



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

Mr Sven Giegold
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 April 2018

Re: Your letter (QZ020)

Honourable Member of the European Parliament, dear Mr Giegold,

Thank you for your letter on instruments eligible for the minimum requirement for own funds and eligible liabilities (MREL) held by private households, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 26 March 2018.

For bail-in-able debt securities issued by banks resident in Germany, France, Italy, Spain, Greece and Portugal, the charts in Annex 1 show the holdings of these instruments by residents of the same countries and by residents of the other euro area countries. For both holder groups and each country mentioned above, breakdowns by economic sector, including the household sector, are also provided. The relevant reference date is the third quarter of 2017.

The charts have been compiled using data from the ECB's Centralised Securities Database (CSDB) and from the Securities Holdings Statistics by Sector (SHSS). These two databases are mainly used to support the ECB's central banking function. Bail-in-able debt securities are approximated by using *senior unsecured and subordinated debt issuances, excluding secured issuances (e.g. covered bonds) and issuances with no information on their seniority*. This is considered the most appropriate approximation of the respective holdings of bail-in-able liabilities, as this type of breakdown is not available. More detailed information, e.g. about further breakdowns, including the wealth distribution within the household sector holding these instruments, is not available.

From a financial stability perspective, the ECB is of the view that the resolvability of credit institutions may be reduced if non-preferred senior debt instruments or subordinated debt instruments, which are eligible for MREL, are held by retail investors. Thus, as indicated in the ECB's opinion on revisions to the Union crisis management framework¹, one possibility which could be considered is to require that the minimum size per

¹ See paragraph 2.11 of ECB Opinion CON/2017/47 of 8 November 2017 on revisions to the Union crisis management framework, available at: https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2017_47_f_sign.pdf.

unit of issuance is set at €100,000. This would increase the investment threshold and thus also raise investor awareness, thereby limiting direct retail investment. Similarly, clearer and more easily understandable disclosure requirements could increase investor awareness of the risks associated with such instruments.

The data also point to the presence of cross-holdings of MREL liabilities between credit institutions. This is undesirable from a financial stability perspective. In order to prevent double-counting and limit contagion effects, which arise when banks buy each other's MREL instruments, the ECB's opinion argued that deduction rules should apply to all holdings of external MREL liabilities, i.e. MREL liabilities issued to entities outside the resolution group.²

Yours sincerely,

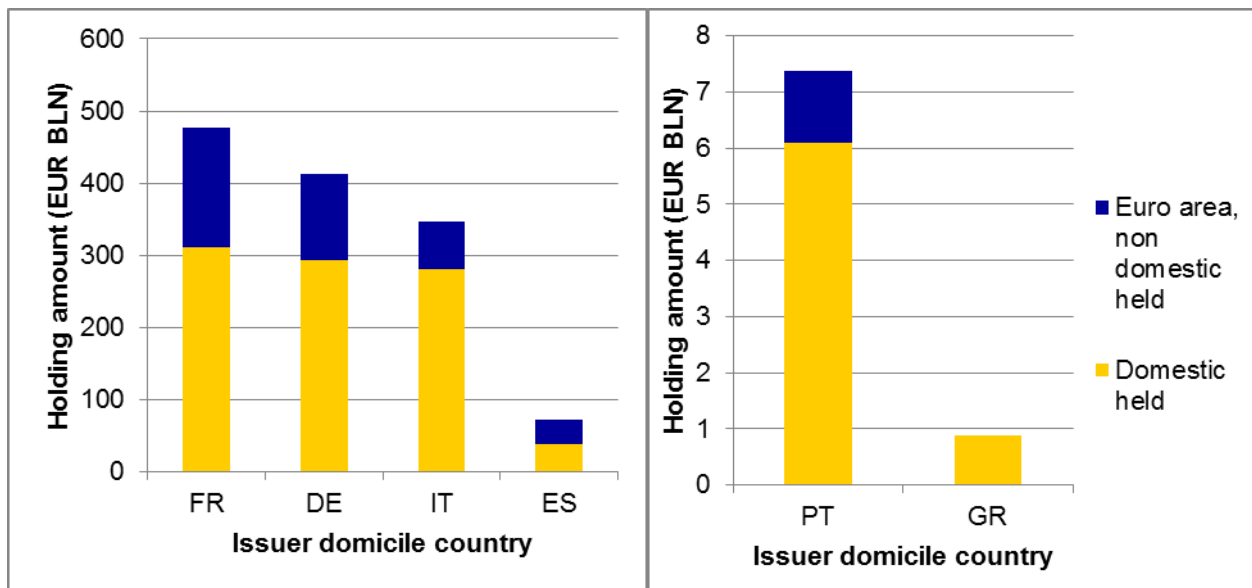
[signed]

Danièle Nouy

² See paragraph 2.10 of the Opinion.

