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European Parliament

BRIEFING

Hearing with Mrs Elke König, Chair of the Single Resolution Board

ECON, 13 July 2016

The Single Resolution Board (SRB) was established on 1 January 2015 and on 1 January 2016 it became fully responsible for the resolution of those banks which are directly supervised by the ECB and of other cross-border groups. This briefing presents the state of play regarding the work of the SRB as well as a short insight into the latest Risk dashboard published by the European Banking Authority (EBA). It is published in advance of the Hearing with Mrs Elke König, Chair of the SRB, in the ECON Committee on 13 July in accordance with Article 45.4 of Regulation (EU) 806/2014.

Setting up the Single Resolution Board: state of play

Establishment of the SRB (for the main features of the SRB see also PE 528.749)

The SRB was established as an independent EU agency on 1 January 2015, and held its first plenary meeting on 25 March 2015. The SRB took over full responsibility for the resolution of significant banks and cross-border groups on 1 January 2016. On 8 January 2016, the SRB published the list of banks under its remit, including the 129 significant institutions directly supervised by the ECB and 15 other cross-border groups with subsidiaries established in more than one participating Member State.

The set-up process and the recruitment process are still ongoing; the staffing plan sets out that in 2016, the SRB aims to employ a total of 230 staff members, meaning it will approximately double compared to 2015 in terms of human resources employed (2015: 122).

Budget for 2016

The SRB is relatively transparent as regards its financial budget and related amendments, the information is published on its website; the SRB budget 2016, initially dated 30 September 2015, was amended twice, the first time on 25 November 2015, the second time on 16 March 2016.

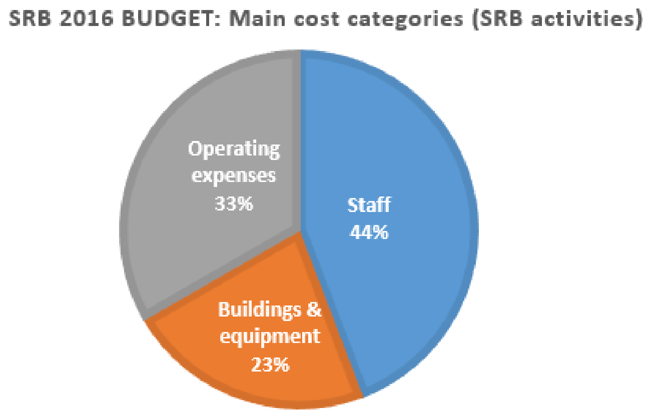
The SRB budget has two parts, one part is dedicated to the activities of the SRB itself, the other to the balance and use of the Single Resolution Fund (SRF).

In the 2016 budget, the planned expenditure for the SRB activities of overall EUR 57 million is allocated to 60 budget lines; as one would expect, salaries represent the most important element among them.

However, when looking at other operating expenses, two budget lines appear to have significant weight:

– "studies and consultancy" related costs are expected to absorb EUR 6.7 million for the implementation of the work programme;

SRB 2016 budget, second amendment (total: €57m):



Authors: B. Mesnard; M. Magnus; A. Margerit; C. Power

–“support activities to the Fund” (which cover, for example, rating costs and legal drafting costs) are expected to amount to EUR 5.8 million.

Those two budget lines represent respectively 12% and 10% of the overall budget.

As regards the balance and use of the SRF, the SRB 2016 budget indicates that ex-ante contributions in the overall amount of EUR 11.8 billion are to be invested in line with a prudent and safe investment strategy that aims to satisfy the liquidity needs of the SRF and preserves the value of the fund. The current investment strategy is of interim nature and will be used until a final investment strategy has been adopted by the SRB, based on the Commission Delegated Regulation (EU) No 2016/451.

A supplementary transfer between budget lines, also published on the SRB’s website, reveals that the funds available for 2016 will be reduced by EUR 19 million to cover anticipated bank charges and negative interest expenses. Bank charges and negative interest payments are therefore small compared to the overall size of the fund, but they would be significant if they had to be paid out of the SRB’s own budget.

