EBA REPORT ON HOLDINGS OF ELIGIBLE LIABILITIES ISSUED BY G-SII AND O-SII

(ARTICLE 504A CRR II)

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EBA EUROPEAN BANKING AUTHORITY

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Abbreviations

BRRD	Bank Recovery and Resolution Directive
CRR	Capital Requirements Regulation
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

This report is responding to the mandate under Article 504a CRR II.

The EBA is mandated to report to the European Commission the amounts and distribution of holdings of eligible liabilities instruments among institutions identified as G-SIIs or O-SIIs and on potential impediments to resolution and the risk of contagion in relation to those holdings.

The sample is composed of 124 banks (106 resolution groups and 18 stand-alone banks) from 23 member states that cover 74% of EU banking sector assets.

The report covers holdings of eligible liabilities issued by G-SIIs and O-SIIs held by G-SIIs, O-SIIs and other banks with total assets above EUR 5bn, as of December 2021. The analysis is based on an ad-hoc data collection addressed to resolution groups and resolution entities with MREL requirement above own funds requirements. Data was received from banks with holdings of eligible liabilities (i.e. banks without holdings are excluded from the analysis to avoid misleading figures in the calculation of the weighted averages).

Exposure to eligible liabilities issued by G-SIIs and O-SIIs appears low.

The average exposure of resolution groups in the sample to eligible liabilities issued by G-SIIs and O-SIIs appears low, standing at 2.2% of MREL (1.4% for G-SIIs, 2.1% for O-SIIs and 7.4% for other banks) and 0.7% of TREA of the holder (0.4% for G-SIIs, 0.7% for O-SIIs and 1.9% for other banks). More than half of the resolution groups in the sample have exposure to eligible liabilities issued by G-SIIs and O-SIIs below 2% of MREL and 0.6% of TREA.

Yet a few banks have higher than average exposures.

A total of 25 banks report exposures above 8% of their MREL and 6 outliers, showing a more general limited portfolio diversification, report exposures above 20% of their MREL.

Exposures towards single issuers are low for most resolution groups.

Most of the exposures towards single issuers remain below 2% of MREL, with 11 resolution groups having their largest single exposure above 4% and 3 above 10% of MREL. As a percentage of TREA, most of the exposures towards single issuers remain below 0.5% of TREA, with 3 resolution groups having their largest single exposure above 2% and 2 amounting to 4% of TREA.

EU G-SIIs and O-SIIs only moderately rely on banks to place their eligible liabilities.

On average, G-SIIs and O-SIIs placed a limited 3.7% of their eligible liabilities with banks in the sample, with 7 banks out of 72 placing more than 20%.

The majority of exposures to G-SIIs and O-SIIs are to their senior preferred debt rather than an instrument ranking lower in the creditor hierarchy (i.e. senior non-preferred and subordinated).

Almost two thirds of the cross-holdings are senior debt, with senior non-preferred and subordinated representing altogether more than a third.

Contagion analysis shows that current exposure levels would not lead to a domino effect.

Systemic crisis was considered under two scenarios: (i) the failure of G-SIIs and O-SIIs rated below investment grade and (ii) the failure of the largest issuers of the sample. Under both scenarios, the contagion would not lead to the failure of any of the holders. None of the banks would breach P2R under any of the two scenarios.

But a number of aspects are not captured in this analysis.

The analysis did not consider the impact of holdings of instruments issued by banks other than G-SIIs and O-SIIs for lack of available standardised data. Still for lack of available standardised data, the analysis was carried out at resolution group level. The contagion analysis did not consider the possible impact of holdings of non-MREL-eligible instruments, in particular any liability with less than one year maturity.

Although the current level of holdings of eligible liabilities does not appear to represent a source of concern, some measures could be envisaged to ensure that such situation is appropriately crystallised with each carrying a cost and needing to be carefully considered.

Exposures to eligible liabilities could be curtailed at low levels using several tools. For instance, higher risk weights could be imposed on MREL-eligible instruments, specific limits could be introduced or a full deduction regime could be implemented. But each of these options would need to be carefully considered so as to optimise the cost-benefit ratio.

Still, resolution authorities need to monitor the existence of holdings of MREL instruments in the context of their resolution planning. The EBA will consider how to facilitate this monitoring, e.g. via improved access to standardised data.

Resolution authorities need to consider exposure to bail-inable liabilities in their resolution planning efforts, as implementing the bail-in should not find an obstacle in contagion that could lead to the failure of other banks. The EBA will consider how to enhance the availability of standardised data either for the purpose of regulator monitoring or for resolution planning.

1. General remarks

1.1 Background and mandate

1. Article 504a CRR 2 mandates the EBA to report to the European Commission the amounts and distribution of holdings of eligible liabilities instruments among institutions identified as G-SIIs or O-SIIs and on potential impediments to resolution and the risk of contagion in relation to those holdings.

2. Based on the report by the EBA, the Commission shall report to the European Parliament and to the Council on the appropriate treatment of such holdings, accompanied by a legislative proposal, where appropriate.

1.2 Sources of information

3. The focus of this report is on holdings of eligible liabilities by banks, i.e. MREL-eligible debt, typically senior preferred or non-preferred debt externally issued by a resolution entity, and held by other banks for which available data is scarce. This is why the EBA launched an ad-hoc data collection addressed to resolution groups and **resolution entities with MREL requirement above own funds requirements** (therefore, beyond G-SIIs and O-SIIs), **with a threshold of EUR 5bn of total assets**, conducted to obtain **the holdings of eligible liabilities issued by G-SIIs and O-SIIs in the EU**. The data collection requested data as of December 2021 for both resolution groups and resolution entities. The data collection is addressed at the highest level of consolidation (i.e. intra-group exposures are excluded).

4. The data collection did not include deposits.

5. The analysis also relies on MREL/TLAC reporting data[1] for TREA and MREL resources. The EBA receives MREL/TLAC reporting data for all resolution groups and resolution entities registered in the EU[2].

1.3 Samples

6. The sample for the main calculations included in the report is composed of 124 banks (106 resolution groups and 18 stand-alone banks) from 23 member states that cover 74% of EU banking sector assets.

7. The analysis included in the report relies on two different samples (one for resolution groups and the other for resolution entities). The sample for resolution groups is composed of 106 groups from 23 member states that cover 72% of EU banking sector

[1] EBA ITS on disclosure and reporting of MREL and TLAC.

[2] EBA/DC2021/435

assets. The sample for resolution entities is composed of 18 entities. The results for the resolution groups are presented in Section 2 and for resolution entities in the Annex.

Table 1: Number of resolution groups and stand-alone banks included in the analysis, data as of Q4 2021.

Country	G-SII	O-SII	Other	Total
AT		6	13	19
BE		3	2	5
CY		1	2	3
CZ		1	1	2
DE	1	7	4	12
DK		4	3	7
EE		1		1
ES	1	3	10	14
FI		2	3	5
FR	4	2		6
GR		4		4
HR		2		2
HU		1		1
IE		2	1	3
IT	1	3	8	12
LU		1	2	3
NL	1	3	2	6
PL		3		3
PT	1	2	3	6
RO		1		1
SE		3	2	5
SI		2		2
SK		1		1
Total	**9**	**56**	**59**	**124**

Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

1.4 Methodology

8. All analysis presented throughout the report is based on data as of 31 December 2021.

1.4.1 Aggregation

9. Unless otherwise stated in the report, all averages are weighted (e.g. average of total holdings over total MREL in the EU is weighted by the EU total MREL).

10. Results are shown at EU level and also using the breakdown between G-SIIs/O-SIIs and ‘other banks’. Results are excluded from tables/charts if there are fewer than three entities in the cluster.

Amounts and distribution of holdings of eligible liability instruments

11. The report assesses the amount and distribution of holdings of eligible liabilities among institutions using the following ratios:

    a. **Holdings of eligible liabilities by resolution groups or stand-alone resolution entities / Own funds and eligible liabilities of the holder**. This ratio is calculated from the perspective of the holder and measures the share of all exposures to G-SIIs and O-SIIs eligible liabilities as a percentage of MREL total resources.

    b. **Holdings of eligible liabilities by resolution groups and stand-alone resolution entities / TREA of the holder**. This ratio is calculated from the perspective of the holder and measures the share of all exposures to G-SIIs and O-SIIs eligible liabilities as a percentage of TREA.

    c. **Holdings of eligible liabilities by resolution groups or stand-alone resolution entities / Total eligible liabilities issued.** This ratio is calculated from the perspective of the issuer and measures the share of banks in the eligible liabilities' investor base of G-SIIs and O-SIIs.

12. The **ratios** are calculated on an aggregated basis for the entire EU in order to assess the importance of the phenomenon of holdings of EL for the entire system and by systemic importance of the holder (G-SIIs, O-SIIs, Other banks) and the issuer (G-SIIs, O-SIIs).

