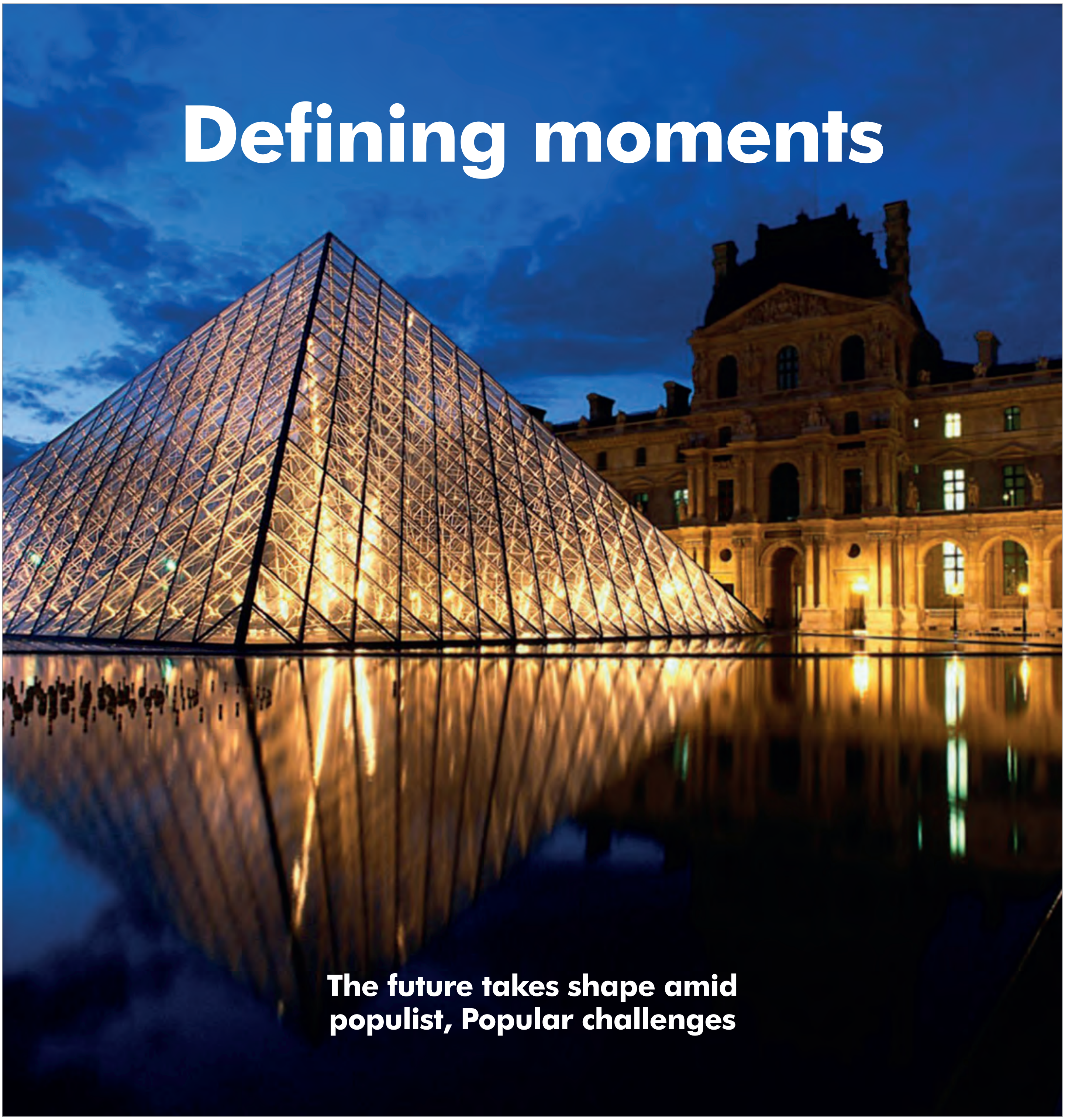
2Q 2017

Bank+Insurance Hybrid Capital

With Crédit Agricole Corporate & Investment Bank



Roundtable
Senior non-preferred

CGD
Unlocking the future

Sweden
MREL smoke clears

Bank+Insurance
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Contents

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Contents

AT1 is dead! Long live AT1!

Four years after a Spanish bank launched the first Additional Tier 1, another has brought the market full circle. While it may have been a surprise for BBVA to open the market in 2013, it is not wholly unexpected that the first write-down should come from a peripheral issuer.

It is, however, something of a shock that Banco Popular hasn't closed the market.

The write-down of the bank's AT1 might have been expected to result in the kind of turmoil witnessed when rumours about Deutsche Bank and speculation about coupon deferrals roiled the market. But prices were largely steady in the face of the losses being imposed on Popular's sub debt holders.

The most direct beneficiary of the episode is the taxpayer.

If there were ever a time for bankers to shout about the social value they can bring to society, then this is it. Politicians please take note of how such complicated financial instruments can help them avoid the dreaded "bail-out".

Regulators can meanwhile draw satisfaction from the smooth resolution process. Anyone remember those maze-like flow charts casting doubt on the EU authorities' ability to act quickly? They can be put in the circular filing cabinet.

Positives for debt holders are perhaps harder to find.

As feared, the point of non-viability (PoNV) has been shown to be the great unknown in the AT1 equation. Investors clearly miscalculated the likelihood of this point approaching given cash prices of around 50 immediately before the ECB/SRB acted.

Yet the resilience of other AT1 shows that investors still have faith in the product, or at least consider the risk-reward to be worth their while.

Will senior unsecured bondholders be so steadfast if the next resolution sees them bailed in, too? With any luck, better management and the rise of senior non-preferred will forever leave that question unanswered.

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Market news

Peripherals ride relief rally as Macron pierces gloom

Peripheral credits such as Banco Sabadell and Intesa Sanpaolo made hay of strong conditions that followed the first and second round victories of Emmanuel Macron in the French presidential election in May, as the political clouds that had long cast a shadow over the credit markets finally cleared.

Additional Tier 1 (AT1) supply had been light in the weeks and months approaching the French vote, which was the latest, and potentially last in a series of elections carrying heightened political risks. A last-minute surge in support for Jean-Luc Mélenchon had raised the prospect of a far-left vs. far-right second round also featuring Marine Le Pen but no mainstream candidates.

However, Macron's convincing share in the first round, performance in a televised debate with Le Pen, and ultimate second round victory catalysed a wave of AT1 issuance from peripheral European credits.

Banco de Sabadell led the way on 5 May, selling a EUR750m perpetual non-call five inaugural AT1, rated B2.

"With little doubt, the issuance highlight here in Europe was Friday's EUR750m AT1 for Sabadell that priced at an aggressive 6.5%, still rallied post-pricing (up 5/8), and probably serves as the best example of how strong sentiment was last week," said a syndicate official at one of the leads.

The Spanish bank was able to tighten pricing from initial price thoughts (IPTs) of the 7% area to the eventual 6.5% — a level some put inside fair value (even if this was deemed difficult to calculate given a lack of direct comparables) and which was lower than a 6.75% coupon achieved by compatriot Santander on a EUR750m AT1 of the same maturity structure just three weeks previously. Such pricing was made possible by a book of over EUR4.75bn.

"Until the first round of the election French investors were parking cash in very defensive products, while asset managers in the UK were waiting for something very cheap in the primary market," says Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "But after the first round [on 30 April], and particularly after the debate, people were already starting to load up on hybrid instruments in the secondary market.

"Sabadell then really got the ball rolling. People had started lining up deals between the two rounds and the feedback that Sabadell was getting was so good that they were even able to print on the Friday before the second round [on 7 May], achieving perfect timing and front-running the anticipated supply."

> 'It is important to ignore the hype and hysteria'

After European public holidays on the Monday (8 May), Intesa Sanpaolo achieved a similarly impressive pricing outcome on its EUR750m perpetual non-call seven AT1 on 9 May.

Pricing was tightened from IPTs of 6.75% to guidance of 6.375% plus or minus 0.125%, will price within range, and ultimately set at 6.25% on the back of EUR3.5bn of orders. This was deemed inside fair value given that the issuer's 7.75% perpetual non-call 2027s were quoted at a 6.55% and an i-spread of 572bp, and its 7% perpetual non-call 2021s at 5.97% and 598bp.

"This was a very strong transaction, too, riding the strong market conditions and very good tone of the AT1 market," says Hoarau. "It was a relatively small trade for Intesa, given their previous AT1 was EUR1.25bn, and it also benefits from a best-in-class reputation in Italy."

UniCredit followed its peer on 15 May, pricing a EUR1.25bn perpetual non-call six AT1 at 6.625%. The level came in from initial price guidance of the 6.875% area on the back of more than 200 orders totalling some EUR3bn.

The deal took the Italian bank to 50% of EUR3.5bn of Additional Tier 1 issuance foreseen under a "Transform 2019" strategic plan announced in December 2016, which had included a EUR13bn rights issue completed on 2 March.

"Clearly this was a very visible and very important trade for the national champion, coming after their capital increase," said a market participant. "It's a far cry from their 9.25% EUR500m privately placed perp non-call 22 last December, but that's also because after the capital increase the UniCredit of today is not the UniCredit of back then."

Spain's BBVA the next day (16 May) issued a EUR500m perpetual non-call five AT1 as a club deal. Although some market participants questioned the format given the strength of the market and noted that the 5.875% coupon compared Santander's recent perpetual non-call five trading at 5.4%, the sub-6% level was nevertheless exceptional for a peripheral AT1.

The primary market then took a breather as secondary credit spreads corrected and equities fell, with concerns around US president Donald Trump growing as he fired the head of the FBI and was reported to have revealed classified intelligence to Russia's foreign minister. However, the hiatus caused few fundamental worries.

"As always, it is important to ignore the hype and hysteria that is a feature of the news cycle and focus on the nuggets of information that are really important," said BlueBay Asset Management partner and co-head of investment grade credit Mark Dowding. "In that context, we see little reason to change our current views.

"In this sense, the recent spike in volatility is welcome as it provides us with great opportunities to take advantage of mispriced assets."

Indeed, the tone of the AT1 market is expected to remain constructive, with supply/demand dynamics continuing to support the sector.

"There is still strong demand from Asia, a lot from US high yield accounts, and strong demand from European accounts," says Nigel Brady, credit financials trader at Crédit Agricole CIB, "and then there are obviously still CoCo funds who are receiving pretty hefty inflows, so it's been pretty much one way ever since Macron's first victory.

"Although we've come a long way, valuations are still relatively supportive," he adds. "We are still considerably wider than other subordinated financial securities, and given how some of the more peripheral banks have been able to fund, it is a virtuous circle: the more capital they have, the safer they are, so these products are that much better, so spreads should continue to tighten."

The magnitude of yield moves has meanwhile resulted in an unusually notable outperformance of longer dated bonds, he notes, while the improvement in the levels of weaker credits has seen their prices improve significantly as the likelihood of them being called has fallen.

"The only worry is complacency," suggests Brady, "and my only reservation would be from a macro perspective. But even there I would continue to argue, as we have done for some time, that AT1 will outperform most other asset classes going forward.

"And as for political events? Well, we've got through Trump, Brexit and everything." ●

League tables

Bookrunners all European FI hybrids (euros and US dollars) 01/01/2017 to 15/05/2017

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Barclays	11	4,562	12.8
2	Credit Suisse	11	3,056	8.6
3	BNP Paribas	14	2,892	8.1
4	Citi	16	2,275	6.4
5	HSBC	15	2,274	6.4
6	Goldman Sachs	15	2,210	6.2
7	BofA Merrill Lynch	13	2,120	6.0
8	JP Morgan	15	2,084	5.9
9	Morgan Stanley	13	1,620	4.6
10	Crédit Agricole CIB	8	1,200	3.4
11	Deutsche Bank	7	1,091	3.1
12	UBS	9	989	2.8
13	Société Générale CIB	8	976	2.8
14	Santander	6	699	2.0
15	BBVA	6	588	1.7
	Total	70	35,518	

Source: Dealogic, Thomson Reuters, Crédit Agricole CIB

Bookrunners all financials (euros) 01/01/2017 to 15/05/2017

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Crédit Agricole CIB	22	8,152	8.9
2	Deutsche Bank	34	7,449	8.2
3	Goldman Sachs	23	7,434	8.2
4	BNP Paribas	25	6,680	7.3
5	Morgan Stanley	15	5,482	6.0
6	Société Générale CIB	17	4,741	5.2
7	HSBC	21	4,686	5.1
8	UBS	20	4,623	5.1
9	Natixis	9	3,202	3.5
10	Barclays	18	2,942	3.2
11	JP Morgan	19	2,897	3.2
12	RBS	9	2,850	3.1
13	Credit Suisse	12	2,194	2.4
14	Citi	13	2,149	2.4
15	UniCredit	15	2,103	2.3
	Total	133	91,194	

Includes banks, insurance companies and finance companies. Excludes equity-related, covered bonds, publicly owned institutions.

After Popular test, investors ask: what recovery value?

In the early morning hours of 7 June joint statements from the European Central Bank, Single Resolution Board and European Commission announced the decision that Banco Popular Español had been determined as "failing or likely to fail" on the grounds of the entity being "unable to pay its debts … as they come due".

At the same time, Santander announced the acquisition of Banco Popular for a single euro.

In the course of the overnight resolution process, the Single Resolution Board (SRB) adopted the decision to effectively wipe out the Additional Tier 1 and Tier 2 instruments of Banco Popular, whereby the loss-absorbing instruments helped avoid taxpayers contributing to the rescue.

Photo: ECB

"The decision taken today safeguards the depositors and critical functions of Banco Popular," said Elke König *(pictured)*, chair of the SRB, in comments echoed by the European Commission. "This shows that the tools given to resolution authorities after the crisis are effective to protect taxpayers' money from bailing out banks."

Indeed, the move was seen as a test case for the Bank Recovery & Resolution Directive (BRRD) and related post-crisis financial regulatory framework. And it was a test initially deemed to have been passed.

"The SRB's effective execution of Banco Popular's resolution adds credence to the official EU position that bank creditors will more consistently bear the cost of failure under the BRRD and that the toolkit available for authorities will allow them to deal with problem banks without using public funds," said Simon Ainsworth, senior vice president at Moody's.

The Spanish bank's predicament had come to the fore in early April, when it announced revisions to already weak 2016 results, prompting a deterioration in its capital position and the search for a solution to its troubles. It gradually became clear that an outright buyer or alternative solution would not be found, whilst the bank became subject of heightened media speculation in respect of its liquidity situation and deposit outflows from 12 May onwards. Fears mounted on 31 May when reports emerged that it would likely be subject to resolution measures.

Banco Popular's two AT1 were nevertheless still trading at a cash price of around 43 (high trigger instrument) and 52 (low trigger instrument) the day before resolution, and its Tier 2 in the 70s. However, they effectively became worthless as they were converted into equity

'Creditors will more consistently bear the cost of failure'

and subsequently written off. In contrast, senior debt rallied as it was protected from bail-in and taken over by Santander — the bank had yet to issue any senior non-preferred style debt. Covered bonds — excluded from resolution tool applications per BRRD — also rallied.

"The market is relatively happy with the solution," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "This was the first major test for BRRD and it delivers evidence that AT1 and Tier 2 instruments are here to absorb losses at the PoNV as foreseen by regulation — the regulators took action and an apparently acceptable compromise was found."

And in spite of the AT1 wipe-out, market participants took heart from the price reaction of other Spanish securities, with contagion limited to smaller peripheral players with high Texas ratios. CaixaBank had already shown the primary market to be open with a successful debut in the midst of Banco Popular's woes *(see separate article)*, and other Spanish credits seen as good by the market — not just national champions such as BBVA and Santander, but, for example, Bankinter — remained close to all-time highs in the wake of their compatriot's downfall.

However, a Banco Sabadell AT1 that was successfully launched on 5 May into a bullish market *(see separate article)* hit new lows after Banco Popular's resolution.

"It appears that, post-Popular, initially there was a positive perception around second tier banks, with the level of volatility and headline risk having decreased," said Hoarau at CACIB. "But the market realises that you can't make the same assumptions as two days ago — on Tuesday Popular's AT1s were quoted around 50; on Wednesday investors went home with nothing.

"This is a game-changer for valuations and we can expect credit differentiation to increase. But market participants need some more time to reassess the sector and draw final conclusions from the Popular outcome."

One aspect of the episode that has quickly come into focus is the timing of the resolution move — before both any coupon was missed and the 5.125% or 7% CET1 triggers were formally hit.

"We, along with many AT1 analysts, have for a long time argued that the 5.125% trigger was too low and should not be relied upon as a hard threshold," said Eoin Walsh, partner and portfolio manager at TwentyFour Asset Management. "For us, the PoNV (point of non-viability), where regulators step in to protect deposit and senior debt holders, was always regarded as being more important."

Hoarau also said that any perceived difference in value between write-down and equity conversion loss absorption mechanisms on AT1 should fade.

"We learnt that in this case, AT1 may mean equity, but that equity conversion offers you nothing," he said. "There have been lengthy discussions regarding the pricing differential between equity conversion and write-down, but we never fully bought the argument that 'at least with equity conversion you are left with something' — we always valued it at zero. The PoNV trigger is the most important one, and given the low structural thickness of the AT1 tranche, both high/low trigger and equity conversion/write-down pricing differentials should be close to zero.

"The algorithm for AT1 valuation needs to be rethought somewhat, and a more binary approach adopted," added Hoarau. "PoNV becomes a theoretical concept, low/high trigger declines in relevance, while Texas, leverage ratio, asset quality, coupon frequency will all be looked at with greater care."

The literal resolution of Banco Popular's fate is expected to have manifold impacts on all loss-absorbing instruments from all issuers.

"Italian and Spanish second tier banks are coming under close scrutiny once again," said Doncho Donchev, capital solutions, DCM, Crédit Agricole CIB, "and the episode has focused investors' minds on the potential magnitude of losses and recapitalisation needs in resolution and loss-given-default for AT1, Tier 2 and SNP/HoldCo senior debt based on the structural thickness of the tranches and potential sources of losses, with a potential reassessment of fair value pricing across all instruments." ●

CaixaBank shrugs off Popular woes to score AT1 debut

A EUR1bn debut Additional Tier 1 issue for CaixaBank on 1 June showed the AT1 market to be in rude health, attracting more than EUR3.3bn of demand despite coming a day after fears about compatriot Banco Popular Español mounted.

On 31 May, Reuters reported that Single Resolution Board chair Elke König had flagged concerns about Banco Popular being unable to find a buyer and being wound down, resulting in a renewed sell-off in the bank's securities. *(See separate article.)*

However, given an otherwise strong market backdrop — in which other peripheral names had enjoyed AT1 success *(see separate article)* — CaixaBank was undeterred and the following day entered the market with a planned EUR750m perpetual non-call seven AT1, rated BB- by S&P.

After going out with initial price thoughts of the 7% area, CaixaBank was able to tighten pricing 25bp and achieve a coupon of 6.75%, as well increasing the size to EUR1bn on the back of a EUR3.3bn-plus book comprising some 200 institutional investors.

"CaixaBank took advantage of good market conditions to complete the issue, with investors demonstrating their confidence in the group's strengths," said the bank, noting that it was the first Spanish issuer to debut with a call beyond five years.

"The AT1 market is in solid shape and the recent CaixaBank deal is a remarkable sign of strength and commitment to the asset class," said Viet Le, financial institutions syndicate manager at Crédit Agricole CIB.

"Spreads are at absolute tights, headline risk has increased, and yet investors continue to engage and differentiate perceived troubled banks from the broader market."

The market had indeed been unfazed by Banco Popular's difficulties from the outset — even if the bank's securities themselves had fallen to record lows. Although Banco Popular AT1 were trading in the 60s in the week of CaixaBank's debut, being down some 30 points on the year, Spanish credits such as BBVA were trading close to all-time highs.

CaixaBank's inaugural AT1 lifted the bank's Tier 1 ratio to 12.6% and Total Capital to 16.1% in phased-in terms, it stated, also expanding its "solid" liquidity position.

The bank also noted that the deal was its fourth institutional debt issue of 2017 and made it the only Spanish issuer to have raised finance in all formats year-to-date, with a 10 year covered bond, seven year senior unsecured deal and 10 year Tier 2 transaction completing its full house. ●

Swedbank hits Tier 2 tight in heady conditions

Swedbank on 15 May sold the first sub-100bp Tier 2 trade since the collapse of Lehman Brothers, a EUR650m 10.5NC5.5 deal priced at 82bp over mid-swaps — over 30bp tighter than what had been the previous Tier 2 tight for the year — amid heady market conditions.

The Swedish bank timed its entry to perfection, coming after credit markets had rallied on the back of relief at Emmanuel Macron's election and just before the market lost steam in the following days.

"Swedbank started the week by successfully issue a euro Tier 2 transaction with zero new issue premium," said a banker at Swedbank. "This is a great achievement considering the aggressive tightening in the credit markets over the last few weeks.

"With a coming call option in December for the outstanding EUR500m transaction, Swedbank decided to take advantage of this strong market early. This proved to be right as the pricing was at fair value compared to relative comps in the market."

The leads had gone out with initial price talk of the mid-swaps plus 100bp area, but an hour later, with books over EUR1bn, guidance was revised to the 85bp area and the size set at EUR650m (SEK6.36bn). An ultimate order book of EUR2.2bn comprising some 190 accounts allowed for the 82bp re-offer spread.