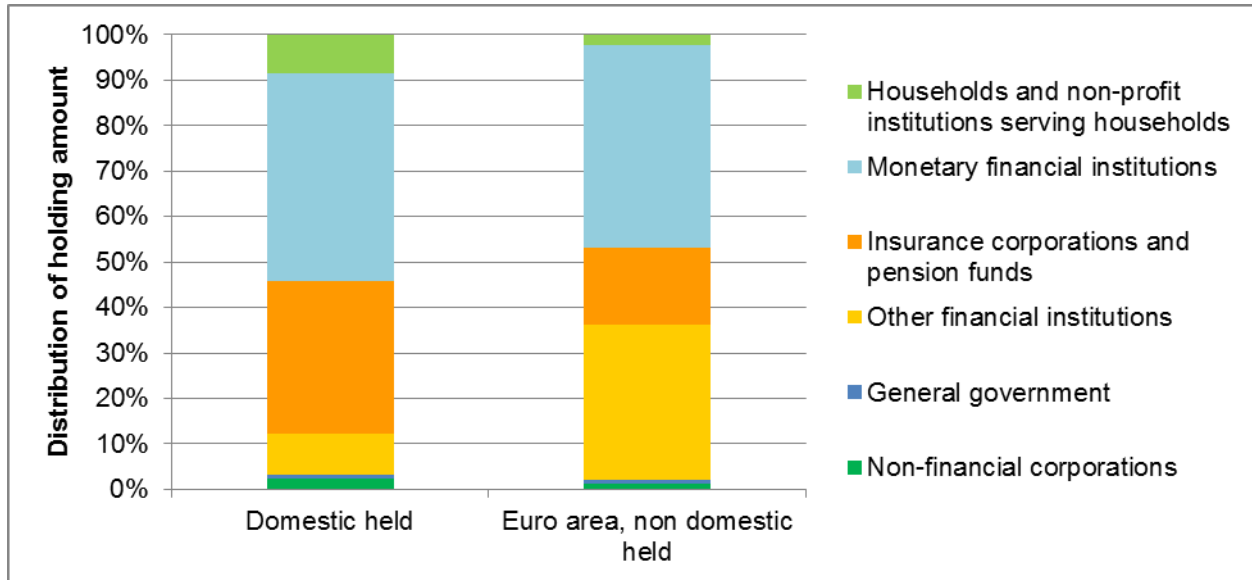
Annex 1

Charts 1 and 2: Total holdings of bail-in-able debt securities issued by banks in Germany, France, Spain, Italy, Portugal and Greece, by domestic residents and euro area non-domestic residents



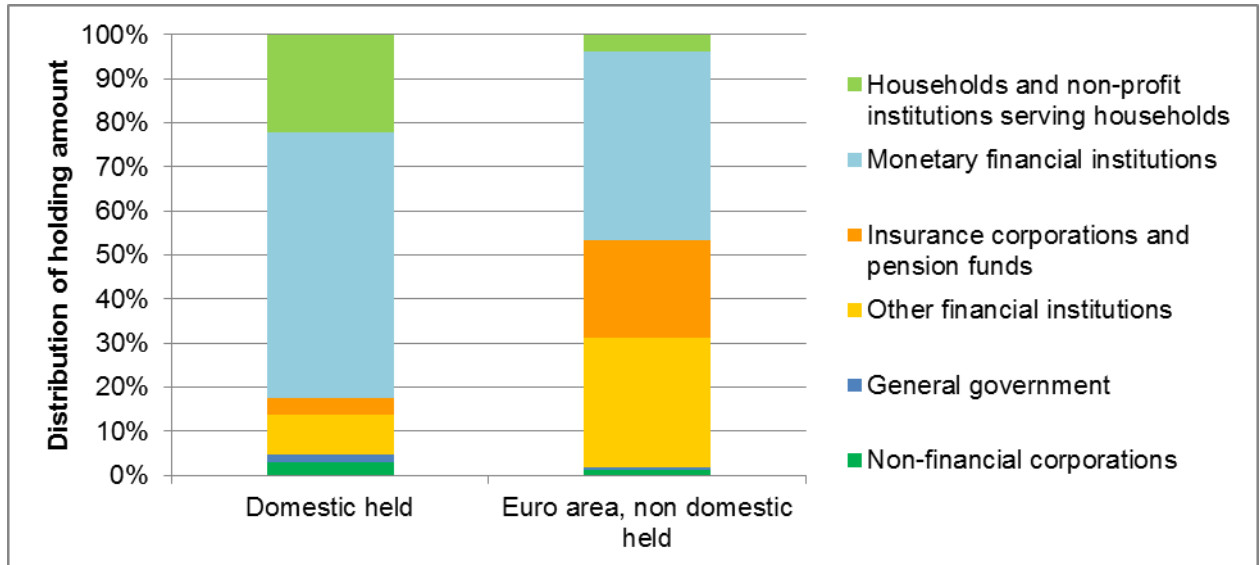
Source: ECB Centralised Securities Database (CSDB), Securities Holdings Statistics by Sector (SHSS) and ECB calculations.
Notes: 2017 Q3 data.