13. The ratios are calculated at resolution group level but also at resolution entity level – the difference between the two providing a sense of the holdings of eligible liabilities by non-resolution entities within resolution groups.

14. The ratios are also calculated by type of debt (senior preferred, non-preferred, and subordinated debt). For each metric, distribution charts are shown to identify outliers.

Risk of contagion and impediments to resolvability

15. The report assesses the risk of contagion and impediments to resolvability from the cross-holdings of eligible liabilities across resolution groups and stand-alone banks under two systemic crisis scenarios:

i. Failure of G-SIIs and O-SIIs rated below investment grade: Under this scenario, it is assumed that all G-SIIs and O-SIIs rated below investment grade fail simultaneously and are resolved under a bail-in resolution strategy.

ii. Failure of G-SIIs and O-SIIs with largest placement of eligible liabilities with other banks in the sample: Under this scenario, it is assumed that G-SIIs and O-SIIs with more than 10% of their EL placed with banks in the sample would fail and be resolved under a bail-in resolution strategy.

16. Under both scenarios, it is assumed that resolution would convert all the eligible liabilities of the failed banks into new own funds instruments. These new own funds instruments are assumed to have a market value equal to either 100% or 50% of their book value after resolution.

17. The conversion of eligible liabilities to new own funds instruments would lead to a reduction in the holder's MREL and own funds ratios through two channels:

- **Impact of the deduction of the newly converted CET1 instruments on solvency ratios:** After resolution, the holdings of eligible liabilities towards the failed banks would be replaced by new CET1 instruments, which need to be deducted or risk weighted accordingly. The amount to be deducted and/or risk weight to be applied depends on whether the resolution group has a significant investment in the resolved bank or not (significance within the meaning of Article 43 CRR). If the resolution group has a significant investment in the resolved bank, the applicable amount of the holdings of the new CET1 instruments needs to be deducted from the holder's CET1 according to Article 36(1)(i) of the CRR while the amount below the threshold specified in Article 48(2) of the CRR is exempted from deduction and needs to be risk-weighted at 250% (CRR Article 48(4)). If the resolution group does not have a significant investment in the bank, the applicable amount of the holdings of the new CET1 instruments needs to be deducted according to Article 36(1)(h) of the CRR while the amount below the threshold specified in Article 46(1) of the CRR is exempted from deduction and needs to be risk-weighted according to Article 46(4) of the CRR.[3] However, the data collected do not allow it to be determined whether the holder has a significant investment or not and what is the applicable amount for deduction. Hence, the impact on risk-weighted assets is calculated under the two scenarios: i) all new CET1 instruments are risk weighted at 250%; ii) all new CET1 instruments are fully deducted. The impact under scenario (ii) is expected to act as an upper bound.

Table 2: Risk weight applied to each debt type, weighted average, December 2021 data.

Debt type	Risk weight (w.a.)
Senior unsecured	28%
Senior non-preferred	35%
Subordinated	173%
Total	**42%**

Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

[3] In this case, the risk weight depends on whether the holdings are held in the banking book (and hence subject to the credit risk framework) or trading book (and hence subject to the market risk framework). Furthermore, the risk weights will also vary depending on whether the holdings will be subject to the standardised or internal model approaches.

- **Impact through the P&L regarding the value of the newly converted CET1 instruments:** After resolution, the holdings of eligible liabilities towards the failed banks would be converted to CET1 instruments, whose market value is expected to be lower than their book value after resolution. To reflect such a lower market value, a 50% haircut is assumed on the book value of the new CET1 instruments. Under this assumption, the holder would suffer losses which will equal the difference between the book value and the market value of these instruments. These losses are assumed to have a direct negative impact on the holder's own funds and eligible liabilities (through P&L).[4] For comparison, the analysis also considers a scenario where the market value of the new CET1 instruments is assumed to be equal to their book value. In this case, the holder would not experience any losses and hence its own funds and eligible liabilities will remain unaffected.

- Each scenario considers the highest impact in resolution, i.e. the bail-in of all MREL-eligible instruments issued by the failed institutions, without considering other resolution strategies which may have lower impact e.g. transfer.

Limitations

18. The report is not able to assess whether investments are significant in the sense of the CRR.

19. The contagion analysis does not consider the impact of non-MREL-eligible exposures e.g. deposits.

20. The report does not consider holdings of eligible liabilities issued by banks other than G-SIIs and O-SIIs for lack of standardised data.

21. It also does not consider contagion via MREL held by institutions not earmarked for resolution that may be relevant and material also under a too-many-to-fail perspective (e.g. in banking networks) or held by banks earmarked for resolution but not in the sample (e.g. those with assets below EUR 5bn but earmarked for resolution; banks that fulfil the sample conditions but are not in the sample).

Structure of the report

22. The report is structured as follows:

- **Chapter 2** provides an overview of the amount and distribution of holdings of eligible liabilities issued by G-SIIs and O-SIIs;

[4] The analysis assumes no role for profit retention in counterbalancing these losses.

- **Chapter 3** assesses the risk of contagion under two scenarios: (i) the failure of G-SIIs and O-SIIs rated below investment grade and (ii) the failure of banks with largest placement of EL with other banks in the sample.

2. Exposure to EL issued by G-SIIs and O-SIIs

23. This section provides the magnitude of the exposure of EU banks to eligible liabilities issued by G-SIIs and O-SIIs for a sample of 124 banks (106 resolution groups and 18 stand-alone banks) from 23 member states.

24. The exposure of banks towards eligible liabilities issued by G-SIIs and O-SIIs appears negligible as both a percentage of total MREL resources and a percentage of TREA. As of 2021Q4, the average exposure of resolution groups in the sample to eligible liabilities issued by G-SIIs and O-SIIs amounts to 2.2% of MREL (1.4% for G-SIIs, 2.1% for O-SIIs and 7.4% for other banks) and 0.7% of TREA of the holder (0.4% for G-SIIs, 0.7% for O-SIIs and 1.9% for other banks).

25. From the side of the issuers, G-SIIs and O-SIIs placed only a small part of their eligible liabilities in the EU banking sector, amounting to 4% of their eligible liabilities.

26. These results differ from those published by the ECB[5], which estimates that euro area banks held 21% and 39%[6] of the debt issued by euro area G-SIIs and non-G-SIIs, insurance companies and pension funds held 26% and 16%, respectively; while investment funds held, respectively, 20% and 14%. The remaining 33% and 31% of the eligible debt issued by banks was held by money market funds, non-financial companies and the foreign sector. Also, the ECB estimates that approximately 60% of the EU's banking debt is issued intra-group. This difference comes from the fact that our study focuses on MREL-eligible debt i.e. typically senior preferred or non-preferred debt above one year issued externally by the resolution entity, as opposed to all liabilities including those issued internally.

2.1 Exposure of resolution groups to eligible liabilities of G-SIIs and O-SIIs

27. On average, the exposure of banks in the sample to eligible liabilities issued by G-SIIs and O-SIIs appears low at 2.2% of MREL and 0.7% of TREA of the holder, with data as of December 2021.

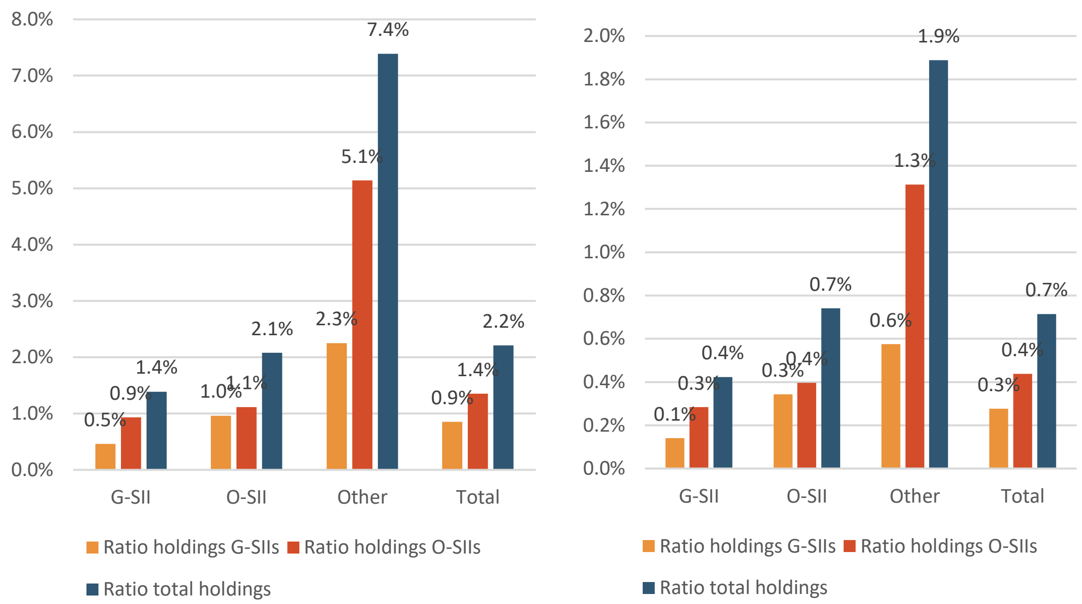
28. This average exposure varies by type of banks with other banks reporting higher relative exposure (7.4% of MREL and 1.9% of TREA).

