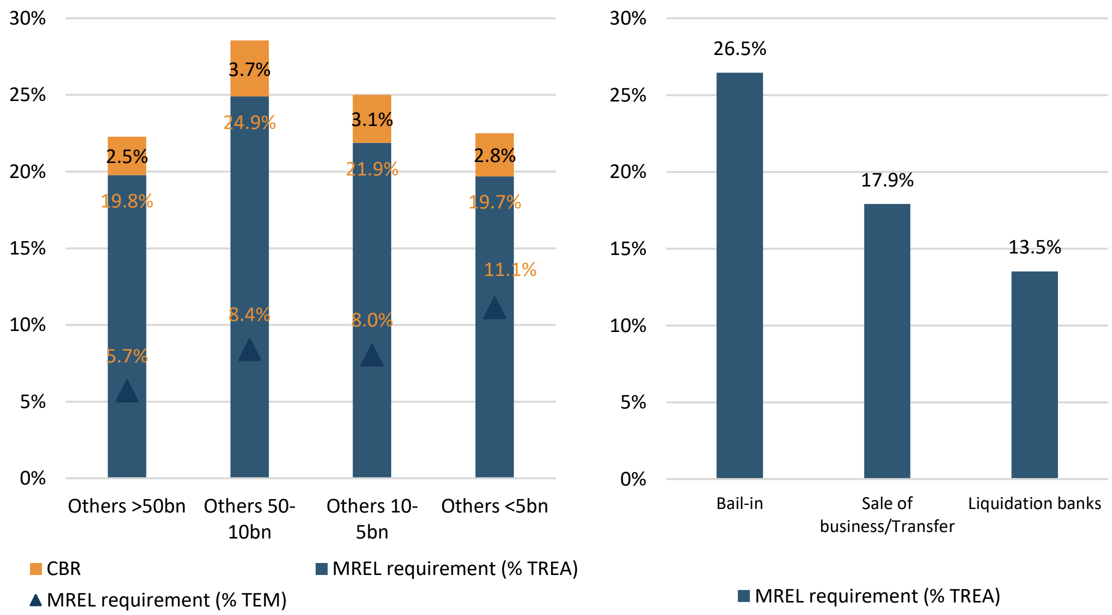
Sources: EBA data collection as of Q4 2020. O-SIIs with assets between EUR 100 and 50bn are not disclosed because only one bank is in this subsample.

3.3 Calibration of the total, subordinated and internal MREL for other banks

The total MREL for other banks was 21.7% of TREA (7.15% of TEM). Compared to systemic entities, other banks were set a lower MREL as a percentage of TREA. However, as a percentage of TEM, other banks were set MREL requirements above G-SIIs and slightly below O-SIIs, which in part reflects the varying risk weight density between different types of banks. On top of this requirement, one should consider additional resources (CET1) to meet the combined buffer requirement of 3% on a weighted average basis. Compared to other types of banks, a lesser proportion of other banks have been set BRRD II decisions as of July 2021, as only 17 banks have been set a subordination requirement under BRRD II.

Other banks presented a lower MREL calibration than systemic entities, driven in particular by a lower recapitalisation amount (RCA). Resolution authorities may adjust the RCA in order to reflect the transfer of assets when the preferred resolution strategy is based on a transfer tool (sale of a business, a bridge institution or asset separation). In the sample of other banks, the resolution strategy is based on a transfer tool for 96 banks (64 banks through sale of business and 32 banks through transfer strategy). Figure 5 shows the lower MREL calibration for these strategies compared to the bail-ins for other banks.

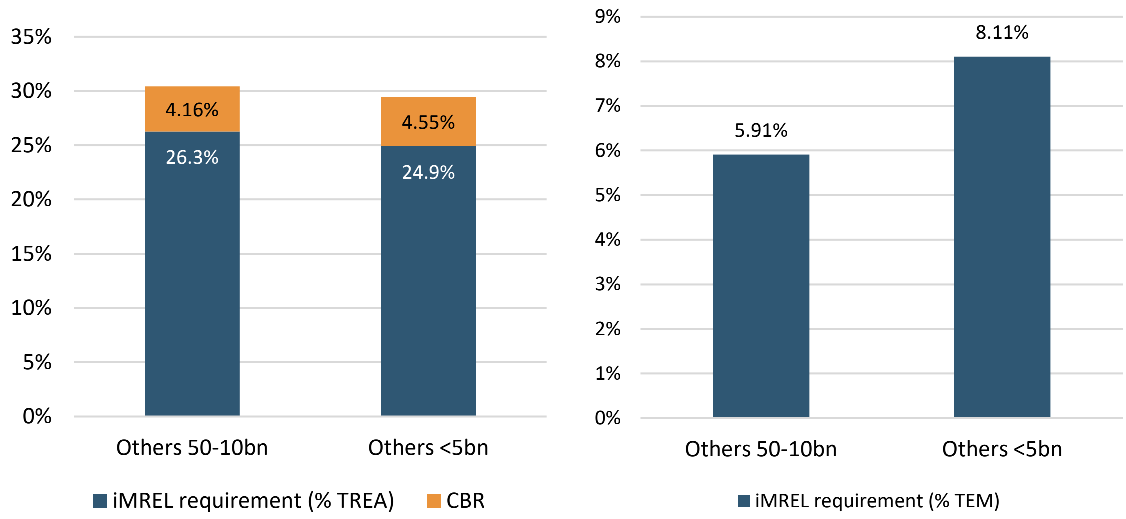
Figure 5: MREL requirement for other banks by type of bank (left) and by resolution strategy (right), data as of Q4 2020.



Sources: EBA data collection as of Q4 2020.

The requirement for other non-resolution groups subject to an internal MREL was, on a weighted average basis, 21.72% of TREA (7.34% of TEM). This was above the average of the sample and above the levels for G-SIIs and O-SIIs. The combined buffer requirement for other non-resolution groups subject to an internal MREL was on average 3.33%, which was higher than the level observed for G-SIIs and O-SIIs. For other banks, the internal MREL covers 22% of the assets of the resolution groups.

Figure 6: Internal MREL requirement for other banks as a percentage of TREA (left) and of TEM (right), data as of Q4 2020.



Sources: EBA data collection as of Q4 2020. Other banks in the category of total assets between EUR 5bn and 10bn are not disclosed because only one bank is included in this category.

4. MREL resources and shortfalls

This section provides the composition of eligible liabilities and shortfalls to cover the total end-state MREL requirement, obtained as the difference between the amount of MREL-eligible resources as of December 2020 and the MREL defined as the requirement banks will be expected to meet at the end of their transition period (including buffers).

These shortfalls do not mirror the actual issuance needs of EU resolution groups, as they do not take into account, among other things: (i) the roll-over needs of maturing MREL-eligible instruments and (ii) potential changes in the balance sheet size and TREA e.g. due to restructuring or due to Basel III impact. They are based on BRRD II decisions; BRRD I decisions are considered for those banks that have not yet been set a BRRD II decision by their resolution authority.

For each category, the shortfall is calculated as the difference between the requirement, determined as the maximum as a percentage of TREA and TEM, and the total MREL resources. Shortfalls are presented as an amount (EUR bn) and as a percentage of TREA. Moreover, the number of banks with a shortfall is presented. The distribution of the shortfall across each category of banks is also presented.