Chart 3: Holdings of bail-in-able debt securities issued by banks in France, by economic sector



Source: ECB Centralised Securities Database (CSDB), Securities Holdings Statistics by Sector (SHSS) and ECB calculations.
Notes: Chart shows shares of the total holdings of domestic residents and euro area residents (excluding the respective domestic holdings) broken down by holding sector of bail-in-able debt securities issued by banks in France in 2017 Q3.

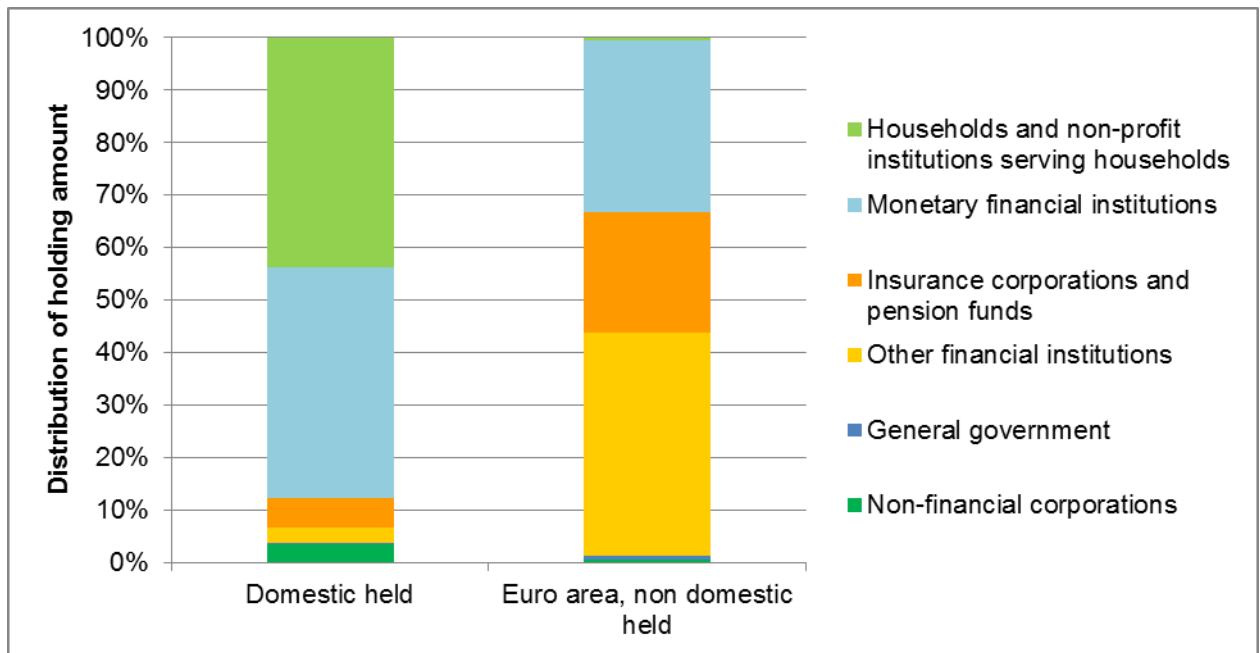
Chart 4: Holdings of bail-in-able debt securities issued by banks in Germany, by economic sector



Source: ECB Centralised Securities Database (CSDB), Securities Holdings Statistics by Sector (SHSS) and ECB calculations.