[5] ECB (2022): "Bank bond holdings and bail-in regulatory changes: evidence from euro area security registers". Data based on 26 largest euro area banks that cover 59% of euro area banking sector assets. The ECB includes all kinds of eligible debt while the EBA study is focused on senior non-preferred, senior unsecured and subordinated not eligible for Tier 2.

[6] Data as of 2020Q1.

29. Exposure to EL is mostly to senior preferred debt. By type of debt held, the average exposure of senior debt issued by G-SIIs and O-SIIs amounts to 1.7% of total MREL (1.1% for G-SIIs, 1.6% for O-SIIs and 6.1% for other banks). The average exposure of senior non-preferred debt issued by G-SIIs and O-SIIs amounts to 0.8% of total MREL (0.3% for G-SIIs, 1% for O-SIIs and 2.8% for other banks). The average exposure of subordinated debt issued by G-SIIs and O-SIIs amounts to 0.2% of total MREL (0.2% for G-SIIs, 0.1% for O-SIIs and 1.1% for other banks).

Figure 1: Total exposure to EL issued by G-SIIs and O-SIIs, percentage of MREL (left) and percentage of TREA (right) for banks in the sample, December 2021 data



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

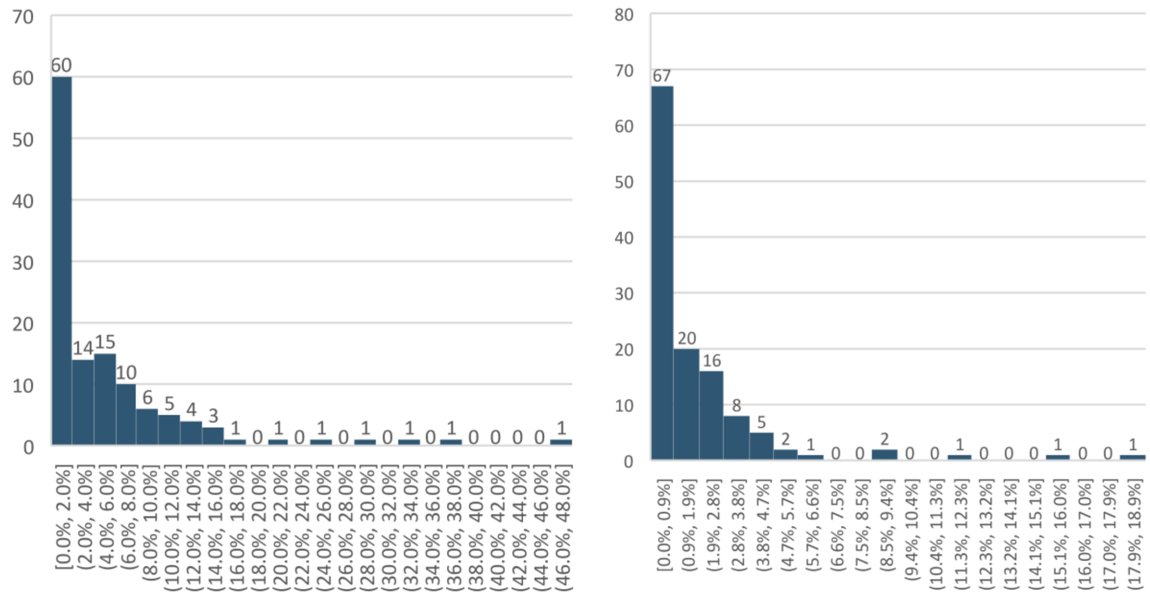
30. As per the left chart below, 25 banks reported total exposures above 8% of their total MREL and 1.4% of TREA (5 O-SIIs and 20 other banks).

31. In addition, we note that these banks with above-average exposures tend to be poorly diversified with 14 out of 25 reporting at least 20% of their total portfolio concentrated towards one single issuer.

32. These banks meet their MREL requirement (6 out of 25 are in shortfall, and they are small and medium-sized banks with assets below EUR 80bn). No particular home bias was identified among these banks.

33. But some banks reported significant exposures above 20% MREL. These are six banks with consolidated assets below EUR 60bn as of 2021Q4. They are also outliers as a percentage of TREA as all of them have holdings above 4% of TREA. They have poor portfolio diversification (four out of the six outliers have more than 20% of their portfolio concentrated towards one single issuer).

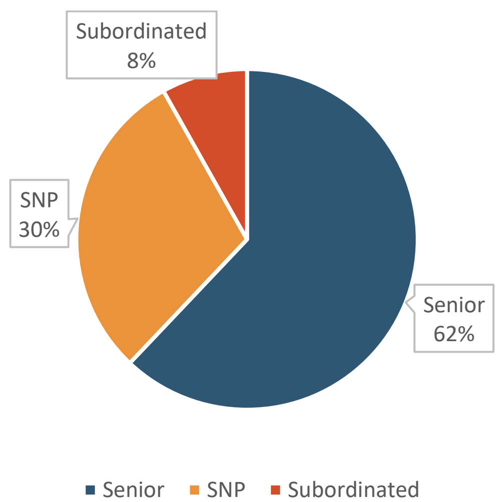
Figure 2: Distribution of banks based on the level of exposure to EL issued by G-SIIs and O-SIIs, percentage of total MREL of the holder (left) and of TREA (right), December 2021 data



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

34. Almost two thirds of the exposures are to senior preferred debt, with senior non-preferred and subordinated representing altogether more than a third. Although senior non-preferred represented more than half of the issuances during 2021[7], banks are showing more risk-averse behaviour by favouring higher-ranked exposures.

Figure 3: Exposure to EL issued by G-SIIs and O-SIIs by type of debt, total sample, December 2021 data



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

[7] EBA MREL Quantitative Monitoring Report and Impact Assessment (Article 45 BRRD II).

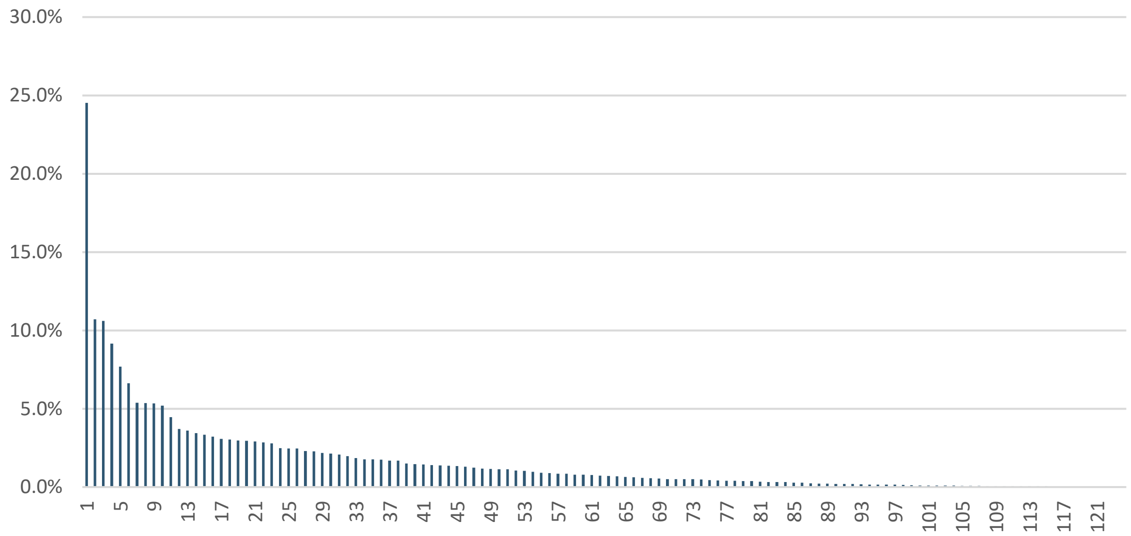
2.2 Size of the largest exposures for banks in the sample

35. This section shows the importance of the largest exposure for each bank in the sample.

36. The chart below shows the size of the largest single exposure to eligible liabilities to G-SIIs and O-SIIs as a percentage of MREL of the holder.