The shortfall against the final MREL targets for the sample of 260 resolution groups with an external MREL decision was EUR 67.6bn (EUR 3.8bn for G-SIIs, EUR 46.9bn for O-SIIs and EUR 16.9bn for other banks), attributable to 110 resolution groups (1 G-SIIs, 45 O-SIIs and 62 other banks) that represent 11% of total EU domestic assets. As of December 2020, we find that a limited 82 out of 260 institutions had a shortfall against their 1 January 2022 target amounting to EUR 17.4bn (EUR 0 for GSIIs, as all of them already had met their intermediary target, EUR 10.4bn for 19 O-SIIs and EUR 7bn for 63 other banks).

In the period from January 2021 to October 2021, banks in the sample issued a total of EUR 140.6bn in MREL-eligible debt, of which EUR 96.4bn in senior non-preferred debt, EUR 29.2bn in subordinated debt and EUR 15bn in senior unsecured debt. However, banks reporting a shortfall only issued EUR 10.3bn (EUR 7.5bn in senior non-preferred debt, EUR 1.8bn in AT1 and T2 debt and EUR 0.98bn in senior unsecured debt). G-SIIs that exhibit a shortfall issued EUR 6.8bn in senior non-preferred debt during the period from January 2021 to October 2021. However, limited MREL-eligible debt has been issued since December 2020 by O-SIIs reporting a shortfall (EUR 2.44 bn, of which EUR 0.7bn in senior non-preferred debt, EUR 0.94bn in senior unsecured debt and EUR 0.8bn in subordinated debt). Regarding other banks, as for O-SIIs, those with shortfalls issued few MREL-eligible instruments in the period from January to October 2021 EUR 1bn (of which EUR 0.96bn in subordinated debt and EUR 0.04bn in senior unsecured debt).

With regards to O-SIIs and other banks which present shortfalls, the bigger banks account for most of the amount of the shortfall of each category but the smaller banks are the most affected (in terms of number of banks). More precisely, within the O-SII category, the first two sub-categories of banks (top-tier and banks with assets between EUR 50bn and 100bn) represent 69% of the total shortfall of the category but only 27% of the number of banks present a shortfall. However, 74% of the banks in the other three categories of small banks (those with consolidated assets below EUR 50bn) exhibit a shortfall.

Similarly, for the category of other banks, the first two sub-categories of banks (banks with assets above EUR 50bn and banks with assets between EUR 10bn and 50bn) represent 80% of the total shortfall of the category. However, in number of banks, only 35% of them present a shortfall, while 39% of the banks in the other two categories of small banks (those with assets below EUR 10bn) exhibit a shortfall, which was a higher proportion.

Aggregated shortfall decreased by 41% compared to last year's quantitative report on MREL, on a comparable basis, but at a lower rate for smaller banks: for a common sample compared to the previous report, the decrease amounts to 69% for G-SIIs, 42% for O-SIIs and 22% for other banks.

More than half of the non-resolution groups that were set an iMREL decision were already complying with it. The shortfall for the sample of 128 banks with internal MREL decisions was EUR 36bn (EUR 19.7bn for G-SIIs, EUR 15bn for O-SIIs and EUR 1bn for other banks), attributable to 62 banks (17 G-SIIs, 35 O-SIIs and 10 other banks). This shortfall would be affected if deductions were applied to the amount of eligible instruments of intermediate parents in cases of indirect subscription of instruments by the resolution entity ('daisy chains'). While this report is being published, this future deduction framework is under discussion at the European Council and the European Parliament, with the aim of ensuring the proper transfer of losses to the resolution entity and the proper transfer of capital from the resolution entity to entities that are part of the resolution group but not themselves resolution entities.

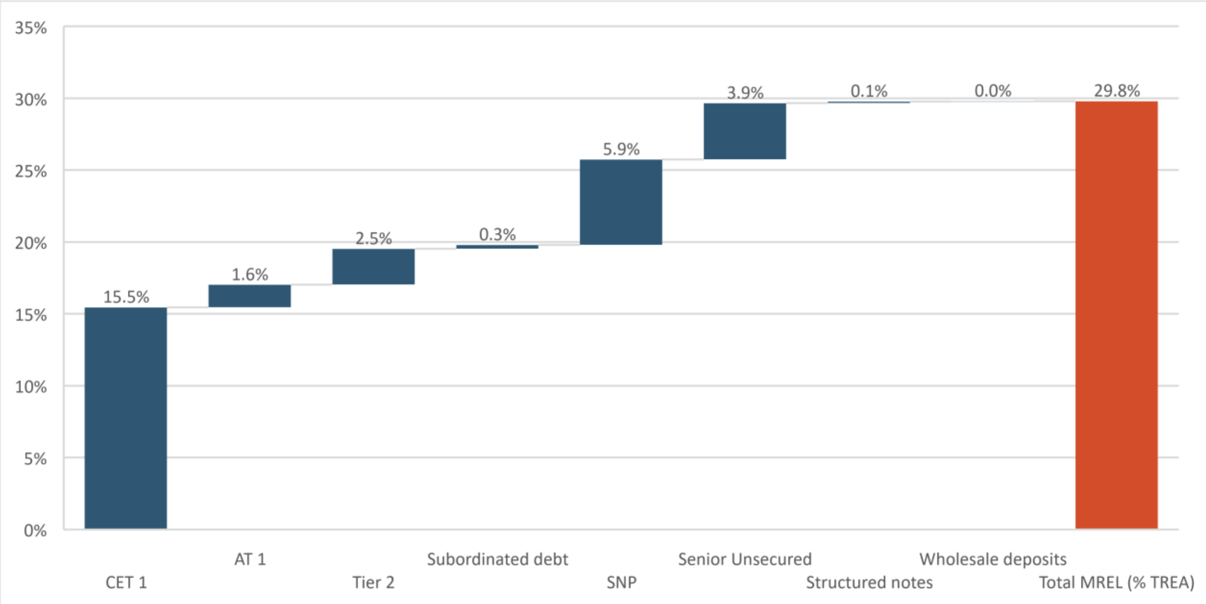
The shortfall in subordinated debt was EUR 22bn (0.3% of TREA), attributable to 17 banks (1 G-SII, 2 top-tier banks and 14 other pillar 1 banks). The subordinated debt shortfall for G-SIIs was EUR 0.2bn (0.01% of TREA); for top-tier banks, it was EUR 14bn (0.5% of TREA) and for other pillar 1 banks, it was EUR 7bn (4.3% of TREA).

4.1 MREL shortfalls for G-SIIs

MREL shortfalls were down significantly for EU G-SIIs. On an average basis, weighted by TREA, and as per Figure 7, resolution groups that are part of G-SIIs report total MREL resources reaching 29.8% of TREA. The shortfall for G-SIIs was EUR 3.8bn (0.1% of TREA), attributable to one G-SII resolution group out of ten. During the period from January 2021 to October 2021 G-SIIs that exhibited a shortfall issued EUR 6.8bn in senior non-preferred debt.

G-SIIs reduced their shortfall by 69% since the previous EBA quantitative report on MREL, in which all G-SIIs were in scope (as of December 2019). Moreover, all G-SIIs of the sample complied with their intermediate targets that should be met as of January 2022. However, as of December 2020, not all G-SIIs were compliant with the TLAC TEM of 6.75% that should be fulfilled in December 2021.