Notes: Chart shows shares of the total holdings of domestic residents and euro area residents (excluding the respective domestic holdings) broken down by holding sector of bail-in-able debt securities issued by banks in Germany in 2017 Q3.

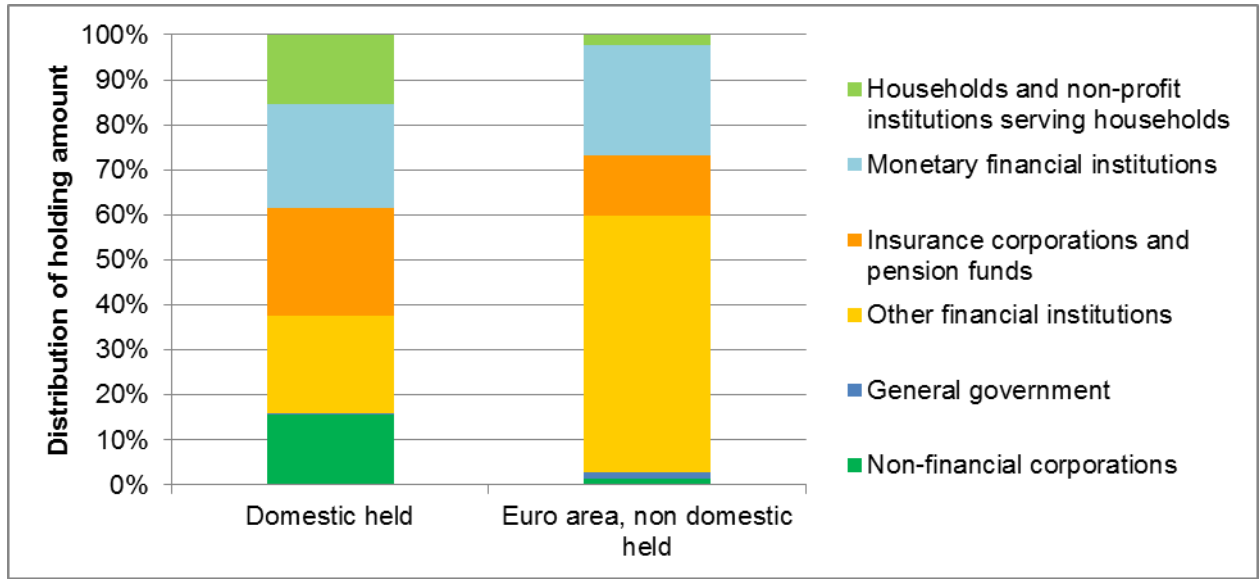
Chart 5: Holdings of bail-in-able debt securities issued by banks in Italy, by economic sector



Source: ECB Centralised Securities Database (CSDB), Securities Holdings Statistics by Sector (SHSS) and ECB calculations.

Notes: Chart shows shares of the total holdings of domestic residents and euro area residents (excluding the respective domestic holdings) broken down by holding sector of bail-in-able debt securities issued by banks in Italy in 2017 Q3.

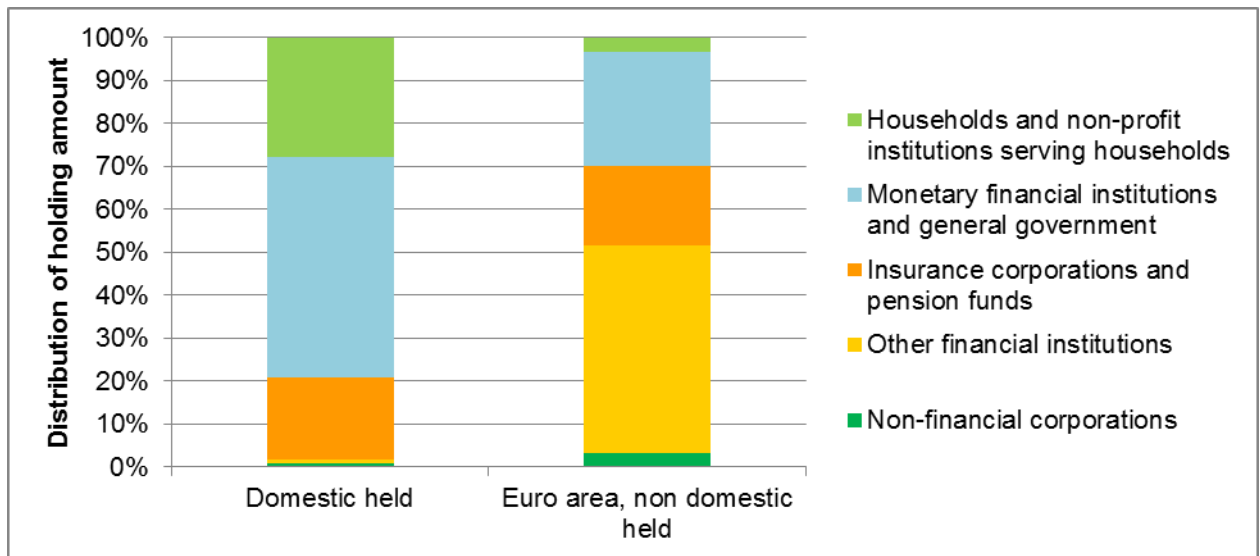
Chart 6: Holdings of bail-in-able debt securities issued by banks in Spain, by economic sector



