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Final report

Guidelines on the minimum list of qualitative and quantitative recovery plan indicators

Contents

1. Executive Summary

Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms sets out a Union-wide framework for crisis prevention, management, and resolution of these entities. Directive 2014/59/EU sets obligations for institutions to develop and maintain recovery plans providing for measures to be taken by the institution to restore its financial position. The competent authorities shall evaluate such plans pursuant to the rules specified in the EBA Regulatory Technical Standards (RTS) on the assessment of recovery plans. In line with the EBA RTS on the content of recovery plans, the institutions should include in their recovery plans, among other things, a set of recovery plan indicators and a range of scenarios to test recovery options. These Guidelines were developed by the EBA, pursuant to Article 9(2) of Directive 2014/59/EU and specify the minimum list of quantitative and qualitative indicators for the purposes of recovery planning. They are complemented by the EBA Guidelines on the range of scenarios for recovery plans which provide guidance on how to select the appropriate range of scenarios.

The recovery plan indicators shall be established by each institution with the aim of identifying the points at which the escalation process should be activated to assess which appropriate actions referred to in the recovery plan may be taken. Such indicators shall be agreed by the competent authorities when making the assessment of the recovery plans. In this regard, the competent authorities shall ensure that institutions put in place appropriate arrangements for the regular monitoring of the indicators.

These Guidelines recognise that the risks faced by each institution vary significantly depending on its business and funding model, its activities and structure, its size or its interconnectedness to other institutions or to the financial system in general. The Guidelines also recognise that each institution should include both qualitative and quantitative indicators which are the most relevant when developing its recovery plan. Moving from this premise, the Guidelines provide the requirements that institutions should meet when developing the framework for recovery plan indicators, and specify the minimum list of categories that should be included in all recovery plans: capital, liquidity, profitability and asset quality.

Additionally, the Guidelines identify two other categories of recovery plan indicators (market-based indicators and macroeconomic indicators) that should be included in the recovery plan unless the institution justifies to the competent authorities that they are not relevant to its legal structure, risk profile, size and/or complexity (i.e. a rebuttable presumption).

For each category of recovery plan indicators, the Guidelines spell out specific indicators that should be included unless the institution justifies to the competent authorities that they are not relevant to its legal structure, risk profile, size and/or complexity (i.e. a rebuttable presumption). Finally, the Guidelines recognise that institutions should not limit their set of indicators to the minimum list. Within this context, the Guidelines provide a list with additional recovery plan indicators for illustration purposes only.

The Guidelines are structured into nine titles. Title I establishes the subject matter and scope of the Guidelines. Title II provides the framework of recovery plan indicators. Titles III to VIII are dedicated to each category of recovery plan indicators. Finally, Title IX determines final provisions and implementation.

The Guidelines also include three annexes. Annex I includes a list of categories of recovery plan indicators. Annex II specifies the minimum list of recovery plan indicators that should be included under the rebuttable presumption. While Annex III includes an additional, non-exhaustive list of recovery plan indicators provided for illustration purposes only.

2. Background and rationale

At international level, the initiatives on recovery and resolution planning are carried out under the auspices of the Financial Stability Board which in its 'Key Attributes of Effective Resolution Regimes for Financial Institutions'[1] identifies the essential elements of recovery and resolution plans, and recommends recovery and resolution plans to be in place at least for any financial institution that could be systemically significant or critical if it fails.

At EU level, the co-legislators have adopted Directive 2014/59/EU, establishing a recovery and resolution framework in the European Union. The EBA has developed these Guidelines in accordance with Article 9(2) of Directive 2014/59/EU, which mandates the EBA to issue guidelines to specify the minimum list of quantitative and qualitative indicators for the purposes of recovery planning. These Guidelines should be read in conjunction with other regulatory products developed by the EBA in the area of recovery planning, in particular: (i) the EBA regulatory technical standards specifying the information to be contained in the recovery plan (developed pursuant to Article 5(10) of Directive 2014/59/EU); (ii) the EBA regulatory technical standards specifying the minimum criteria that the competent authority is to assess for the purposes of the assessment of recovery plans (developed pursuant to Article 6(8) of Directive 2014/59/EU); (iii) the EBA guidelines further specifying the range of scenarios to be used for recovery plans[2] (developed pursuant to Article 5(7) of Directive 2014/59/EU).

Rationale and regulatory approach followed in the Guidelines

Directive 2014/59/EU stipulates in Article 9(1) that the competent authorities shall ensure that each recovery plan includes a framework of indicators established by the institution which identifies the points at which appropriate actions referred to in the plan may be taken. Such indicators shall be agreed by the competent authorities when making the assessment of recovery plans and the competent authorities shall ensure that institutions put in place appropriate arrangements for the regular monitoring of the indicators.