Asset managers took 67% of the paper, insurance companies and pension funds 21%, banks 9%, and others 3%. France was allocated 31%, the Benelux 17%, Germany and Austria 14%, UK and Ireland 14%, Asia 6%, and others 3%.

"Nordic banks are generally very well capitalised, and have very small needs in the subordinated space, hence investors have literally only a handful of opportunities to get their hands on this kind of paper," said André Bonnal, FIG syndicate at Crédit Agricole CIB.

"Here, the inherent scarcity value of the offering was a clear lever in favour of the issuer achieving such historically tight pricing."

Fellow Nordic DNB had set the previous Tier 2 tight for the year, pricing a EUR600m 10NC5 at 115bp in February. Having tightened 33bp in the interim, that was trading at an i-spread of 82bp when Swedbank approached the market, while a Nordea outstanding was trading at 84bp.

'We hoped to hit the market at the optimal time'

Swedbank's deal widened later in the week alongside other recent new issues as spreads retraced from their tights, but was the following week back at or inside its re-offer as the softer tone proved only temporary.

Indeed, having earlier roadshowed but then waited before approaching the market, BPER Banca on 23 May priced a Eu500m 5.12% 10NC5 Tier 2 rated Ba2/BB at 491bp over mid-swaps as sentiment improved.

Jyske Bank meanwhile sold its biggest ever capital trade at the end of March, a EUR300m (DKK2.23bn) 12 year non-call seven Tier 2 deal that was well over four times oversubscribed as investors took up a rare opportunity to buy a yieldy trade from the Danish issuer in euros.

After a roadshow, IPTs were set at the 210bp over mid-swaps area, guidance was revised to 190bp-195bp after orders surpassed Eu1.3bn, and the deal was ultimately priced at 190bp on the back of a Eu1.4bn book.

"We had this one trade to do in the euro space and we are really satisfied with it," said Merete Poller Novak, head of debt investor relations and capital markets funding at Jyske. "We are overly happy with the investor interest, which is a combination of years of work, a very nice roadshow and perfect timing — all these three things came together.

"We have succeeded in building quite high investor recognition despite limited issuance activity, but with only one senior FRN a year until 2016, investors, for example those in London, had never been offered a real credit product. So while we took the first steps in our capital activity in the Scandi markets, we could actually do something in reasonable size in Tier 2 and wanted to take the opportunity to do a euro trade."

She noted that euro Tier 2 spreads were meanwhile some 100bp tighter than a year previously.

"Having only this one trade to do, we hoped that we would be able to hit the market at the optimal time, to pick the best possible window, and I'm just grateful that in hindsight we succeeded in doing that," said Novak.

"And we are very happy to see the trade perform in the secondary market," she added. "You always try to get the best possible price, but our strategy has always been to leave a little space for secondary performance as we want investors to be left feeling good about the credit." ●

CASA innovates with new combined LM offer

Crédit Agricole surprised the market in March by becoming the first French bank not to call a perpetual hybrid Tier 1 instrument, in line with increasingly economic bases for such decisions in Europe, but softened the impact with an any and all tender for the securities completed in May, in an innovative strategy to maintain an investor-friendly stance.

The French issuer on 17 March announced its non-call decision on its $889.9m 6.637% non-step Tier 1, callable on 31 May, and the any and all tender for the 144A/Reg S securities as well as a EUR371.2m CMS floater callable in February 2018. It also flagged a tender offer of up to EUR1.5bn, less the aggregate of the non-step buyback, for four step-up Tier 1 securities. The intention to launch the offers was announced as subject to ECB approval.

"Crédit Agricole SA expects that the 6.637% Notes will be grandfathered as Tier 1 capital until the end of 2021," it said. "Their regulatory capital treatment after 2021 remains at present uncertain.

"Taking possible scenarios into account, Crédit Agricole SA believes that the announced Purchase Price offers an attractive exit price for investors wishing to reduce their positions in the Notes. The proposed Purchase Prices/Tender Spreads for the other five Notes are at a premium to secondary market levels, in line with observed public tender offers in the market."

The bank also said that "call decisions on debt instruments without step-up or other incentives to redeem may be subject to further economic consideration on the basis of market and regulatory developments". Market participants said that the strategy reflected a shift in European practices towards US behaviour, where economic considerations are understood to be prime.

Olivier Bélorgey, head of the financial management department at Crédit Agricole, said the tender was aimed at finding an investor-friendly way through this development.

"We anticipate that the European market will evolve towards the American market, with more economic factors in the call or non-call decision," he said. "And we wanted to deliver the message that, amid this evolution, the world can be something other than only black and white: it is not only a question of, 'do I call, or do I not call'; you can rather have an innovative attitude, trying to take into account not only your own short-sighted interest as an issuer based on whether it is economic for you to do so, but also your long term relationship with investors.

"That's why we have structured our non-call decision with an any and all tender offer at a price that we consider to be fair between issuer interest and investor interest on a long term basis. And my feeling is that the market has, after some I would say emotional reaction just after the announcement, understood the rationale behind the operation, and that the vast majority of investors consider the offer to be fair and well balanced."

> 'The world can be other than only black and white'

The cash price for the 6.637% notes was set at 95 in advance and Bélorgey noted that since 2009 the average price had been around 92 and that, had the issuer not launched the tender, the price would likely have dropped to the 80% area. Indeed, an analyst noted that the market impact of the non-call announcement had been limited.

"We would note the decision not to call is a surprise to us — especially as the bank did not need the grandfathered capital benefit in our view," he said, "but the downside is limited by the any and all tender — it is around 1.5 points below where it was trading."

The CMS floater had already passed its first call, and the price was set at 78. The four step-ups — all of which had been trading above par — were 7.589% and 8.125% sterling bonds, an 8.375% US dollar and a 7.875% euro, included to optimise the bank's liabilities and provide liquidity to investors.

All the prices and tender spreads were, unusually, set well in advance to give investors maximum transparency on the overall strategy of the issuer, according to Véronique Diet Offner in hybrid capital and liability management, DCM solutions, at Crédit Agricole CIB — even if this left the issuer exposed to market fluctuations.

"The results overall are very good," she said. "Investors came on board in terms of the strategy, notably for the 6.637% non-step Tier 1, where we had almost 88% participation, which is a very high hit rate in terms of tenders."

$782.972m of the US dollar notes were tendered and EUR120.456m of the CMS floaters, and all of the securities tendered in the four step-ups during the early-bird period were bought back since the EUR415.650m tendered was less than the EUR679.211m available after the non-step buy-back. ●

Draft Spanish SNP law emerges after Santander deal

Spain could take over the initiative from the European Commission and introduce national senior non-preferred (SNP) legislation ahead of the summer break, with the introduction of such debt featuring in a broader draft law that surfaced in mid-May, and following the issuance of a contractual version by Santander.

As French banks were preparing to open the new senior non-preferred asset class in December on the basis of national law, the European Commission on 23 November proposed amendments to the BRRD to create a common EU instrument ranking between senior debt and Tier 2 to meet TLAC/MREL requirements, with the aim of finalising legislation around the middle of this year. Crédit Agricole successfully opened the market, but the Commission set a cut-off date of end-2016 for the creation of national laws to avoid a proliferation of different products.

This left G-SIB Santander facing a 1 January 2019 TLAC deadline to raise some EUR22bn-EUR26bn of senior non-preferred debt out of its main Spanish entity without a legislative framework to work with. It therefore said in January that it was considering various interim approaches for issuing TLAC-eligible debt.

The Spanish national champion hit the market on 26 January with Eu1.5bn of 1.375% five year "second ranking senior" notes. The deal was priced at 120bp over mid-swaps on the back of some EUR4.25bn of demand, following initial price thoughts of the 135bp area and guidance of 120bp-125bp. A $2.5bn (EUR2.23bn) three-tranche deal followed on 4 April.

Rated Baa2/BBB+/A- versus Santander's A3/A-/A- ratings, the notes are contractually subordinated to other senior unsecured obligations and have automatic alignment of their terms and conditions to future statutory subordination once a law is adopted.

"They are basically contractually subordinated senior notes, effectively trying to mimic what a senior non-preferred for French banks in the absence of a law in Spain," said a DCM banker. "However, while they clearly had investors who understood the security and bought the deals, I understand certain investors were not convinced that the legal mechanism works, particularly what happens if it gets disqualified."

Yet with mid-year approaching, progress on the Commission's initiative has been slow and its target is not expected to be hit. A banker suggested the cut-off date for national laws creating senior non-preferred debt could be relaxed, allowing member states to move ahead as necessary.

"There have been various texts that have indicated a compromise might be possible at the EU level," he said. "But they may also push back the cut-off date.

"The question for national legislators is then whether they feel sufficiently confident that will happen. My understanding is that laws have been drafted to be ready if and when they can push the button."

Various countries are said to be in such a position but not under as much pressure as Spain to move ahead, with their national institutions having lower needs or not facing pressing targets.

According to Doncho Donchev, capital solutions, DCM, Crédit Agricole CIB, the Spanish draft law introduces a new category of senior non-preferred debt issued by banks and other financial institutions, and stipulates that the ranking in the insolvency waterfall in terms of priority is explicitly after other "ordinary unsecured creditors" of the financial institution in question. It also reflects three criteria matching the Commission proposal, but only in respect of Art. 108 BRRD2:

1. Minimum initial contractual maturity equal to or superior to one year;
2. No derivative features; and
3. Include a (contractual) clause stating that they have a lower insolvency priority compared to the rest of "ordinary credits"

However, it does not specify "derivative features", for example, nor deal with requirements for TLAC/MREL eligibility specified in the Commission's proposed amendments to the CRR, such as direct issuance, waiver of set-off rights, or bail-in acknowledgement.

"They have not been very bold," said Donchev. "They have effectively done a copy and paste from the European law (Art. 108 BRRD2), just introducing a senior non-preferred category within the senior category.

"They don't deal with any of the other requirements in the draft CRR 2 — I guess that's also because it's not required as part of the European legislation (BRRD2)."

The provisions have been included in a broader piece of legislation primarily dealing with mortgages that observers say could be voted on before the summer.

"If this happens, Santander's second ranking senior notes should be converted into senior non-preferred notes, and therefore become directly comparable to French senior non-preferred notes," added Donchev. ●

Senior non-preferred menu expands quickly in 2017

Despite only having been opened at the tail-end of 2016, the senior-non preferred matured quickly in 2017, as issuers sought to diversify and optimise their use of the new instrument in a variety of maturities, currencies and formats.

After Crédit Agricole had inaugurated the new segment with a EUR1.5bn 10 year senior non-preferred debut on 13 December — followed by Société Générale with a EUR1bn five year the next day — it opened the US dollar market for the instrument with a $2.3bn (EUR2.05bn) three-tranche deal on 3 January alongside BNP Paribas, which debuted with a $2.75bn two-tranche transaction. Crédit Agricole had laid the groundwork for a potential US dollar deal in parallel with the marketing of its euro debut the previous month.

"Our second deal, in January, was denominated in dollars, and there the market appetite proved to be very good as well," said Olivier Bélorgey, head of the financial management department, Crédit Agricole. "We were able to do a triple-tranche issue, including a floater — and we learned that the range of investors is very broad."

US dollar-denominated issuance had previously dominated bail-in debt, largely HoldCo issuance, even for European banks, who sold some 70% of their 2016 issuance in dollars, with the euro's share at 20% and others 10%. But market participants have expected the euro's share to grow as European investors become increasingly comfortable with the product, a broader range of European names enter the sector, and maturing senior preferred bonds are rolled into senior non-preferred and other bail-inable instruments.

Santander offered the first twist on France's senior non-preferred instrument on 26 January, when it sold a EUR1.5bn of five year "second ranking senior" notes on 26 January, anticipating substantial needs and a forthcoming EU-wide instrument *(see separate article)*.

The senior non-preferred sector expanded format-wise into floating rate notes in Spring, as issuers sought not only more diverse but also more cost-efficient sources of SNP funding.

Photo: epsos.de/Wikimedia Commons

BNP Paribas took the first step away from fixed rate supply when it sold a EUR1.5bn five year FRN on 15 March, with Société Générale the following week issuing a EUR1.25bn five year floater and Crédit Agricole a EUR1bn five year FRN on 11 April.

"This last deal was a little more defensive, being a five year floater, but it was before the French election," said Bélorgey at Crédit Agricole. "Clearly there was still some euro appetite and we printed the deal at a spread that was still rather interesting — the floater format allowed this — but at that time the appetite from, for example, Anglo-Saxon investors was clearly smaller.

'Diversification will play a great part'

"Actually, the deal shows that even in more difficult market conditions this asset class is able to attract the attention of investors and that deals are possible."

Société Générale meanwhile broke the US dollar-euro duopoly for senior non-preferred debt as early as 18 January, selling a SEK750m (EUR76.8m) five year trade at 120bp over mid-swaps after uncovering local demand for the new instruments.

Since then French banks have gone on to score firsts for SNP issuance in a variety of other markets: BPCE with a ¥69.6bn (EUR563m) five year in Japanese yen in January; Société Générale with a CHF160m (EUR147m) five year in Swiss francs in February; and BNP Paribas with a A$325m (EUR218m) dual-tranche, fixed and floating five year in Australian dollars in March.

"Obviously US dollars and euros will take the lion's share," said Bernard du Boislouveau, FI DCM, Crédit Agricole CIB, "but for issuers keen to raise significant amounts, diversification will play a great part. For benchmarking purposes, the leading markets will remain euros and US dollars, but we will continue to see niche markets offering funding opportunities, not only from an arbitrage angle but also from an investor diversification standpoint."

TLAC-related debt overall — including senior non-preferred, structurally subordinated debt, etc. — is expected to grow to reach EUR150bn of outstandings by 2019.

"Clearly US dollars and euros will be the dominant currencies — maybe some Scandi currencies and sterling or Swiss francs," said Olaf Struckmeier, functional head of research, financial regulation, corporate bonds, fixed income, Union Investment Privatfonds.

"I think issuers will use as many currencies as possible, especially those with large buckets to be filled, like BNP Paribas." ●

See our senior non-preferred roundtable for full coverage of the segment.

SEB speeds to $3bn book for $600m AT1 return

Skandinaviska Enskilda Banken (SEB) took advantage of a strong post-FOMC market to attract some $3bn of demand to a $600m perpetual non-call five Additional Tier 1 on 16 March, its first AT1 transaction in over two years.

The AT1 is only the second such issue from SEB, with the Swedish bank having sold a debut, $1.1bn 5.75% perpetual non-call 5.5 deal in November 2014.

According to John Arne Wang, head of funding and liquidity management at SEB, the new, $600m (EUR544m, SEK5.28bn) issue was launched to optimise the bank's current capital structure, with a EUR500m hybrid Tier 1 transaction coming up for call in December, rather than reflecting any additional capital needs.

SEB hit the market the day after the Federal Reserve raised rates an anticipated 0.25% in what was seen as a "dovish hike", while sentiment was further lifted by a clear victory for the governing party in Dutch elections and a worse than expected performance by the Eurosceptic far right.

"Throughout the first quarter the market strengthened and we saw it as quite productive," said Wang, "and the timing of our transaction worked out well. We were anticipating some movement post-Fed, but the market was even stronger than we had hoped for on the back of the FOMC comments and also the Dutch election result.

"That gave us more momentum than we had been hoping for, and we were able to accelerate our strategy with intra-day execution rather than the one or two day transaction we had initially planned and the two or three day exercises typical of this market."

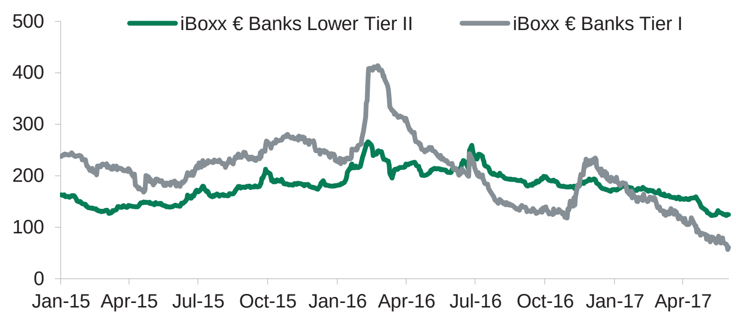
The $600m perpetual non-call five AT1, rated Baa3/BBB, was priced at 5.625% following initial price thoughts of 6% on the back of some $3bn of demand, and Wang said the level on a swapped basis was "very attractive".

"The momentum was extremely strong during the transaction," he said. "After only around 40 minutes we passed $2bn in bookbuilding. And the final pricing shows you that there was somewhat less price sensitivity."

Fund managers were allocated 61%, hedge funds — which Wang highlighted are no longer necessarily short term buyers — 19%, insurance and pension funds 12%, and private banks 7%. The main drivers were UK accounts, including global funds, with 48% and the Nordics on 20%, he added, while the intra-day execution limited Asian participation.

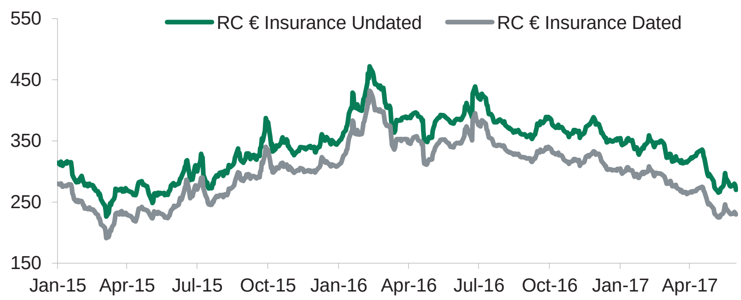
Whereas loss absorption on SEB's first AT1 was via temporary write-down, the new issue featured equity conversion, which Wang said reflected a wider trend based on the former mechanism no longer being able to achieve liability hedge accounting under IFRS. He said the switch had no discernible impact on pricing or distribution. ●

Secondary bank subordinated indices



Source: Markit, Crédit Agricole CIB

Secondary insurance subordinated index



Source: Markit, Crédit Agricole CIB

QBE hits new accounts in first green insurer bond

QBE Insurance Group launched the first green bond from the insurance industry in April, providing some welcome innovation in a second quarter that proved quiet for insurance hybrids after a busier start to the year and with the anticipated Restricted Tier 1 (RT1) market yet to take off.

The Australian insurer on 21 April sold a $300m long five year senior deal in accordance with its green bond framework, whereby the proceeds of the issuance is allocated to financing or refinancing investments within its green bond portfolio.

"At QBE Insurance Group we recognise that we have responsibilities not only towards our customers, employees and shareholders, but also the countries and communities in which we operate," said Paul Byrne, group treasurer, QBE. "This means understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve. Furthermore QBE recognises and supports the move to a low-carbon economy, which will help reduce climate change and benefit communities in the longer term.

"With these aims in mind the QBE Green Bond Framework represents a further step in supporting investors to meet their objectives whilst supporting insurance clients to realise opportunities in the fast developing low carbon economy."

QBE's green bond framework is consistent with the current Green Bond Principles (GBP), managed by the International Capital Market Association (ICMA), and reflects recent guidance by the investor groups, Byrne noted. Sustainalytics provided a second party opinion for the framework and QBE will provide a progress report annually including a review by Sustainalytics.

QBE's portfolio may invest in labelled green bonds in areas including renewable energy, energy efficiency, green buildings, low carbon transportation, sustainable forestry, water efficiency, waste management, and pollution control.

"This was a nice double success by QBE in this market: the first Green Bond issued by an insurance company and first 'Green Bond of Green Bonds', as this transaction will finance the book of Green Bonds held by QBE on its balance sheet," said Tanguy Claquin, head of sustainable banking at Crédit Agricole CIB. "This clearly paves the way for further innovations, but also for further drawing the attention of insurance companies to this market in which, as issuers or investors, they will play a leading role in the coming years. Crédit Agricole CIB is very proud to have accompanied this transaction."

The $300m no-grow October 2022 Reg S deal, rated A- by S&P, was priced at 125bp over US Treasuries. This followed initial guidance of the 140bp area.

"I see increased investor appetite and demand for green bonds and green assets more generally," said Byrne, "and whilst supply has been growing year over year — and meaningfully so — I think it is fair to say that demand continues to outstrip supply, with the demand being driven by a much more mainstream investor base than was the case a few years ago, they are no longer the preserve of green funds."

He said that this was borne out in the bookbuilding of QBE's inaugural green bond — even if the issuer did not undertake a deal-related roadshow for the transaction and thus did not meet any green investors ahead of launch, instead relying on the regular work it undertakes as part of its semi-annual investor roadshow.

"When we opened the books during the Asian afternoon we saw strong support coming from our traditional investor base, but as we moved into European trading hours we began to see a whole new cohort of investors that had not previously invested in QBE paper," said Byrne. "At the top of the book we were three times covered and when it came to final allocations we allotted 60% of the book to green-only investors, of which 60% of that number would traditionally be categorised as 'dark green'. The inclusion of this cohort allowed us to further broaden and diversify our investor base and provided additional price tension as we finalised levels.

"I think it also highlights that investors who do not hold a specific green mandate/allocation are now bidding for green assets," he added, "thus increasing demand — which may be a negative from a green fund perspective, but it's a definite positive from a market development perspective as they are providing liquidity and a more active secondary."

Europe was allocated 52% of the issue, Asia 38%, Australia 8%, and the Middle East 2%. Fund managers took 77%, banks 12%, private banks 6%, broker/dealers 3%, and hedge funds 2%.