Contributions to the Single Resolution Fund

National resolution authorities transferred in January 2016 to the SRF EUR 4.3 billion of ex-ante contributions for 2015, and transferred another EUR 6.4 billion for 2016 at the end of June (see press release of the SRB on 6 July 2016). Therefore, it seems that the total amount of contributions raised in 2016 will fall short of the target set in the 2016 budget (EUR 10.7 billion vs EUR 11.8 billion). Regarding the calculation of ex ante contributions, see EGOV briefing provided in advance of the hearing with Mrs König on 28 January 2016 (PE 574.387).

Until 2023, the annual contributions are computed as the sum of weighted BRRD and SRM contributions; that part of the annual contributions which is calculated according to the BRRD, representing 60% of the total in 2016, is gradually phased out over time and replaced by SRM contributions. Interestingly, the SRB indicates that 96% of 2016 ex-ante contributions were paid by 20% of the institutions under the risk adjusted method, while the remaining 4% of the contributions were paid under other calculation methods which apply to small credit institutions and investment firms, middle size institutions and mortgage institutions financed by covered bonds, representing altogether 80% of the institutions.

In addition, as the SRB anticipates that the amount of covered deposits will increase from 2015 to 2024, it decided to set the 2016 annual target at 1.05% / 8 of the amount of covered deposits as of 2015.

Procedural agreements with the ECB and the European Parliament

On 16 December 2015, the SRB and the European Parliament signed an agreement on practical modalities of the exercise of democratic accountability and oversight. In addition, on 22 December 2015, the SRB and the ECB signed a Memorandum of Understanding in respect of cooperation and information exchange. As of 5 July 2016 the SRB has published no such agreement between the SRB and the European Commission.

2015 annual report

The draft 2015 Annual report was made available to Members in accordance with section 1 of the agreement signed with the Parliament. It shall eventually be published on the website of the SRB.

Resolution planning: state of play

The main immediate challenge of the SRB is to design a robust resolution policy for the Euro Area. At the Third Industry Dialogue held on 23 May 2016 the SRB provided further update as to their work on resolution planning and how the principle of proportionality frames their policy regarding least significant institutions (LSI).

In January 2015 The SRB became formally responsible for resolution planning for the entities under its direct remit. Resolution planning is an important tool to prepare the ground for an effective SRB action in the event of the resolution. It helps making banks 'resolvable', i.e. it makes disorderly resolutions less likely and increases market discipline.

The SRB has to "*draw up and adopt resolution plans*"[1] for significant banks and cross-border groups[2], which involves a comprehensive exchange of information between financial institutions, national resolution authorities (NRA) and the SRB, as well as other stakeholders where necessary (notably within resolution colleges for those entities which have entities established in countries not participating in the Banking Union).

The 2016 work programme has set the following targets for the SRB (to be met by the end of 2016):

- setting-up of the internal resolution teams (IRT)[3];
- setting-up of all resolution colleges for which the SRB is the group level resolution authority;
- developing resolution plans for all major banking groups in the remit of the SRB;
- complete enhanced resolvability assessment for all G-SIBs in the remit of the SRB;
- Setting MREL targets at consolidated level for all major banking groups.

As regards process, the work of the SRB seems well advanced. On 23 May 2016, the SRB held its third Industry Dialogue meeting. In that context, Mauro Grande, Director of Strategy and Policy Coordination, gave a presentation which set out the SRB's Work Plan for 2016 on Resolution Planning and the progress made as regards the SRB's key objectives for 2016:

- 75 IRTs should be established (some are grouping several banks together);
- 90 % of IRTs have been launched;
- 29 resolution colleges (RC) need to be established; all written arrangements have been finalized; the first RCs will take place before the summer; they should discuss draft resolution plan and reach joint decisions during the fall;
- IRTs have started drafting resolution plans; they are engaging with banks through workshops; IRTs should be able to finalize draft resolution plans and set MREL targets by year-end as well as to draw conclusions from the resolvability assessment;
- The ECB will be consulted on the resolution plans in August/September for a consultation period from 5 to 8 weeks;
- The draft resolution plans will then be submitted to the extended SRB executive sessions (including the NRAs concerned) over the period October-December.
- For the G-SIBs a resolvability assessment has been concluded and communicated to the FSB; the resolvability assessment for the other banks will be done during summer.
- Regarding MREL, in 2016 it will be set at consolidated level only, taking into account the TLAC standards for GSIBs and beyond.