Following this mandate, these Guidelines are prepared taking into account the FSB 'Key Attributes of Effective Resolution Regimes for Financial Institutions and the 'FSB Guidance on Recovery Triggers and Stress Scenarios'[3]. The Guidelines also benefit from the knowledge developed during the comparison exercise performed by the EBA in relation to the group recovery plans received following the EBA Recommendation on the development of recovery plans launched in January 2013.

The Guidelines cover the framework specifying the key elements and essential issues that should be addressed by institutions when developing their recovery plan indicators as well as a minimum

[1] Key Attributes of Effective Resolution Regimes for Financial Institutions, FSB, October 2011.

[2] EBA/GL/2014/06 of 18 July 2014.

[3] FSB Guidance on Recovery Triggers and Stress Scenarios, July 2013.

list of categories that should be covered (capital, liquidity, profitability and asset quality indicators) plus two other categories (market-based and macroeconomic indicators) to be included unless the institution justifies to the competent authorities that they are not relevant to its legal structure, its risk profile, size and/or complexity (i.e. a rebuttable presumption).

For each category, the Guidelines provide a list of specific recovery plan indicators to be included unless the institution can justify to the competent authorities that it is not relevant to its legal structure, risk profile, size and/or complexity (i.e. a rebuttable presumption). Institutions should not limit their set of indicators to the minimum list, and for this reason the Guidelines also include a list with additional recovery plan indicators broken down by categories.

Drafting a recovery plan is a duty of institutions undertaken prior to a crisis in order to assess the potential options that an institution or a group could itself implement to restore financial strength and viability should the institution or group come under severe stress. A key assumption is that recovery plans shall not assume that extraordinary public financial support would be provided. The recovery plan is drafted and owned by the institution, and assessed by the relevant competent authority or authorities.

The objective of preparing a set of recovery plan indicators is to define a set of indicators that can be used by each institution to define the points at which it has to decide whether to take action under its recovery plan or refrain from taking such action.

3. EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators

Status of these Guidelines

This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC ('the EBA Regulation'). In accordance with Article 16(3) of the EBA Regulation, the competent authorities and financial institutions must make every effort to comply with the guidelines.

These Guidelines set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. The EBA therefore expects all competent authorities and financial institutions to which the Guidelines are addressed to comply with them. Competent authorities to whom the Guidelines apply should comply by incorporating them into their supervisory practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where the Guidelines are directed primarily at institutions.

Reporting requirements

According to Article 16(3) of the EBA Regulation, the competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise state their reasons for non-compliance, by 23.09.2015. In the absence of any notification by this deadline, the competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the relevant form to compliance@eba.europa.eu with the reference 'EBA/GL/2015/02'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities.

Notifications will be published on the EBA website, in line with Article 16(3).

Title I – Subject matter, scope and definitions

Subject matter

1. These Guidelines have been developed pursuant to Article 9(2) of Directive 2014/59/EU of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council ('Directive 2014/59/EU'), which mandates the EBA to develop guidelines, aimed at specifying the minimum list of quantitative and qualitative recovery plan indicators.

2. According to Article 9(1) of Directive 2014/59/EU, the competent authorities shall require that each recovery plan includes a framework of indicators established by the institution which identifies the points at which appropriate actions referred to in the plan may be taken. The framework of indicators should be included in the recovery plans developed pursuant to the regulatory technical standard on the content of recovery plans developed pursuant to Article 5(10) of Directive 2014/59/EU.

3. Such indicators shall be agreed by the competent authorities when making the assessment of recovery plans in accordance with Articles 6 and 8 of Directive 2014/59/EU, as further specified in the EBA regulatory technical standard on the assessment of recovery plans developed pursuant to Article 6(8) of Directive 2014/59/EU. The indicators may be of a qualitative or quantitative nature relating to the institution's financial position and shall be capable of being monitored easily. The competent authorities shall ensure that institutions put in place appropriate arrangements for the regular monitoring of the indicators.

4. In view of the relevance for the assessment of the feasibility of the recovery options, the recovery plan should contain detailed information on the decision-making process with regard to the activation of the recovery plan as an essential element of the governance structure, based on an escalation process using indicators in accordance with Article 9(1) of Directive 2014/59/EU.

5. For the purposes of these Guidelines 'recovery plan indicators' mean qualitative and quantitative indicators established by each institution on the basis of the framework laid down in these Guidelines to identify the points at which appropriate actions referred to in the recovery plan may be taken.