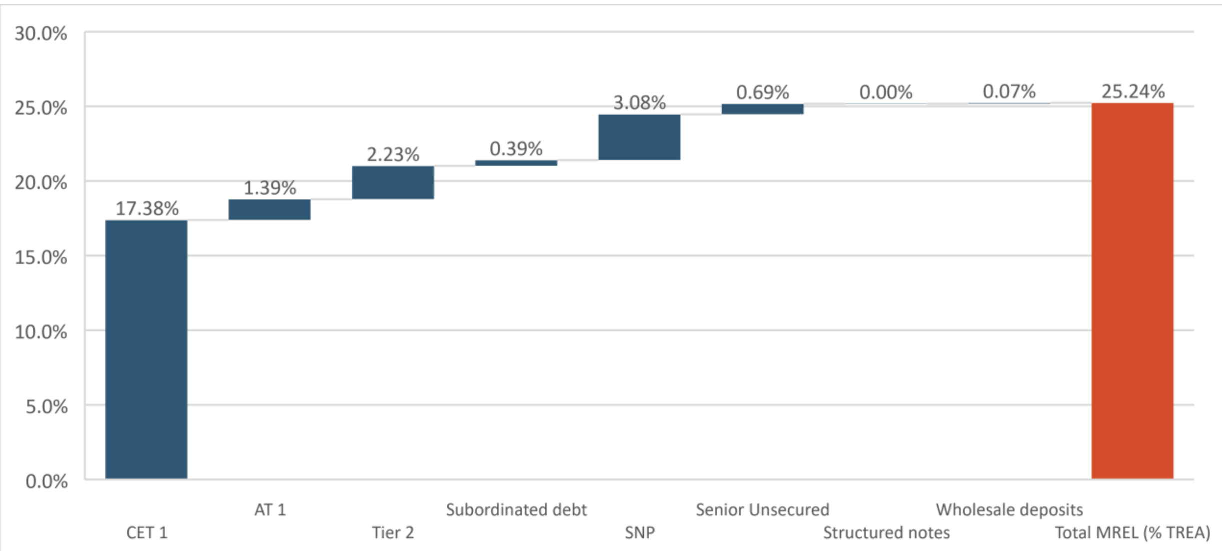
Figure 7: MREL resources of G-SIIs (% of TREA) subject to an external MREL, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

The shortfall of internal MREL for non-resolution entities within G-SII resolution groups was EUR 19.7bn (1.59% of TREA), attributable to 17 institutions subject to an internal MREL (out of a total of 43). Regarding the number of institutions with a shortfall it should be remembered that the first iMREL decisions were only taken in 2020. MREL-eligible resources for non-resolution entities within G-SII resolution groups amounted to 25.24% of TREA (see charts below). iMREL resources should be subordinated to excluded liabilities and to operational liabilities as per Article 45f(2)(a)(i)-(iii) of BRRD II. Some authorities have reported senior unsecured debt as iMREL eligible.

Figure 8: MREL resources (% of TREA) of non-resolution entities within a G-SII resolution group subject to an internal MREL, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

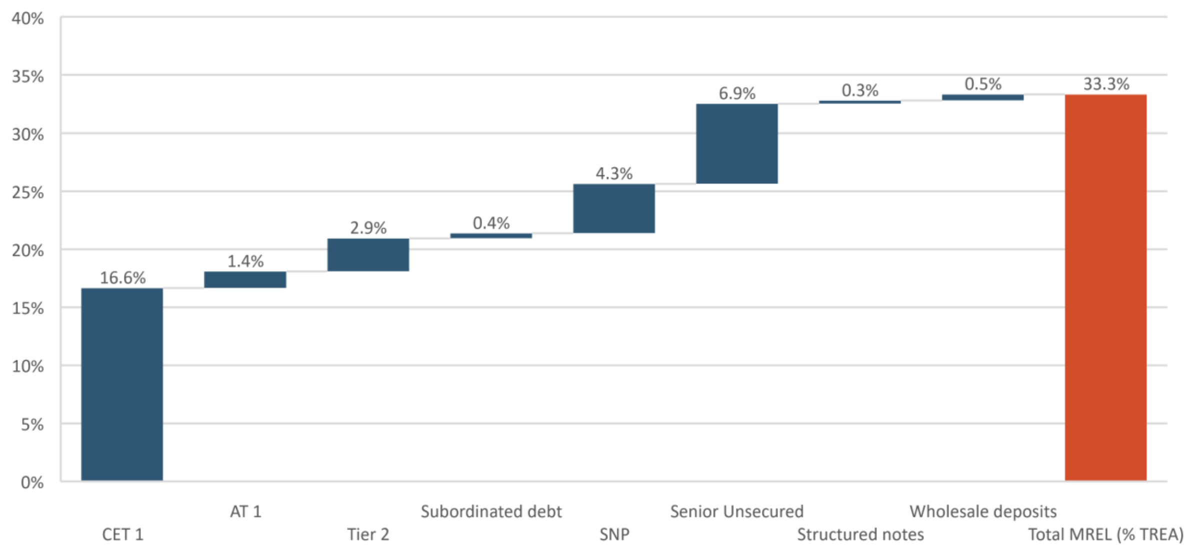
4.2 MREL resources and shortfalls for O-SIIs

MREL shortfalls against the final MREL targets for O-SIIs reached EUR 46.9bn (1.2% of TREA), attributable to 45 banks. This was down by 42% against the last report on a comparable sample. The shortfall against intermediate targets for O-SIIs was EUR 10.2bn (0.3% of TREA), attributable to 18 banks. However, limited MREL-eligible debt has been issued since December 2020 by O-SIIs reporting a shortfall (EUR 2.44 bn, of which EUR 0.7bn in senior non-preferred debt, EUR 0.94bn in senior unsecured debt and EUR 0.8bn in subordinated debt).

On average, O-SIIs reported MREL-eligible resources at a level of 33.3% of TREA, above the level reported by G-SIIs, mainly driven by O-SIIs with consolidated assets above EUR 100bn (classified as top-tier), which reported a level of eligible resources of 35.4% of TREA. The rest of the O-SIIs reported eligible resources below the average of the total sample - 31.6% of TREA (Figure 10).