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[1] SRM Regulation, article 8.1

[2] For less significant institutions (LSI), resolution authorities may apply simplified obligations (SO) in relation to the drafting of resolution plans or waive this requirement. As presented by the SRB at its third dialogue with the industry on 23 May 2016, SO plans should be drafted for the LSIs under the NRAs remit. The same principle applies to cross-border LSI that fall under the direct remit of the SRB. SO plans can be simple. In 2016, for the sake of simplification and to align the SO for the recovery and for the resolution plans, the SRM will follow the lead of the ECB in its qualification of LSIs. The approach will be reviewed in 2017. If an LSI's failure is likely to have significant adverse consequences for the financial system or be a threat to financial stability, full resolution plans should be drafted.

[3] IRTs are the main fora where the SRB and the NRAs cooperate in performing resolution activities (resolution planning and resolution schemes preparation) for the 175 banks under direct SRB responsibility

As regards substance, i.e. the principles and methodology that would guide any future resolution action by the SRB, the authority has published little information so far. To ensure consistent and high quality resolution activity, the SRB has worked -together with NRA- on a resolution planning manual. Whereas an internal version of the manual has been finalized already in March 2016, the public version of the manual should only be published by summer 2016.

Focus on MREL

MREL and the 8% minimum bail-in requirement

Setting credible requirements for loss absorption in good times shall ensure bail-in can be implemented upon failure of weak institutions. Article 44.5 BRRD provides that 8% of the total liabilities including own funds of the institution under resolution shall be bailed-in (through write-down or conversion) before the resolution financing arrangement may make a contribution to the institution under resolution. However some liabilities are explicitly excluded from the scope of the bail-in tool (Article 44.2 BRRD), as for instance covered deposit, secured liabilities, liabilities to institutions with an original maturity of less than seven days, liabilities to employees, tax and social security authorities, etc... In addition to those liabilities which are excluded as per Article 45.2, the resolution authority may decide to exclude (or partially exclude) some liabilities where:
- it is not possible to bail-in those liabilities under a reasonable timeframe;
- it is necessary and proportionate to safeguards the continuity of critical functions;
- it is necessary and proportionate to avoid widespread contagion;
- it would cause a destruction in value such that other creditors would suffer higher losses.

As a consequence, the institution may not hold a sufficient amount of bail-inable liabilities to absorb losses and recapitalize the bank upon resolution. The BRRD then requires that institutions hold at all times a minimum amount of liabilities which can be credibly bailed-in. To that end some eligibility criteria are defined in Articles 45.4 BRRD: in particular, the liability must be externally issued and fully paid up, have a remaining maturity one at least one year, and should not arise from a derivative nor from a preferred deposit. In addition if that liability is issued in a Third country the resolution authority should be able to write-down or convert that liability effectively under the Law of the Third country (Article 45.5).

However, under resolution the bail-in tool shall apply, if necessary, not only to liabilities eligible for MREL purpose, but to all liabilities which are not excluded from the scope of bail-in. This is illustrated in Annex A.

Determination of MREL requirements

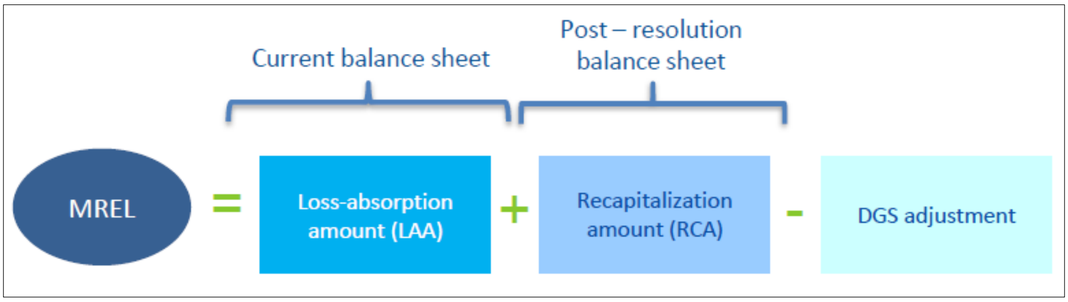
The BRRD provides that the MREL shall be set on a case-by-case basis, based on a number of criteria to be further developed in level 2 legislation. In particular the resolution authority should take into account the need "*to ensure that, if the bail-in tool were to be applied, losses could be absorbed and the CET1 ratio of the institution could be restored (...) to enable it to continue to comply with the conditions for authorisation*". Therefore the bail-in should aim (i) at absorbing losses and (ii) at recapitalising the failing institution.