Scope and level of application

6. The Guidelines are addressed to the competent authorities and to those institutions which are obliged to develop recovery plans according to Directive 2014/59/EU.

7. Institutions and the competent authorities should apply these Guidelines consistently with provisions on simplified obligations for certain institutions specified in Article 4 of Directive 2014/59/EU.

8. Without prejudice to the paragraph above, the competent authority may partially exclude the application of the mandatory categories of recovery plan indicators set out in paragraph 11 of Title II of these Guidelines if it deems certain categories of recovery plan indicators irrelevant having regard to the business model of investment firms.

   Similarly, the competent authority should exclude in its supervisory practices the application of certain categories and indicators that are subject to rebuttable presumption set out in paragraphs 12 and 13 respectively, if it deems that such categories and indicators cannot apply to certain types of investment firms.

Title II – Framework of recovery plan indicators

9. The framework of recovery plan indicators should be established by institutions and assessed by the competent authority taking into consideration the criteria laid down in the following paragraphs.

10. Institutions should include recovery plan indicators of both a quantitative and qualitative nature.

11. Institutions should include in the recovery plan at least the following mandatory categories of recovery plan indicators which are explained in Titles III to VI of these Guidelines:

    - capital indicators;
    - liquidity indicators;
    - profitability indicators;
    - asset quality indicators.

12. Additionally, institutions should include in the recovery plan the two following categories of recovery plan indicators which are explained in Titles VII and VIII of these Guidelines, unless they provide satisfactory justifications to the competent authorities that such categories are not relevant to the legal structure, risk profile, size and/or complexity of the institution (i.e. a rebuttable presumption):

    - market-based indicators;
    - macroeconomic indicators.

13. Institutions should include specific recovery plan indicators included in the list per category provided in Annex II to these Guidelines, unless they provide satisfactory justifications to the competent authorities that such specific indicators are not relevant to the legal structure, risk profile, size and/or complexity of the institution (i.e. a rebuttable presumption). In any case

the institutions should include in their recovery plans at least one indicator from each of the mandatory categories which are specified in paragraph 11.

14. Institutions should not limit their set of indicators to the minimum list set out in Annex II, and should give consideration to the inclusion of other indicators following the principles laid down in Title II and in line with the description of the categories laid down in the following titles of these Guidelines. With this aim, Annex III includes a non-exhaustive list with examples of additional recovery plan indicators broken down by categories.

15. The framework of recovery plan indicators should:

a) be adapted to the business model and strategy of an institution and be adequate to its risk profile. It should identify the key vulnerabilities most likely to impact the institution's financial situation and lead to the point at which it has to decide whether to activate the recovery plan;

b) be adequate to the size and complexity of each institution. In particular, the number of indicators should be sufficient to alert the institution of deteriorating conditions in a variety of areas. At the same time, this number of indicators should be adequately targeted and manageable by institutions;

c) be capable of defining the point at which an institution has to decide whether to take an action referred to in the recovery plan or to refrain from taking such an action;

d) be aligned with the overall risk management framework and with the existing liquidity or capital contingency plan indicators, and business continuity plan indicators;

e) be integrated into the institution's governance and within the escalation and decision-making procedures;

f) include forward-looking indicators.

16. While setting the quantitative recovery plan indicators, an institution should consider using progressive metrics ('traffic light approach') in order to inform the institution's management that such indicators could potentially be reached.

17. An institution should recalibrate the recovery plan indicators when necessary and at least annually.

18. An institution should be able to provide the competent authority with an explanation of how the calibrations of the recovery plan indicators have been determined and to demonstrate that the thresholds would be breached early enough to be effective. In this context, the magnitude and speed of the breach of the threshold should be taken into account.

19.The management information systems of the institution should ensure an easy and frequent monitoring of the indicators by the institution and allow for the timely submission of the indicators to the competent authorities upon request.

20.The monitoring of recovery plan indicators should be undertaken on a continuous basis to ensure the institution can take appropriate measures in a timely manner to restore its financial position following a significant deterioration.

Title III – Capital indicators

21.Capital indicators should identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern, including increasing level of leverage.

22.While selecting capital indicators, institutions should consider ways to address the issues stemming from the fact that the capacity of such indicators to allow for a timely reaction can be lower than for other types of indicators, and certain measures to restore an institution's capital position can be subject to longer execution periods or greater sensitivity to market and other conditions. In particular this can be achieved by means of establishing forward-looking projections, which should consider material contractual maturities relating to capital instruments.