"Apart from sending a strong positive message, opting for a green bond was certainly a very rewarding choice for QBE as it clearly helped widen QBE's investor base, specifically in Europe where investors are clearly getting more committed to the asset class," said André Bonnal, FIG syndicate at Crédit Agricole CIB. "Other similar Asian/US-centric issuers will hope for the same positive side effects when they go down the green route." ●

CGD
AT1 unlocks the future

Caixa Geral de Depósitos in March completed possibly the most anticipated Additional Tier 1 issue of the past year, in a deal that was key to unlocking an EC-agreed recapitalisation and restructuring plan, and which represented a milestone for the wider Portuguese financial system. Bruno Costa, deputy manager, financial markets department, Caixa Geral de Depósitos, discusses the issuer's strategy for the deal and the future.

What is the background to this AT1?

Caixa Geral de Depósitos (CGD) accumulated losses between 2012 and 2015, so it needed to be recapitalized in order to reinforce its capital structure, to comply with regulatory requirements and to be able to continue to support the Portuguese economy. But because CGD is 100% state-owned, any capital injection made by the shareholder needed to be structured to avoid EU State Aid rules. The Portuguese State negotiated with DG Competition a recapitalization plan for CGD that avoided triggering those rules. This included essentially two conditions: (i) that CGD entered a restructuring plan in order to streamline its operational structure, improve risk management and governance and increase shareholder return to levels in line with those demanded by private investors in similar circumstances; and (ii) that CGD proved it had the ability to raise capital among private investors. However, in order to comply with the second condition, and given that Portugal wanted CGD to continue to be 100% owned by the State, it was agreed that the bank would raise subordinated debt among private investors that would also qualify to reinforce its capital structure. AT1 was selected because it is the most subordinated form of debt, the closest to equity.

CGD is the largest bank in the Portuguese financial system, so the recapitalization was important to ensure its stability. The capital increase allowed CGD to increase the level of provisions and impairments after a thorough review by management of its credit portfolios and other assets. By bringing the book value of these assets in line with market values it is easier to either sell or securitize them, so they don't continue to be a drag on profitability. On the other hand, under the strategic plan developed for the period 2017-2020, CGD will focus on improving the commercial dynamics of its domestic operations, reducing cost to income and divesting from some of its international presence. This will allow CGD to become more efficient and solvent and to deliver positive returns to its shareholder.

What kind of timeline were you working under, and what steps had to be completed along the way?

The Portuguese state announced in August 2016 that it had reached an agreement in principle with DG Comp to recapitalize CGD without triggering State Aid. Initially, the plan was to try to complete the recapitalization before the end of the year, so work started right away.

To deal with the issue of available distributable items, a capital reduction operation was devised in order to absorb negative earnings and reserves accumulated in previous years. Fiscal issues related to deductibility of AT1 coupons and withholding tax for non-residents were addressed with the changes proposed by the 2017 State Budget in October. The management team decided to resign at the end of November, so the plan had to be postponed until the beginning of the following year.

The first part of the recapitalization was concluded on 4 January, when CGD received a capital increase in kind of EUR1.344bn, of which EUR499m came from the State's 49% stake in Parcaixa, and the remaining EUR945m from the CoCos subscribed by the State in 2012, including accrued and unpaid interest. On the same date, a EUR6bn capital reduction also took place.

Photo: CGD

A new management team was appointed and took office at the beginning of February. The first main objective of management was to approve the 2016 accounts. These were announced on 10 March, the date of the announcement by DG Comp of the formal approval of CGD's strategic plan for the period 2017-2020, which allowed for the disclosure of the main targets agreed within this plan.

The second part of the recapitalization plan, comprising a EUR2.5bn cash increase by the State and the issue of EUR500m AT1 instruments to private investors was concluded as planned on 30 March.

What influenced the structure of your issue?

The issue was structured to be as standard and close to market practice as possible. We followed the EBA template for AT1 instruments to a large extent. English law was used, except for provisions regarding subordination and form, which are under Portuguese law — a common set-up in this type of issue. We did not take specific provisions of the draft CRR2 into account, but we left enough flexibility to allow for variation in the terms of the notes caused by changes in the legislation, if needed.

How did you decide on the format of loss absorption and the trigger level?

In terms of the format of loss absorption, there was no room for choice. Given the State's intention to keep CGD 100% state-owned, conversion was not an option, so we had to go for write-down. We opted for a temporary write-down and low trigger structure, to make the issue more investor friendly and also because it is more in line with market practice.

How did you then go about approaching prospective investors?

There had been some interest from investors ever since the recapitalization plan was announced by the State, back in August 2016, but we never engaged directly with prospective investors until the roadshow. We followed the advice of the banks that were invited to manage the transaction and focused most of our attention on London, Paris and Lisbon. The first two because this is where we expected most of the demand to come among international investors. Lisbon was selected because we were knew a significant part of the demand would come from our domestic base. In the end, 59% of the issue was placed in the UK and 14% in Portugal. We also had a hit ratio above 60% among all investors that we met during the roadshow.

What were investors focusing on?

Investors were very focused on Caixa's current situation in terms of asset quality, capital and liquidity ratios. But they were also keen on knowing more details about the strategic plan and how Caixa expected to achieve the targets that were agreed with DG Comp, especially in terms of cost reduction, improvement in net interest margin and overall profitability.

Did your transaction see any spillover effects from the historic and current developments at Novo Banco?

To some extent, yes. We knew there were some investors that were reluctant to participate in Caixa's issue because of what happened at BES and Novo Banco. But we had to focus on Caixa's story, on its market leadership and importance for the Portuguese financial system, on the support demonstrated by its shareholder and on the different initiatives that will take place under the strategic plan designed to make Caixa more sound, efficient and profitable, and to able to comply with any future regulatory requirements.

Did investors focus on the distance to trigger and MDA? How did you address any such concerns?

Yes, this is typically a main concern for AT1 investors. In the case of Caixa, the December 2016 capital ratios were affected by the recognition of a significant level of provisions and impairments without the benefit of the cash increase that was still due to take place. Therefore, we had to rely on pro forma ratios that took into account not only the phase-in effect of going from 2016 to 2017, but also the impact of the two phases of the recapitalization plan that were not yet reflected in the 2016 accounts. In the end, the amount of available distributable items (approximately EUR1.8bn at the time of issuance) and expected distance to trigger and MDA after the recapitalization was concluded were enough to provide investors with an adequate degree of comfort.

Would you agree that in essence you were required to "sell the future" to investors rather than pointing to the current situation of CGD at the time of issuance?

Yes, to some extent we had to persuade investors that perhaps more important than the company's current situation is where it is expected to be at the end of the four year strategic plan: a leaner, more efficient operation, focused on extracting more value from domestic operations and on selected, profitable, international operations, with an improved risk management and governance set-up. The fact that the implementation of the strategic plan will be monitored closely by DG


Bruno Costa, CGD

Comp was also important to reassure investors that any deviations from the targets will have to be compensated by additional measures, to make sure those targets are met.

Before the actual issue, there was talk from certain Portuguese government-related sources of even a sub-10% coupon. You managed to price at 10.75% from IPTs of 11%-11.5%. How do you see the coupon level that you achieved?

It is difficult to estimate a landing point for this type of issue before actually going to the market. No other bank in Portugal had issued publicly in the AT1

Now management's focus can turn to the implementation of the strategic plan

space before. At the end of the day, the price at which you can print is the price the market is willing to pay at a given point in time. Having said that, the price achieved on this transaction was very much inside the indicative range presented by several investment banks at the time of issuance. In the end we had over 160 investors and a book more than four times oversubscribed, which allowed for the significant downward revision from the IPTs.

What is your view on the distribution achieved?

The final distribution was very much in line with what was expected. We knew the bulk of investor demand for this type of issue from a non-investment grade issuer would be in the UK, much more than in France or Germany. Given Caixa's importance for the Portuguese financial system, we also managed to attract significant demand from Portugal and Spain.

What is the main takeaway for CGD management from this transaction?

I think from CGD's management point of view, this transaction was a mandatory step to conclude the recapitalization process, which in turn was imperative to provide the bank with a more robust capital base, to fulfil all regulatory capital requirements, and to continue to perform its important role in the Portuguese banking sector. Now management's focus can turn to the implementation of the strategic plan to transform Caixa into a more efficient, focused, less risky and profitable operation for its shareholder.

You have 17 or so months remaining to raise an additional EUR430m of AT1 or "other hybrid security". What will be the trigger to watch for prior to the next issuance and what product should the market expect?

We have until the last quarter of 2018 to complete the issue of subordinated debt agreed with DG Comp. The timing, size and type of instrument will depend, in my view, on the evolution of Caixa's RWAs and capital ratios. RWAs are expected to decrease over the next few years, especially due to divestments in international assets. If the EUR430m ends up overshooting the 1.5% Pillar 1 allowance under Basel III, I would not exclude the possibility that we substitute part of the requirement from AT1 to Tier 2, in order to make it more efficient. ●

Bail-in
Joining the dots

Bringing together various members of the ICMA Asset Management & Investors Council's Bail-In Working Group, regulators, issuers and other market participants, a bail-in seminar, chaired by Tim Skeet, was held on 7 April to examine several aspects of the key area of banking regulatory reform: the bail-in regime and capital requirements for banks.

Convened under Chatham House rules, the seminar discussed three broad topics. These included an examination of pricing of bank debt in the current environment; a look at disclosure and credit evaluation of banks; and a debate on corporate governance for banks, with a specific focus on whether fixed income investors are getting a fair deal.

Pricing bank risk

There are two distinct lines of thought. On the one hand, the market appears well able to absorb the different capital instruments currently being issued by the main European banks. Pricing has moved away from being largely driven by supply and demand towards becoming more predominantly based on well established, market-driven factors, including the differentials between various degrees of subordination, although different parties may disagree over precise basis points differences. That said, stability of rules and clarity over, for example, point of non-viability (PONV) would certainly ease pricing.

On the other hand, some investors suggest that the current market is not indicative of the true underlying demand or pricing. Current markets are very technical, driven by a lack of alternative investment options, central bank QE actions, and limited ability to price accurately due to a lack of information.

Primary markets specialists agree that the market, particularly for AT1 instruments, is driven in part by investors in search for yield inflating demand, but a solid core of demand gives the market some depth. Investors suggest, however, that beyond the immediate positive market outlook, the underlying sector remains weak, volatile, and liable to close in response to bad news or unexpected events. This might suggest that the markets have the appearance of being robust but are not so.

Moreover, many smaller banks and some jurisdictions remain marginalised even in the current robust market conditions.

Another concern for market participants is the fact that there is no homogeneity of instruments, and that the market remains very fragmented when it comes to bail-in. Different jurisdictions offer different models (HoldCo versus OpCo, structural subordination, etc.) and there are differences between instruments even within jurisdictions, making the overall picture highly confusing and technical. This is particularly true of AT1/CoCo issues. It is largely up to investors to become familiar with the different regimes across the European Union in what has become a "tiered" system. This adds to the danger that investors will focus on those jurisdictions with the clearest rules of engagement and sideline others. Investors continue to call for simplicity as well as transparency, harmonisation of rules, and improved communication of each banks' capital requirements throughout the EU.

Investors continue to argue that the market currently prices probability of default (PD), and as yet is not adequately taking into account the true loss-given-default (LGD) in light of the new bail-in rules and insolvency regime for banks. Some investors warn that the current firm demand for bank risk will not end well and predict that significant losses may be likely for unwary investors in the event of a large adjustment in very narrow, illiquid secondary markets. Opinion remains divided on these points.

Disclosure and credit analysis

While much has been done to standardise definitions and data for balance sheet disclosure purposes, particularly regarding asset quality (NPLs, etc.), there remain areas of great uncertainty. Mindful of the technological challenges, analysts continue to ask for standardisation of data, and a unified chart of accounts for European banks to allow a better cross-border comparison of fundamentals, something that is well developed in the US. They acknowledge, however, that much progress has been made, although availability of information remains slow.

Analysts noted the significant bad loan overhang that remains in the euro area and certain periphery jurisdictions where NPLs relative to GDP remain at unprecedented levels. Some argue strongly that the bad loan overhang needs to be resolved before investors are potentially asked to pay for clean-ups of legacy NPLs. A good bank/bad bank solution should be considered. The probability of bail-in remains quite high, a risk that more conservative analysts/investors are not prepared to take on in the absence of a credible plan to deal with the bad loans.

Large areas of public policy remain unclear, particularly regarding bank resolution. Competition policy, ECB intervention and flexibility on EU State Aid, and local regulators setting varying priorities, all add up to unpredictable challenges for investors. In addition, there is uncertainty over key Pillar 2 and accounting (IFRS 9) guidelines, MREL strategies, SREP guidance, and the strategies on individual classes of instruments. Without clarity, some investors argue that it is hard to evaluate a bank's performance and if it might be in trouble, at what point the authorities might wish to intervene and on what basis. Lack of clarity over the PONV — and how it relates to a resolution — remains a concern.

Against these arguments, issuers and regulators argue that informal internal guidelines will become unhelpful and inflexible targets once in the hands of investors. Regulators realise that they need to have flexibility to deal with future unpredictable banking crises. Regulators need to reserve the right to intervene with precautionary recapitalisations.

Nevertheless, although the failure rate for banks is significantly higher than for corporates, increases in capital and reduction in gearing have made a significant contribution to improving the overall quality of banks' balance sheets.

Overall, the consensus was that the level of regulatory transparency and disclosure requires further work and enhancement.

On a more practical note, analysts observe that the buy-side needs to focus more on balance sheet analysis as well as technical and regulatory evaluation.

Given the above challenges, an open question remains: what happens with the first bail-in of a large European bank?

The governance debate

The key question many investors are asking is whether there is a fair balance between the rights and obligations of debt holders versus shareholders. The cumulative impact of bail-in and other bank capital and liquidity rules have increased levels of subordination for fixed income investors and increased exposure to regulatory change. Shareholders, under some scenarios, enjoy a better risk/reward trade-off, their rights are clearly defined and they have an ability to make their voice heard.

There is no easy solution to this. Fixed income investors have historically not wished to become involved in managerial decisions, but given the actual or potential capital nature of their exposures, a rebalancing of their rights should be considered. One aim must be to ensure that noteholders always do better than shareholders under all scenarios. In the case of CoCo bonds, for instance, investors note that they can potentially receive unfavourable treatment.

There may be a requirement for additional rights to accrue to investors in cases where they have been written down to protect them against unfair treatment by regulators, bank

Pricing bank risk

- Many analysts are sceptical over the accuracy and efficiency of current market pricing for bank capital risk
- The market remains vulnerable to sudden shocks
- The fragmentation and proliferation of different instruments is not welcomed
- Some national jurisdictions and categories of banks may be shut out indefinitely from the markets

Disclosure and credit analysis

- There has been major progress in data disclosure and standardisation, but the US sets the benchmark
- The NPL overhang remains an unresolved issue
- Unpredictability and uncertainty surrounding public policy responses to resolving bank difficulties remain an issue for investors
- There remains considerable confusion around key regulatory triggers and the issues of regulatory confidentiality
- Overall, the system is a lot more robust but investors fear how the market will react to the next bank failure

The governance debate

- The fair balance between the rights and obligations of shareholders and noteholders needs to be addressed. It is not right currently
- There is a potential conflict of interest between the two groups
- There is a need for a better, more informed debate over the role of banks and if current regulations allow them to meet expectations
- There is a need for a more comprehensive overall plan. Bail-in is one element but it is not clear that it will work as advertised in practice

managements, or even shareholders. There is an evident potential conflict of interest between the interests of shareholders and those of noteholders that has not been fully addressed to date.

The general comment is that the incentives in fixed income instruments are set up badly. Regulators and the market should work together to exert discipline and better align interests in the pursuit of a more stable and predictable long term source of capital for banks, in all cases before any future crisis might strike.

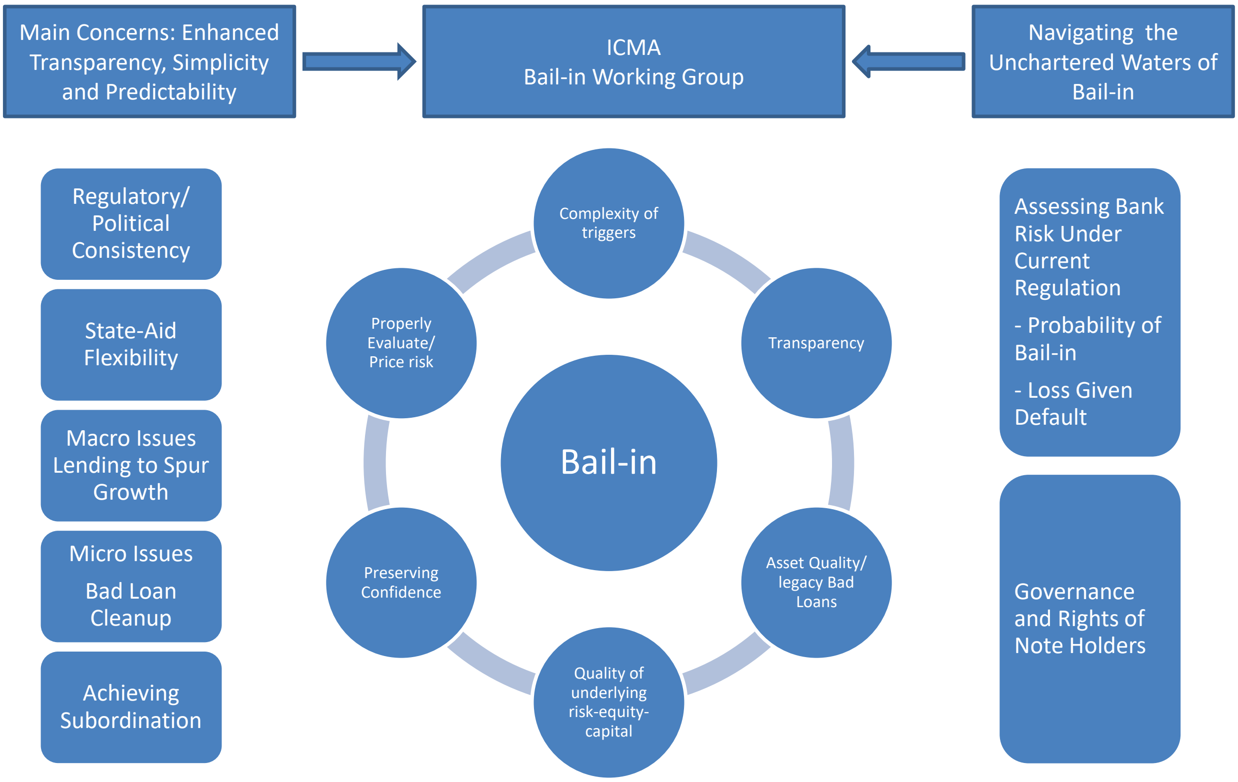
There is also a wider debate to be had over the role of banks and the shape of their businesses in the broader context of the modern European economy. Changes to regulations and response to the past crisis have curtailed key aspects of the functioning of banks without broader consideration of the effects of this.

In particular, it should be considered how the crucial multiplier effect of leverage and maturity transformation roles of banks will function in future. Will banks be able to provide the necessary levels of capital as Western economies begin to grow once more? If sources of capital remain uncertain or restrictive, this will further hinder future growth.

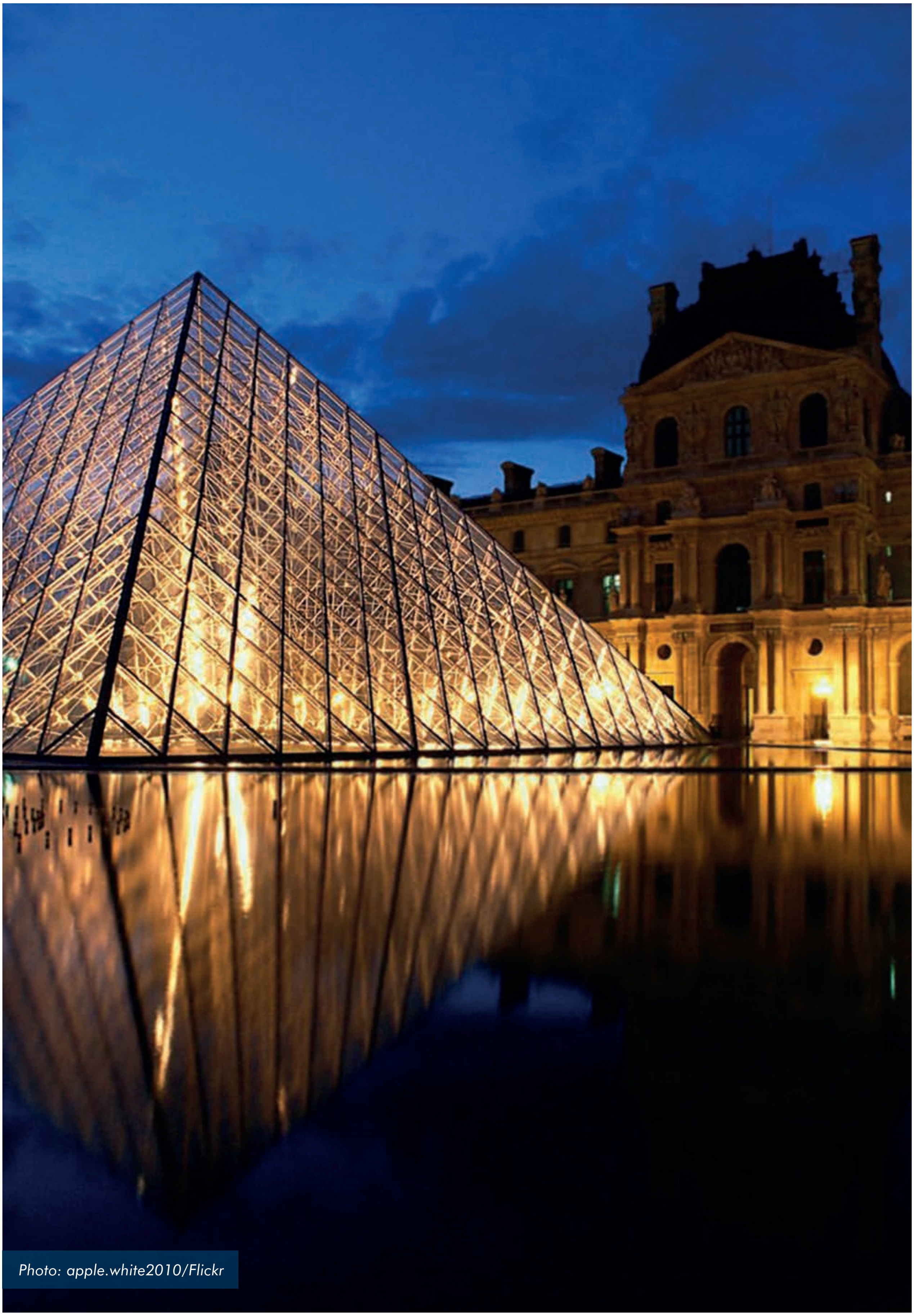
There was no consensus on these questions but participants were asked to consider if the bail-in rules are the right response to the future needs of the European banking system, if they will work in practice, and if the system is significantly more robust. While there is much evidence to suggest that great progress has indeed been made, that the legacy concerns around bank balance sheets have been in many cases (but significantly not all) dealt with, the lack of an overall coherent plan leaves the system potentially still vulnerable to future shocks.