On 3 July 2015, the EBA published its draft regulatory technical standards (RTS) on the criteria for determining MREL, which have not yet been endorsed by the Commission. On 18 December 2015, the Commission informed the EBA that it intended to amend the final draft RTS submitted by the EBA. In particular, the Commission assesses that the reference to the minimum 8% bail-in contribution in Article 5.1 of the draft RTS and the specification for a 48 month limit for the transitional period go beyond the scope of EBA's empowerment set out in the BRRD. On 9 February 2016, the EBA published its opinion on the Commission's proposed amendments, rejecting the substantial amendments proposed by the Commission.

On 23 May 2016, the Commission adopted the delegated regulation on the criteria for determining MREL. On the two issues referred to above, the delegated regulation provides that (i) for systemic institutions *the resolution authority shall take into account the requirements set out in Article 44 of Directive 2014/59/EU* (Article 5.1) and (ii) *resolution authorities shall determine an appropriate transitional period which is as short as possible* (Article 8.2), thereby dropping any explicit reference to the 8% minimum bail-in requirement and the 48 month limit for the transitional period. The Parliament and the Council can object to the delegated regulation within three months.

On 12 January 2016, the SRB had held its second industry dialogue where it presented its methodology to determine the MREL, based on the draft RTS.

Figure 2: Determination of MREL requirements



Source: SRB

The MREL will be calculated on the basis of three components: the capital requirements of the current balance sheet, those of the post-resolution balance sheet (which factors in the preferred resolution strategy), and an adjustment linked to any potential involvement of a DGS to protect insured depositors.

MREL review and TLAC implementation

Article 45.18 BRRD provides for a review of the MREL on the basis of a report to be submitted by the EBA by 31 October 2016. Such review would aim, if necessary, at harmonising the application of MREL and introducing minimum requirements taking into account the different business models of institutions and groups.

In addition, the Financial Stability Board has enacted global standards on Total Loss Absorbing Capacity, which share the same objective as the MREL in the EU, but should apply to GSIBs only from 2019 onwards. The Commission has therefore started preparatory technical work on the implementation of the TLAC framework into EU Law, and the review of the MREL framework. For more details on the MREL review and its interactions with the TLAC standard developed by the FSB, see EGOV briefing PE 574.408.

RWA vs Total assets: does it matter for MREL requirements?

The four experts contracted by the Parliament to work on resolution-related issues (a consortium led by Queen Mary University in London and LUMSA in Rome, Pr. Martin Hellwig, Bruegel and CEPS) were consulted on the topic: ***"RWA vs Total assets: does it matter for MREL requirements?"***.

All four experts argued that the choice of metric does actually matter when looking at the distribution of those requirements. Noting that average ratios of RWA / total assets or average exposures to sovereign bonds differ across banks, business model, ownership structures or countries, they conclude that setting a requirement based on a risk-weighted metric rather than on an unweighted metric has indeed a substantial impact on the calculation of requirements.

Mr Willem Pieter de Groen (CEPS)

The author shows that larger and more systemic, market-oriented and government-oriented banks report lower ratio of RWA / Total assets, due to larger exposures to sovereigns and financial institutions, which bear low risk-weights. While the author acknowledges the need for regulatory requirements to factor-in the risk profile of institutions, he deems the current framework of only limited use to accurately measure the riskiness of a bank. In his view, requirements based on the entire balance sheet may better reflect the risk of "major, but rare, events". He concludes that a **combination of a leverage ratio and a RWA-based ratio is needed for MREL** and calls for further simplification of the framework, subject to a thorough assessment of derivative-netting in the leverage ratio.