37. Most remain below 2% of MREL, with 11 above 4%, and 3 banks have their largest single exposure above 10% of MREL.

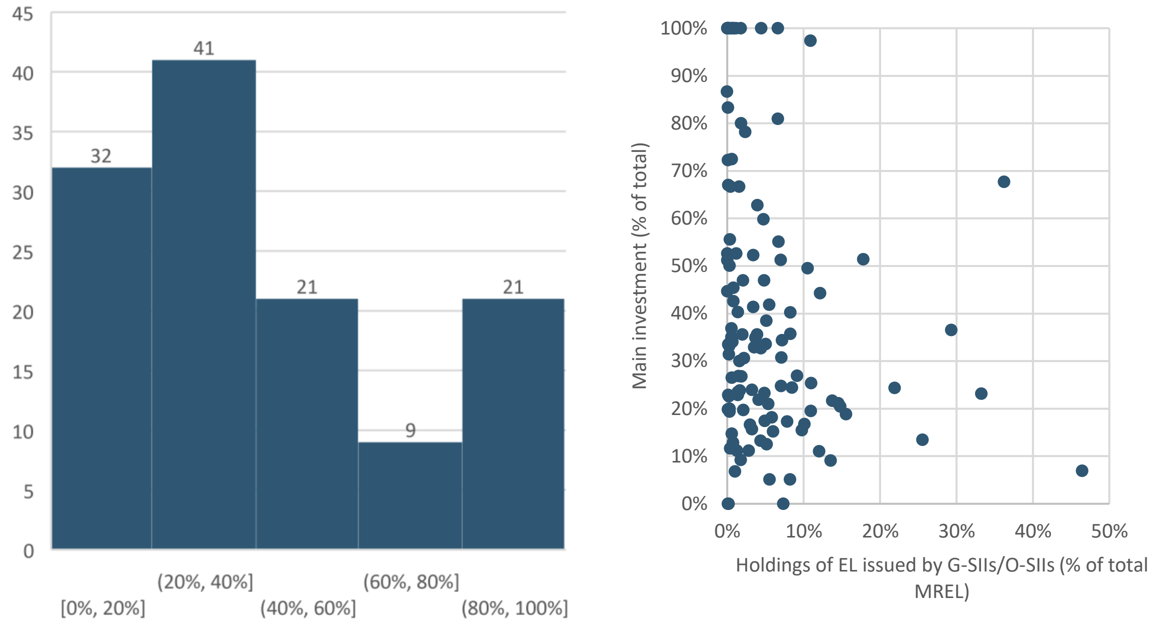
Figure 4: Largest exposure for each bank in the sample, percentage of MREL, bank-by-bank data, December 2021 data



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

38. On average, the largest single exposure represents 28% of the total portfolio, with 21 outlier banks having more than 80% of their portfolio of eligible liabilities concentrated towards one single issuer. However, among these outlier banks, 4 have total holdings as a percentage of MREL above the sample average (2.2%) and 1 appears as an outlier with the total exposures as a percentage of MREL above 8%.

Figure 5: Number of banks in each bucket of the ratio of the largest single exposure over total holdings (left) and correlation between the total holdings as a percentage of MREL and the largest single exposure (right)



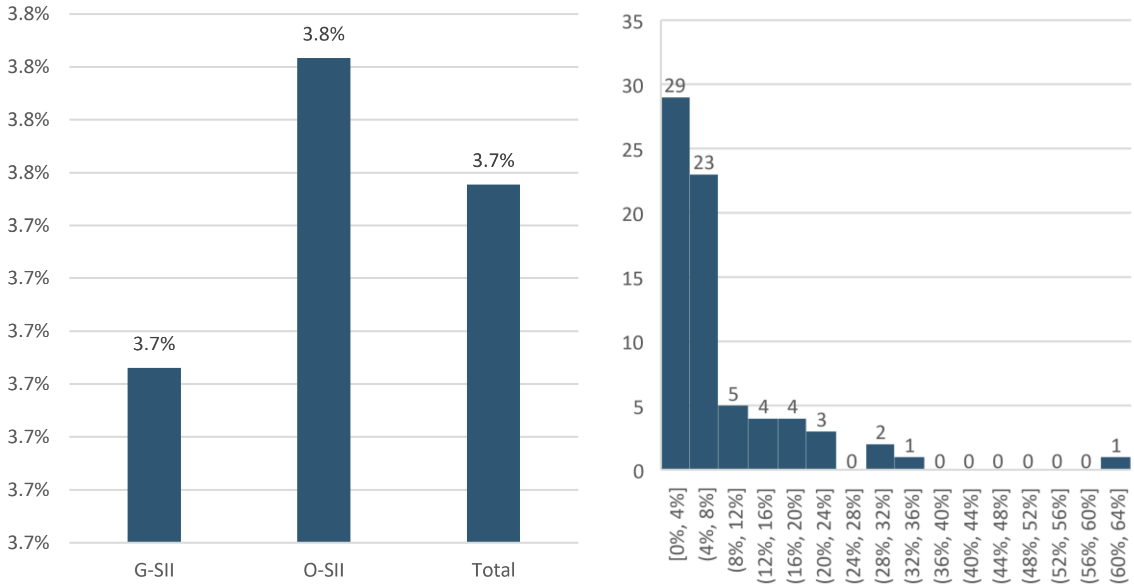
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

2.3 Reliance of G-SIIs and O-SIIs on EU banks for issuance of eligible liabilities

39. On average, G-SIIs and O-SIIs placed a limited 3.7% of their eligible liabilities with banks in the sample (0.5% of TREA). Therefore, EU G-SIIs and O-SIIs do not rely on EU banks to place the eligible liabilities that they issue in markets.

40. Most of the issuers of the sample (72%) have less than 8% of their eligible liabilities issued in the EU banking system. Seven outlier banks have more than 20% of their eligible liabilities placed among EU banks.

Figure 6: Share of EL issued by G-SIIs and O-SIIs, held by banks in the sample (% of eligible liabilities of the issuer) and distribution of banks based on the share of EL issued to other banks of the sample (right), December 2021 data



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

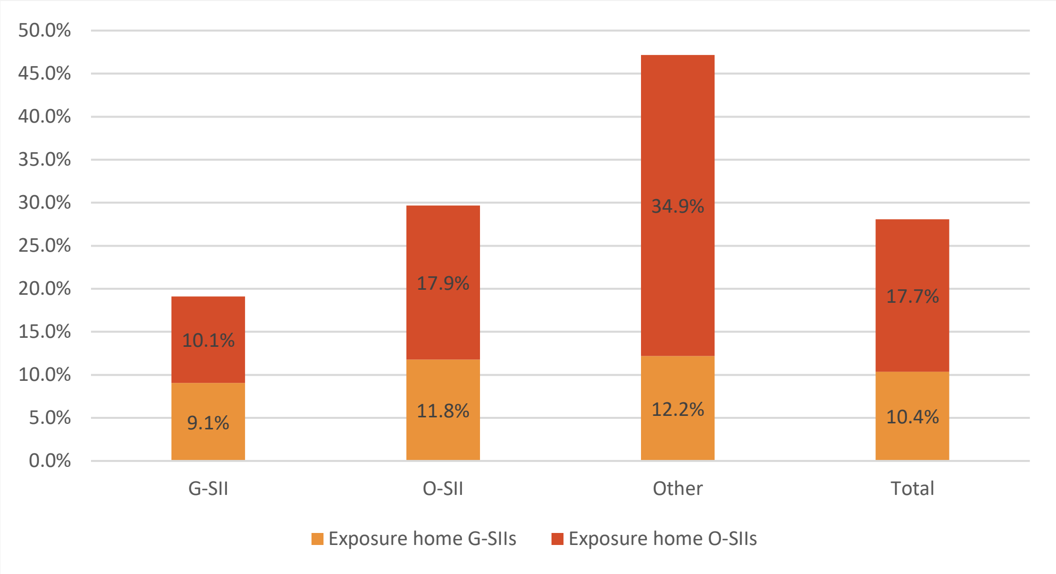
Box: Home bias of the portfolio of eligible liabilities issued by G-SIIs and O-SIIs.

Home bias from the perspective of the holder

On average, banks tend to have a higher exposure towards domestic G-SIIs and O-SIIs. This is computed by dividing the exposures towards domestic G-SIIs and O-SIIs by the total exposures to all G-SIIs and O-SIIs of the sample. For the three groups of holders, the chart shows that the exposures towards domestic G-SIIs are similar while the exposures towards domestic O-SIIs vary between the three groups of holders, being well above average for other banks.

On average, 30% of the portfolio is concentrated towards eligible liabilities issued by domestic G-SIIs/O-SIIs (19.1% for G-SIIs, 29.7% for O-SIIs and 47.1% for other banks). The above-average ratio of other banks is explained by the holdings of instruments issued by domestic O-SIIs.