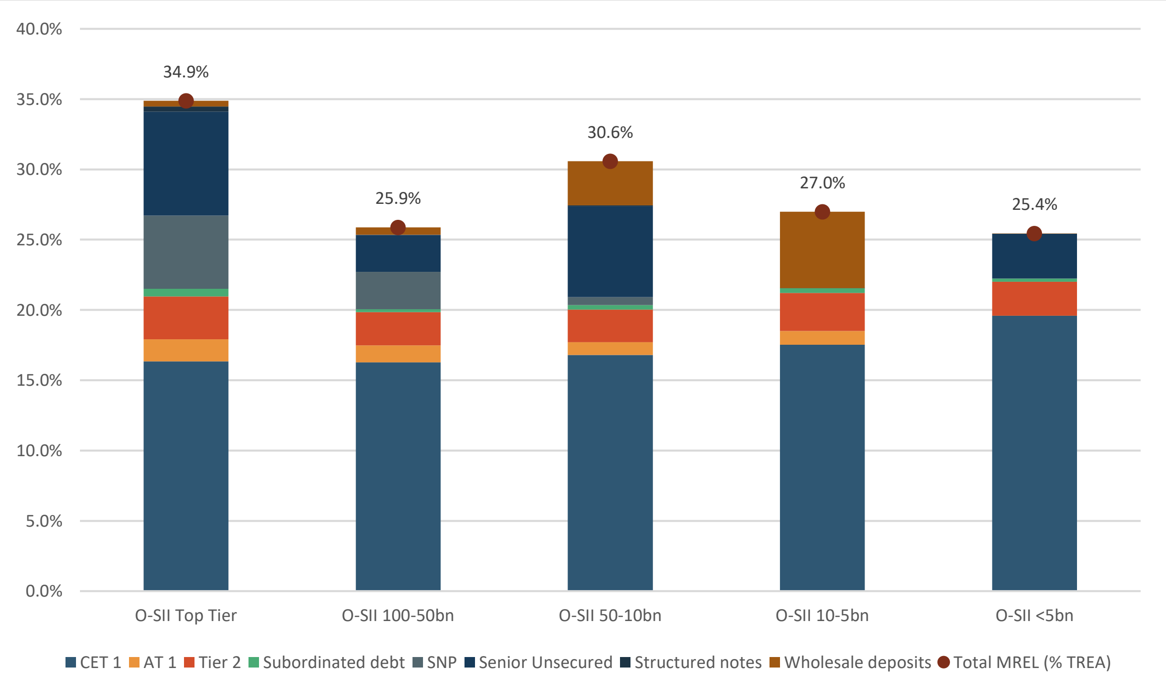
The level of MREL-eligible resources was higher for larger O-SIIs, particularly top-tier O-SIIs and O-SIIs with assets between EUR 10bn and 50bn, than for smaller banks. Apart from the overall level, there was a high divergency in the distribution of eligible resources. While larger O-SIIs exhibit a lower level of common equity Tier 1 compared to smaller banks, they hold a higher level of senior non-preferred instruments, which was scarcer in the group of O-SIIs with assets between EUR 10bn and 50bn and completely inexistent for O-SIIs with assets below EUR 10bn. Moreover, O-SIIs classified as top-tier and O-SIIs with assets between EUR 10bn and 50bn report structured notes as eligible resources. By contrast, smaller O-SIIs reported a higher level of wholesale deposits (EUR 21bn) as eligible resources compared to the first two groups of O-SIIs in assets (Figure 10).

Figure 9: MREL resources of O-SIIs (% of TREA) subject to an external MREL, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

Figure 10: MREL resources of O-SIIs (% of TREA), breakdown by size, weighted by TREA, December 2020 data

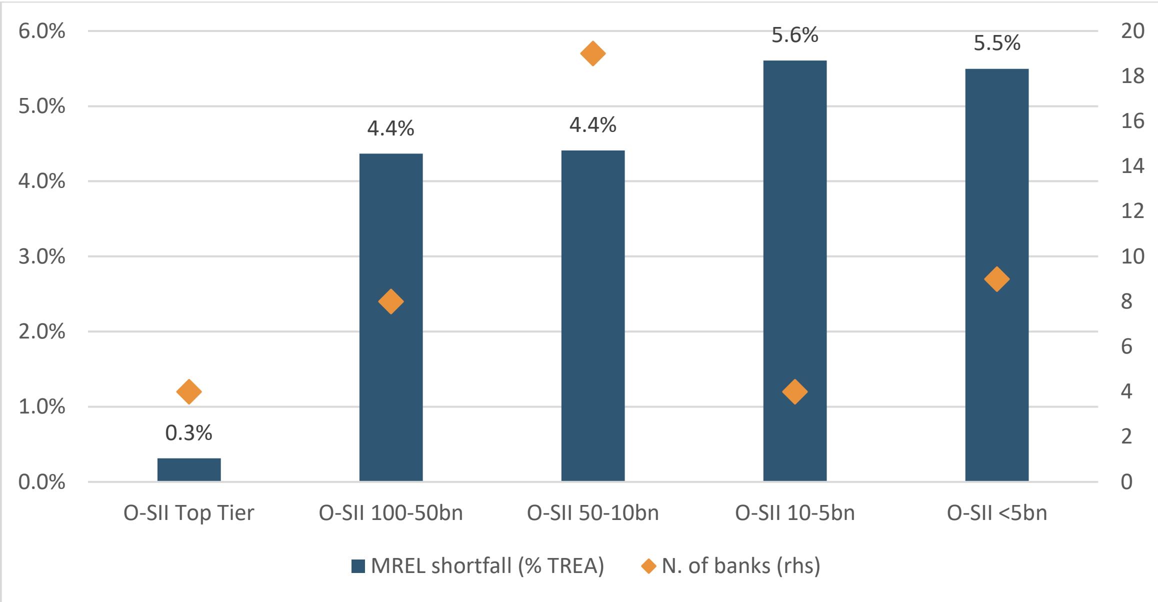


Sources: EBA data collection as of Q4 2020 and EBA calculations.

The shortfall of EUR 46.9bn of O-SIIs, which represented 1.2% of TREA, was attributable to 45 banks (4 classified as top-tier, 8 with assets between EUR 50bn and 100bn, 20 with assets between EUR 10bn and 50bn, 4 with assets between EUR 5bn and 10bn and 9 with assets below EUR 5bn). The shortfall was mainly accounted for by top-tier banks and banks with assets between EUR 50bn and 100bn, as 71% of the shortfall (EUR 33bn) was attributable to them, but only 27% of them presented a shortfall (12 out of 45). On the other hand, the group of banks that were most affected in number were those with assets below EUR 50bn, as 74% of them havd a shortfall (33 small banks out of a total of 43 small banks in the sample[14]), but the total shortfall for this group of small O-SIIs only amounted to EUR 13bn. Moreover, on average as a percentage of TREA, small banks were well above the average (Figure 11).

Figure 11: MREL shortfalls of O-SIIs weighted by TREA (left) and the distribution of MREL shortfalls of O-SIIs (right), December 2020 data

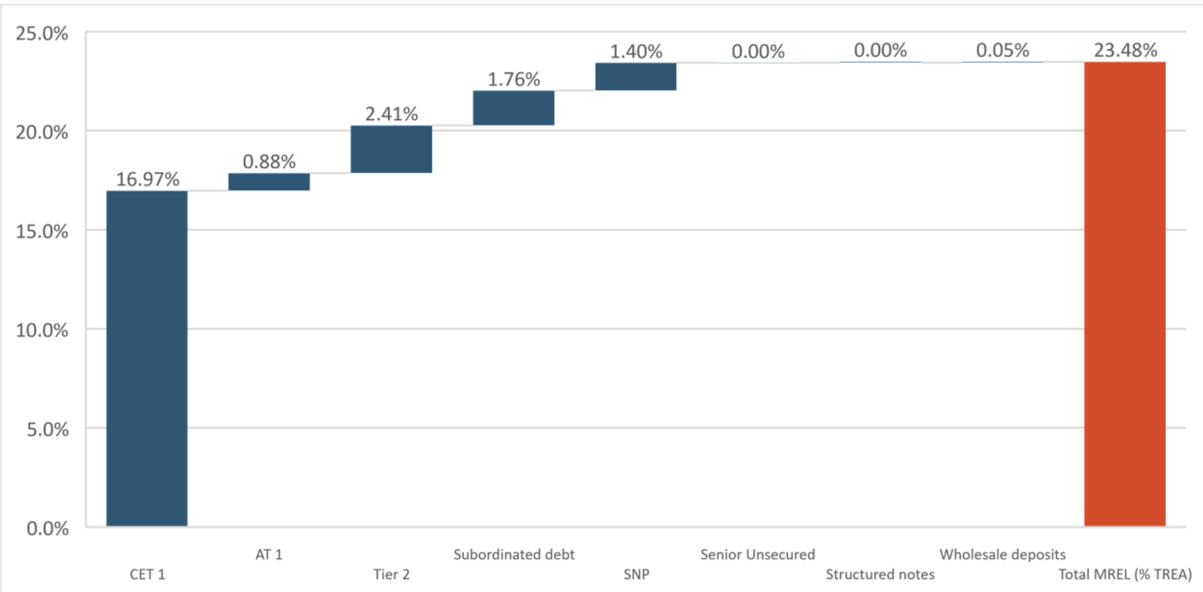
[14] The 43 banks classified as O-SIIs with assets below EUR 50bn are 26 banks classified as O-SIIs with assets between EUR 50bn and 10bn, 10 banks classified as O-SIIs with assets between EUR 10bn and 5bn and 11 banks classified as O-SIIs with assets below EUR 5bn.