Source: ECB Centralised Securities Database (CSDB), Securities Holdings Statistics by Sector (SHSS) and ECB calculations.

Notes: Chart shows shares of the total holdings of domestic residents and euro area residents (excluding the respective domestic holdings) broken down by holding sector of bail-in-able debt securities issued by banks in Spain in 2017 Q3.

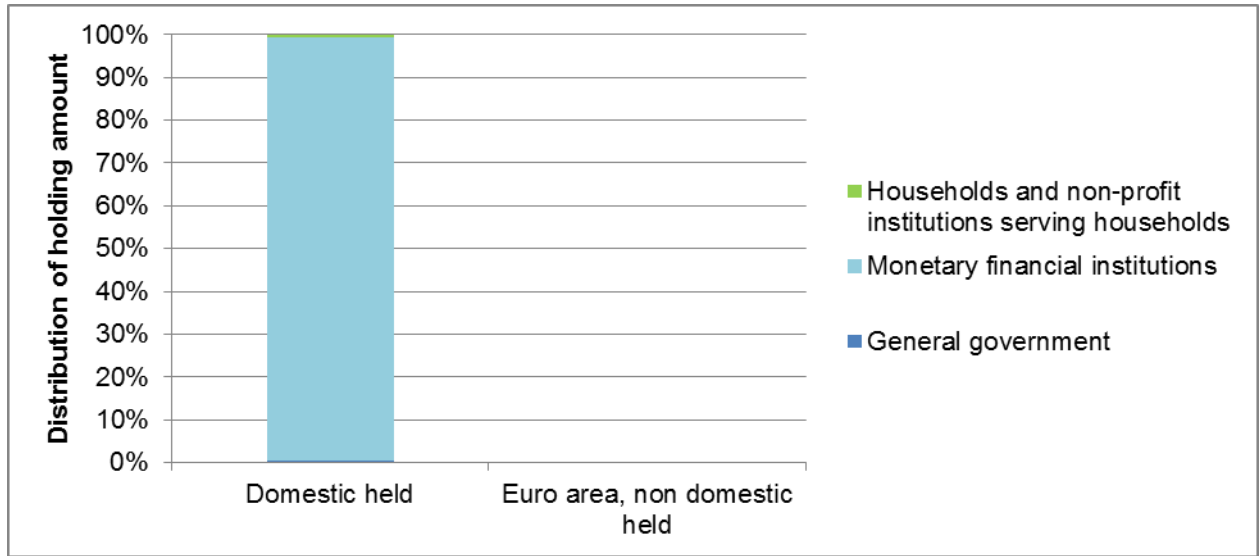
Chart 7: Holdings of bail-in-able debt securities issued by banks in Portugal, by economic sector



Source: ECB Centralised Securities Database (CSDB), Securities Holdings Statistics by Sector (SHSS) and ECB calculations.

Notes: Chart shows shares of the total holdings of domestic residents and euro area residents (excluding the respective domestic holdings) broken down by holding sector of bail-in-able debt securities issued by banks in Portugal in 2017 Q3.

Chart 8: Holdings of bail-in-able debt securities issued by banks in Greece, by economic sector



Source: ECB Securities Holdings Statistics by Sector (SHSS) and ECB calculations.

Notes: Chart shows shares of the total holdings of domestic residents and euro area residents (excluding the respective domestic holdings) broken down by holding sector of bail-in-able debt securities issued by banks in Greece in 2017 Q3.