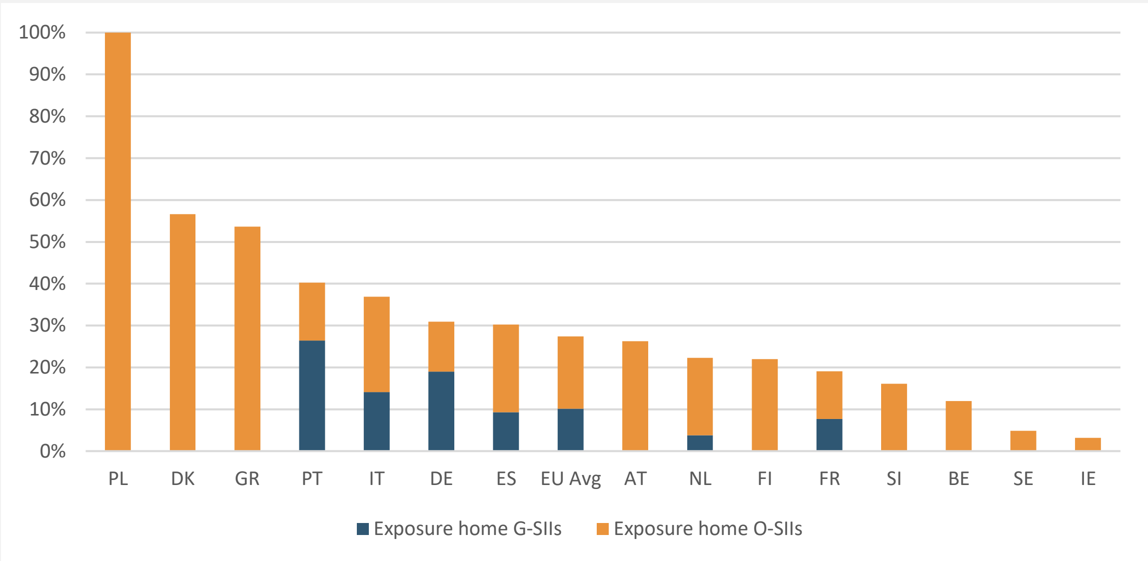
Home bias ratio of the total exposure to EL issued by G-SIIs and O-SIIs, percentage of the total portfolio of eligible liabilities issued by G-SIIs and O-SIIs, breakdown by systemic importance of the holder



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

The results broken down by country show a heterogenous situation, with some MS where all exposure to eligible liabilities is to domestic G-SIIs or O-SIIs.

Home bias ratio of the total exposure to EL issued by G-SIIs and O-SIIs, percentage of the total portfolio of eligible liabilities issued by G-SIIs and O-SIIs, breakdown by country of the holder

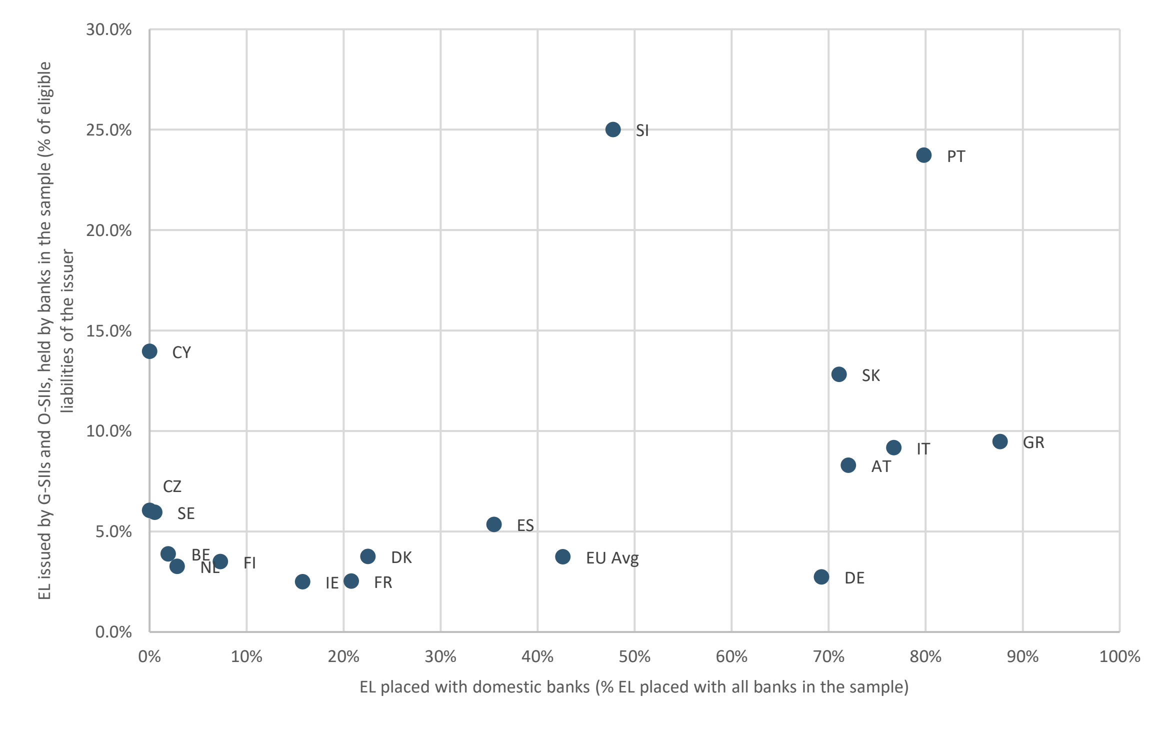


Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data. Countries with less than three holders in the sample have been excluded from the chart (CY, CZ, EE, HR, HU, LU, RO, SK).

Home bias from the perspective of the issuer

Overall, banks do not tend to rely on domestic banks for placing their debt. 1.6% of the eligible liabilities issued by G-SIIs and O-SIIs (out of the total amount of 3.7% of eligible liabilities issued to EU banks, mentioned in section 2.3) are placed with banks in their home country.

By country, the dispersion is high; in six EU countries, more than 50% of the EU G-SIIs and O-SIIs eligible liabilities placed with banks in the sample are placed with domestic banks. However, only one of these six has a high reliance on banks to place their eligible liabilities.



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data. Countries with less than three issuers in the sample have been excluded from the chart (EE, HR, HU, LU, LV, PL, RO).

2.4 Exposure of non-resolution entities

41. Exposure to EL from G-SIIs and O-SIIs is concentrated at resolution entity level. The difference between the total holdings of resolution groups and total holdings of resolution entities is EUR 10bn. Total holdings of resolution groups amount to EUR 56bn, of which EUR 46bn are concentrated within the resolution entity, which represents 82% of the total.

42. The difference comes from 33 resolution groups from 14 member states covering 49% of the assets of the sample and 36.2% of EU banking sector assets held exposures to G-SIIs and O-SIIs.

3. Risk of contagion and impediments to resolvability

43. The mandate requires the EBA to consider the potential impact of holdings of eligible liabilities on potential impediments to resolution and the risk of contagion.

44. This potential impact is analysed looking at the impact of the failure and application of the bail-in tool to two types of banks (i) those with a credit rating below investment grade and (ii) those with the largest reliance on banks for placing their eligible debt.

3.1 The impact of the failure of banks with non-investment grade ratings

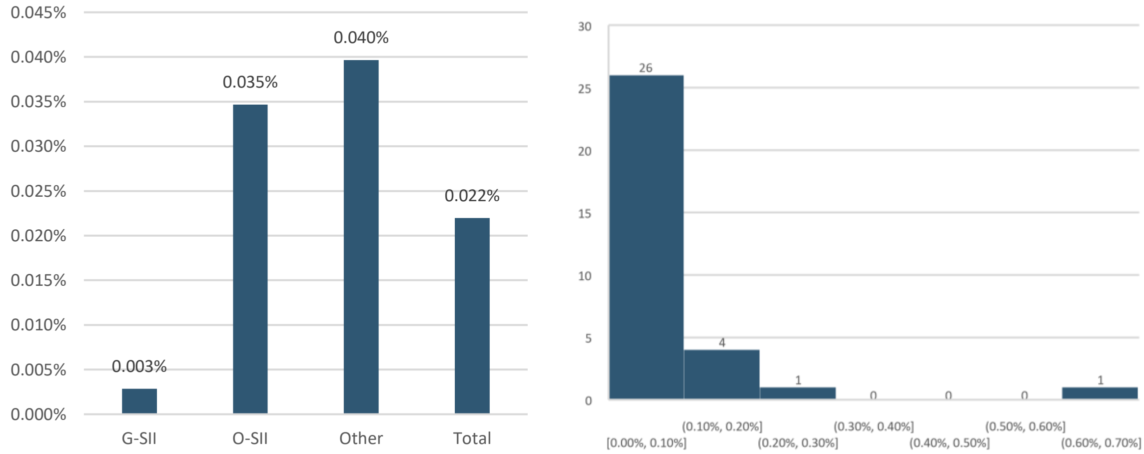
45. Under this scenario, the issuers with ratings below investment grade fail. Two scenarios are presented, one considering a 100% market to book value of the converted CET1 and another considering a 50% market to book value.

46. For the banks in the sample, the impact appears manageable overall and ranges between 0.029% (considering the risk-weighting of non-significant investments) and 0.058% of total MREL (considering a full deduction). None of the banks in the sample would breach P2R under any of the two scenarios. The low impact is explained by the share of exposure of non-investment grade issuers (4% of total portfolio, considering only banks that are exposed to non-investment grade issuers). The non-investment grade issuers that fail are 12 banks that represent 3.1% of EU banking sector assets.