Sources: EBA data collection as of Q4 2020 and EBA calculations.

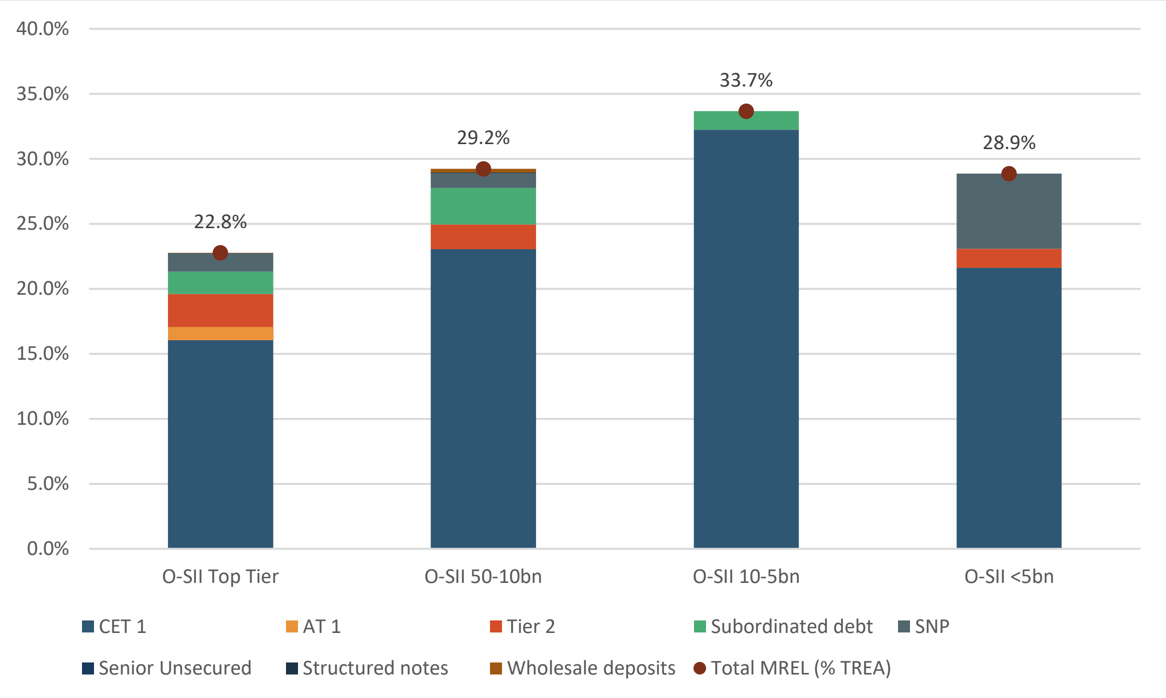
More than half of the O-SIIs with an internal MREL decision were already meeting the requirement. The internal MREL shortfall for O-SIIs was EUR 15bn (2.65% of TREA), attributable to 34 O-SIIs subject to an internal MREL (out of a total of 66). MREL-eligible resources for non-resolution entities of O-SII resolution groups subject to an internal MREL amount to 23.48% of TREA (see charts below).

Figure 12: MREL resources of O-SIIs (% of TREA) subject to an internal MREL, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

Figure 13: MREL resources of O-SIIs (% of TREA) subject to an internal MREL, breakdown by size, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations. O-SIIs with assets between EUR 50bn and 100bn are not included in this chart because there is only 1 bank in that category.

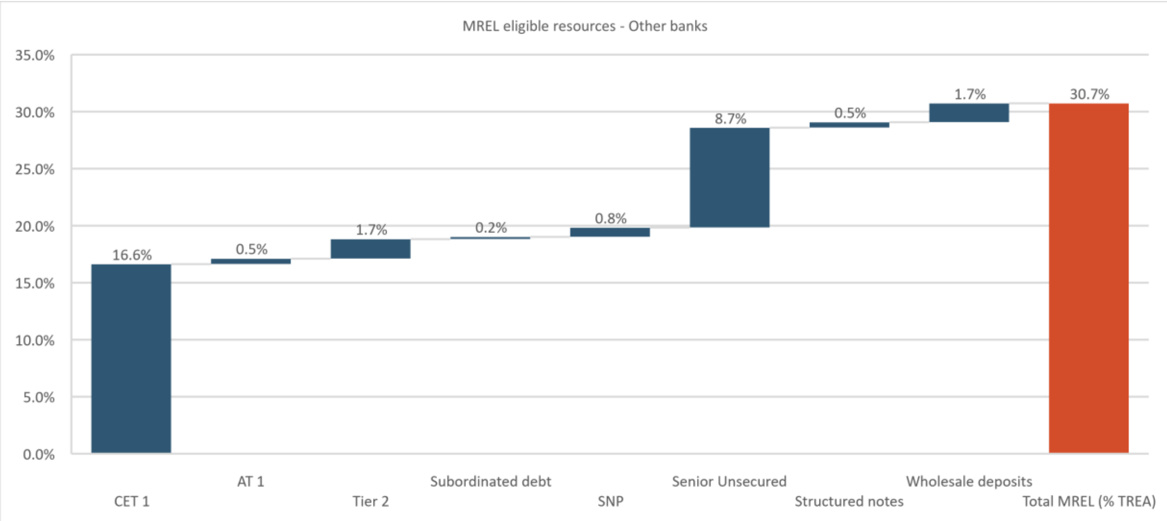
4.3 MREL shortfalls for other banks

MREL shortfalls against final MREL targets for other banks total EUR 16.9bn (2.3% of TREA), attributable to 64 banks. This was down by 22% compared to the last report on a comparable basis. However, as for OSIIs, those with shortfalls issued few MREL-eligible instruments in the period from January to October 2021, amounting to EUR 1bn (of which EUR 0.96bn in subordinated debt and EUR 0.04bn in senior unsecured debt).

For a common sample across the two reference dates, other banks reduced their shortfall by 30% since the previous EBA quantitative report on MREL (as of December 2019). The shortfall against intermediate targets for other banks was EUR 3.1bn (1% of TREA), attributable to 20 banks. On average, other banks reported MREL-eligible resources at a level of 30.7% of TREA, which was below the total sample average (31.6%) but above the level observed for G-SIIs. The only group of other banks below the sample average was those with assets above EUR 50bn. As this group included the biggest banks of the total sample of other banks, the average MREL resources for the total sample of other banks was pushed downward. The remaining groups in the total sample of other banks exhibited MREL-eligible resources above the total sample average (Figure 15).