23.The capital indicators should also be integrated into the institution's Internal Capital Adequacy Assessment Process (ICAAP) pursuant to Article 73 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ('Directive 2013/36/EU'), and its existing risk management framework.

24.The thresholds should be calibrated based on the institution's risk profile and on the time needed to activate the recovery measures; should consider the recovery capacity resulting from those measures; and take into account how quickly the capital situation may change, given the institution's individual circumstances.

25.The thresholds for indicators based on regulatory capital requirements should be calibrated by the institution at adequate levels in order to ensure a sufficient distance from a breach of the capital requirements applicable to the institution (including minimum own funds requirements as specified in Article 92 of regulation (EU) 575/2013 and additional own funds requirements applied pursuant to Article 104(1)(a) of Directive 2013/36/EU but without taking into account any buffer requirements set out in Chapter 4 of Title VII of Directive 2013/36/EU).

Title IV – Liquidity indicators

26. Liquidity indicators should be able to inform an institution of the potential for, or an actual deterioration of the capacity of the institution to meet its current and foreseen liquidity and funding needs.

27. The institution's liquidity indicators should refer to both the short-term and long-term liquidity and funding needs of the institution and capture the institution's dependence on wholesale markets and retail deposits, distinguishing among key currencies where relevant.

28. The liquidity indicators should be integrated with the strategies, policies, processes and systems developed by each institution pursuant to Article 86 of Directive 2013/36/EU and its existing risk management framework.

29. The liquidity indicators should also cover other potential liquidity and funding needs, such as the intra-group funding exposures and those stemming from off-balance structures.

30. The thresholds identified by the institution should be calibrated on the basis of the institution's risk profile and should take into account how quickly the liquidity situation may change, given the institution's individual circumstances.

31. The thresholds should be calibrated on the basis of the institution's risk profile and on the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures. When referring to minimum regulatory requirements applicable to the institution (including additional liquidity requirements pursuant to Article 105 of Directive 2013/36/EU, if applicable) – the indicators should be calibrated by the institution at adequate levels in order to be able to inform the institution of potential and/or actual risks of not complying with those minimum requirements.

Title V – Profitability indicators

32. Profitability indicators should capture any institution's income-related aspect that could lead to a rapid deterioration in the institution's financial position through lowered retained earnings (or losses) impacting on the own funds of the institution.

33. This category should include recovery plan indicators referring to operational risk-related losses which may have a significant impact on the profit and loss statement, including but not limited to, conduct-related issues, external and internal fraud and/or other events.

Title VI – Asset quality indicators

34. Asset quality indicators should measure and monitor the asset quality evolution of the institution. More specifically, they should indicate when asset quality deterioration could lead to the point at which the institution should consider taking an action described in the recovery plan.

35. The asset quality indicators may include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.

36. The asset quality indicators should cover aspects such as off-balance sheet exposures and the impact of non-performing loans on the asset quality.

Title VII – Market-based indicators

37. Market-based indicators aim to capture the expectations from market participants of a rapidly deteriorating financial condition of the institution that could potentially lead to disruptions in access to funding and capital markets. In accordance with this objective, the framework of qualitative and quantitative indicators should refer to the following types of indicators:

a) equity-based indicators which capture variations in the share price of listed companies, or ratios that measure the relationship between the book and market value of equity;

b) debt-based indicators, capturing expectations from wholesale funding providers such as credit default swaps or debt spreads;

c) portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each institution (e.g. real estate);

d) rating downgrades (long term and/or short term) as they reflect expectations of the rating agencies that can lead to rapid changes in the expectations from market participants of the institution's financial position.

Title VIII – Macroeconomic indicators

38. Macroeconomic indicators aim to capture signals of deterioration in the economic conditions where the institution operates, or of concentrations of exposures or funding.

39. The macroeconomic indicators should be based on metrics that influence the performance of the institution in specific geographical areas or business sectors that are relevant for the institution.

40.The macroeconomic indicators should include the following typologies:

a) geographical macroeconomic indicators, relating to various jurisdictions to which the institution is exposed, giving also consideration to risks stemming from potential legal barriers;

b) sectoral macroeconomic indicators, relating to major specific sectors of economic activity to which the institution is exposed (e.g. shipping, real estate).

Title IX – Final provisions and implementation

41.These Guidelines apply from 31 July 2015.