47. Applying the risk-weighting to the exposures towards non-investment grade ratings, the impact is negligible. Considering the 50% conversion rate, the impact amounts to 0.029% of total MREL (0.003% for G-SIIs, 0.040% for O-SIIs and 0.077% for other banks). Considering the 100% market to book value, the impact amounts to 0.022% of total MREL (0.003% for G-SIIs, 0.035% for O-SIIs and 0.040% for other banks).

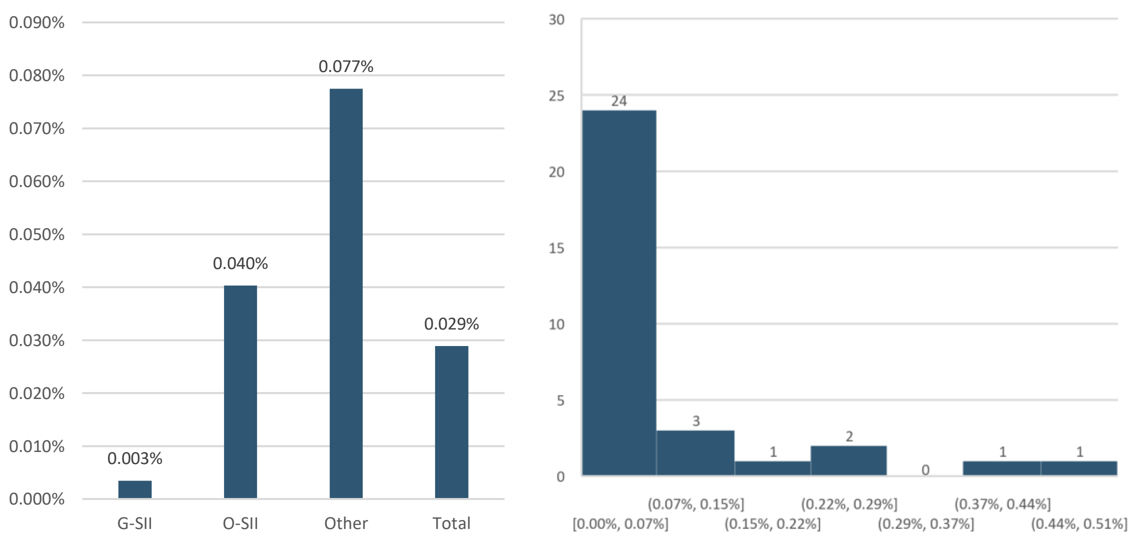
48. Applying a full deduction to the exposures towards non-investment grade ratings, the impact is also negligible and amounts to 0.058% of MREL (0.007% for G-SIIs, 0.081% for O-SIIs and 0.155% for other banks).

Figure 7: Impact of the failure of non-investment grade issuers (% of total MREL), scenario considering 100% market to book value of the eligible liabilities of the issuer



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 8: Impact of the failure of non-investment grade issuers (% of total MREL), scenario considering 50% market to book value of the eligible liabilities of the issuer



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

3.2 The impact of the failure of issuers with the most debt placed with other EU banks

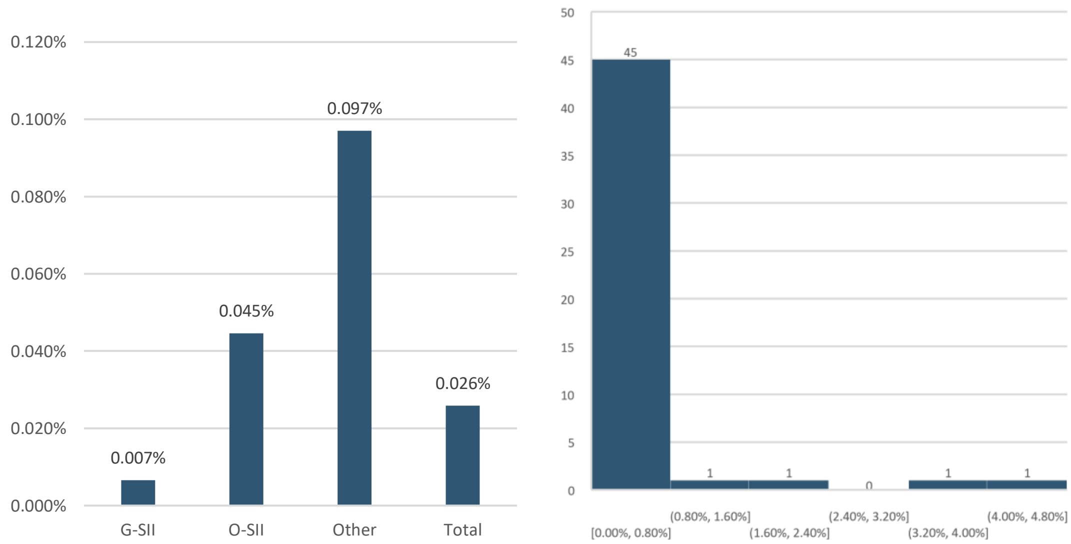
49. Under this scenario, the issuers that have placed more than 10% of their eligible liabilities with other banks in the sample fail simultaneously. This scenario is more severe than the previous one, as all issuers that show more dependency on the EU banking sector to place their eligible liabilities fail and not only those with poorer credit quality. In this scenario, the newly created CET1 is assumed to have a conversion rate of 50% of the book value of the eligible liabilities bailed in.

50. The impact is manageable overall and ranges between 0.026% (considering the risk-weighting of non-significant investments) and 0.082% of total MREL (considering the full deduction approach).

51. The impact amounts to 0.026% of total MREL (0.007% for G-SIIs, 0.045% for O-SIIs and 0.097% for other banks), with two banks with an impact above 3% of their total MREL resources. Although the impact is twice the impact observed under the failure of non-investment grade issuers with 50% market to book value, it is still negligible for the holders of eligible debt issued by G-SIIs/O-SIIs. The higher impact compared to the previous scenario is explained by the share of exposures towards the largest issuers (11% of total portfolio, considering only banks that are exposed to the issuers that have placed the most among other EU banks). The issuers with the most debt placed with other EU banks that fail are 16 banks that represent 2.8% of EU banking sector assets.

52. Under this scenario, the contagion would not lead to any bank breaching P2R.

Figure 9: Impact of the failure of the largest issuers (% of total MREL), scenario considering 50% market to book value of the eligible liabilities of the issuer



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

53. Considering a full deduction, the impact amounts to 0.082% of total MREL (0.018% for G-SIIs, 0.130% for O-SIIs and 0.408% for other banks), without any bank breaching P2R.

4. Conclusions

54. This report shows that overall, current holdings by EU banks in the sample of MREL-eligible liabilities issued by G-SIIs and O-SIIs are low and that EU G-SIIs and O-SIIs only moderately rely on banks to place their eligible liabilities – eligible liabilities corresponding to 4% of their MREL are placed with banks in the sample.

55. The contagion analysis in the report shows that under two different systemic crisis scenarios the impact appears manageable overall and, for the banks in the sample, ranges from 0.029% and 0.082% of reduction in MREL, without any bank breaching their Pillar 2 requirement under any of the two scenarios.

56. Yet, the report identified some outliers with above-average holdings of eligible liabilities and significant issuer or country concentration. Also, it should be taken into account that the report does not consider issuances by banks other than G-SIIs and O-SIIs, nor potential contagion via non-MREL-eligible liabilities that could be subject to bail-in.

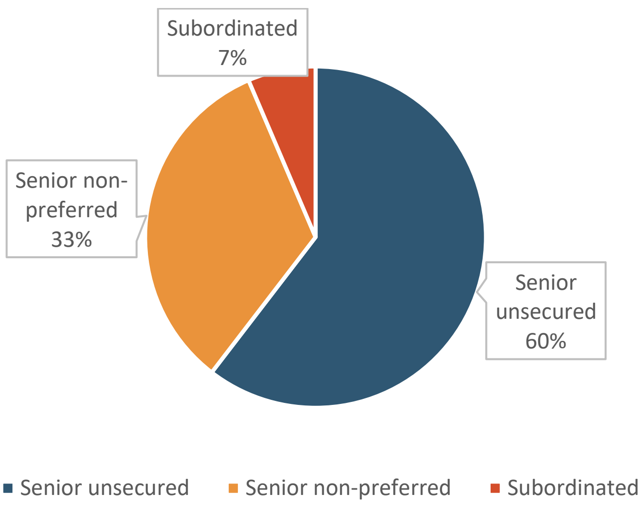
57. Although the current level of holdings of eligible liabilities does not represent a source of concern, some measures could be envisaged to ensure that such situation is appropriately crystallised. In particular, higher risk weights could be imposed on MREL-eligible instruments, specific limits could be introduced or a full deduction regime could be implemented. But each of these options would need to be carefully considered so as to optimise the cost-benefit ratio.