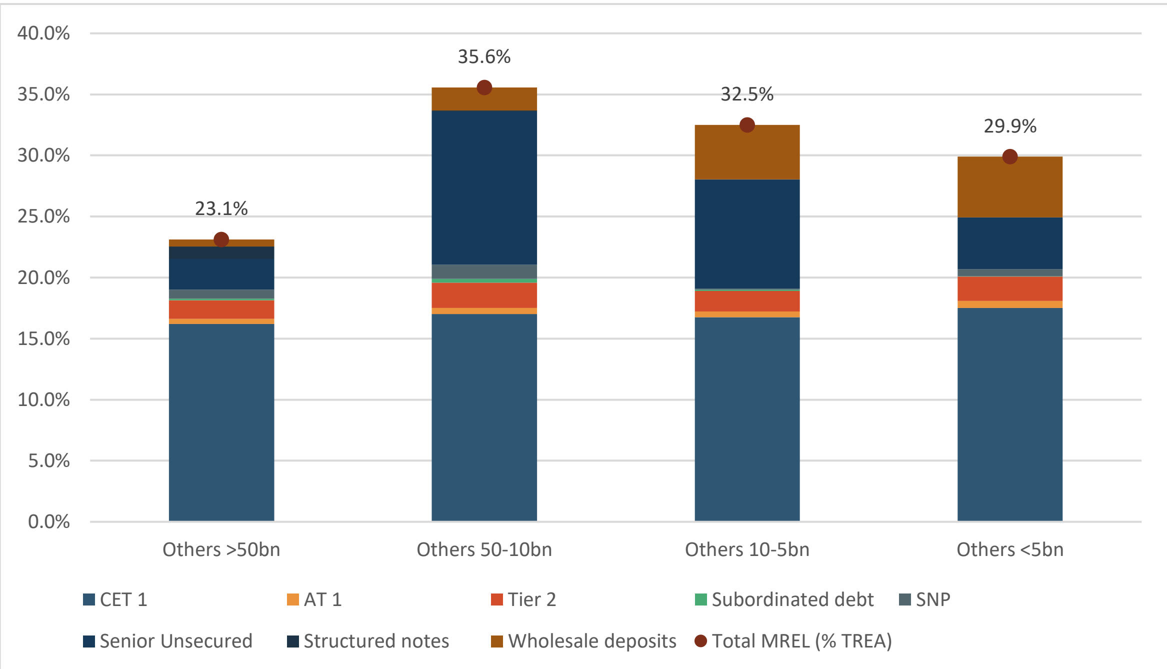
Compared to systemic institutions, other banks held a higher level of common equity Tier 1 capital, wholesale deposits, structured notes and senior unsecured debt. On the contrary, they exhibited lower levels of additional Tier 1 instruments, Tier 2 capital and senior non-preferred debt (Figure 15). For other banks, the amount of wholesale deposits that were eligible was EUR 12bn.

Figure 14: MREL resources of other banks (% of TREA), weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

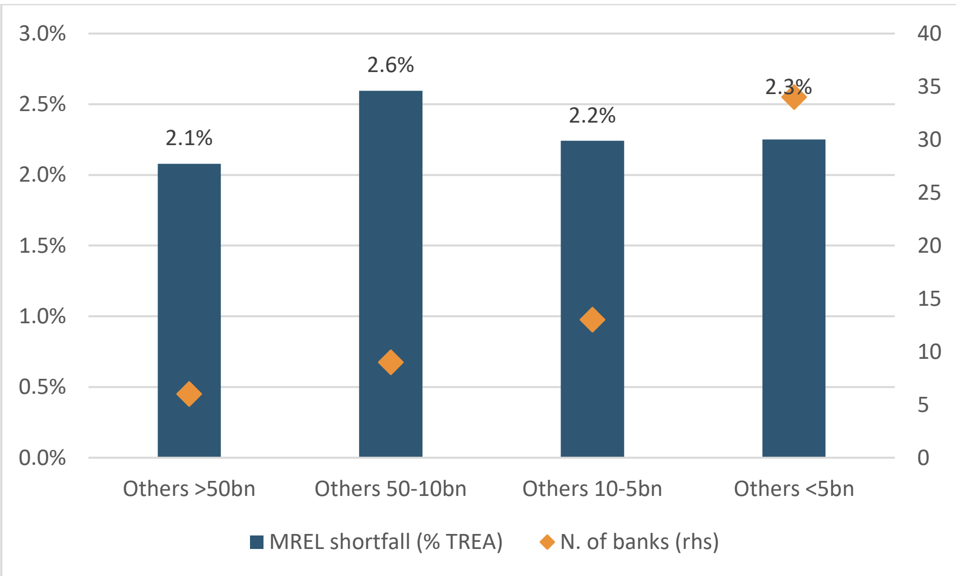
Figure 15: MREL resources of other banks (% of TREA), breakdown by size, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

The external MREL shortfall of EUR 16.9bn of other banks, which represented 2.3% of TREA, was attributable to 64 banks (6 with assets above EUR 50bn, 10 with assets between EUR 10 and 50bn, 13 with assets between EUR 5bn and 10bn and 35 with assets below EUR 5bn). Similar to O-SIIs, smaller banks were the most affected in number although they represent a smaller part of the shortfall. Thus, 79% of the EUR 16.9bn shortfall was explained by the biggest banks of the group of other banks, which are those banks with assets above EUR 10bn, but only 37% of the banks with assets above EUR 10bn exhibit an MREL shortfall. However, 40% of the banks with assets below EUR 10bn had a shortfall (48 banks). Moreover, on average as a percentage of TREA, small banks were above the average (Figure 16). Compared to last year, the shortfall for banks below EUR 10bn increased. This was partially explained by the fact that some decisions that were excluded from last year's report are included in this year's report. As can be observed, the sample for this year is bigger than in the previous quantitative report on MREL.

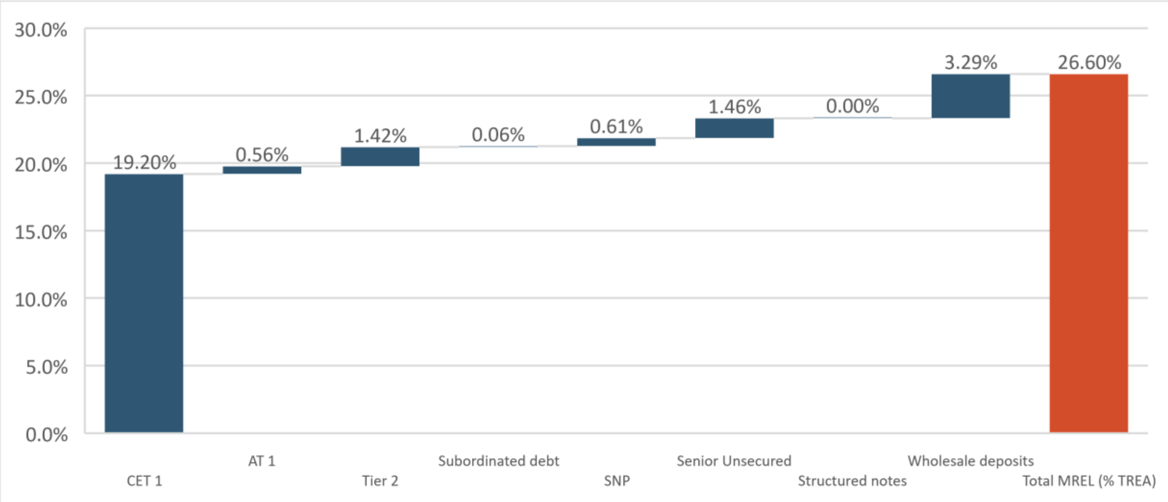
Figure 16: MREL shortfalls of other banks weighted by TREA (left) and distribution of MREL shortfalls of other banks (right), December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

The shortfall against internal MREL for other banks was EUR 1bn (1.5% of TREA), attributable to 10 other non-resolution groups subject to an internal MREL (out of a total of 19). MREL-eligible resources for other non-resolution groups subject to an internal MREL amounted to 26.60% of TREA, with a bigger amount of wholesale deposits compared to G-SIIs and O-SIIs (see charts below).