Against this, some participants felt that re-regulating banks was a work in progress and that the industry is now set on a better course. Bank bail-in may not be fully refined or perfect, but represents a better set of policy options compared to open-ended bail-out that characterised previous interventions. ●

The Bail-in Working Group (BIWG) is comprised of a number of highly experienced industry specialists who, speaking as a team, amplify a buy-side consensus. The BIWG reports into, and is supported by, the Asset Management & Investors Council (AMIC), the buyside voice of the International Capital Market Association (ICMA).



Source: ICMA



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SNP
Defining moments

The new market for senior non-preferred debt has developed quickly since its opening in December. European Commission plans for a common instrument and ECB interventions have meanwhile both helped and complicated progress. Here, market participants share their views on the new segment as its ultimate shape gradually becomes clear.

Participants:

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Michael Benyaya, capital solutions, DCM, Crédit Agricole CIB

Doncho Donchev, capital solutions, DCM, Crédit Agricole CIB

Dr Norbert Dörr, head of capital management and funding, Commerzbank

Bernard du Boislouveau, FI DCM, Crédit Agricole CIB

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Vincent Hoarau, head of financial institutions syndicate, Crédit Agricole CIB

Neel Shah, financials desk credit analyst, Crédit Agricole CIB

Olaf Struckmeier, functional head of research, financial regulation, corporate bonds, fixed income, Union Investment Privatfonds

Moderator: Neil Day, managing editor, Bank+Insurance Hybrid Capital (BIHC)

Neil Day, Bank+Insurance Hybrid Capital (BIHC): Has the early development of this new SNP segment gone smoothly and/or in line with expectations?

Vincent Hoarau, Crédit Agricole CIB: The development of the new asset class has been extremely smooth since December 2016 and the French SNP segment now amounts to some Eu15bn-equivalent. It is well established across the two core currencies, euro and US dollars, while all the French borrowers have also tapped niche currency markets, with issuance in Australian dollars, Japanese yen, Swiss franc or Swedish kroner in sub-benchmark or private placement-style formats. We expect the new format to be comparable across jurisdictions — even though there will be a crossover period with several types of structures.

Amundi: While the introduction into French law of the senior non-preferred took longer than initially expected, the opening of the senior non-preferred asset class has gone relatively smoothly. The French banking groups which have since then issued senior non-preferred instruments had well flagged their intention to do so, and their issuance plans for 2017 already incorporated such instruments.

Norbert Dörr, Commerzbank: The market received those French senior non-preferreds well. This indicates that investors understand the product and its purpose. Also, the documentation of those instruments contained the criteria that are in the CRR draft — it was good to see that there has not been a major issue with the inclusion of any provisions that are felt relevant from the perspective of the resolution authorities. So overall I think it went relatively smoothly.

Bernard du Boislouveau, Crédit Agricole CIB: This new segment is indeed benefitting from a warm investor reception, combining the appeal of a new debt format with the potential for yield on well-established signatures at a time when liquidity is abundant and markets globally are supportive, despite the first benchmark coming late, or even very late in the year.

From its inception, this new SNP debt format also benefitted n from the dynamics of the HoldCo debt sector, giving investors comfort and making for an easier benchmarking process among issuers.

On top of this, from January the primary market received a strong impetus from anticipated but by definition unpredictable external factors, such as the major elections awaited in Europe in 2017, which prompted an acceleration of issuance plans.

Olaf Struckmeier, Union Investment: So far it has gone smoothly, but there are still some outstanding questions, especially concerning the latest developments

Dung Anh Pham, Amundi
'It will still take some time for the proposals to be transposed'

from the European Commission regarding harmonization across Europe. And legal questions concerning the structure of some bonds — UK banks' acceleration or older KBC, for example.

Olivier Bélorgey, Crédit Agricole: Within a month of the French law being passed, the four large French banks had issued in senior non-preferred format, so clearly the start of this new asset class was very quick, and each issue went well and was appreciated by the market, which is positive for the whole asset class. So, firstly in terms of issuance and market appetite, it clearly went in line with our expectations.

And also in terms of pricing. We focused on what we have termed the bail-in cost — that is the difference between the senior non-preferred spread and the senior preferred spread, which we call the bail-in spread, and the difference between the Tier 2 and senior preferred spreads, which is the subordinated spread. The ratio was between 30% and 40%, which was perfectly in line with our expectations. So from our point of view things are starting well.

Day, BIHC: Crédit Agricole opened the segment at the end of 2016 with a quite aggressive approach, particularly in terms of timing. What was the rationale for this and the key takeaways from the inaugural trade?

Amundi: Crédit Agricole opening the market was indeed surprising; we would have expected other French peers to lead, given their greater needs for senior non-preferred issuance to comply with the forthcoming TLAC rules, for which the first deadline is as early as 2019. But this may well also be the very reason why Crédit Agricole sought to be the first to issue a senior non-preferred instrument: so as to ensure the pricing of their inaugural bond would reflect their own fundamentals and low issuance needs, rather than being influenced by the technicals (chiefly supply) of some peers.

Bélorgey, Crédit Agricole: First of all, this new asset class had been eagerly awaited. The announcement of its creation was made in December 2015, so a year beforehand, and there was a lot of anticipation in the market. It was therefore a good strategy to issue as soon as possible after the law was voted in order to meet the market's expectations.

Secondly, market conditions at the end of last year were good. We know that the market right now is a windows market — some periods are good, some periods are closed — so it's important to take advantage of good market windows, and mid-December was clearly one such time.

It has gone smoothly, but there are still some outstanding questions

Thirdly, we had announced to the market that our plans in terms of TLAC debt, roughly speaking — senior non-preferred and/or Tier 2 — was around Eu3bn per year for 2016 up to 2019. We therefore thought that, if possible, it would be good to issue what we could in 2016 and not overstock 2017. So instead of issuing Eu3bn in each of 2016 and 2017, we issued Eu1.5bn in 2016 and have thus indicated to the market that we have Eu4.5bn to do in 2017, which is more balanced and avoids an excessive concentration of issuance in 2017.

Last, but not least, we considered Crédit Agricole to be a quite legitimate name to open this new asset class given the strength of our ratios. We felt that we were in a good position to anchor relatively good spreads for French issuers as a whole.

So these four points led to our decision to issue very quickly in December.

Du Boislouveau, CACIB: Crédit Agricole was indeed at the very forefront of developing this SNP format. It was logical to see them pioneer the market. Timing-wise, this inaugural issue was driven by the late in the year implementation for the so-called "Loi Sapin II" that came into effect on 10 December 2016 introducing "Non-Preferred Senior" as a new type of senior ranking below senior preferred bonds in a resolution scenario.

Among the key takeaways of this inaugural trade, we can mention the final order book, above Eu5bn, the 275 participating investors, and the final price: mid-swaps plus 115bp, i.e. circa 30% of the subordination cost (or bail-in premium), rather than the straightforwardly anticipated 50%, positioning the trade closer to senior preferred than Tier 2. For CACIB, it was also a milestone to introduce CASA in this new debt segment.

Part of the success also comes from the quite limited TLAC debt requirement of Crédit Agricole compared with its peers. This provoked additional interest in the venture, given the more limited issuance anticipated.

Hoarau, CACIB: We considered all options in terms of timing, but also the maturity and currency for the inaugural SNP benchmark of CASA. But after the global investor call in December everyone was screaming for a euro trade. Being a French bank, it was a little bit more natural to open up the domestic market before doing dollars, although feedback was extremely positive across the board and the pricing difference was marginal. Appetite for the long end was very clear after Draghi gave clarification mid-December on what was going to happen in terms of QE, so the ground was there for a good trade.

In terms of pricing, there was a strong feeling that the asset class should price one-third, or slightly less, of the distance between senior and Tier 2 — the "subordinated spread" as Olivier calls it. CASA paid ca. 30% of the distance, so it was an extremely good result. Very few investors had a strong view that this product should price closer to Tier 2 than senior. Price discovery was a topic back in December, but the asset in now very well established and it is all about relative value amongst peers in that format.

Day, BIHC: Was the announcement of the European Commission proposal helpful?

Bélorgey, Crédit Agricole: Yes, of course. The fact that the European Commission promotes what we can call the French solution is very good news for us and for the asset class as a whole. And it's also very good news for the industry, because it anchored the fact that there will be a level playing field between banks with holding company and operating company structures, and banks without that kind of legal structure. It's really something fair and good for everybody — investors and issuers.

Day, BIHC: How do you view the European Commission proposal to harmonize national approaches to creditor hierarchy (new Article 108 of BRRD2)?

Struckmeier, Union Investment: Why so late? They could have had that from the very start but decided to leave the door open for every country to do what best suited it. We appreciate the need for discussion, but it is now harder to harmonize and there will be the need for longer transition periods with even more instruments outstanding.

Amundi: The Commission's endeavour to reduce heterogeneity and complexity in the EU banking insolvency frameworks is clearly welcome. It would enhance comparability, provide some standardization and ensure a level playing field, which are preconditions for a deep and sustainable market to develop for bail-in-able instruments. However, the EC's proposed changes will still need to be transposed into the various EU member states' national banking insolvency laws, which could limit the final level of convergence and standardization at an EU level. What's more, even though the EC proposes to move swiftly, it will still take some time for the proposals to be transposed into national law, which reduces the TLAC/MREL compliance period for banks in many EU member states.

Dörr, Commerzbank: I welcome the fact that there is harmonisation with respect to the credit hierarchy, because it increases transparency and thereby understanding of the product among investors. My understanding is that member states want agreement on the draft as soon as possible, in particular those states which — unlike France and Germany — don't have in place a law that allows non-preferred instruments and would otherwise need to apply a contractual approach as Santander did. Hopefully things will be clarified soon.

Why so late? They could have had that from the very start

Looking at the details of the current draft — and I refer there to the compromise text from the Maltese presidency — it gives every member state the option of migrating towards that harmonised framework, and without losing any existing instruments. For us in Germany, for instance, it is the common expectation that future senior non-preferred ranks pari passu with those instruments that are non-preferred under current KWG § 46f. Obviously we need to wait until we have the final text, but for the time being we have no concerns and I think there will be a smooth transition. BRRD 108 is one element, while the criteria under CRR 72b are another, and they both need to be addressed so that issuers have clarity on what they need to/can issue.

Vincent Hoarau, CACIB
'Everyone was screaming for a euro trade'

Day, BIHC: How do you assess the contractual SNP format (e.g. Santander Second Ranking SNP)? Do you differentiate between contractual and statutory SNP? Do you see any legal risk in the format?

Amundi: From a credit risk standpoint, the contractual and statutory non-preferred senior are identical because they rank pari passu, and would equally contribute to restoring a firm's creditworthiness in resolution. Nonetheless, the issuance of contractual non-preferred senior instruments ahead of an expected change in insolvency law introduces a remote regulatory risk. This is because the contractual terms will need to be completely aligned with the updated Spanish banking insolvency law, which has not yet been drafted and will be highly influenced by ongoing discussions for a pan-European insolvency framework. Should the contractual terms fall short of the requirements under the updated Spanish insolvency law, the contractual non-preferred senior instruments would be exposed to a TLAC/MREL disqualification event which would allow the issuers to call the instrument at par — albeit these would still be bail-in-able in resolution.

Norbert Dörr, Commerzbank
'I'm not a friend of individual contractual terms. I prefer a transparent statutory framework'

Struckmeier, Union Investment: We do not differentiate between the two formats. We do not see risk in the Spanish format, even regarding the latest developments such as the disqualification event.

Dörr, Commerzbank: I'm not a friend of individual contractual terms. I prefer a transparent statutory framework. That is why I welcome a fast-tracking of Article 108 or giving jurisdictions the possibility to implement equivalent approaches in the meantime.

> There are no tangible reasons why any differentiation should take place

Hoarau, CACIB: Contractual or statutory, senior non-preferred debts rank pari passu after other "ordinary unsecured creditors" in the insolvency waterfall. In light of that, there are no tangible reasons why any differentiation should take place — while I don't buy the risk of disqualification. Notwithstanding this, one shouldn't underestimate the number of investors who only buy into debt backed by a legal framework and who are waiting for the law to be implemented, particularly in Spain where Santander pre-empted the move of the legislator.

More importantly, pricing is a function of supply/funding needs, credit profile, metrics and ratings. Supply is a key element in the pricing scheme, while we expect MREL to become much clearer in H2, providing full visibility of issuance needs across banks.

Day, BIHC: What is your view on the pricing rationale for Spanish issuers under the contractual format? What about the other issuers across Europe?

Struckmeier, Union Investment: Pricing for the Spanish and the French should be equal from a legal/structural perspective. Pricing differences are a function of credit quality.

Dörr, Commerzbank: In the long run, after the transition period, the drivers of pricing should be pretty similar, with the major difference being the type of issuer, the credit standing of the issuer — and obviously the lower you are in the hierarchy, the more you are potentially also affected by macro events that lead to a risk-off vs. risk-on.

Leaving that aside and looking at how things stand today: when French G-SIBs are issuing, the market knows they are the first non-preferreds, so the layer that is pari passu is not yet well populated — also that there is in particular for the large French banks more supply to come. Obviously that has an impact on initial pricing, and that is what we have seen — although there has been the specific issue of the French election and that has had an impact.

The question for me is whether the market will differentiate between operational MREL securities — as we have in the French and German cases — and HoldCo instruments, because obviously a HoldCo instrument is by definition built for MREL, whereas with an operational security it's a mix of MREL and funding at the operational entity.

Day, BIHC: Do you expect other issuers to pre-empt the introduction of a legal framework and to tap the market as Santander did?

Amundi: Within the EU, global systemically important banks (G-SIBs) are those for which the issue of accumulating bail-in-able instruments is greatest. This reflects their generally higher requirement as well as their shorter compliance period, as the TLAC requirements will be implemented as early as 2019. However, with the exception of Spain, we believe that all other EU member states now have a framework that will allow the G-SIBs to comply with TLAC requirements by the deadline of January 2019.

At this juncture, we do not expect European domestic systemically important banks to massively start issuing senior non-preferred instruments — not least because the MREL rules are not yet finalised, in particular with regards to the quantum and subordination of bail-in-able instruments — unless the Single Resolution Board were to impose a short compliance period for the MREL.

Struckmeier, Union Investment: Yes, we expect other issuers from Spain, such as CaixaBank. We do not expect issuers from Sweden, Norway or Finland yet.

Neel Shah, Crédit Agricole CIB: I do not expect other banks to pre-empt the legal framework to issue bail-in capital. Of the European banks which had the largest TLAC requirements, HSBC and BNP Paribas now have a framework for issuing bail-in capital. Santander, given its high issuance requirements, could not be on the back foot, so was left with little option but to pre-empt the legal framework and front-load issuance. For other European banks, issuance requirements are manageable and they will largely replace senior OpCo debt as it matures in the coming years.

Bélorgey, Crédit Agricole: It's very good news that they have issued in this format because it widens the range of issuers.

Day, BIHC: In some countries (e.g. Belgium, the Netherlands) various resolutions strategies could coexist. Does that raise any concerns?

Struckmeier, Union Investment: Of course, a harmonized structure would be preferable, but there is already such a plethora of different bonds outstanding. So adding more to that is not great, but it's OK. We understand the banks' needs for different instruments (e.g. Rabobank vs. ING).

Amundi: Banking groups that can issue structurally subordinated bail-in-able instruments through their holding companies are not dependent on the evolution of national insolvency laws. This allows them to already issue bail-in-able instruments whilst other banks will need to wait for a pan-European insolvency framework introducing the statutory senior non-preferred debt class. From a credit loss point of view, the co-existence of several resolution strategies does not

I do not expect other banks to pre-empt the legal framework

raise any concerns, as long as the investor community is provided with the appropriate data to assess the risk of the various instruments under each resolution strategy and for each resolution group.

Day, BIHC: How does the lack of acceleration rights outside insolvency, the waiver of set-off, and the bail-in acknowledgment affect the credit assessment of the SNP product?

Bélorgey, Crédit Agricole: The lack of acceleration rights outside insolvency is something that impacts the spread of the product. It could potentially disadvantage European issuers — I say potentially because, at least for G-SIBs, if you do not pay your coupon for 30 days the probability that the resolution entity will step in and trigger resolution is rather high. So, economically, I think any difference is really small.

Regarding the waiver of set-off, our le-

Olivier Bélorgey, Crédit Agricole
'It's very good news that they have issued in this format'

gal counsel's opinion is that under French law set-off is anyway not at all obvious and that it would be very difficult for investors to claim for set-off. They therefore told us that this clause is not really essential because under French law it was already implicitly the case.

As for bail-in acknowledgement, again, if an investor was under New York law, for example, buying a note that is economically for us as an issuer a bail-in-able instrument, but was trying to count on the fact that they could have a claim and so on… It's not in the spirit of the product. So for us the waiver of set-off and the bail-in acknowledgement clauses are rather self-evident.

Struckmeier, Union Investment: We assume no recovery in the event of default, but have done that since January 2015. So no change from that perspective. The only thing we look at is whether we assume MREL eligibility in the future, and hence the call probability.

Day, BIHC: Under US TLAC rules, the inclusion of the acceleration right in case of non-payment for at least 30 days is permitted. Do you think that the proposed European rules put European banks at a significant disadvantage?

Michael Benyaya, Crédit Agricole CIB: It's a question of adherence to the original criteria set out in the TLAC term sheet, as the proposed criteria in CRR 2 go beyond the TLAC term sheet in terms of acceleration rights. That said, acceleration provisions provide investors with little protection. In the event that a bank stops paying coupons on an MREL bond, the bank would be in a very difficult liquidity position and would likely be close to resolution. Even if the acceleration right is used by the investor at that time, it will not stop the bail-in tool to be implemented.

Doncho Donchev, Crédit Agricole CIB: I am aligned with the view of other participants, that in theory it matters. But in practice? Not so much.

There is no situation imaginable where a G-SIB or a D-SIB would be in payment default (even within the grace period) without there being a front page headline on the *FT* or *Bloomberg*. And what would be the result? If the bank does not correct the payment default immediately, then the insolvency will occur in matter of days, as you would have a combination of a bank run and no new business.

Maybe this is why the market does not differentiate that much between US and European banks on this matter. But the fact that we are talking about it means that at least in theory there is some consideration. From a level playing field point of view, there should be no such consideration, so ideally we will see alignment of the event of default provisions, with long periods leading to acceleration.

Also, we need to ask ourselves why the authorities are even looking at events of default. They do so because it represents a contractually-sanctioned run on the bank. This is clearly a big concern for regulators. What it means is that we are likely to see lengthy periods prior to acceleration kicking in. Some issuers, notably in peripheral Europe, also have acceleration and cross-default clauses — this is definitely out as it represents a bank run at exponential power.

Day, BIHC: What is your view on the latest ECB opinion on the SNP format, notably in terms of comparison with the statutory (German) and structural subordination? And how do you see the three formats from PD/LGD and spread perspective?

Amundi: While it supports the EC's proposal for a convergence of European banking insolvency regimes, the ECB also stresses that this initiative should not undermine the effectiveness of actions taken until now by EU member states to update their insolvency regimes. In particular, it suggests that outstanding senior unsecured debt that had been statutorily subordinated — as has been the case for German banks since early 2016 — should rank pari passu with senior non-preferred instruments. The ECB's comments would effectively ensure that German banks' outstanding "plain vanilla" senior unsecured debt remains eligible for TLAC and MREL in the future.