58. In any case, the work on holdings of eligible liabilities highlighted the importance of monitoring this exposure for RAs. In this respect, the EBA will consider how to ensure resolution authorities have access to the relevant data points to effectively monitor the issue.

Annex

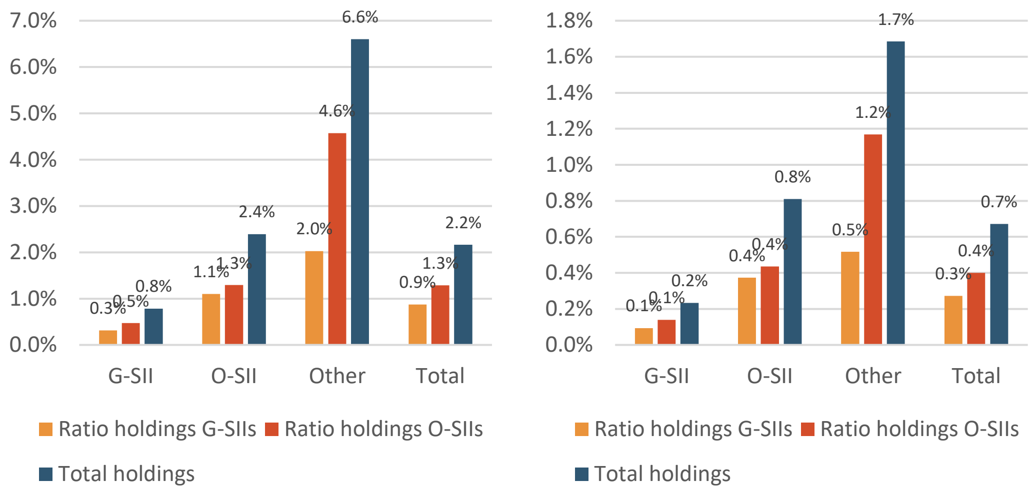
Individual level results

Figure 10: Exposure to EL issued by G-SIIs and O-SIIs by type of debt, individual sample, December 2021 data



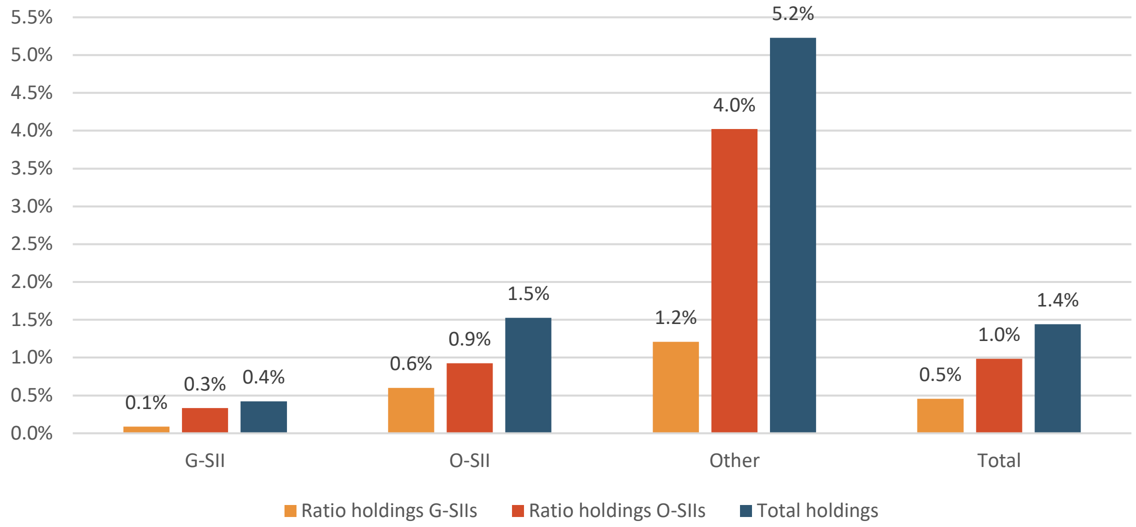
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 11: Total exposure to EL issued by G-SIIs and O-SIIs, percentage of MREL (left) and percentage of TREA (right) for banks in the sample, individual sample, December 2021 data



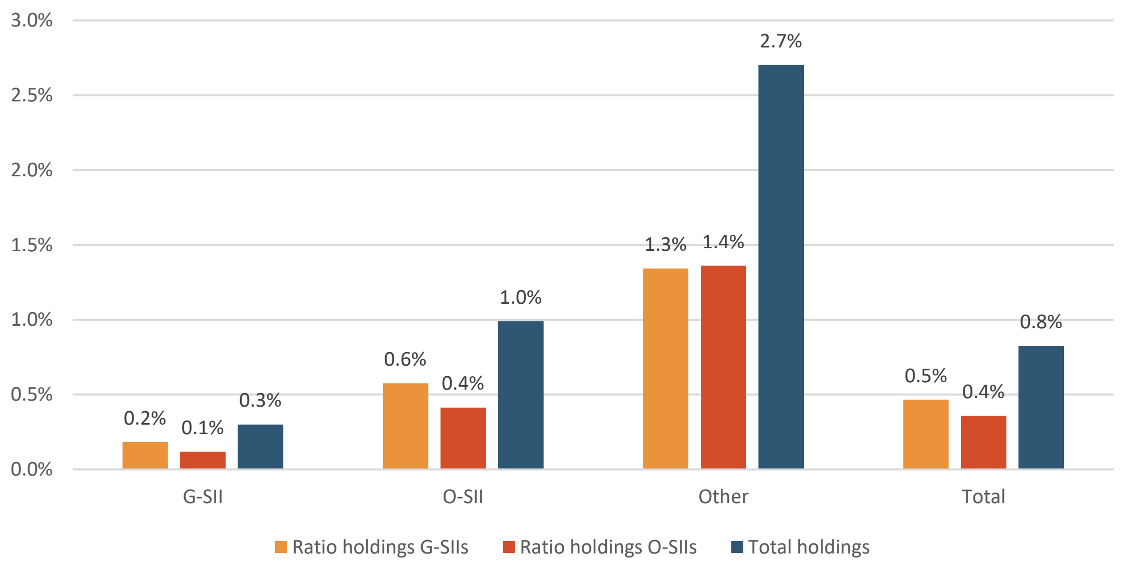
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 12: Total exposure to senior debt issued by G-SIIs and O-SIIs, percentage of MREL, individual sample, December 2021 data



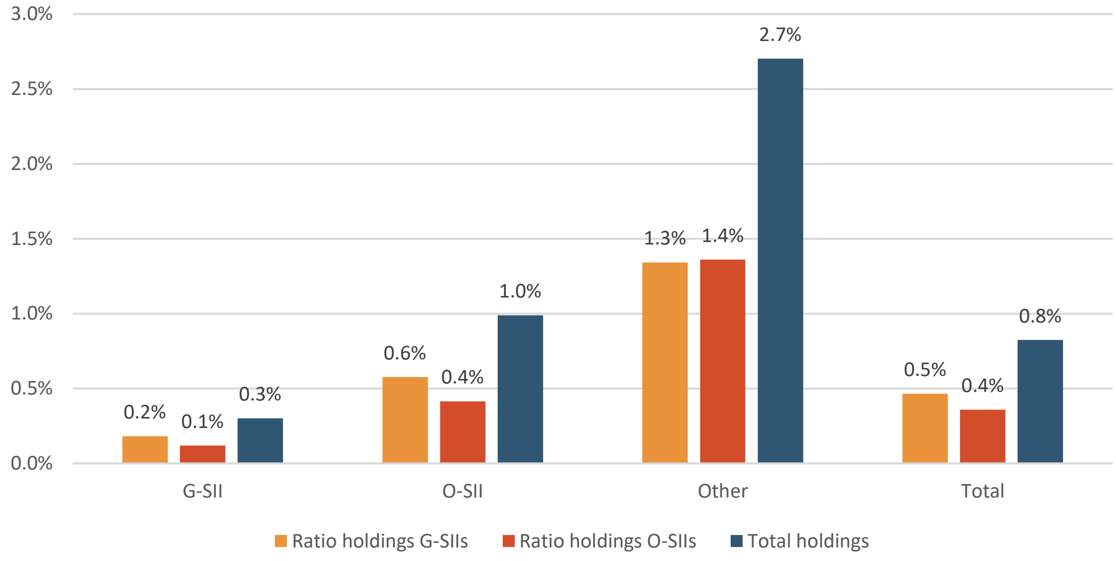
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 13: Total exposure to senior non-preferred debt issued by G-SIIs and O-SIIs, percentage of MREL, individual sample, December 2021 data