Figure 17: MREL resources of other banks (% of TREA) subject to an internal MREL, weighted by TREA, December 2020 data



Sources: EBA data collection as of Q4 2020 and EBA calculations.

5. Conclusions and next steps

Authorities have continued to progress in setting resolution strategies and adopting MREL decisions. The EBA has received a total of 388 MREL decisions[15] (260 external MREL decisions and the first 128 internal MREL decisions), compared to 265 external MREL decisions last year. External MREL decisions remain stable at 80% of EU banking sector assets. For the first year, EBA has received 128 formal internal MREL decisions. This represents about 73% of the expected end-state internal MREL coverage.

The shortfalls were calculated considering the end-state MREL requirement that most resolution groups should comply with by 1 January 2024 and the intermediate MREL targets that should be fulfilled by 1 January 2022. This reflects a higher level of harmonisation compared to the previous quantitative report on MREL, in which different policies were applied to institutions with regards to the final compliance date.

The shortfall for entities subject to an external MREL amounted to EUR 67.6bn, down from EUR 115bn in December 2019, and for the first entities to be subject to an internal MREL, the shortfall reached EUR 36bn. Out of the 260 resolution groups subject to an external MREL, 110 show an MREL shortfall totalling EUR 67.6 bn. Out of the 128 institutions subject to an internal MREL, 62 showed an MREL shortfall of EUR 36bn.

Although banks in the sample issued EUR 96.4bn in senior non-preferred debt, EUR 29.2bn in subordinated debt and EUR 15bn in senior unsecured debt in the period from January to October 2021, banks that exhibited a shortfall only issued EUR 7.5bn in senior non-preferred debt, EUR 1.8bn in subordinated debt and EUR 0.98bn in senior unsecured debt. While recognising that banks can close their shortfall by other means than debt issuance, the issuances from banks that exhibited a shortfall only represented 10% of the shortfall as of December 2020.

The shortfall against intermediate MREL targets was EUR 17.4bn (EUR 10.4bn for O-SIIs and EUR 7bn for other banks), attributable to 19 O-SIIs and 63 other banks.

The shortfall decreased significantly by 41% between December 2019 and December 2020 (69% for G-SIIs, 42% for O-SIIs and 22% for other banks) compared with the previous quantitative EBA report on MREL of December 2019. However, a significant number of small banks included in the sample exhibited a shortfall, as more than two-thirds of O-SIIs with consolidated assets below EUR 50bn and 39% of other banks with assets below EUR 10bn continued to exhibit a shortfall. And those banks issued few MREL-eligible instruments in the period from January to October 2021, amounting to EUR 1bn (of which EUR 0.96bn in subordinated debt and EUR 0.04bn in senior unsecured debt).

In several jurisdictions, smaller banks were issued their MREL decisions in 2018 or 2019, which could explain the apparently slower progress in closing the shortfall. Were this trend to continue

[15] MREL decisions are to be sent by the resolution authorities to EBA every 31 May as per the CIR 2021/622

as the steady state deadline approaches, resolution authorities may need to take concrete actions to ensure compliance.

Annexes

Annex 1: External MREL requirements, breakdown by country, data as of Q4 2020

Ctry	TSCR (% TREA)	MREL requirement (% TREA)	MREL requirement (% TEM)
AT	10.2%	25.8%	8.8%
BE	10.0%	22.1%	7.0%
CY	10.8%	22.9%	5.8%
CZ	9.9%	18.5%	5.7%
DE	10.1%	22.8%	7.0%
DK	11.8%	26.9%	9.4%
ES	9.6%	25.6%	9.6%
FI	9.8%	22.4%	6.8%
HR	11.0%	24.9%	5.9%
HU	10.3%	20.1%	7.1%
IE	10.7%	22.8%	6.7%
IT	9.8%	21.1%	6.0%
LU	9.2%	20.2%	5.9%
NO	9.9%	34.8%	13.5%
PT	10.4%	22.1%	6.5%
RO	10.7%	25.4%	5.9%
SI	10.9%	24.9%	7.1%
NL	9.8%	23.0%	6.4%
FR	9.6%	21.2%	6.1%
GR	11.1%	22.9%	5.9%
PL	8.7%	22.7%	
SE	11.9%	23.0%	6.6%
Others	9.8%	22.4%	6.3%
Total	**9.9%**	**22.9%**	**6.8%**

Sources: EBA data collection as of Q4 2020 and EBA calculations. Others include an average of those countries that report with less than three banks in the sample (2 banks from EE, 2 banks from MT, 2 banks from SK, 1 bank from LT, 1 bank from LV, 1 bank from BG). The MREL presented in this table does not include the CBR. For PL, only decisions under BRRD I with data as of December 2019 are shown in this table. Therefore the MREL requirement as a percentage of TEM is not available. For RO, AT, HU, SE, IE, ES and BE, both BRRD II and BRRD I decisions as a percentage of both TREA and TEM are shown in the table. In RO, the minimum requirement as a percentage of

TEM is applied to all institutions. Therefore, this minimum requirement has been applied to BRRD I decisions as well. Where both BRRD II and BRRD I decisions have been considered in the calculation of the average MREL (% TREA), no adjustment was performed for BRRD I decisions with respect to CBR.

Annex 2: Subordination levels by Member States

Article 45l(1)(b) of BRRD mandates the EBA to annually report on 'how the power referred to in Article 45b(4), (5) and (7) has been exercised by resolution authorities and whether there have been divergences in the exercise of that power across Member States'.

The EBA does not find significant evidence of divergence in the setting of the subordination requirements between Member States. However, this picture may still need to be refined in the future since (i) not all BRRD II decisions have been adopted or reported to the EBA and (ii) some reporting issues make it difficult to differentiate between mandatory and discretionary subordination levels.

BRRD II harmonises subordination levels for GSIIs, top-tier banks and other pillar 1 banks. It provides for a mandatory subordination level and a discretionary subordination level.

The data gathered shows that, as a percentage of TREA, the subordination requirement (including CBR) was, as a weighted average, 20.4% (19.9% for G-SIIs, 20.3% for top-tier banks and 31% for other pillar 1 banks). As a percentage of TEM, the subordination requirement was 7% (6.7% for G-SIIs, 7.1% for O-SIIs and 10% for other banks).

Subordination requirements in terms of TREA show a significant variance across Member States, which is in part the result of the varying RWA density of different banks, rather than diverging RA practices. The issue is to determine whether the option to (i) set subordination lower than the expected mandatory subordination level or (ii) the use of the discretionary subordination level has been applied consistently.

The level of mandatory subordination is set in the level 1 text via various formulas. Nevertheless, resolution authorities retain the possibility to reduce it. This can happen through two possible decisions from resolution authorities: (i) they could count up to 3.5% TREA of senior debt as TLAC eligible for G-SIIs and (ii) they could reduce the 8% TLOF part of the calibration of subordination for G-SIIs, top-tier banks and other banks by a factor of 1-(3.5% RWA/(18% RWA + CBR), provided that certain conditions are met.