The probability of the instruments being written down or converted into equity are arguably similar under the statutory, structural and contractual subordination approaches. This is because these instruments rank pari passu and would be subject to losses only in resolution (they would not be automatically subject to burden-sharing under a precautionary recapitalisation as they are not regulatory capital instruments). Similarly, senior non-preferred and German statutorily subordinated debt instruments face the same risk of being written down or converted into equity, which essentially reflects the risk of a bank entering resolution, in our view.

Conversely, the various approaches have a significant bearing on the loss severity in resolution. This is because approaches designed thus far (German and Italian statutory subordination, French and EC's senior non-preferred, UK's holding company senior unsecured debt) have changed the relative ranking and respective volumes of debt instruments. Following the change in German insolvency law in 2016, the quantum of bail-in-able instruments is now large and allows for a greater dispersion of losses amongst investors. Conversely, banks that have just started to issue senior non-preferred or holding company senior unsecured debt still have a smaller layer of bail-in-able instruments, which results in a higher loss severity, ceteris paribus.

We also caution, though, that in the case of structurally subordinated bail-in-able instruments, the seniority of the internal loan funded by the holding company senior debt weighs heavily on the ultimate waterfall in resolution, and hence on loss severity. This adds another variable compared to other structures, in our view.

In the medium term, the higher quantum of bail-in-able instruments issued in the ramp-up period should translate into a greater spread differential between senior non-preferred and Tier 2 instruments — albeit spreads will also be highly influenced by technicals, notably for banks with a high level of senior non-preferred supply by 2019, which the market must be able to absorb.

Doncho Donchev, CACIB
'We need to ask ourselves why the authorities are even looking at events of default'

> **The ECB has perfectly understood that these two products are economically the same**

Struckmeier, Union Investment: We embrace the opinion, assuming it will bring about grandfathering and long transition periods. From a PD/LGD perspective we do not see a difference. The same applies to pricing.

Bélorgey, Crédit Agricole: My understanding is that the ECB is in favour of both the SNP format and also in favour of the HoldCo/OpCo structure. The ECB has perfectly understood that these two products are economically the same. And clearly given the European Commission proposal, the German solution is in fact or should be a transitional situation — that is, if the European Commission proposal is put in place, the German solution at the end of the day will converge towards the French solution.

Donchev, CACIB: I agree with everything the other participants have said.

In terms of ratings, there could be a negative impact due to Moody's LGF methodology. Since we are talking about investment grade instruments here, the rating does matter to key investor categories (banks, insurers) and it also matters whether it is A or BBB. So, from cost a perspective this is not ideal.

But of course the macro factor of financial stability and effectively solving the NCWOL issue might prevail.

Day, BIHC: What is your best guess/expectation with respect to the evolution of the regulatory framework in Germany? How do you see the ECB Opinion proposal in this respect, i.e. grandfather the existing senior subordinated stock and then start issuing in EU SNP format, once the product becomes legally available?

Dörr, Commerzbank: If you read Article 108 carefully, and consider the German legal framework, you can come to the conclusion that the current legal framework is entirely compatible with Article 108. Article 108 merely says that you should have a non-preferred layer —

and, by the way, that in that layer there should not be any derivative features. This is excluded in Germany by such structured instruments automatically being preferred. In addition, our documentation already refers to the statutory resolution framework and discloses that, given KWG § 46f, the instruments are non-preferred — as required by Article 108. In contrast, Article 108 does not explicitly require anywhere that we need to be able to issue plain vanilla preferred senior — which, however, are relevant instruments for those banks that have higher unsecured funding needs.

My expectation from all that I hear and see is that everybody also agrees that instruments issued before a certain cut-off date that are MREL-eligible under the current legal framework will remain MREL-eligible until their individual maturity, which is important for creating a smooth transition.

Struckmeier, Union Investment: We expect it to follow the EU opinion, including a grandfathering period until 2022.

Bélorgey, Crédit Agricole: Having a grandfathering of the actual statutory German solution is a welcome move— it allows everybody to follow at their own pace. It effectively relieves pressure on certain German players, which is rather positive because — even if you can benefit when your competitors are in trouble — we also want to avoid any renewed crisis. So allowing the German solution and smooth convergence towards a more stable situation in Europe is a good thing.

Day, BIHC: What are your views on the ECB repo eligibility of the product? Do you expect loss of repo eligibility for SNP and how will this influence your expectations about market depth/pricing? And what about Senior HoldCo debt that is currently ECB repo-eligible and without signs of potential loss of such repo-eligibility?

Struckmeier, Union Investment: That is a problem. It clearly benefits the HoldCo approach, which is in contrast to EU opinion. They will need to get that fixed before banks are fully convinced to do SNP instead of HoldCo.

Bélorgey, Crédit Agricole: I think that the ECB's idea concerning repo eligibility is to remove repo eligibility from any bail-in-able instrument. Once again, they are being rather pragmatic in order not to destabilise the German market. It is used to repo eligibility for senior debt and the change in the nature of German senior debt also has to be managed smoothly. So that explains what they have done, but I think that the idea is to align everybody on non-eligibility for bail-in-able instruments.

I am totally in favour of a pragmatic attitude, I am totally in favour of a smooth transition. But I would react very strongly if at the end of the day they introduce an unfair playing field.

Benyaya, CACIB: Regarding the eligibility as collateral for Eurosystem credit operations, the ECB noted in its opinion the potential implications of subordinating instruments, but it did not provide any new elements. The non-preferred format is viewed as a form of contractual subordination as opposed to statutory subordination, as applied, for example, in Germany. This distinction between the two formats is debatable at this stage, but, longer term, a level playing field is critical and it would sound reasonable to me that all forms of subordination are not eligible as ECB collateral.

Day, BIHC: Again on the ECB Opinion, how do you see the proposed introduction of general depositor preference to affect you from an issuer/investor perspective? Do you expect a rating impact? Do you think general depositor preference will require higher spreads? On the other hand, do you think that improved resolvability might result in lower MREL components (whether requirements or guidance)?

Struckmeier, Union Investment: Since January 2015 we have assumed full subordination to depositors in our analysis — although it is not fully legally in place, it would economically have been the case in an event of intervention.

> **We reckon the European authorities have been reluctant to activate the bail-in tool**

Bélorgey, Crédit Agricole: I'm not totally in line with the proposal, because it introduces some moral hazard. If you create that kind of hierarchy, you clearly indicate to corporates that they can make their deposits in any bank, whatever its strength and quality, and should the bank start getting into trouble, if they pay a little more, the corporate can make more deposits in this bank knowing that at the end of the day they won't be bailed in — which could also cause more problems in resolving the bank. So ultimately it encourages some risky behaviour and I don't think that's a good idea.

Amundi: Looking at the recent past, we reckon the European authorities have been reluctant to activate the bail-in tool, especially because it would have potentially impacted liabilities that were seen

Stéphane Herndl, Amundi
'MREL requirements are also likely to be extended to D-SIBs, albeit to a lesser extent'

as critical for the financial stability of the region (e.g. retail subordinated bonds, senior unsecured debt ranking pari passu with depositors).

The proposed introduction of a general depositor preference should theoretically be negative for senior (preferred) bondholders. On the one hand, this would remove the risk of legal challenge stemming from the BRRD's "no creditor worse off" (NCWO) principle, and render senior (preferred) debt more easily bail-in-able. On the other hand, it would also materially increase the loss severity in resolution for senior (preferred) bondholders, as they would no longer be pari passu with depositors, which typically account for a large portion of banks' liabilities.

The spread impact should, however, be at least partially compensated by the accumulation of more junior instruments (e.g. statutory, contractually or structurally subordinated senior notes) which will reduce the loss potential for senior preferred. Spreads should also be positively influenced by the increasing scarcity of senior (preferred)/operating company senior notes, going forward.

Day, BIHC: What are your expectations in terms of MREL and the subordination requirement? Do you expect to see it extended to D-SIBs? If not, do you have level playing field concerns?

Struckmeier, Union Investment: We do not expect it to be rolled out to D-SIBs soon — how should these tap the market? Smaller SIBs are already struggling to do so. Of course that means no level playing field. It is not wanted by Germany, for example, with the strong savings and coop banking sectors.

Amundi: We expect the MREL requirements to converge towards those of the global TLAC rules, albeit they will potentially lead to higher requirements, overall. Over the long run, we see the potential for European authorities to require some subordination for bail-in-instruments, not least to avoid legal challenges that may arise because of the BRRD's NCWO principle. MREL requirements are also likely to be extended to D-SIBs, albeit to a lesser extent, commensurate with their systemic importance for the bloc.

A decision to impose a materially lower MREL requirement for D-SIBs would have negative implications for the resolvability of these institutions, which we see as a greater concern.

Bélorgey, Crédit Agricole: What the resolution authorities have already outlined is that, at least for G-SIBs, MREL requirements will be as a percentage of RWAs, so they will align it with the TLAC calculation. The MREL requirements are expected to be calibrated at a level that more or less doubles the actual Pillar 1 and Pillar 2R regulatory requirements. But this MREL requirement should include as the numerator the whole amount of preferred senior debt with a remaining maturity over one year. In other words, the MREL requirement may appear greater than TLAC in terms of ratio, but — the numerator perimeter being wider — we do not expect the effective constraint to be very different.

I don't know if they will extend the subordination requirement to D-SIBs. If they don't, then there will be level playing field concerns, because the difference between the requirements for G-SIBs and D-SIBs could potentially be very high. And as G-SIBs, and especially French G-SIBs, are in a sense over-contributing to resolution funds, it would be unfair to at the same face much higher requirements than D-SIBs.

It also creates a potential cliff effect. For the G-SIB definition you rank banks according to their size — their interaction with the financial system and so on. But the list is not definitive and forever; it is dynamic. So one day you can be a G-SIB; one day you can be a D-SIB. And if the difference in regulatory requirement between G-SIB and D-SIB is so great, you can be in trouble.

So I hope that there will be, perhaps not exactly the same target, but a target ratio for bail-in-able instruments in terms of MREL for D-SIBs.

> **It would be unfair to at the same face much higher requirements**

Benyaya, CACIB: Both the EBA and the SRB seem to support the extension of a Pillar 1 MREL requirement to D-SIBs, notably to ensure an improved resolvability of those institutions. It's also a question of level playing field in certain countries between G-SIBs and large D-SIBs. In any event, I expect that investors will require D-SIBs to operate with a buffer of loss-absorbing debt. Some D-SIBs may be willing to start building up loss absorbing capacity ahead of full clarity over MREL needs and hence need to find a way to communicate on potential needs to prepare investors for upcoming supply.

Donchev, CACIB: From a bank-neutral perspective, both should be aligned (TLAC and MREL) with MREL Pillar 1 along the lines of the interim TLAC requirement for D-SIBs (i.e. 16% RWA, etc.). Also, a D-SIB in Slovenia is not the same as a D-SIB in Germany or Spain. Hence, perhaps an EU SIB framework may be worth considering.

Day, BIHC: Although the SRB has been relatively quiet on the required period for full MREL implementation, particularly with respect to the subordination requirement, other jurisdictions are more vocal, generally aligning with the TLAC ramp-up period (2019-2022). What would be your expectations?

Amundi: The Single Resolution Board is expected to provide G-SIBs, under its remit, with their final MREL levels by end-2017. Following this, we would expect it to adopt a phase-in period until 2019 and full implementation in 2022, i.e. in line with the TLAC timeline agreed by the Financial Stability Board in November 2015. However, given that banks will be informed of the final MREL requirement only by end-2017 and that MREL requirements could end up higher than those of TLAC, it would be sensible to adopt a longer phase-in period.

Struckmeier, Union Investment: We expect alignment with the TLAC period, especially regarding a potential grandfathering period for the German banks, for example.

Dörr, Commerzbank: The SRB faces a moving target with respect to the applicable legal and regulatory framework. First, the ECB has adapted its approach on Pillar 2, and now we have the EU Commission drafts for CRR2 and BRRD2. Both may be going in an expected direction, but for setting legally binding requirements for MREL the SRB has to operate within the current framework. That is one issue.

The other issue is how far along SRB is in compiling individual resolution plans. Their plan is to communicate legally binding group requirements later this year, and at resolution entity level in 2018. So that all gets delayed a little bit. The fact that in certain jurisdictions — naturally more in the periphery — some issuers are not ready to ramp up a quite substantial MREL requirement any time soon might be taken into account. You can't push issuers into a problem because of something you want to have in place if there really is a problem.

That obviously makes things a little bit more difficult for other banks like us, because we don't have full clarity what amount of MREL and in what format will eventually be required and when.

At the same time, the market should be a little bit more relaxed about the announcement of the ultimate requirements. Obviously, once there is an agreed regulation or directive being published, various stakeholders will immediately do some calculations and work out what the shortfall of Issuer A or Issuer B is, and where the supply should be coming from. That is only natural. But we are talking about instruments that will be used in resolution — and prior to resolution we have an existing apparatus of regulatory measures that are there to prevent anything like that happening in the first place.

Day, BIHC: What is your view on the depth of market and the evolution of the demand for SNP, particularly in Germany?

Struckmeier, Union Investment: The structure itself is not much of a problem. Non-inclusion in Barclays benchmarks limits some funds from participation, as do cross-over or high yield ratings.

The market should be a little bit more relaxed

Dörr, Commerzbank: I don't really have an insight into how German investors have participated in issues from other countries. As a general comment I would note that, for German issuers, senior paper has traditionally been a product placed at tighter levels within Germany, often not in benchmark format but more private placements. I expect that to continue, but depending on the requirements of individual issuers, there may well be the need to diversify, and that's what's happening.

Day, BIHC: Index eligibility for SNP: What is your expectation, but also your preference in this context? A separate index including all statutory, contractual and structural solutions?

Bernard du Boislouveau, CACIB
'I would expect dollars to remain the dominant issuing currency'

Bélorgey, Crédit Agricole: It would improve clarity around the asset class for everybody if there is an index for all bail-in-able instruments — not subordinated, but bail-in-able instruments — that includes — because economically they are exactly the same — senior holding company issuance, senior non-preferred under French law, and the current German statutory solution. So I am clearly in favour of the creation of an index for this asset class.

Amundi: For the time being, senior non-preferred instruments are not included in the senior index, which includes senior debt instruments issued by some holding companies, which puts senior non-preferred debt at a disadvantage. However, given the increasing outstandings of "senior subordinated" instruments (be it structurally, statutorily or contractually) we are of the opinion that the introduction of a new index should be explored, as the risks associated with these instruments do not match those of a pure funding senior instrument.

Michael Benyaya, CACIB
'Longer term, a level playing field is critical'

Struckmeier, Union Investment: It would be nice, of course, but is not a necessity. As long as broad indices (the Merrill Lynch ER00, for example) include such instruments, that's fine for us.

Shah, CACIB: Markit announced at the beginning of the year and has since implemented a Senior Bail-in index, which is a sub category of Senior Financials. The Senior Bail-in index accommodates all statutory, structurally and contractually subordinated senior unsecured bonds. As the number of constituents in the Senior Preferred index dwindles, the Senior Bail-in index will gather more interest.

Day, BIHC: CDS with HoldCo/SNP deliverable: Do you expect the development of such a CDS and how do you expect it to influence the market?

Bélorgey, Crédit Agricole: It would be clearer if there were a new CDS for this asset class. It does not occupy the same place in the hierarchy, so it's fair to have a dedicated instrument for it. But I'm neither a buyer nor a seller of CDS for this instrument, and it will depend on supply and demand.

Struckmeier, Union Investment: I'm not sure. CDS are becoming less and less important, in my view. So even if such an instrument were developed, personally I think it would be a very illiquid market.

Day, BIHC: In terms of issuance currency, how do you expect the breakdown to develop, particularly between EUR and USD? What expectations do you have for other currencies? How would issuers decide on what currency to issue SNP in?

Shah, CACIB: For European banks in 2016, we saw around 70% of senior bail-in debt issued in US dollars, 20% in euros, and the remaining 10% in other currencies. The dominance of dollar issuance follows investors previously comfortable owning US bank debt issued out of the HoldCo in dollars. The natural extension was for UK and Swiss banks to issue HoldCo debt in dollars. I would expect dollars to remain the dominant issuing currency, especially as investors look to lock in higher dollar yields. I would expect euro issuance to increase to around 30% as European investors get more comfortable with the asset class and with the refinancing of maturing senior preferred bonds into senior bail-in bonds.

Struckmeier, Union Investment: Clearly US dollars and euros will be the dominant currencies (maybe some Scandi currencies and sterling or Swiss francs). I think issuers will use as many currencies as possible, especially those with large buckets to be filled, like BNP Paribas.

Bélorgey, Crédit Agricole: Our second deal, in January, was denominated in dollars, and there the market appetite proved to be very good as well — we were able to do a triple-tranche issue, including a floater — and we learned that the range of investors is very broad. In this trade we had some investors coming from the senior preferred bucket and some coming from the Tier 2 world, so clearly this asset class is able to gather interest from both sides, which is very really key. We had a very wide range of investors including real money, so we are really confident in the future of this asset class.

So we did the Eu1.5bn in December and $2.3bn in January, and we issued another Eu1.5bn, in floating rate format, in April. This last deal was a little more defensive, being a five year floater, but it was before the French election. Clearly there was still some euro appetite and we printed the deal at a spread that was still rather interesting — the floater format allowed this — but at that time the appetite from, for example, Anglo-Saxon investors was clearly smaller. Actually, the deal shows that even in more difficult market conditions this asset class is able to attract the attention of investors and that deals are possible.

Du Boislouveau, CACIB: Globally, we can pencil in that this market, TLAC-related debt, will grow to reach Eu150bn of outstandings by 2019. Obviously US dollars and euros will take the lion's share, but for issuers keen to raise significant amounts, diversification will play a great part. For benchmarking purposes, the leading markets will remain euros and US dollars, but we will continue to see niche markets offering funding opportunities, not only from an arbitrage angle but also from an investor diversification standpoint.

If we now consider senior non-preferred debt from a relative yield perspective, i.e. as a cheap Tier 2 or an enriched senior preferred, the relative performance of both senior preferred and Tier 2 in a given market can lead to genuine opportunities from a relative spread positioning perspective. This will also be a driver in the decision-making process. ●

Even in more difficult market conditions this asset class is able to attract the attention of investors and deals are possible

Sweden
The MREL smoke clears

Sweden's final MREL framework means the country's banks again face stiffer requirements than elsewhere, prompting a latest clash with the regulatory authorities. The next step is the creation of instruments to meet the expected individual requirements, even if early targets should be met comfortably. *Neil Day* reports.

The Swedish National Debt Office (Riksgälden) revealed its MREL framework on 23 February and, not for the first time, the countries' financial authorities found themselves in opposition to the banking industry over the "gold-plating" of regulations.

"Our view is that the Swedish MREL requirements are very strict compared both to TLAC and to the requirements that will be the case for other banks in the EU," Johan Hansing, chief economist at the Swedish Bankers' Association (Bankföreningen), told *Bank+Insurance Hybrid Capital*.

However, in a joint report for the government, Riksgälden and Finansinspektionen (FI, the Swedish FSA) on 11 May, the authorities declared the design of Swedish regulations appropriate. They defended the MREL requirements, saying they are stricter than the minimum requirements set out in EU law due to the country's large and highly interconnected banking sector as well as its considerable dependence on market funding.

"The report shows that Sweden has a well-functioning regulatory framework that reduces the risk of financial crises," concluded Finansinspektionen director general Erik Thedéen and Debt Office director general Hans Lindblad.

They further argued that European Commission proposals to amend banking regulation could significantly alter discretions for national authorities, and in Sweden's case have a "primarily negative" overall economic effect.


Hans Lindblad, Riksgälden

The disagreement over the MREL requirements had been brewing since more than a year ago, with the Debt Office having published its proposals in April 2016.

Analysts point out that the final version of the MREL framework is less burdensome than that originally outlined. Swedbank analysts, for example, note that one of the two elements that make up MREL, the recapitalisation amount (RCA) — the other being the loss absorption amount (LAA) — is lower because the November 2016 EC proposals stipulate that the combined buffer requirement (CBR) should be deducted from the RCA, rather than the RCA equalling the total capital requirement, as the Debt Office had believed should be the case, with macroprudential elements of the Pillar 2 requirement also excluded.

The EC nevertheless also proposed that resolution authorities can also introduce Pillar 2 guidance, although — unlike the formal MREL — this would not be a hard trigger of resolution or restrictions on coupon payments.

"The SNDO decided to wait until the EC proposals are adopted into EU law before taking a stance on eventual MREL guidance," said Swedbank's analysts. "However, in its MREL memorandum it clearly leaves the door open to introducing MREL guidance."

The SBA's Hansing meanwhile characterises the changes from initial to final proposal as "only small adjustments".

"We would like the Swedish system to be in line with other systems in the EU," he says. "Swedish banks have very high capital requirements."

Hansing explains that the method used by the Debt Office implies that the MREL requirement will be twice the capital requirements — meaning that the higher the capital requirements, the higher the MREL requirement.

"This is not logical in our view," he says. "Furthermore, the Debt Office require that MREL only be met with capital and subordinated debt, which means the large Swedish banks have to issue subordinated bonds to an amount of SEK500bn (EUR52bn)."

Individual MREL requirements will be set towards the end of the year, after FI's supervisory review and evaluation process (SREP). The requirements will then be phased in from 1 January 2018 — when the liabilities proportion will become effective, i.e. firms should have

Johan Hansing, Bankföreningen

MREL liabilities at least equivalent to the recapitalisation amount — to 2022, when a requirement that MREL be met with subordinated instruments will come in.