Mrs Pia Hüttl, Mr Bennet Berger and Mrs Silvia Merler (Bruegel)

The authors find that smaller banks would face higher requirements if those were based on RWA rather than leverage exposures, due to their lower RWA / Total assets ratio. However given the link established in the draft EBA RTS between MREL and going-concern capital, they do not recommend to set requirements on the sole basis of total assets. They rather suggest scaling up the leverage component of the MREL, by **increasing the leverage ratio requirement of 3% in proportion with capital requirements,** depending on which buffers are included. The leverage ratio would therefore no longer act as a static backstop, but as a dynamic secondary metric.

Pr Rym Ayadi (HEC Montreal and IRCCF) and Pr Giovanni Ferri (LUMSA)

The authors analyse the impact of both metrics for different business models, systemic profiles, and ownership structures, using the TLAC formula which provides that requirements be set at the higher of 18% RWA or 6.75% of the leverage exposure. They observe that requirements based on RWA are significantly lower for some business models (diversified retail type 2, wholesale), ownership structures (public banks), as well as for domestic systemically important banks (DSIB), with the leverage-based calculation acting as a backstop when the RWA-based requirement fall below 6.75% of total assets. The authors also assess the impact of the 8% floor as per the draft EBA RTS and the impact of extreme shocks on banks' capital positions. The authors conclude that **both metrics should be used in line with the TLAC standard**, and that MREL **should be calibrated to the business model and systemic footprint of banks.**

Pr Martin Hellwig (Max Planck Institute for Research on Collective Goods)

The author underlines the problematic reliance on RWA in banking regulation, since major risks are overlooked, risk-weight calculations can be manipulated and sound statistical basis are lacking. In addition, the author stresses out the conceptual differences between capital requirements and requirements to hold liabilities which should be credibly bailed-in upon failure of an institution. But since the total assets metric also have drawbacks, the author concludes **the dual approach remains the most reasonable way forward**. Based on an analysis of sovereign exposures the authors concludes that calculating an 8% MREL requirements on those exposures would have significant effects for Spain, Italy, Slovenia and Slovakia.

The main findings of the EBA Risk Dashboard

In April 2016 the European Banking Authority (EBA) published the periodical update of its **Risk Dashboard** summarising the **main risks and vulnerabilities in the banking sector on the basis of the evolution of a set of Risk Indicators (RI) across the EU in Q4 2015**. The figures covered in the Risk Dashboard are based on **a sample of 154 banks at the highest level of consolidation**, while country aggregates may also include large subsidiaries (the list of banks can be found at http://www.eba.europa.eu/risk-analysis-and-data). The EBA's findings are as follows:

EU banks' capital ratios have further increased	• The **CET1 ratio** rose by 60bps to 13.6% in December 2015. The CET1 ratio was lower for large banks (13.2%). No country reported an average CET1 ratio below 11%. Similarly, only 4.6% of banks reported a CET1 ratio below 11% (13.1% in september 2015).
Modest improvement in the quality of banks' loan portfolios, which remain a concern	• The **NPL ratio** decreased from 5.9% to 5.8%. Only 6.9% of banks reported an NPL ratio of more than 8% (from 8.9% in Q3 2015), while 38.1% reported an NPL ratio below 3% (from 41.1% in Q3 2015). • More banks reported a **coverage ratio** below 40% (39.9% vs 34.3% in september)
Profitability remains low	• The average **return on equity (RoE)** is better in 2015 (4.7%) than in 2014 (3.5%), with lower values for small banks (2.4%) than large ones (5.5%). • The **cost to income ratio** further deteriorated in Q4 2015 to 62.8% (59.9% in Q3 2015), with larger banks (63.5%) lagging behind smaller ones (53.2%).
The net interest margin remained stable at 1.6% in Q4 2015	• **NIM** remains higher for smaller banks (2%) than for large ones (1.61%) but remained stable overall. NIM increased its share in total operating income in the 4th quarter of 2015 (57.4% vs. 56.3%).
Loan to deposit ratio decreased to 120.9%	• The **loan-to-deposit ratio (LDR)** decreased to 120.9%, from 123.2% in September 2015. It was lower for small banks (95.5%) and higher for mid-sized institutions (137.8%), with large banks (118.0%) close to the overall average.