Annex I – Categories of recovery plan indicators

Categories of recovery plan indicators (the first four categories are mandatory, while the last two categories may be excluded if an institution justifies that they are not relevant for it)
Mandatory categories
1. Capital indicators
2. Liquidity indicators
3. Profitability indicators
4. Asset quality indicators
Categories subject to rebuttable presumption
5. Market-based indicators
6. Macroeconomic indicators

Annex II – Minimum list of recovery plan indicators

Minimum list of recovery plan indicators (each indicator is subject to the possibility for an institution to justify that it is not relevant for it, however in such a case it should be substituted with another indicator which is more relevant for this institution)
1. Capital indicators
a) Common Equity Tier 1 ratio
b) Total Capital ratio
c) Leverage ratio
2. Liquidity indicators
a) Liquidity Coverage Ratio
b) Net Stable Funding Ratio
c) Cost of wholesale funding
3. Profitability indicators
a) (Return on Assets) or (Return on Equity)
b) Significant operational losses
4. Asset quality indicators
a) Growth rate of gross non-performing loans
b) Coverage ratio [Provisions / (Total non-performing loans)]
5. Market-based indicators
a) Rating under negative review or rating downgrade
b) CDS spread
c) Stock price variation
6. Macroeconomic indicators
a) GDP variations
b) CDS of sovereigns

Annex III – Illustrative list of additional recovery plan indicators

Additional recovery plan indicators (non-exhaustive list provided for illustration purposes only)
1. Capital indicators
a) (Retained earnings and Reserves) / Total Equity
b) Adverse information on the financial position of significant counterparties
2. Liquidity indicators
a) Concentration of liquidity and funding sources
b) Cost of total funding (retail and wholesale funding)
c) Average tenure of wholesale funding
d) Contractual maturity mismatch
e) Available unencumbered assets
3. Profitability indicators
a) Cost-income ratio (Operating costs / Operating income)
b) Net interest margin
4. Asset quality indicators
a) Net non-performing loans / Equity
b) (Gross non-performing loans) / Total loans
c) Growth rate of impairments on financial assets
d) Non-performing loans by significant geographic or sector concentration
e) Forborne exposures[4]/ Total exposures
5. Market-based indicators
a) Price to book ratio
b) Reputational threat to the institution or significant reputational damage
6. Macroeconomic indicators
a) Rating under negative review or rating downgrade of sovereigns
b) Unemployment rate

[4] 'Forborne exposures' as defined in Articles 163-183 of the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

4. Accompanying documents

4.1 Impact Assessment

Introduction

Directive 2014/59/EU stipulates in Article 9(1) that the competent authorities shall ensure that each recovery plan includes a framework of indicators established by an institution which identifies the points at which appropriate actions referred to in the recovery plan may be taken. Following this mandate, the Guidelines cover the framework specifying the key elements and essential issues that should be addressed by the institutions when developing their recovery plan indicators, lay down a list of recovery plan indicators to be included subject to a rebuttable presumption, and specify the categories that should be covered by such indicators.

As per Article 16(2) of the EBA Regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any guidelines developed by the EBA shall be accompanied by a cost-benefit analysis. Such section shall provide the reader with an overview of the findings as regards the problem identification, the options identified to resolve the problem and their potential impacts. This section presents the impact assessment of the policy options considered in the Guidelines. Given the nature of the study, the Impact Assessment is high level and qualitative in nature.

Problem definition

These Guidelines try to address institutions' problems in selecting indicators for their recovery plans which will be relevant to their risk profile and cover the key areas of their activities. In most Member States only the largest institutions and banking groups have developed a framework of recovery plan indicators, whereas the smaller ones have no experience in this area.

The recovery plans developed by the largest banking groups show deficiencies in the set of indicators used to identify the points at which appropriate actions referred to in the recovery plan may be taken. Additionally, it has been identified that recovery plans should include a sufficient number of recovery plan indicators which are relevant to the risk profile of each institution and should cover a minimum set of categories.

Moreover, there is a lack of harmonisation in current practices among institutions across the EU in developing recovery plan indicators. This lack of a homogeneous framework within the EU to identify the circumstances which can lead to a significant deterioration in the financial situation of each institution makes the management of recovery planning very complex for cross-border banking groups. This situation also makes the assessment of the recovery plans very challenging for the competent authorities.

Objectives of the Guidelines

The Guidelines provide institutions with a set of indicators to identify circumstances which may lead to a significant deterioration in their financial position.

The objective of the Guidelines is to ensure that recovery plans developed by the institutions include a minimum common framework of indicators to identify the points at which appropriate actions referred to in the plan may be taken. With this aim, the Guidelines specify the criteria that should be fulfilled by institutions when developing the list of quantitative and qualitative recovery plan indicators.

Technical options

When developing the Guidelines, the EBA has considered alternative options under each of the four main areas:

A. Categories of recovery plan indicators

Option A1: The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions.