Even if Tier 2 debt will be eligible, the subordinated instruments in question are set to be Sweden's version of the senior non-preferred asset class pioneered by France with its legislative product, which the EC will move all member states towards, and followed up on by Spain's Santander with a contractual version. Market participants suggest that a combination of factors mean that Swedish banks are likely to wait until a legislative solution is in place.

"The understanding is that we will end up with a new type of security very closely related to the French approach," says a representative of one bank. "But from an issuance perspective, it's still going to be quite some time before any Swedish issuers are going to move on this — even if it is clear the resolution authorities would like banks to move well in advance of any deadline. One of the reasons is that it's going to take quite some time before the Swedish government concludes legislation, and the changes are not likely to start to be implemented before the EC work is concluded.

"So I would say that we are definitely talking a year and a half or longer. It is not clear what would trigger issuance any sooner as that would mean going out with transactions that are sub-optimal, both from a cost perspective and a structural perspective."

However, in an analyst call following Swedbank's first quarter results, head of investor relations Gregori Karamouzis left open the option of pre-empting a legislative solution when it comes to MREL.

"First, we want to know what the requirements are," he said. "We want to see how long it will take for the insolvency law to be changed in Sweden to be allowed to issue those type of instruments. If we make the assessment that it takes too long and we want to get started, we might look at different structures that are being discussed in the market, as you know, with calls and different structures that basically allow you to either buy back or convert those instruments into something that is eligible later on.

"It's a consideration that we are working on and thinking of," he added, "but we're not at all in a hurry to come to the market early."

Contractual-based issuance is, however, not widely expected, not least because the terms and conditions of outstanding Tier 2 instruments preclude higher ranking subordinated debt issuance. The absence of holding company/operating company structures among Swedish banks rules out the alternative structural solution that might otherwise have been possible.

Swedish banks are not, meanwhile, expected to be troubled by the 2018 implementation date, having sufficient senior unsecured debt outstanding to meet the forecast MREL amounts, before transitioning to having up to around half of this replaced by Swedish senior non-preferred by 2022.

"The introduction of a new funding instrument will lead to important changes for the Swedish banks," said Swedbank analysts. "However, we believe that these changes will be relatively straightforward.

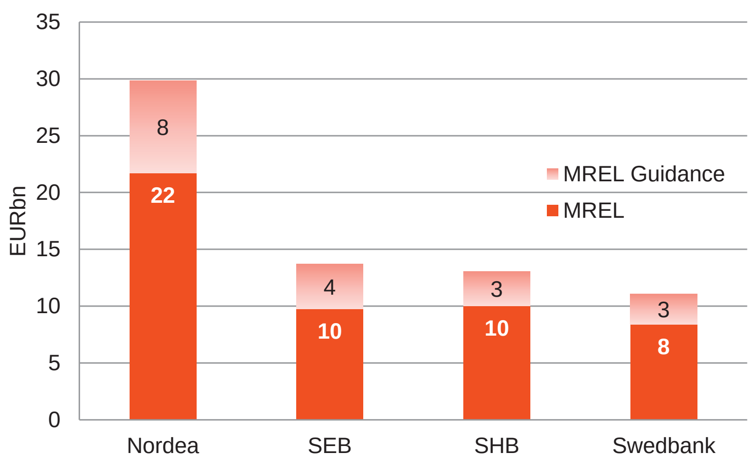
"Given that the subordination requirement will be applicable only from 2022, banks will not have to increase wholesale funding beyond their funding needs. Rather, we anticipate that the banks will let senior unsecured bonds mature and replace them with senior non-preferred, until 2022."

They estimate that Swedbank will face the biggest change, with around 50% of senior unsecured debt needing to be replaced by senior non-preferred, with the respective Nordea figure being 48%, SEB's 44% and Svenska Handelsbanken's 31%.

Handelsbanken CFO Rolf Marquardt said in a first quarter results analyst call that the bank is in "wait and see" mode when it comes to getting greater clarity on the way in which MREL requirements will be met.

"And we also think that we have a really good position since we have a lot of maturing senior unsecured debt that we could start replacing when we know the rules of the game," he confirmed. "So we think we still have time to wait a bit until we move." ●

Issuance of senior non-preferred bonds: MREL and eventual guidance



Source: Swedbank Research

Regulatory updates

EBA

EBA publishes an Opinion on own funds in the context of the CRD/CRR review proposal: On 23 May, the European Banking Authority (EBA) published an Opinion addressed to the EU institutions expressing views on a number of aspects related to own funds in the context of the European Commission's proposal to amend CRR and CRD.

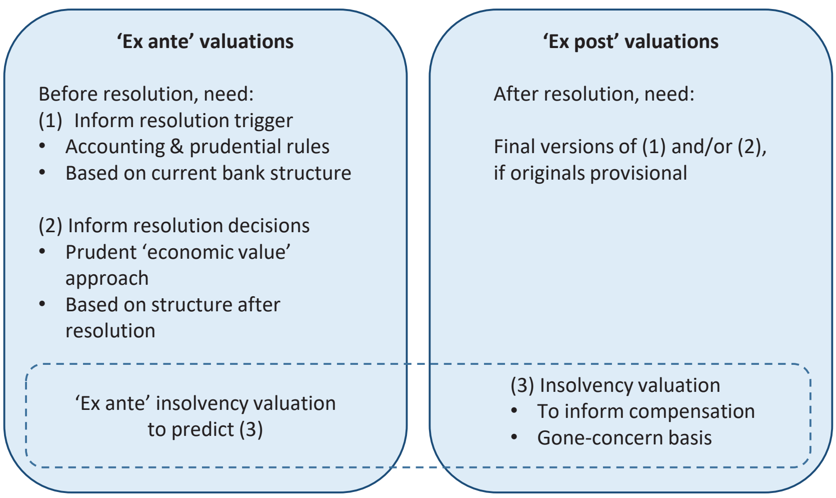
Restrictions on distribution and definition of MDA (Art. 141 of the CRD)

- CRR2/CRD5 includes a proposal of a "pecking order" specifying that AT1 coupons should be the last distribution to be restricted, i.e. paid out first before ordinary dividends/variable compensation
- Currently full flexibility is left to institutions (subject to national regulatory discretion) on deciding what is paid first
- EBA opposes the inclusion of hierarchy order in respect to AT1 coupons vs. ordinary dividends as this coincides with the exclusion of dividend stoppers in CRR/CRD (although Basel rules allow them). EBA views the pecking order as a reintroduction of dividend stoppers in the EU
- EBA's view is that the cost of changing some these criteria would outweigh the benefits that they bring in terms of confidence in the loss absorption capacity of AT1 instruments
- EBA also discussed some aspects of the MDA calculation: Art. 141(5) states the MDA shall be calculated based on interim and year-end profits not included in Common Equity Tier 1 (CET1) that have been generated since the most recent distribution of AT1 coupons, variable compensation or discretionary pension benefits. Institutions have multiple distribution dates and as a result profit could be limited to a period as short as one month or less
    - This definition appears more restrictive than the Basel III rules, which do not explicitly constrain so strictly on period of profits used in the MDA calculation
    - EBA's view is to calculate MDA based only on interim and year-end profits not included in CET1 capital, deleting reference points to profits generated since the most recent distribution date

Point of non-viability (PONV)

- The CRR/CRD review proposes that the inclusion of PONV in the eligibility criteria for AT1 and Tier 2 instruments issued under non-EU law should be subject to either contractual or statutory provisions in order for it to be effective as "loss absorbing". EBA would welcome the inclusion of a grandfathering clause for AT1 and Tier 2 instruments governed under non-EU law that do not have contractual or statutory provisions
- EBA also recommends considering grandfathering clauses for all debt issued prior to the draft CRR/CRD proposals

Final draft RTS on valuation in resolution



Source: EBA, Crédit Agricole CIB, BIHC

EBA final draft RTS on valuation in resolution: On 23 May, the EBA published the final draft RTS on valuation in resolution. The framework is designed to aid the independent valuation expert with common criteria for the valuations that will inform the decisions made by the resolution authorities. Prior to resolution, valuations are required to:

- inform the determination of whether the conditions for resolution or write down or conversion of capital instruments are met
- inform the choice of resolution
- after the resolution, a valuation is required to determine whether an entity's shareholder or creditor would have received better treatment if the entity had entered into normal insolvency proceedings (NCWO principle)

The RTS now require European Commission endorsement prior to becoming EU law. *(See accompanying EBA chart on valuations required by the BRRD.)*

EBA publishes its final guidance on credit risk management practices and accounting for expected credit loss (ECL): On 12 May, the EBA set out the final guidelines on credit risk management practices for credit institutions associated with the implementation of IFRS 9. Please note these guidelines do not set out the requirements of expected losses for regulatory capital.

- The EBA welcomes the move from an incurred loss model to an expected loss model under IFRS 9. However, the application of IFRS 9 requires judgement in the ECL assessment.
- The EBA guidelines build upon the Basel Committee guidance published

in December 2015; the guidelines would not prevent institutions from meeting the impairments requirements in IFRS 9

- The guidance should be read in conjunction with Regulations (EU) 575/2013 and Directive 2013/36/EU
- The guidelines are split into four main sections:
  - Section 4.1 — General considerations
  - Section 4.2 — Eight principles relating to credit risk management and accounting for ECL
  - Section 4.3 — Specific guidance to institutions reporting under IFRS and is limited to provide guidance on some aspects of ECL requirements/framework
  - Section 4.4 — Three principles on supervisory evaluation of credit risk management practices, accounting for ECL and overall capital adequacy
- Guidelines should be implemented by 1 January 2018.

EBA Q&A on matters relating to liquidity risk and credit risk: On 12 May, the EBA answered two questions, relating to liquidity risk and credit risk.

On liquidity risk: "Can the escrow accounts held for payment institutions be considered as operational deposits?"

The EBA response: Deposits that are maintained by payment institutions in accordance with their legal obligation to safeguard funds received from their clients (e.g. escrow accounts) may be considered as operational deposits raised in the context of an established operational relationship according to Article 27(1)(a) of the Commission Delegated Regulation (EU) 2015/61 (LCR DA) to the extent that the conditions set out in Article 27(4) LCR DA are met.

On credit risk: "In the case of retail exposures, can the default definition be implemented in a way that the default of an exposure secured by mortgage extends to unsecured facilities, but not the other way round?"

The EBA response: Article 178(1) of Regulation (EU) No 575/2013 (CRR) permits applying the definition of default at the level of an individual credit facility in the case of retail exposures. Except from being a retail exposure, the CRR specifies no further conditions. In particular, there are no additional restrictions to the information that an institution may take into account for identifying whether it considers that an obligor is unlikely to pay the credit obligations related to the individual credit facility as specified by Article 178(1)(a) CRR, i.e. the default may be considered to extend to other credit facilities through adequate specification of additional indications of unlikeliness to pay for these specific types of retail facilities. However, where the definition of default is applied at the obligor level, default is recognised on all exposures of an obligor at the same time. As a consequence, for applying the definition of default at the level of a specific individual credit facility for the retail portfolio, institutions may in particular consider default events on other individual credit facilities for the same obligor as relevant information if this provides for a meaningful assessment of obligor and transaction characteristics. In the case of the Internal Ratings-Based (IRB) approach institutions should also specify the indications of unlikeliness to pay in such a way that:

- they ensure a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk as required by Article 144(1)(a) CRR; and
- the internal rating of the specific credit facility, in particular the classification of exposures as defaulted, plays an essential role in the processes required by Article 144(1)(b) CRR.

Further clarifications on this topic are to be found in the EBA Guidelines on the application of the definition of default, paragraphs 86 to 105.

EBA launches public consultation on eligibility criteria for simplified recovery and resolution planning: On 8 May, the EBA launched a public consultation on its draft RTS specifying criteria to determine whether institutions should be subject to simplified obligations when drafting their recovery and resolution plans.

- Per the BRRD, resolution authorities have discretion in granting simplified obligations such as reduced content and details of recovery and resolution plans and less frequent updates of such plans, as long as certain eligibility criteria are met.
- The consultation runs until 8 August, after which a revised draft RTS will be submitted to the European Commission for endorsement before being published into law.

EBA writes to Commission on proposed amendments to CRD IV/CRR: On 26 April, the EBA wrote to European Commission Vice President Valdis Dombrovskis. The letter intends to complement the opinions published by EBA on recent strategic topics such as IFRS 9 transitional arrangements (EBA/Op/2017/02) and on decision-making for supervisory reporting (EBA/Op/207/03) on topics such as:

Net Stable Funding Ratio (NSFR)

Recommendations of the EBA calibration report published in December 2015 were reflected in the CRR2 proposals. However there were a few deviations, in particular the requirements for derivatives and reverse repos had somewhat eased compared to the global standards. Therefore, a review clause to Art. 428f of the CRR seems imperative given the potential market sensitivities. The expansion of the clause creates a potential for arbitrage or unjustified use which could adversely affect the liquidity of some segments of banking activities.

Leverage Ratio (LR)

Ratio of public sector lending by public development credit institutions and pass-through loans are excluded from the denominator of the leverage calculation. The EBA wishes to monitor this exemption clause such that there is no loss of control over its implementation and in order to avoid potential for regulatory arbitrage. Therefore, to further address this issue, amendment to clause 429a of the CRR is sought.

Remuneration

Currently data is collected for remuneration through CRR. However, the EBA wishes to harmonize the data collection exercise across all institutions and present a holistic approach to present aggregated publication of such data. Implementing Technical Standards (ITS) would be a good way and such revisions to Article 75 CRD are sought.

EBA publishes a Pillar 2 roadmap: The EBA plans to update the SREP process in 2017-2018 through a public consultation on its first revision of the SREP in November 2017 with a view to implementing it by 2018. The framework aims to address the following points:

Revisions of the SREP guidelines

- EBA confirms Pillar 2 capital guidance (P2G) is a supervisory tool setting non-legally binding capital expectations above overall capital requirements based on SREP findings (i.e. it does not impact the MDA) and is largely influenced by quantitative impact of the stress test. This is similar to Pillar 2B setting in the UK

Revisions of the IRRBB (interest rate risk in the banking book)

- Implementation of the new Basel Committee standards that will be implemented through a number of technical standards which will be mandated through the revised CRR/CRD
- Clarifications of definitions and expanding the scope to include credit spreads risk in the banking book

Finalisation of the Stress Testing guidelines

- EBA is considering expanding the draft guidelines to include topics such as reverse stress testing and links between capital and liquidity stress tests as well as recovery planning.
- Clarify certain aspects of the scoring framework

EBA provides guidance on bail-in under BRRD: On 5 April, the EBA published three sets of final guidelines on bail-in under the Bank Recovery & Resolution Directive (BRRD). These guidelines complement existing regulation and guidance to facilitate the use of bail-in power in the context of the BRRD.

The first set of guidelines focuses on conversion rates in bail-in

- When setting conversion rates, resolution authorities should seek to ensure that no shareholder or creditor is expected to receive worse treatment than in insolvency, when applying both the bail-in tool and, to the extent necessary to uphold fundamental property rights, the power to write down or convert relevant capital instruments. This determination should be made on the basis of the valuation carried pursuant to Article 36 (4)(b) to (g) of the BRRD. Subject to achieving this, resolution authorities should set differential conversion rates only in order to respect the other principles in Article 34 of the BRRD.
- These guidelines point out the role of valuation of assets and liabilities in failing institutions and clarify when to set differential conversion rates for different classes of creditors.

The second set of guidelines focuses on the treatment to shareholders

- This aims to clarify under which circumstances it is appropriate to cancel, transfer or dilute ordinary shares or other instruments of ownership.
- Resolution authority should favour dilution vs. cancellation where the Net Asset Value of the failing firm is considered positive.
- When there is more than one choice available, the resolution authority should be guided by the need to meet the resolution objectives.

The third set of guidelines focuses on interrelationship between BRRD, CRDIV and the CRR.

- AT1 instruments grandfathered under Art. 52 of the CRR should be treated in the same way as AT1 instruments that meet all of the conditions of the CRR.
- Tier 2 instruments that are subject to amortisation under Art. 64 of the CRR should be treated in the same way as Tier 2 instruments fully included in the calculation of own funds, subject to debt maturity being > 1 year.

EBA publishes updated Q4 2016 Risk Dashboard: On 3 April, the EBA published a periodical update of its Risk Dashboard summarising the main risks and vulnerabilities in the EU banking sector by a set of Risk Indicators in Q4 2016

- EU banks' CET1 on average increased by 20bp to 14.2% due to lower RWAs driven by asset disposals
- Non-performing loans declined by 30bp to 5.1%
- Return on equity dropped to 3.3% due to a squeeze on profitability, and cost-to-income ratio increased to 65.7% (from 62.8% the previous year)
- Loan-to-deposit ratio decreased to 118.4% from 120.1% in Q3 2016, and asset encumbrance ratio decreased to 26.3% (from 26.5%)
- Average LCR was 141.1%, above the 2016 requirement of 70%

EBA Q&A on gross-up calls on Tier 2: On 31 March, the EBA published a final Q&A on gross-up calls included in Tier 2 own funds instruments. The question was: "Should gross-up cases on Tier 2 be allowed only in relation to coupon withholding tax (and not principal)?"

In its answer, the EBA refers to its report on the monitoring of AT1 instruments, which states that gross-up clauses are acceptable only if it gets: 1) activated by a decision of the local tax authority of the issuer, and not the investor; 2) if the increased payments do not exceed distributable items; and 3) if the gross-up is in relation to dividend and not on principal.

According to the EBA, the first and the third conditions should also be applicable to Tier 2. Therefore, going forward, gross-up clauses in Tier 2 instruments will be acceptable if they relate to interest payments only and not on principal.

By extension, the EBA's position could also be applicable to Eligible Liabilities as Article 72b (2) (h) of the draft proposal CRR2 also prohibits incentives to redeem for the principal amount to be called, redeemed or repurchased prior to the maturity or repaid early.

EBA Q&A on excess provisions under Article 159: On 10 March, the EBA provided a response to a question submitted on the use of excess non-defaulted provisions towards defaulted exposures. The question was: "Can the excess of provisions for non-defaulted exposures be used to cover the shortfall of provisions on defaulted exposures?"

- The EBA response: Article 159 of Regulation (EU) No 575/2013 (CRR), regarding the treatment of expected loss amounts for institutions under IRB approach, specifies that Specific Credit Risk Adjustments (SCRAs) on exposures in default shall not be used to cover expected loss amounts on other (i.e. non-defaulted) exposures. This means that the excess of provisions for defaulted exposures cannot be used to cover the shortfall of provisions on non-defaulted exposures (if any). However, there is no provision in the CRR which prevents the excess of provisions for non-defaulted exposures being used to cover the shortfall of provisions on defaulted exposures.
- In practice, as already said in Q&A 573, the amount of shortfall or excess of provisions should be calculated on an aggregate level for IRB exposures separately for defaulted and non-defaulted (expected loss amounts for securitised exposures and general and specific credit risk adjustments related to these exposures shall not be included in this calculation). If there is a net shortfall of provisions on defaulted exposures shall then be netted with the net excess of provision on non-defaulted exposures. Should this netting result in a net shortfall of provisions, it will be reported (deducted from CET1) under row 380 of template C 01.00 of Annex I of Regulation (EU) N°680/2014 (ITS on supervisory reporting). Otherwise, where such netting results in an excess of provisions, it should then be added to Tier 2 items under row 910 of the above C 01.00 template up to 0.6 % of IRB risk-weighted exposure amounts, as stated in article 62(d) of the CRR.

EBA publishes Opinion on IFRS 9 transitional arrangements: On 6 March, the EBA published an Opinion on the proposed transitional arrangements and credit risk adjustments by the European Commission due to the introduction of IFRS 9. The opinion is addressed to the European Commission, Parliament and Council and to all competent authorities across the EU.

- The Opinion focuses on the main elements that should be considered when designing the transitional arrangements.
- The EBA is of the view that no full neutralisation should be allowed of the initial impact of IFRS 9 (Day 1 impact) and in the transitional years thereafter (proposal by the Commission would result in full neutralisation of any impact on CET1 during the period of the transitional arrangements).
- The EBA prefers a static over a dynamic approach, linearly amortising over four years the Day 1 impact of IFRS 9 introduction (the transitional period proposed by the Commission is five years), whereas the Commission proposes a "dynamic" approach, comparing the stage 1 and 2 provisions under IFRS 9 to the theoretical provisions under IAS 39 in each reporting year and applying an amortisation factor to such difference. (Stage 1 is the loss expected in a 12 month period, and Stage 2 is the loss expected over the lifetime, of an exposure.)
- As currently drafted, the Commission's proposal allows institutions to opt to recognize the full impact of IFRS 9 as of Day 1. In this context, the EBA view is to retain this option, however, the EBA is of the view that the use of this option should be accompanied by stringent disclosure requirements and that no institutions opting for full recognition of the impact should be allowed to switch at a later time back to the transitional approach.
- The EBA also believes that all IFRS 9 provisions should be considered as specific credit risk adjustments in the context of the current EBA RTS on credit risk adjustments. This would result in a disadvantage to banks using the Standardised Approach for risk weight calculation, as they will not be able to add back excess generic provisions to Tier 2 capital (Excess generic provisions allowance = 1.25% of RWAs can be included as Tier 2 capital).
- The EBA is also concerned with the reclassification of debt instruments from the IAS 39 Available for Sale category into other categories under IFRS 9 (FVTOCI (Fair Value through Other Comprehensive Income) or FVTPL (Fair Value through Profit and Loss)) and the impact this may have on prudential metrics of capital due to transitional arrangements — for example, as IFRS 9 requires that a decrease in the Fair Value of a debt instrument be recorded partially as an impairment, which would be recorded through the P&L rather than the OCI account, the transitional measures may result in an artificial increase in CET1, as compared to the current interaction between IAS 39 and prudential measuring of CET1 capital.