An overview of the main risks and vulnerabilities of the European banking sector is provided in Annex B.

Annex A: Scope of bail-in and MREL eligibility criteria

Note: A more exhaustive analysis of eligibility criteria under the MREL framework and TLAC standards can be consulted in the annex of EGOV briefing [PE 574.408.]

	<u>Liabilities excluded from bail-in</u> *(Article 44.2 BRRD)*	<u>Bail-inable liabilities not eligible to MREL</u>	<u>Bail-inable liabilities eligible to MREL</u> *(Article 45.4 BRRD)*
preferred creditors	**Household insured deposits (< 100 000 euros)** **SME and uninsured household deposits** **Preferred liabilities** **- to tax and social security authorities** **- to deposit guarantee schemes** **Preferred liabilities to employees in relation to salary, benefits or other fixed remuneration**		
senior creditors	**Senior liabilities excluded from bail-in** - secured liabilities - liabilities arising from the holding of client assets or fiduciary relationships - liabilities to institutions (or settlement systems) with an original (remaining) maturity of less than 7 days - liabilities to commercial or trade creditor arising from the provision of goods and services critical to the daily functioning of operations <u>Examples:</u> - covered bonds - overnight deposits from other institutions	**Senior bail-inable liabilities not eligible to MREL** - unsecured liabilities with a remaining maturity of less than 1 year - unsecured liabilities either owned, guaranteed or funded buy the institution - unsecured liabilities arising from derivative contracts - unsecured liabilities issued in foreign jurisdiction where the decision of the resolution authority cannot be enforced with certainty <u>Examples:</u> - short term senior bonds - senior bonds issued in a jurisdiction where the decision of the resolution authority cannot be enforced - corporate deposits with a maturity of less than 1 year - deposits by credit institutions with a maturity between 7 days and 1 year	**Senior bail-inable liabilities eligible to MREL** unsecured liabilities issued externally and fully paid up - with a remaining maturity of more than 1 year - not funded / owned by the institution - not arising from a derivative - not arising from a preferred deposit - if issued under Third country law, must be effectively bail-inable by the resolution authority of the home country <u>Examples:</u> - long term senior bonds with a remaining maturity of 2 years - deposits by credit institutions with a maturity of more than 1 year
subordinated creditors		**Subordinated / hybrid debt not eligible to MREL** - Subordinated / hybrid instruments with a remaining maturity of less than 1 year - Subordinated / hybrid instruments funded or owned by the institution - Subordinated / hybrid instruments issued in foreign jurisdiction where the decision of the resolution authority cannot be enforced with certainty <u>Examples:</u> - subordinated bonds with a remaining maturity of 6 months - subordinated bonds issued in a jurisdiction where the decision of the resolution authority cannot be enforced	**Subordinated / hybrid debt eligible to MREL** Subordinated / hybrid instruments - with a remaining maturity of more than 1 year - not funded / owned by the institution - if issued under Third country law, must be effectively bail-inable by the resolution authority of the home country <u>Examples:</u> - subordinated bonds with a remaining maturity of 2 year eligible for Tier 2 - perpetual contingent convertible bond (CoCo) eligible for AT1
shareholders		**Other capital instruments** <u>Examples:</u> - treasury shares (shares held by the institution itself)	**Own funds (CET1)** <u>Examples:</u> - ordinary shares - preference shares