This means that the mandatory component of the subordination requirements varies within a range delimited by an upper band and a lower band.

> **For G-SIIs,** the upper band is computed as the greater of 18% TREA + CBR, 6.75% TEM and 8% TLOF and the lower band as the greater of 14.5% TREA + CBR, 6.75% TEM (-3.5% TREA) and 1-(3.5% RWA/(18% RWA + CBR) * 8% TLOF.

For top-tier and other banks, the upper band is computed as the greater of 13.5% TREA + CBR, 5% TEM and 8% TLOF and the lower band as the greater of 13.5% TREA + CBR, 5% TEM and 1-(3.5% RWA/(18% RWA + CBR) * 8% TLOF[16]

A subordination level beyond the upper band should reflect the use by the resolution authority of Article 45b(7) BRRD II for setting 'discretionary subordination'.[17]

The table below shows the number of banks for which the subordination requirements have been set either (i) at the lower band, (ii) within the range[18], (iii) close to the upper band or above[19], or (iv) for which the upper and lower band are the same.

Not taking into account MS with only one bank, there were only two MS where the majority of institutions were set a subordination requirement at the lower band. On the other hand, we find that in five MS, the majority of the banks were set a subordination requirement close to or above the upper band.

Setting a level lower than 8% TLOF can be done under the condition that it does not generate NCWO risk. When used, it should reflect the relative progress towards resolvability. However, for banks with a large stock of subordinated debt, typically in MS where statutory subordination was introduced for senior debt, RAs seem to not consider reduced subordination levels. Similarly, where structural subordination has been introduced via the creation of holding companies, lower subordination requirements were not considered.

Moreover, six G-SIIs from four Member States were granted the 3.5% TREA senior debt allowance.

However, this picture may still need to be refined in the future since (i) not all BRRD II decisions have been adopted or reported to the EBA and (ii) some reporting issues make it difficult to differentiate between mandatory and discretionary subordination levels.

[16] A cap of 27% of TREA applies to top-tier banks.

[17] According to Article 45b(8) BRRD II, for other pillar 1 banks (i.e. those assessed as likely to pose a systemic risk in the event of failure), this increase would be applicable for a maximum of 30% of resolution entities of this type, where: (a) substantive impediments to resolvability have been identified in the preceding resolvability assessment; (b) the credibility and feasibility of the resolution strategy is limited; or (c) the bank is among the top 20% in terms of riskiness (measured by the level of the P2R).

[18] Within the range means banks with a subordination requirement above the lower band but below the upper band.

[19] Close to the upper band is defined as the difference between the final requirement and the upper band being below 10%.

Member State	AT	BE	BG	DE	DK	ES	FI	FR	HU	IE	IT	LT	MT	NL	NO	PT	Total
Number of banks at lower requirement	0	0	0	0	1	2	1	5	0	0	5	0	0	1	0	1	**16**
Number of banks at higher band	1	3	0	8	4	0	1	1	1	1	0	0	1	3	14	0	**38**
Lower and upper band equal	0	0	1	0	0	2	0	0	1	0	0	1	0	0	0	0	**5**
Total	1	3	1	8	5	4	2	6	2	1	5	1	1	4	14	1	**59**
% of banks at lower band	0%	0%	0%	0%	20%	50%	50%	83%	0%	0%	100%	0%	0%	25%	0%	100%	27%
% banks at upper band or above	100%	100%	0%	100%	80%	0%	50%	17%	50%	100%	0%	0%	100%	75%	100%	0%	64%

Annex 3: Total MREL and shortfalls by type of banks subject to an external MREL

Subcategory of banks	No. of banks	No. of banks with shortfall	Total MREL + CBR (% TREA)	MREL shortfall (% TREA)	MREL shortfall (EUR mln)	MREL shortfall for a common sample of banks (2019 report)
G-SII	10	1	26.5%	0.1%	3,831	12,487
O-SII Top Tier	29	4	26.2%	0.3%	9,733	47,092
O-SII 100-50bn	16	8	26.1%	4.4%	23,373	24,531
O-SII 50-10bn	26	20	27.3%	4.4%	11,811	9,189
O-SII 10-5bn	6	4	28.0%	5.6%	1,059	279
O-SII <5bn	11	9	26.5%	5.6%	877	342
Others >50bn	11	6	22.3%	2.1%	7,218	11,042
Others 50-10bn	32	10	28.6%	2.6%	6,160	7,935
Others 10-5bn	26	13	25.0%	2.4%	2,204	1,956
Others <5bn	93	35	22.5%	2.3%	1,295	609
TOTAL	**260**	**110**	**26.2%**	**0.8%**	**67,561**	**115,463**

Sources: EBA data collection as of Q4 2020 and EBA calculations

Annex 4: Total MREL and shortfalls by type of non-resolution groups subject to an internal MREL

Subcategory of banks	No. of banks	No. of banks with shortfall	Total MREL (% TREA)	MREL shortfall (% TREA)	MREL shortfall (EUR mln)
G-SII	43	17	20.4%	1.6%	19,753
O-SII Top Tier	38	20	19.5%	2.7%	13,479
O-SII 100-50bn	7	5	18.1%	0.0%	458
O-SII 50-10bn	16	8	20.7%	2.0%	1,068
O-SII 10-5bn	2	0	22.7%	0.0%	-
O-SII <5bn	3	2	21.9%	0.0%	1
Others >50bn	8	3	17.1%	1.1%	453
Others 50-10bn	7	4	26.3%	1.3%	279
Others <5bn	3	2	24.9%	1.6%	45
TOTAL	**128**	**62**	**20.2%**	**1.2%**	**35,798**

Sources: EBA data collection as of Q4 2020 and EBA calculations. The category of other banks with assets between 10bn and 5bn is not disclosed because there is only one bank in this category.

Annex 5: MREL and shortfalls, breakdown by business model, data as of Q4 2020

Business model	No. of banks	No. of banks with shortfall	MREL requirement (% TREA)	MREL shortfall (% TREA)	MREL shortfall (EUR mln)
Consumer/auto	3	2	26.4%	2.4%	396
Cooperative	22	16	25.5%	1.3%	1,606
Corporate-oriented	5	0	21.9%	0.0%	-
Cross-border universal	17	6	23.3%	0.4%	15,873
Custodian	3	2	17.2%	0.0%	11
Local universal	173	66	22.4%	1.3%	42,579
Mortgage	4	1	22.6%	1.2%	255
Other	9	4	21.7%	0.8%	1,752
Private	3	1	15.5%	1.6%	66
Savings	21	12	21.2%	2.9%	5,022
TOTAL	**260**	**110**	**22.9%**	**0.8%**	**67,561**

Annex 6: Coverage of internal MREL decisions, data as of Q4 2020

Authorities have provided the sum of the expected TREAs to be covered by an internal MREL decisions in the end-state.

Ctry	No. of banks	% Coverage
AT	14	100%
BE	6	99%
BG	4	103%
CY	2	101%
CZ	6	70%
DE	14	94%
DK	1	100%
ES	4	99%
FI	3	86%
FR	9	46%
HR	4	100%
HU	5	92%
IE	12	70%
IT	10	100%
LU	6	89%
NL	4	55%
NO	2	48%
PL	0	0%
PT	4	98%
RO	5	100%
SI	4	67%
TOTAL	**123**	**73%**

Sources: EBA data collection as of Q4 2020 and EBA calculations.

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