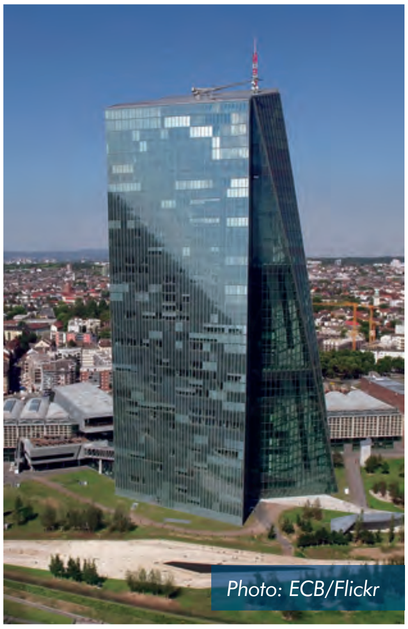


Photo: ECB/Flickr

EBA publishes its regular assessment of EU banks' internal model outcomes: On 3 March, the EBA published two reports: (i) High Default Portfolios (HDP), and (ii) Market Risk exercise.

- The HDP report covers residential mortgages, SME and corporate portfolio RWA consistency. The aim of the study is to examine the overall variability and to highlight the different drivers of dispersion observed. The reference date for the report is December 2015 and 114 institutions participated in this exercise across 17 EU countries.
- The market risk exercise covers 50 European banks from 12 jurisdictions, studying the level of variability observed in market risk-weighted assets produced by the banks' internal models. The report is similar to the HDP report.

EBA consults on the coverage of entities in banking group recovery plans: On 2 March, the EBA published a consultation paper on the coverage of entities in banking group recovery plans. The consultation's aim is to define a common criteria to identify subsidiaries and branches that need to be covered in Group recovery plans. The EBA recommends that for recovery planning purposes entities should be categorised as follows:

- relevant for the Group
- relevant for the economy or financial systems of a relevant EU member state
- not relevant for either (i) and/or (ii)

The aim of the consultation paper is to limit the request for individual plans, based on inadequate coverage of an entity in the Group recovery plans. The consultation runs until 2 June.

ECB

ECB Opinion on "non-preferred" senior and creditor hierarchy: In an Opinion dated 8 March, the European Central Bank (ECB) commented on the creation of a "non-preferred" senior class in Europe (Publication of 2016/0363 COD, Art. 108 Directive 2014/59/EU)

The ECB welcomes the amendments to Directive 2014/59/EU and reiterates its position in favour of a common framework at EU level on the hierarchy of creditors. The ECB also welcomes the creation of "non-preferred" senior debt instruments. The key takeaways of the Opinion include:

- The ECB is of the opinion that issuance of non-preferred debt of maturity less than a year should be allowed. Even if it will not be MREL/TLAC-eligible, the debt would still be bail-inable, thus increasing the institution's loss absorbing capacity.
- The ECB asks for more clarification on the definition of a "derivative feature" potentially by means of a dedicated Regulatory Technical Standard (RTS).
- The ECB continues to view the non-preferred format as a form of contractual subordination as opposed to statutory subordination (as applied, for example, in Germany)
    - For EU member states, where senior unsecured liabilities have been subordinated on a statutory basis in national law (e.g. Germany), the ECB suggests a clarification in the directive that would specify that the liabilities subject to statutory subordination rank pari passu with "non-preferred" senior debt.
    - In addition, the ECB proposes a transitional arrangement for the existing stock of senior unsecured liabilities subject to statutory subordination. The proposal would be to introduce a provision ensuring that when the existing stock matures, new issues' documentation should be aligned with the regime established for "non-preferred" senior debt instruments.
    - The ECB supports the introduction of general depositor preference. According to the ECB, such preference could minimise the risk of contagion under the NCWOL principle and make the bail-in of senior debt more effective.
    - In terms of Tier 2 instruments, the ECB refers to jurisdictions where Tier 2 rank pari passu with other types of subordinated liabilities. This may complicate the exercise of bail-in powers. Hence the need for further harmonisation and a requirement for national insolvency regimes to ensure that Tier 2 rank below other subordinated liabilities.
    - Regarding eligibility as collateral for Eurosystem credit operations, the ECB notes the potential implications of subordinating instruments but continues to refer to existing Guidelines and Opinions (CON/2016/7) without any new elements.

ESAs

European Supervisory Authorities (ESAs) publish 2017 Spring report on the risks and vulnerabilities in the EU financial system: On 20 April, the ESAs issued a report that highlights the risks to the stability of the European financial sector in an environment subject to political and economic uncertainties. Steeping of the yield curve will be of benefit but may raise valuation concerns and in the short term may not be sufficient to alleviate low profitability concerns.

BCBC/BIS

FRTB review welcomed: Bankers have welcomed the development on the Basel review of the Fundamental Review of the Trading Book (FRTB). The Basel Committee has set up a monitoring process and a newly-formed market risk group whose primary objective is to focus on the FRTB for the remainder of 2017 and determine whether certain modifications need to be made. The Basel Committee's 2017-2018 work programme contains "targeted adjustments and simplifications to the revised market risk and securitisation frameworks", with focus on proportionality for smaller banks.

BIS provides FAQ on changes to lease accounting changes: On 6 April, the Bank for International Settlements (BIS) issued a response to changes to lease accounting.

By way of background, IAS 19 on lease accounting will be replaced by IFRS 16 effective 1 January 2019. The changes apply to lessees (entity taking out the lease). Lessor accounting stays unchanged. Currently leases are categorised as either "operating" or "financial". Now all leases with a lease term greater than 12 months will be capitalised, i.e. considered as a "financial lease".

BIS FAQ:

- *Most intangible assets are deducted from regulatory capital, while tangible assets generally are not. Is the lessee's recognised asset under the new lease accounting standards (the ROU asset) an asset that is tangible or intangible?*
Answer: For regulatory capital purposes, an ROU asset should not be deducted from regulatory capital so long as the underlying asset being leased is a tangible asset.
- *Where the underlying asset being leased is a tangible asset, should the ROU asset be included in risk-based capital and leverage ratio denominators?*
Answer: Yes, the ROU asset should be included in the risk-based capital and leverage denominators. The intent of the revisions to the lease accounting standards was to more appropriately reflect the economics of leasing transactions, including both the lessee's obligation to make future lease payments, as well as an ROU asset reflecting the lessee's control over the leased item's economic benefits during the lease term.
- *Where the underlying asset being leased is a tangible asset, what risk weight should be assigned to the ROU asset for regulatory capital purposes?*
Answer: The ROU asset should be risk-weighted at 100%, consistent with the risk weight applied historically to owned tangible assets and to a lessee's leased assets under leases accounted for as finance leases in accordance with existing accounting standards.

Basel Committee publishes final guidance on prudential treatments of problem assets — definition of non-performing exposures and forbearance: On 4 April, the Basel Committee published the final guidance on definition of non-performing exposures and forbearance.

Definition of non-performing exposures

- Scope includes on-balance sheet loans, debt securities and other amounts in the banking book and off-balance sheets items such as loan commitments and financial guarantees
- Uniform 90 days past due criterion is applied to all types of exposures, including those secured by real estate and public sector exposures (IRB definition is past 180 days for retail and public exposures)
- No direct role of collateralisation in categorisation of non-performing exposures
- Where exposure is non-retail and the bank has more than one exposure, then the bank must consider all exposures to that counterparty as non-performing when any one of the material exposures is non-performing

Definition of forbearance

- Same scope as non-performing exposures but applied on individual transaction basis rather than on group basis
- Forbearance is a concession granted to a counterparty for reasons of financial difficulty that would not be otherwise considered by the lender. Forbearance recognition is not limited to measures that give rise to an economic loss for the lender
- Forbearance exposures can be included within the performing or non-performing category. However, banks should not use forbearance practices to avoid categorising loans as non-performing

Basel Committee updates Pillar 3 disclosure framework: On 30 March, the Basel Committee published an enhanced framework for Pillar 3 disclosure requirements. The enhancements in the standard contain three key elements:

- Consolidation of all existing Basel Committee disclosure requirements into the Pillar 3 framework
- Introduction of a "dashboard" of banks' key prudential metrics and a new disclosure requirement for banks which record prudent valuation adjustments; and
- Updates to reflect ongoing reforms to the regulatory framework

The implementation date is year-end 2017.

Basel Committee provides guidance on regulatory treatment of accounting provisions — interim approach and transitional arrangements: On 29 March, the Basel Committee set out the interim treatment of regulatory provisions and the transitional arrangements. The Basel Committee has decided that, due to limited time until the new standards come into effect and to allow thorough consideration, the following will be applied:

- Retain the current treatment of provisions under both the Standardised Approach (SA) and IRB frameworks for an interim period. The distinction between Generic and Specific Provisions remains. Generic provisions are allowed to be considered as Tier 2 capital (Excess generic provisions are allowed up to a maximum of 1.25% of Credit RWAs). Any specific provisions in excess of the regulatory expected loss (no regulatory shortfall) are allowed to count as Tier 2 capital up to 0.6% of RWAs (for IRB banks). EBA believes all IFRS 9 provisions should be considered "Specific", which will be a disadvantage to banks using the SA approach.
- Transitional arrangements:
  - The committee considers that the period allowed should be more than five years and the commencement date should be in line with implementation of IFRS 9 by the individual bank
  - Jurisdictions should be allowed to choose between static and dynamic transitional arrangements
  - The committee is not in favour of full neutralisation
  - Deferred Tax Assets arising from the non-tax-deductible provisions (i.e. the transitional arrangement) should be discarded and not subject to risk weighting or deduction from CET1 capital
  - Jurisdictions should publish details of any transitional arrangements applied

UK

Bank of England publishes MREL requirements for UK banks: The Bank of England (BoE) published a Policy Statement in November 2016 on its approach to setting MREL. The BoE policy is that from 1 January 2022 UK G-SIBs and D-SIBs must hold both going-concern and gone-concern capital. Going-concern capital is typically in the form of equity or equity accounted that can absorb losses in times of stress. Gone-concern capital is in the form of debt that can absorb losses when a bank undergoes resolution or is placed into solvency.

An interim requirement was published in the November 2016 MREL Policy Statement, which applies from 1 January 2020 to UK G-SIBs and D-SIBs. The requirement is the higher of:

- Pillar 1 x 2 plus Pillar 2A plus buffers x RWA
- 6% x leverage exposure

On 5 May the Bank of England published the accompanying tables on the MREL requirements for 1 January 2020 and 1 January 2022. The requirements are indicative and subject to change.

There are eight other banks and building societies that currently have a resolution plan that involves resolution tools by the BoE. These are:

- Clydesdale Bank
- The Co-operative Bank
- Coventry Building Society
- Metro Bank
- Skipton Building Society
- Tesco Bank
- Virgin Money
- Yorkshire Building Society

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Indicative MRELs for the UK's systemically important banks

	2020				2022			
Firm	Going concern requirements	+ Gone concern requirement	= Interim MREL	Loss absorbing capacity in 2020 (MREL+ Buffers)	Going concern requirements	+ Gone concern requirement	= Final MREL	Loss absorbing capacity in 2022 (MREL + Buffers)
HSBC Bank Plc	12%	8%	20%	23%	12%	12%	24%	27%
Barclays	12%	8%	20%	25%	12%	12%	24%	29%
Royal Bank of Scotland Group	12%	8%	20%	24%	12%	12%	24%	28%
Standard Chartered Bank	11%	8%	19%	22%	11%	11%	22%	25%
Lloyds Banking Group	13%	8%	21%	24%	13%	13%	25%	28%
Santander UK	13%	8%	21%	24%	13%	13%	26%	29%
Nationwide Building Society	3% Lev. Exposure	3% Lev. Exposure	6% Lev. Exposure	6% Lev Exposure + 3.5% RWAs	3% Lev. Exposure	3% Lev. Exposure	6% Lev. Exposure	6% Lev. Exposure + 3.5% RWAs

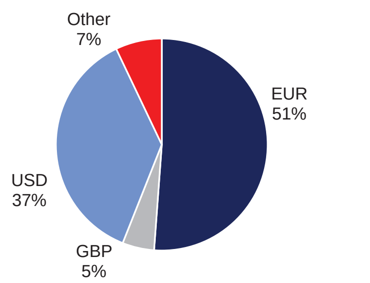
Average Indicative MREL of other firms with a resolution plan that involves the use of bail-in or transfer powers

	2020				2022			
	Average going concern requirements	Gone concern requirement	Average Interim MREL	Average loss absorbing capacity in 2020 (MREL + Buffers)	Average going concern requirements	Average gone concern requirement	Average Final MREL	Average loss absorbing capacity in 2022 (MREL + Buffers)
Other Bail-in/Transfer Firms	12%	6%	18%	22%	12%	10%	22%	26%

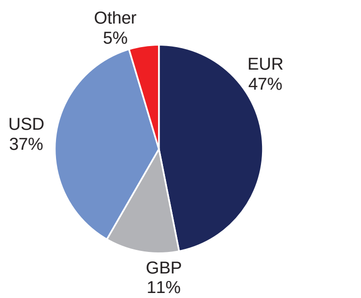
Source: Bank of England, Crédit Agricole CIB

Currencies, structures and distribution

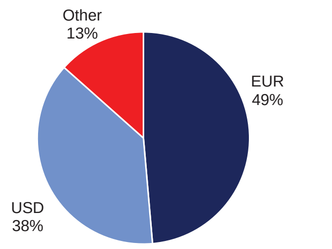
Bank hybrid issuance by currency (2017 ytd)



Insurance issuance by currency (2017 ytd)

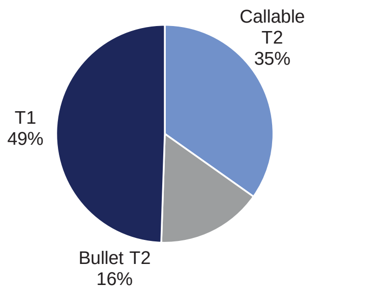


SNP issuance by currency (2017 ytd)

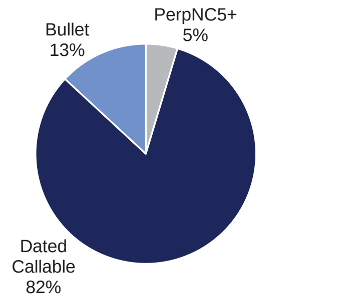


Source: Crédit Agricole CIB

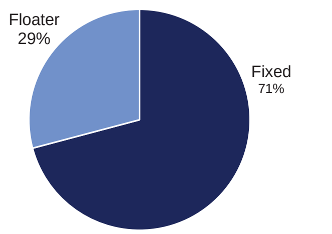
Bank issuance by instrument/structure (2017 ytd)



Insurance issuance by instrument/structure (2017 ytd)

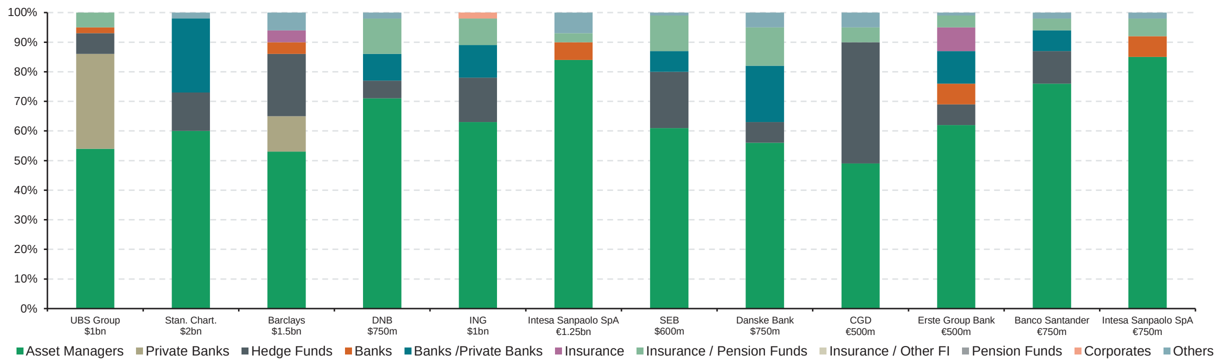


SNP issuance by coupon (2017 ytd)