Option A2: The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions subject to a rebuttable presumption.

Option A3: The Guidelines would establish a list of categories of recovery plan indicators that should be included in all recovery plans plus other categories that should be included subject to a rebuttable presumption.

B. Minimum list of recovery plan indicators

Option B1: The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions.

Option B2: The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions subject to a rebuttable presumption.

C. Nature of the recovery plan indicators

Option C1: The recovery plan indicators would contain quantitative metrics only.

Option C2: The recovery plan indicators would contain quantitative and qualitative metrics.

D. Thresholds for the quantitative recovery plan indicators

Option D1: The Guidelines would require institutions to set a unique threshold for each quantitative indicator.

Option D2: The Guidelines would allow for gradual awareness of the point at which the institution may need to take recovery measures to restore its financial position with progressive metrics (i.e. ‘traffic light approach’) in order to inform the institution’s management that such indicators could potentially be reached.

Assessment of the technical options

	Technical options	Pros	Cons
A. Categories of recovery plan indicators	**Option A1**: The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions.	All recovery plans would include the same minimum list of categories of recovery plan indicators (full harmonisation would be reached).	Institutions would not have any possibility to adapt their list of categories. This might result in including in the institution's recovery plans indicators from the categories which are not relevant to their business model, size and complexity.
	Option A2: The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions subject to a rebuttable presumption.	Under this option, each institution would be able to adapt their own list of categories to their business model, size and complexity.	Not all recovery plans would include the same minimum list of categories of recovery plan indicators and, therefore, full harmonisation would not be reached.
	Option A3: The Guidelines would establish a list of categories of recovery plan indicators that should be included in all recovery plans plus other categories that should be included subject to a rebuttable presumption.	Under this option, all recovery plans would include the same core minimum list of categories of recovery plan indicators and each institution would be able to adapt their list of categories to their business model, size and complexity.	The monitoring of these indicators would be done on a case-by-case basis and would, as a consequence, be more time and resource consuming.
B. Minimum list of recovery plan indicators	**Option B1:** The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions.	By defining a minimum list of specific indicators that all recovery plans should have, comparison between institutions will be easier and there will be greater harmonisation among recovery plan indicators.	Given the diversity of banks' business models, this 'one size-fits all' approach would not be adequate to capture accurately potential risks that each institution could face.
	Option B2: The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions subject to a rebuttable presumption.	A rebuttable presumption would ensure a sufficient level of harmonisation but at the same time enable each institution to tailor the list of recovery plan indicators to its individual situation. This constrained flexibility would also allow institutions to avoid incurring on-going costs relating to monitoring indicators which are not	The monitoring of the indicators would be done on a case-by-case basis and would, as a consequence, be more time and resource consuming. Institutions may incur one-off costs of rebutting the presumption that indicators from the minimum list are relevant to them. However, these costs are expected to be marginal as an institution's justification will be provided

		relevant to them. Taking into account a big variety of business models, the approach based on rebuttable presumption avoids the need of creating separate minimum lists of indicators for different types of institutions.	during its dialogue with a competent authority regarding the content of the recovery plan.
C. Nature of recovery plan indicators	**Option C1**: Institutions would take into account exclusively quantitative indicators when referring to the point at which there is a significant deterioration in their financial situation.	Quantitative indicators are a precise way to measure the point at which there is a significant deterioration in the financial situation of an institution.	Precision may not necessarily lead to accuracy. The quantitative threshold to trigger an action may give an incorrect signal to the institutions and the competent authorities. Specifically, when a certain threshold has been breached, institutions and the competent authorities may feel obliged to take action even though the action is not optimal given the qualitative assessment.
	Option C2: Institutions would consider both qualitative and quantitative indicators when referring to the point at which there is a significant deterioration in their financial situation.	Qualitative indicators allow each institution to better identify the point at which there is a significant deterioration in its financial situation.	A certain degree of judgement is added in relation to the point at which the qualitative indicators are breached.
D. Thresholds for the quantitative recovery plan indicators	**Option D1**: Institutions should establish a unique threshold for each quantitative indicator. The breach of the threshold would give the institution the signal for whether to take the actions referred to in the recovery plan or not.	The practice is simple and precise. The rule would create common standards across jurisdictions.	This approach would not be flexible and it may not be proactive, i.e. the signal may be too late to prepare for action. Only using the unique cut-off point may give insufficient signals, i.e. when the certain unique threshold has been breached; the institutions and the competent authorities may feel obliged to take an action even though the action is not optimal given the qualitative assessment.
	Option D2: The Guidelines would allow for gradual awareness of the point at which the institution may need to take recovery	The inclusion of additional thresholds per each quantitative indicator would allow for gradual awareness of the institution before	The establishment of multiple thresholds would add complexity to the calibration process that has to be done

	measures to restore its financial position with progressive metrics (i.e. 'traffic light approach') in order to inform the institution's management that such indicators could potentially be reached.	having to consider whether to take the actions referred to in the recovery plan or not.	by each institution.