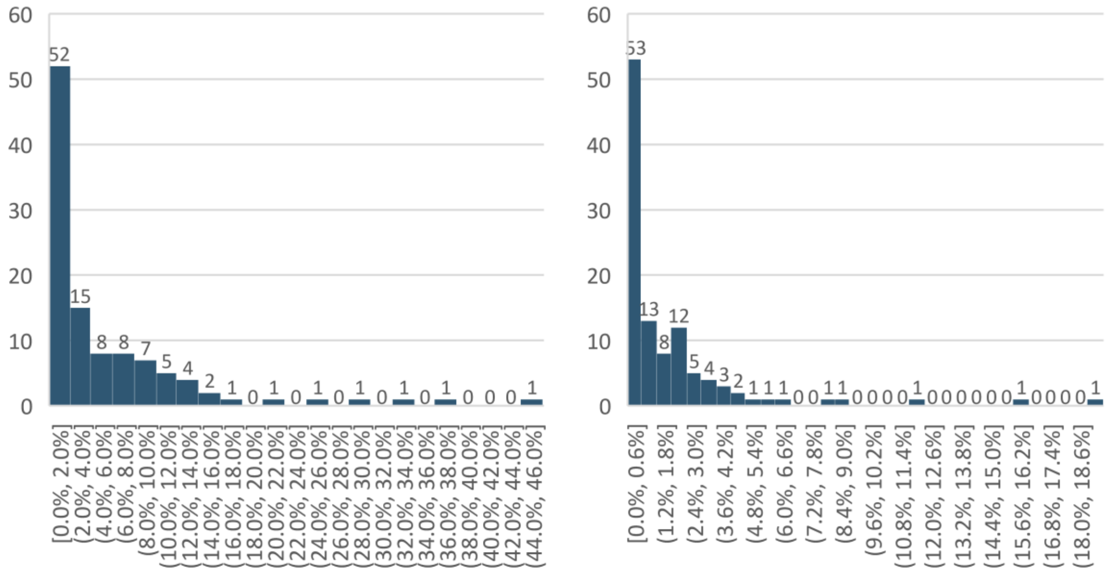
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 14: Total exposure to subordinated debt issued by G-SIIs and O-SIIs, percentage of MREL, individual sample, December 2021 data



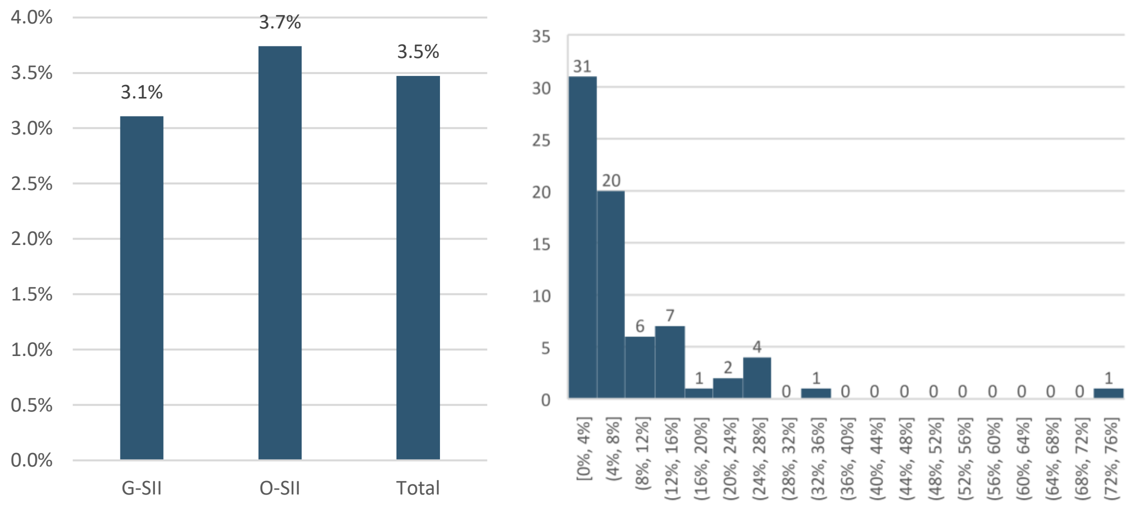
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 15: Distribution of banks based on the level of exposure to EL issued by G-SIIs and O-SIIs, percentage of total MREL of the holder (left) and of TREA (right), individual sample, December 2021 data



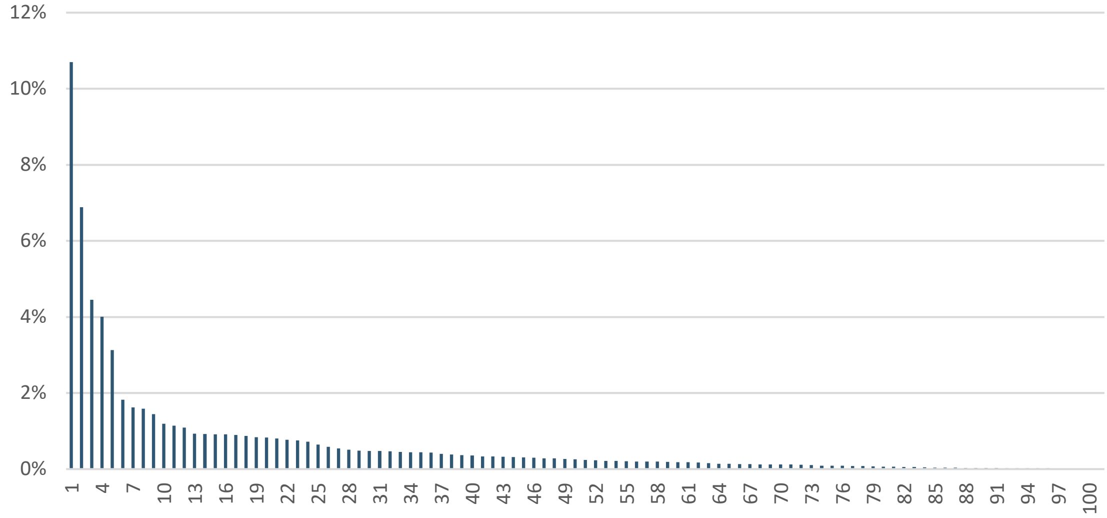
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 16: Share of EL issued by G-SIIs and O-SIIs, held by banks in the sample (% of eligible liabilities of the issuer) and distribution of banks based on the share of EL issued to other banks in the sample (right), individual sample, December 2021 data



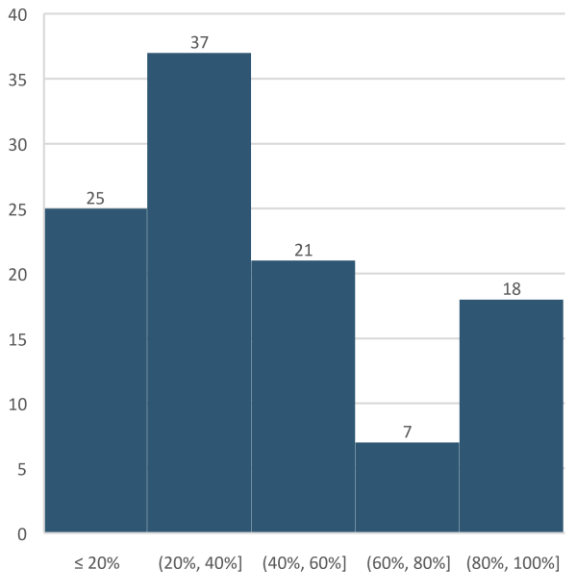
Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

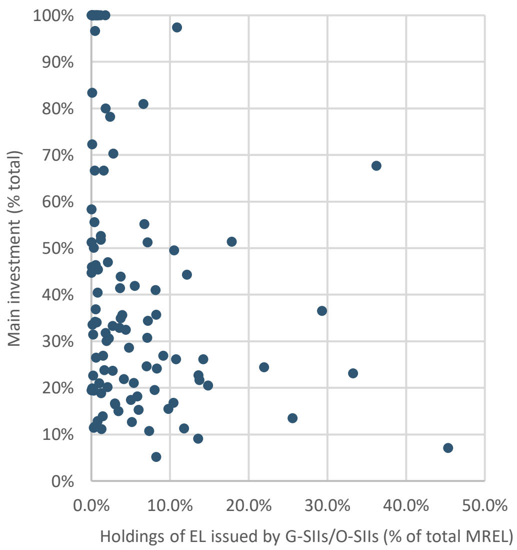
Figure 17: Largest exposure for each bank in the sample as a percentage of MREL, bank-by-bank data, individual sample, December 2021 data



Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

Figure 18: Number of banks in each bucket of the ratio of the largest single exposure over total holdings (left) and correlation between the total holdings as a percentage of MREL and the largest single exposure (right)





Sources: Data collection on holdings of eligible liabilities issued by G-SIIs and O-SIIs and MREL/TLAC reporting, December 2021 data.

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