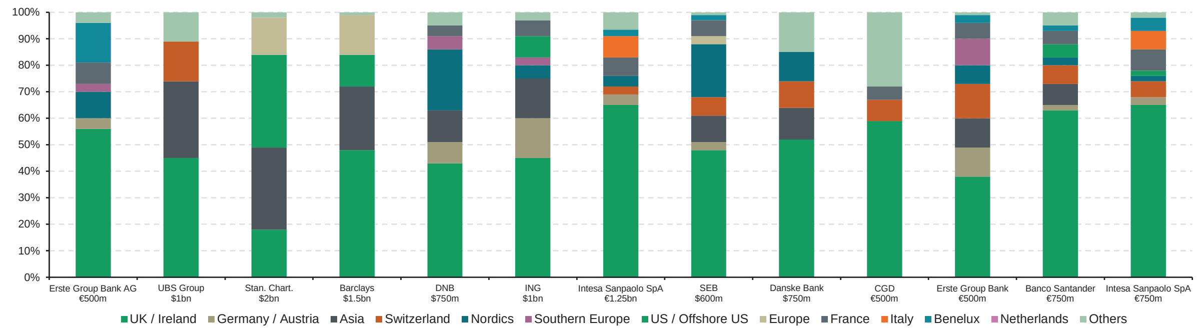


Source: Crédit Agricole CIB

AT1 distribution by investor type



AT1 distribution by geography



Source: Crédit Agricole CIB

AT1 monitoring

AT1 performance monitoring (as at 09/06/17)														
Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	Principal loss absorption	Trigger	Price	I-Spread	Yield to call	Yield to maturity	Reset spread
01-Jun-17	CABKSM	-/-/-	EUR	1,000	6.750%	Perpetual	13-Jun-24	EC	-	100.44	645	6.67	7.82	650
01-Jun-17	HSBC	Baa3/-/BBB	SGD	1,000	4.700%	Perpetual	08-Jun-22	EC	-	100.66	273	4.55	5.10	287
25-May-17	NANYAN	Ba2e/-/-	USD	1,200	5.000%	Perpetual	02-Jun-22	-	-	99.84	319	5.04	5.56	321
23-May-17	BARKAB	-/-/-	USD	400	7.875%	Perpetual	31-May-22	-	-	101.41	568	7.53	8.20	601
22-Mar-17	ZHESHG	-/-/-	USD	2,175	5.450%	Perpetual	29-Mar-22	EC	-	100.11	351	5.42	5.80	352
18-May-17	ONESAV	-/-/-	GBP	60	9.125%	Perpetual	25-May-22	EC	-	-	-	-	-	836
16-May-17	BBVASM	Ba2/-/BB	EUR	500	5.875%	Perpetual	24-May-22	EC	-	97.89	639	6.38	7.31	368
15-May-17	HSBC	Baa3/-/BBB	USD	3,000	6.000%	Perpetual	22-May-27	EC	-	102.15	355	5.71	6.02	368
15-May-17	UCGIM	B1u/-/B+	EUR	1,250	6.625%	Perpetual	03-Jun-23	TWD	-	96.78	717	7.30	7.94	368
11-May-17	BNKEA	Ba2/BB/-	USD	500	5.625%	Perpetual	18-May-22	PPWD	-	100.59	364	5.49	6.02	368
09-May-17	ISPIM	Ba3/B+/B+	EUR	750	6.250%	Perpetual	16-May-24	TWD	5.125%	98.94	616	6.44	7.27	586
08-May-17	WOORIB	(P)Ba3/BB+/-	USD	500	5.250%	Perpetual	16-May-22	PWD	-	100.67	325	5.09	5.55	335
05-May-17	SABSM	B2/-/-	EUR	750	6.500%	Perpetual	18-May-22	EC	5.125%	94.96	783	7.74	8.20	641
27-Apr-17	STI	Baa3/BB+/BB	USD	750	5.050%	Perpetual	15-Jun-22	-	-	100.63	305	4.90	5.44	310
26-Apr-17	CRBKMO	-/-/B-	USD	700	8.875%	Perpetual	10-Nov-22	PWD	5.125%	98.83	738	9.15	9.48	694
18-Apr-17	SANTAN	Ba1/-/-	EUR	750	6.750%	Perpetual	25-Apr-22	EC	5.125%	104.27	574	5.74	7.82	680
05-Apr-17	ERSTBK	Ba3u/BB+/-	EUR	500	6.500%	Perpetual	15-Apr-24	TWD	5.125%	107.09	495	5.25	7.02	620
30-Mar-17	SANUK	Ba2/B+/BB+	GBP	500	6.750%	Perpetual	24-Jun-24	PWD	7.000%	104.15	517	6.02	6.86	579
23-Mar-17	CXGD	Caa2u/-/B-	EUR	500	10.750%	Perpetual	30-Mar-22	TWD		102.98	1,022	9.96	11.97	93
22-Mar-17	ZHESHG	-/-/-	USD	2,175	5.450%	Perpetual	29-Mar-22	EC	5.125%	100.11	351	5.42	5.80	352
21-Mar-17	DANBNK	Ba1u/BBB-/BB+	USD	750	6.125%	Perpetual	28-Mar-24	EC	7.000%	103.32	355	5.53	6.13	390
16-Mar-17	SEB	Baa3/-/BBB	USD	600	5.625%	Perpetual	13-May-22	EC	5.125%	102.75	314	4.99	5.76	349
07-Mar-17	WARBAB	-/-/-	USD	250	6.500%	Perpetual	14-Mar-22	-	-	102.13	415	5.98	6.66	437
01-Mar-17	MQGAU	Ba1/BB/-	USD	750	6.125%	Perpetual	08-Mar-27	EC	5.125%	101.90	371	5.86	6.07	370
28-Feb-17	BACR	Ba2/B+/BB+	GBP	1,250	7.250%	Perpetual	15-Mar-23	EC	7.000%	104.98	547	6.21	7.43	646
02-Feb-17	USB	A3/BBB/BBB+	USD	1,000	5.300%	Perpetual	15-Apr-27	-	-	105.50	244	4.60	5.08	291
23-Jan-17	CS	Ba2u/BB-/BB	USD	1,500	7.125%	Perpetual	29-Jul-22	EC	7.000%	106.54	378	5.64	7.03	511
11-Jan-17	STANLN	Ba1/BB-/BB+	USD	1,000	7.750%	Perpetual	02-Apr-23	EC	7.000%	106.25	453	6.44	7.62	572
04-Jan-17	ISPIM	Ba3/B+/B+	EUR	1,250	7.750%	Perpetual	11-Jan-27	TWD	5.125%	107.50	608	6.68	7.91	719
23-Dec-16	SANTAN	Ba1/-/BB	USD	500	8.500%	Perpetual	20-Jan-22	EC	5.125%	-	491	7.16	8.34	647
20-Dec-16	ALFARU	-/-/B	USD	300	8.000%	Perpetual	03-Feb-22	-	5.125%	-	-	-	-	666
14-Dec-16	UCGIM	-/-/B+	EUR	500	9.250%	Perpetual	03-Jun-22	TWD	5.125%	110.18	678	6.80	9.60	930
09-Dec-16	SWEDA	Baa3/BBB/BBB	USD	500	6.000%	Perpetual	17-Mar-22	EC	5.125%	104.88	301	4.84	6.14	411
07-Dec-16	BNP	Ba1/BBB-/BBB-	USD	750	6.750%	Perpetual	14-Mar-22	TWD	5.125%	104.25	388	5.71	6.96	492
07-Dec-16	CHIMIN	-/-/-	USD	1,439	4.950%	Perpetual	14-Dec-21	EC	5.125%	-	322	5.25	5.46	315
16-Nov-16	INTNED	Ba1/-/BBB-	USD	1,000	6.875%	Perpetual	16-Apr-22	EC	7.000%	106.19	357	5.40	7.01	512
01-Nov-16	HSBANK	-/-/-	USD	888	5.500%	Perpetual	10-Nov-21	EC	5.125%	99.80	366	5.54	6.36	423
03-Nov-16	VIRGMN	-/-/-	GBP	230	8.750%	Perpetual	10-Nov-21	EC	7.000%	106.21	640	7.08	8.68	793
27-Oct-16	ALFARU	-/-/B	USD	700	8.000%	Perpetual	03-Feb-22	-	5.125%	106.65	457	6.33	8.19	666
27-Oct-16	PNC	Baa2/BBB-/BBB-	USD	525	5.000%	Perpetual	01-Nov-26	-	-	-	247	4.71	5.33	330
11-Oct-16	DNBNO	Baa3u/BBB/-	USD	750	6.500%	Perpetual	26-Mar-22	TWD	5.125%	107.13	290	4.79	6.71	508
29-Sep-16	CINDBK	Ba2/-/-	USD	500	4.250%	Perpetual	11-Oct-21	PWD	-	97.70	305	4.84	5.45	311
23-Sep-16	CCAMCL	B1/-/-	USD	3,200	4.450%	Perpetual	30-Sep-21	EC	-	98.94	287	4.72	5.50	329
20-Sep-16	WOORIB	Ba3/BB+/-	USD	500	4.500%	Perpetual	27-Sep-21	PWD	-	-	307	4.96	5.61	331
14-Sep-16	SBIIN	B1/B+/-	USD	300	5.500%	Perpetual	22-Sep-21	TWD	5.500%	102.98	293	4.72	6.30	-
06-Sep-16	KEY	Baa3/BB+/BB	USD	525	5.000%	Perpetual	15-Sep-26	-	-	-	271	4.92	5.60	361
06-Sep-16	SOCGEN	Ba2/BB+/-	USD	1,500	7.375%	Perpetual	13-Sep-21	TWD	5.125%	106.25	391	5.69	7.88	624
30-Aug-16	DBSSP	Baa1/-/BBB	USD	750	3.600%	Perpetual	07-Sep-21	PWD	-	99.38	197	3.76	4.67	239
24-Aug-16	BACR	Ba2/B+/BB+	USD	1,500	7.875%	Perpetual	15-Mar-22	EC	7.000%	108.13	412	5.90	8.28	677
11-Aug-16	STANLN	Ba1/BB-/BB+	USD	2,000	7.500%	Perpetual	02-Apr-22	EC	7.000%	105.93	422	6.05	7.93	630
08-Aug-16	RBS	B1u/B/BB-	USD	2,650	8.625%	Perpetual	15-Aug-21	EC	7.000%	108.38	460	6.32	9.01	760
03-Aug-16	UBS	Ba1u/BB+/BB+	USD	1,100	7.125%	Perpetual	10-Aug-21	PWD	7.000%	108.16	306	4.90	7.33	588

Principal loss absorption: CE = conversion into equity; TWD = temporary write-down; PWD = permanent write-down

Source: Crédit Agricole CIB

Bank Tier 2, insurance hybrids

Latest Tier 2 performance monitoring (as at 09/06/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
31-May-17	CAJAMA	-/-/B+	EUR	300	7.750%	07-Jun-27	07-Jun-22	947	9.62	9.36	-
15-May-17	BPEIM	B1/-/BB-	EUR	500	5.125%	31-May-27	31-May-22	479	4.94	5.52	-
22-May-17	GS	-/BBB-/-	JPY	12,000	0.940%	01-Jun-27	-	68	-	0.94	-
16-May-17	GARAN	(P)Ba3/-/BB+	USD	750	6.125%	24-May-27	24-May-22	420	6.04	6.33	-
15-May-17	SWEDA	Baa1/A-/A+	EUR	650	1.000%	22-Nov-27	22-Nov-22	82	1.02	1.61	-
05-May-17	LBBW	Baa2/-/BBB	SGD	300	3.750%	18-May-27	18-May-22	187	3.67	4.05	178
03-May-17	FCFIN	-/-/B+	USD	300	7.750%	24-Nov-27	24-Nov-22	525	7.13	7.39	576
02-May-17	BACR	Baa3/BB+/A-	USD	2,000	4.836%	09-May-28	07-May-27	235	4.50	4.53	-
11-Apr-17	INTNED	Baa2/BBB/A	EUR	1,000	3.000%	11-Apr-28	11-Apr-23	127	1.51	2.71	285
30-Mar-17	JYBC	-/BBB/-	EUR	300	2.250%	05-Apr-29	05-Apr-24	144	1.81	2.51	190
30-Mar-17	BKTSM	Ba1/BB+/-	EUR	500	2.500%	06-Apr-27	06-Apr-22	197	2.10	2.88	240
29-Mar-17	GNBSUD	B1/-/BB	USD	300	6.500%	03-Apr-27	03-Apr-22	375	5.58	6.21	456
29-Mar-17	CRBKMO	-/-/BB-	USD	600	7.500%	05-Oct-27	05-Oct-22	527	7.13	7.45	542
22-Mar-17	BFCM	A3/BBB/A	EUR	500	2.625%	31-Mar-27	-	140	-	2.14	-
21-Mar-17	TSKBTI	B1/-/BB-	USD	300	7.625%	29-Mar-27	29-Mar-22	457	6.39	7.08	554
20-Mar-17	ABNANV	Baa2/BBB-/A-	USD	1,500	4.400%	27-Mar-28	27-Mar-23	237	4.27	4.47	220
17-Mar-17	BPIPL	-/-/-	EUR	300	5.498%	24-Mar-27	-	-	-	-	-
08-Mar-17	AKBNK	B1/-/BB	USD	500	7.200%	16-Mar-27	16-Mar-22	422	6.05	6.67	503
07-Mar-17	UBIIM	Ba3/-/BB+	EUR	500	4.450%	15-Sep-27	15-Sep-22	387	4.05	4.74	424
07-Mar-17	LBKSM	-/-/BB-	EUR	300	6.875%	14-Mar-27	14-Mar-22	952	9.63	8.95	670
06-Mar-17	BNP	Baa2/BBB+/A	USD	1,250	4.625%	13-Mar-27	-	188	-	4.02	-
01-Mar-17	BKIASM	-/BB/BB+	EUR	500	3.375%	15-Mar-27	15-Mar-22	272	2.84	3.69	335
20-Feb-17	DNBNO	-/A-/-	EUR	650	1.250%	01-Mar-27	01-Mar-22	77	0.88	1.66	115
08-Feb-17	INTNED	Baa2/BBB/A	EUR	750	2.500%	15-Feb-29	15-Feb-24	131	1.67	2.52	215
07-Feb-17	CABKSM	Ba2/BB+/BBB-	EUR	1,000	3.500%	15-Feb-27	15-Feb-22	231	2.41	3.47	335
02-Feb-17	BBVASM	Baa3/BBB-/BBB+	EUR	1,000	3.500%	10-Feb-27	-	188	-	2.60	-
01-Feb-17	CMARK	-/BBB/-	EUR	500	3.500%	09-Feb-29	-	183	-	2.75	-
12-Jan-17	BOCYCY	Caa3/-/CC	EUR	250	9.250%	19-Jan-27	19-Jan-22	643	6.53	8.15	918
09-Jan-17	CMZB	Ba1/BBB-/BBB	EUR	649	4.000%	30-Mar-27	-	219	-	2.92	-
04-Jan-17	SANTAN	Baa2/BBB/BBB+	EUR	1,000	3.125%	19-Jan-27	-	177	-	2.48	-
30-Nov-16	SHNHAN	Baa1/BBB+/BBB+	USD	500	3.875%	07-Dec-26	07-Dec-21	151	3.32	3.93	215
22-Nov-16	DAHSIN	Baa2/-/BBB	USD	250	4.250%	30-Nov-26	30-Nov-21	194	3.74	4.34	255
16-Nov-16	HSBC	A2/BBB+/A+	USD	1,500	4.375%	23-Nov-26	-	174	-	3.87	-
15-Nov-16	WSTP	A3/BBB/A+	USD	1,500	4.322%	23-Nov-31	23-Nov-26	180	3.93	4.21	224
24-Oct-16	BMAAR	Caa1/-/B-	USD	400	6.750%	04-Nov-26	04-Nov-21	363	5.42	6.54	546

Insurance performance monitoring (as at 09/06/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
02-Jun-17	FWDGRP	-/-/-	USD	500	0.000%	Perpetual	15-Jun-22	492	6.77	7.21	-
03-May-17	TIAAGL	Aa3/AA-/AA	USD	2,000	4.270%	15-May-47	15-Nov-46	170	4.12	4.13	-
27-Apr-17	VIGAV	-/-/-	EUR	250	3.500%	11-May-27	-	226	-	3.01	-
12-Apr-17	PANLIZ	Baa3/BBB/-	USD	500	4.500%	21-Apr-77	21-Apr-22	223	4.07	4.94	268
06-Apr-17	VIGAV	-/A-/-	EUR	200	3.750%	13-Apr-47	13-Apr-27	267	3.41	4.69	401
21-Mar-17	MAPSM	-/BBB-/BBB-u	EUR	600	4.375%	31-Mar-47	31-Mar-27	285	3.59	4.85	454
20-Mar-17	MASSMU	A1e/AA-/AA-	USD	475	4.900%	01-Apr-77	-	218	-	4.57	-
14-Mar-17	LGEN	Baa1/BBB+/BBB+	USD	850	5.250%	21-Mar-47	21-Mar-27	249	4.64	5.45	369
06-Mar-17	QATIQD	-/BBB+/-	USD	450	4.950%	Perpetual	13-Sep-22	351	5.38	5.29	279
21-Feb-17	MFCCN	-/A-/BBB+	USD	750	4.061%	24-Feb-32	24-Feb-27	178	3.92	4.03	165
31-Jan-17	LLYDIN	-/A-/A-	GBP	300	4.875%	07-Feb-47	07-Feb-27	261	3.72	4.88	448
24-Jan-17	ALVGR	A2/A+/-	USD	600	5.100%	30-Jan-49	30-Jan-29	251	4.74	5.41	370
20-Jan-17	LAMON	-/BBB/-	USD	530	5.875%	26-Jan-47	26-Jan-27	298	5.12	5.36	448
18-Jan-17	ASAMLI	-/-/BB-	USD	350	7.250%	Perpetual	24-Jan-22	375	5.56	7.86	634
17-Jan-17	GUARDN	A1/AA-/AA-	USD	350	4.850%	24-Jan-77	-	223	-	4.62	-
17-Jan-17	CCAMA	-/-/BBB-	EUR	650	6.000%	23-Jan-27	-	300	-	3.71	-
10-Jan-17	NNGRNV	-/BBB-/BBB	EUR	850	4.625%	13-Jan-48	13-Jan-28	287	3.69	5.17	495
10-Jan-17	AXASA	A3/BBB+/BBB	USD	1,000	5.125%	17-Jan-47	17-Jan-27	199	4.12	5.29	388
05-Jan-17	ALVGR	A2/A+/Au	EUR	1,000	3.099%	06-Jul-47	06-Jul-27	167	2.44	3.91	335
01-Dec-16	BUPA	Baa2/-/BBB	GBP	400	5.000%	08-Dec-26	-	219	-	3.25	-
16-Nov-16	PICORP	-/-/-	GBP	250	8.000%	23-Nov-26	-	485	-	5.91	-

Source: Crédit Agricole CIB

SNP, HoldCo issuance

Latest SNP performance monitoring (as at 09/06/17)								
Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	I-Spread	Yield to maturity
02-Jun-17	ACAFP	Baa2/BBB+/A+	JPY	61,800	0.839%	09-Jun-27	58	0.84
02-Jun-17	ACAFP	Baa2/BBB+/A+	JPY	63,400	0.443%	09-Jun-22	33	0.45
31-May-17	BNP	Baa2/A-/A+	EUR	750	0.421%	07-Jun-24	-	-
24-May-17	NYKRE	-/BBB+/A	EUR	300	0.241%	02-Jun-22	-	-
23-May-17	CMARK	-/BBB+/-	EUR	500	1.250%	31-May-24	83	1.22
12-May-17	SOCGEN	Baa3/BBB+/A	EUR	1,000	0.469%	22-May-24	-	-
10-May-17	BNP	Baa2/A-/A+	EUR	1,250	1.500%	17-Nov-25	80	1.38
11-Apr-17	ACAFP	Baa2/BBB+/A+	EUR	1,000	0.469%	20-Apr-22	-	-
20-Mar-17	SOCGEN	Baa3/BBB+/A	EUR	1,250	0.520%	01-Apr-22	-	-
15-Mar-17	BNP	Baa2/A-/A+	EUR	1,500	0.521%	22-Sep-22	-	-
09-Mar-17	BNP	Baa2/A-/A+	AUD	175	4.250%	16-Dec-22	134	3.51
09-Mar-17	BNP	Baa2/A-/A+	AUD	150	3.545%	16-Dec-22	-	-
01-Mar-17	ACAFP	Baa2/BBB+/A+	CHF	175	0.450%	14-Mar-22	59	0.21
23-Feb-17	BNP	Baa2/A-/A+	JPY	33,600	0.967%	01-Mar-24	49	0.65
23-Feb-17	BNP	Baa2/A-/A+	JPY	17,000	1.087%	02-Mar-27	61	0.86
15-Feb-17	SOCGEN	Baa3/BBB+/A	CHF	160	0.400%	22-Feb-22	68	0.29
26-Jan-17	SANTAN	Baa2/BBB+/A-	EUR	1,500	1.375%	09-Feb-22	86	0.96
20-Jan-17	BPCEGP	-/BBB+/A	JPY	69,600	0.640%	27-Jan-22	37	0.48
18-Jan-17	SOCGEN	Baa3/BBB+/A	SEK	750	0.731%	25-Jan-22	-	-
10-Jan-17	BPCEGP	Baa3/BBB+/A	EUR	1,000	1.125%	18-Jan-23	57	0.79
05-Jan-17	SOCGEN	Baa3/BBB+/A	USD	600	4.000%	12-Jan-27	154	3.68
05-Jan-17	SOCGEN	Baa3/BBB+/A	USD	650	3.250%	12-Jan-22	105	2.85
03-Jan-17	BNP	Baa2/A-/A+	USD	1,750	3.800%	10-Jan-24	117	3.13
03-Jan-17	BNP	Baa2/A-/A+	EUR	1,000	1.125%	10-Oct-23	60	0.91
03-Jan-17	ACAFP	Baa2/BBB+/A+	USD	1,000	3.375%	10-Jan-22	99	2.80
03-Jan-17	ACAFP	Baa2/BBB+/A+	USD	1,000	4.125%	10-Jan-27	156	3.69
03-Jan-17	ACAFP	Baa2/BBB+/A+	USD	300	2.585%	10-Jan-22	-	-
14-Dec-16	SOCGEN	Baa3/BBB+/A	EUR	1,000	1.000%	01-Apr-22	59	0.71
13-Dec-16	ACAFP	Baa2/BBB+/A+	EUR	1,500	1.875%	20-Dec-26	89	1.59

HoldCo performance monitoring (as at 09/06/17)											
Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
06-Jun-17	SUMIBK	A1/A-/-	EUR	750	0.119%	14-Jun-22	-	-	-	-	-
06-Jun-17	SUMIBK	A1/A-/-	EUR	500	1.413%	14-Jun-27	-	-	-	-	-
11-May-17	SANUK	Baa1/BBB/A	EUR	500	0.449%	18-May-23	18-May-22	-	0.46	-	-
21-Mar-17	INTNED	Baa1/A-/A+	USD	1,000	2.302%	29-Mar-22	-	-	-	-	-
16-Mar-17	UBS	Baa1u/A-/A	USD	2,000	4.253%	23-Mar-28	23-Mar-27	157	3.71	3.75	-
16-Mar-17	UBS	Baa1u/A-/A	USD	2,000	3.491%	23-May-23	23-May-22	118	3.02	3.09	-
16-Mar-17	UBS	Baa1u/A-/A	USD	1,000	2.406%	23-May-23	23-May-22	-	2.14	-	-
13-Mar-17	UBS	Baa1u/A-/A	EUR	1,750	0.371%	20-Sep-22	20-Sep-21	-	0.17	-	-
06-Mar-17	HSBC	A1/A/AA-	USD	2,500	3.262%	13-Mar-23	13-Mar-22	104	2.86	2.94	106
06-Mar-17	HSBC	A1/A/AA-	USD	2,500	4.041%	13-Mar-28	13-Mar-27	149	3.63	3.68	155
03-Mar-17	GS	A3/BBB+/A	EUR	2,000	0.301%	09-Sep-22	09-Sep-21	-	0.31	-	-
01-Mar-17	INTNED	Baa1/A-/A+	EUR	1,500	0.750%	09-Mar-22	-	46	-	0.58	-
01-Mar-17	RBS	Ba1/BBB-/BBB+	EUR	1,500	2.000%	08-Mar-23	08-Mar-22	132	1.44	1.65	204
22-Feb-17	KBCBB	Baa1/BBB+/A	EUR	1,250	0.750%	01-Mar-22	-	54	-	0.65	-
17-Jan-17	WFC	A2/A/AA-	USD	1,250	2.263%	24-Jan-23	24-Jan-22	-	2.06	-	-
17-Jan-17	WFC	A2/A/AA-	USD	3,750	3.069%	24-Jan-23	24-Jan-22	88	2.69	2.76	-
17-Jan-17	MS	A3/BBB+/A	USD	3,000	2.336%	20-Jan-22	20-Jan-21	-	2.11	-	-
17-Jan-17	MS	A3/BBB+/A	USD	2,250	4.375%	22-Jan-47	-	172	-	4.15	-
17-Jan-17	MS	A3/BBB+/A	USD	3,000	3.625%	20-Jan-27	-	135	-	3.49	-
17-Jan-17	BAC	Baa1/BBB+/A	USD	750	2.316%	20-Jan-23	20-Jan-22	-	-	-	-
17-Jan-17	BAC	Baa1/BBB+/A	USD	2,000	4.443%	20-Jan-48	20-Jan-47	177	4.20	4.21	199
17-Jan-17	BAC	Baa1/BBB+/A	USD	2,500	3.824%	20-Jan-28	20-Jan-27	146	3.60	3.65	158
17-Jan-17	BAC	Baa1/BBB+/A	USD	1,500	3.124%	20-Jan-23	20-Jan-22	95	2.76	2.87	116
10-Jan-17	BACR	Baa2/BBB/A	GBP	950	3.125%	17-Jan-24	-	143	-	2.29	-
04-Jan-17	CS	Baa2/BBB+/A-	USD	1,750	3.574%	09-Jan-23	09-Jan-22	131	3.12	3.20	-
04-Jan-17	CS	Baa2/BBB+/A-	USD	2,250	4.282%	09-Jan-28	09-Jan-27	174	3.87	3.91	-

Source: Crédit Agricole CIB

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