Preferred options

Giving the results of the Impact Assessment, the EBA preferred options for each of the areas taken into consideration are as follows:

A. Categories of recovery plan indicators

Option A3: The Guidelines would establish a list of categories of recovery plan indicators that should be included in all recovery plans plus other categories that should be included subject to a rebuttable presumption.

B. Minimum list of recovery plan indicators

Option B2: The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions subject to a rebuttable presumption.

C. Nature of the recovery plan indicators

Option C2: The recovery plan indicators would include both quantitative and qualitative recovery plan indicators.

D. Thresholds for the quantitative recovery plan indicators

Option D2: The Guidelines would allow for gradual awareness of the point at which the institution may need to take recovery measures to restore its financial position with progressive metrics (i.e. 'traffic light approach') in order to inform the institution's management that such indicators could potentially be reached.

4.2 Views of the Banking Stakeholder Group (BSG)

The Banking Stakeholder Group (BSG) broadly supported the approach of a case-by-case analysis of indicators in recovery plans. The BSG emphasised the importance that each recovery plan include a framework of indicators established by the institution according to risks relevant for it and identifying the points at which appropriate actions referred to in the plan may be taken. The indicators had to be agreed by the competent authorities when assessing the recovery plan. According to the BSG, the recovery plan indicator framework needed to respect the principle of proportionality, to reflect the business model, to be closely aligned with the management indicators used by the institution or included in supervisory processes and to be considered as a reference without triggering any automatic answer in terms of recovery action.

The BSG agreed with the possibility of using quantitative and qualitative indicators, but asked for further clarification (e.g. regarding the application of these indicators, the definition of indicators and their frequency for calculation and reporting). The BSG also raised concerns about how the use of the progressive metrics (the ‘traffic light approach’) in relation to the qualitative indicators would fit with the existing requirements for internal escalation procedures. The suggested categories of indicators were supported by the BSG. With respect to the minimum and additional list of recovery plan indicators the BSG assessed the minimum list as sufficiently extensive; considered some of the additional indicators as unnecessary; and pointed out very significant correlations among some indicators. Moreover, the BSG considered that some of the indicators listed in Annex I of the draft Guidelines should be included in Annex II as illustrative examples. According to the BSG, the thresholds for the indicators should be defined by the institutions. In general, the BSG agreed with the Impact Assessment.

4.3 Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period started on 26 September 2014 and ended on 2 January 2015. 15 responses were received, of which 11 non-confidential ones were published on the EBA website.

This section presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

In many cases several industry bodies made similar comments or the same body repeated its comments in its response to different questions. In such cases, the comments, and the EBA analysis are included in the section of this paper where the EBA considers them most appropriate.

Changes to the draft Guidelines have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA's response

Categories of indicators

Many respondents proposed to restrict the list of four mandatory categories of indicators (capital, liquidity, profitability and asset quality) to only capital and liquidity, claiming that they cover the most important factors that describe the health of an institution and its ability to meet regulatory requirements. Moreover, some stakeholders stated that it is not necessary for the recovery plan to include separate profitability and asset quality indicators because ultimately they would be reflected in the capital indicators. The respondents also pointed out that the profitability and asset quality categories cannot be treated in the same way for all institutions and are not applicable or significant to all types of institutions. In addition, some respondents questioned the appropriateness of two categories of recovery plan indicators that are subject to rebuttable presumption (market-based and macroeconomic indicators).

The EBA considers that both profitability and asset quality indicators are the key components of institutions' risk management and measure the viability of their business model. In contrast to capital indicators, they give additional and/or earlier indication of developing problems and are less prone to distortions in calculations. It is also worth recalling that Article 5(c)(ii) of the EBA regulatory technical standards on the content of the recovery plan already specifies that indicators included in the recovery plan should include at least capital, liquidity, profitability and other risk profile indicators. Therefore, the EBA considers that all four categories of indicators proposed in the draft Guidelines should remain mandatory. However, due to the fact that market-based indicators and macroeconomic indicators may not be available or relevant to individual institutions, these two categories are subject to rebuttable presumption.