Annex B: EU Banking Sector - Overview of the main risk and vulnerabilities

		Bank risk	Risk drivers	Level of risk: Last quarter (memo) – Level	Level of risk: Last quarter (memo) – Expected Trend	Level of risk: Current quarter – Level	Level of risk: Current quarter – Forward Trend	Contributing factors/interactions
Capital	Pillar 1	Credit risk	Asset quality, emerging markets, commodity and energy exposures, global economic development	High	Stable	High	Stable	NPL ratios have continued their trend of slow improvements, but remain high in several parts of the EU. A significant stock of legacy NPLs contributes to high ratios. Besides these stocks of legacy assets, credit risk is currently mainly negatively driven by emerging market, commodity and energy exposures. Also as global economic prospects are increasingly fragile, credit risk remains high for the near term future.
Capital	Pillar 1	Market risk	Heightened market volatility, risk from declining market liquidity	Medium	Increasing	High	Stable	Volatility is heightened in nearly all asset classes across the board, not at least in equity, FX and commodity markets. Further volatility is expected for the near term future, also driven by elevated political risks. There is a persistent risk of a sudden decrease in market liquidity, which would additionaly accelerate market volatility. The low interest environment contributes to an increased risk appetite.
Capital	Pillar 1	Operational risk	Information & communication technologies, cyber attacks	High	Stable	High	Stable	Information and communication technologies, including exposure to cyber attacks, remain a key operational risk. Pressure for further cost reduction measures entail additional operational risks.
Capital	Pillar 2	Concentration risk, IRRBB and other	Low interest rate environment, direct & indirect EM / commodity / energy exposures at some banks	Medium	Stable	Medium	Stable	In an environment of low interest rates, banks are increasingly vulnerable from rates' shifts and respective impact on their interest income. Banks try to increase new lending volumes to keep their net interest income on constant levels, which increases their willingness for taking higher risks. In some jurisdictions and some institutions' concentration in sovereign, emerging market, commodity and energy direct / indirect exposures is high.
Capital	Pillar 2	Reputational and legal	Misconduct, litigation costs	High	Stable	High	Stable	The scope of identified misconduct practices and incurring costs remains wide. Misconduct costs are expected to stay high and current provisioning levels for identified cases might not be sufficient.
Capital	Pillar 2	Profitability	Interest margins, investment banking revenue, fee income, NPL levels	High	Stable	High	Stable	Interest margins remain under pressure in an environment of further declining central bank rates. Also income from investment banking business is becoming increasingly under pressure. Other components of fee income suffer from growing competition and / or the general subdued economic environment (e.g. asset management related business). High levels of legacy NPLs remain a drag on banks' profitability in some jurisdictions, as do new impairments from certain exposures (emerging markets, commodities, energy).
Liquidity & Funding		Access to funding and maturity distribution	Widening of spreads and issuance volumes below last year's level for certain instruments	Medium	Stable	Medium	Increasing	Issuance activity was more volatile and partially subdued for senior unsecured debt instruments. The impact on subordinated debt was more pronounced, with issuance activity significantly below last year's volumes. This came after a widening of AT1 and T2 instruments' yields. However, covered bond markets have remained relatively stable, including issuance activity from peripheral institutions. Market volatility demonstrated how quickly market risk aversion can stop the flow of bank debt and capital instrument issuance. A small number of banks was still able to tap the market for MREL / TLAC eligible instruments with significant volumes. There is still ample access to central bank funding.
Liquidity & Funding		Funding structure	Reliance on secured funding, increasing importance of deposits	Medium	Stable	Medium	Stable	Funding through covered bonds and deposits has increased in importance. Uncertainties about TLAC and MREL negatively affect respective issuance activity. It is not foreseeable when banks – independent from their size and where they are located – will be able to issue subordinated debt at reasonable pricing to reach required levels of AT1, T2 and MREL eligible instruments in capital structures.
Environment		Regulatory and legal environment	Risk weighted assets, MREL, MDA	Medium	Stable	Medium	Stable	Regulatory uncertainty is again increasingly considered as a negative burden. This includes uncertainty in respect of risk weighted assets (credit risk, including potential floors for internal models, market risk, operational risks), but also on MREL (different implementation strategies among countries) and MDA.
Environment		Fragmentation	Asset quality, profitability, funding, supervision	High	Stable	High	Stable	Fragmentation of asset quality, profitability and funding structure, and also supervisory practices, remains high among jurisdictions.
Environment		Sovereign risk	Debt overhang	High	Stable	High	Stable	Risks from a large debt overhang in some countries remain high. Significant sovereign exposure leads to elevated vulnerabilities of banks in some jurisdictions.

Level	High	Medium	Low
Trend	Increasing	Stable	Decreasing

The level of risk summarises, **in a judgmental fashion, the probability of the materialisation of the risk factors and the likely impact on banks.** The assessment takes into consideration the evolution of market and prudential indicators, National Supervisory Authorities' and banks' own assessments as well as analysts' views.

Source: EBA Risk Dashboard, April 2016, page 4.