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Focus on: Credit
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Senior unsecured bank bonds

EBA clarifies risk weighting of Senior Preferred bonds



Dr Susanne Knips
Senior Credit Analyst
T +49 69 91 32-32 11

The EBA has now clarified that senior preferred bonds recognised by the resolution authority as eligible liabilities under Article 72b(3) CRR must be assigned a risk weighting of 150%. While this came as a surprise to us, it is likely to be relatively rare in practice.

On 4 July 2025, the European Banking Authority (EBA) published a long-awaited clarification on the treatment of certain senior preferred bonds (SP bonds) in the calculation of risk-weighted assets. Specifically, this concerns SP bonds that the resolution authority has approved for inclusion in the total liable capital of the issuing institution.

Since 1 January 2025, senior non-preferred bonds (SNP bonds) issued by another institution have been subject to a 150% risk weighting when calculating risk-weighted assets (see our publication "Steigende Eigenkapitalanforderungen für NPS-Anleihen" dated 30 October 2024). This is due to the version of the Capital Adequacy Regulation (Art. 128 CRR III in conjunction with Art. 72b para. 2 CRR) that has been in force since then. For SP bonds, on the other hand, the risk weight is generally based on the rating (Art. 120 CRR) or, if no rating is available, on the country in which the institution is established (Art. 121 CRR). Here, the risk weight ranges between 20% and 150%.

However, it was previously unclear how SP bonds falling under Art. 72b (3) CRR should be treated. According to this provision, the resolution authority may permit up to 3.5% of the total risk amount to be considered as eligible liabilities. As we understand it, this refers to global systemically important banks (G-SIBs), as they have the option of counting SP bonds up to 3.5% of the total risk amount towards their TLAC. According to the recently published EBA clarification, these SP bonds must now also be assigned a risk weight of 150%.

The latest EBA interpretation comes as a surprise to us: the fact that SP bonds are better positioned in the liability hierarchy than SNP bonds remains unchanged if a G-SIB obtains supervisory approval to count part of these SP liabilities towards its TLAC ratio.

In practice, however, the 150% weighting for SP bonds is unlikely to be applied very often. This is because it only comes into play if a G-SIB uses the exemption to count SP bonds towards its TLAC capital up to 3.5% of RWA. For SP bonds issued by non-G-SIBs, or if G-SIBs do not count their SP bonds towards their liable capital, the risk weights under Articles 120 and 121 of the CRR continue to apply. Additionally, most European G-SIBs do not make use of the option to count SP bonds towards their TLAC ratios, particularly since the institutions have high regulatory capital ratios.

Société Générale's approach is interesting in this context, as it is classified as a G-SIB. It has decided to waive the option in Article 72b(3) of the CRR to use senior preferred debt to meet its TLAC requirements. This aligns with our expectation that, if CRR III is interpreted strictly, G-SIBs will no longer count SP bonds towards their TLAC ratios, as is now the case with the EBA.

Nevertheless, investors must pay close attention to the structure of the bonds they hold. Pursuant to Article 437a of the CRR, issuing banks must disclose which capital instruments they use to meet their regulatory requirements.

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Neue Mainzer Str. 52-58
60311 Frankfurt am Main
Germany
T +49 69 / 91 32 – 20 24

Internet: **www.helaba.com**

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