Specific recovery plans indicators

Some respondents claimed that the minimum list of recovery plan indicators proposed in Annex I of the draft Guidelines was too long and recommended moving some or even all of the proposed indicators to Annex II, including the additional list of indicators for illustration purposes. Moreover, a few respondents claimed that institutions already monitor some indicators (especially profitability and asset quality ones) as a part of their every-day risk management and act upon these measures before there is a need to consider taking any recovery options. Therefore, according to these respondents, there is no need to include such indicators in the recovery plans.

Taking into account the comments received from stakeholders, the EBA refined the minimum list of recovery plan indicators (included in Annex II of the final Guidelines) and the additional illustrative list of such indicators (Annex III of the final Guidelines). It should be noted that Article 9(2) of Directive 2014/59/EU requires the EBA to specify the minimum list of recovery plan indicators, so providing merely a list of examples of optional indicators would not fulfil the mandate given to the EBA and would not provide a sufficient level of harmonisation. Furthermore, the fact that institutions already monitor some indicators within their internal risk management frameworks does not mean that such indicators should not be included in the recovery plans. On the contrary, it is important to integrate the recovery plan indicators into an existing risk management framework, and by using appropriate calibration, set clear, pre-defined thresholds that would prompt an escalation process in a situation of severe stress. This should mitigate the problems highlighted during the last financial crisis when banking groups were often slow to recognise the onset of serious financial difficulties and to begin the process of taking positive recovery measures.

Rebuttable presumption

A vast majority of stakeholders welcomed the idea of including in the Guidelines the possibility to adapt the list of recovery plan indicators to the specific characteristics of the institutions instead of using a one-size-fits-all approach. However, it was not clear to some respondents and participants of the public hearing that there are two different rebuttable presumptions proposed in the Guidelines. The first refers to the market-based and macroeconomic categories of indicators. The second refers to all indicators proposed in the minimum list included in Section C of Annex I of the draft Guidelines.

Some drafting changes were introduced to the annexes of the final Guidelines in order to make it clear that the rebuttable presumption can be applied at two different levels (i.e. with regard to the last two categories of indicators, and also to all mandatory indicators included in the minimum list of recovery plan indicators). In particular, Annex I to the draft Guidelines (which included three separate sections A, B and C) was split into Annex I to the final Guidelines (encompassing the previous sections A and B, describing the categories of risk indicators) and Annex II (including the previous section C setting up a minimum list of indicators for recovery plans).

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
1. Relevance of indicators for an institution	Many respondents supported the approach that the indicators applied should be relevant for an institution because the risks faced by each institution vary significantly depending on its business and funding model, activities, structure size and interconnectedness. According to one respondent, the institutions should try to leverage on their existing and tested frameworks of financial and risk control, in particular their risk appetite framework. This respondent criticised the Guidelines for not catering sufficiently for this kind of flexibility given the proposed burden of proof, i.e. the principles of paragraph 15 should override any rebuttable presumption that a particular indicator must be included.	The Guidelines recognise that the risks that each institution faces vary significantly according to its business and funding model, its activities and structure, its size or its interconnectedness to other institutions or to the financial system in general. The rebuttable presumptions in the Guidelines take into account the institution-specific situation and the relevance of proposed indicators. The Guidelines allow institutions to justify that some categories and/or each of the minimum indicators are not relevant to its legal structure, risk profile, size and/or complexity. In addition, setting the indicators in general terms without providing prescriptive definitions leaves flexibility for tailoring them to the specific profile of the institution. The recovery plan, in order to be effective, must be fully incorporated into each institution's overall risk management framework. The integration of the recovery plan indicators with the institution's overall indicator framework is crucial in order to ensure effective risk and crisis management.	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
2. Pro-portionality / simplified obligations	One respondent remarked that the Guidelines should include a reference to the principle of proportionality and to the simplified obligations regime. Regarding the requirement for a list of indicators, some respondents considered that their rebuttability would not reflect the principle of proportionality in terms of the size and complexity of the institution.	The requested clarifications make sense.	Paragraph 7 of the Guidelines was changed as follows: ~~With the exception of paragraph 11 of Title II,~~ Institutions and the competent authorities~~, where relevant~~, should apply these Guidelines consistently with provisions on simplified obligations for certain institutions specified in Article 4 of Directive 2014/59/EU.
3. No automatic trigger/ action	Many respondents stressed the importance of no automatic recovery action following any breach of a recovery plan indicator. The breach of recovery plan indicators should only lead to an activation of pre-defined governance processes which may also lead to a decision not to take any recovery measure. According to some respondents, the Guidelines should reflect the possible gradual nature of recovery plan escalation frameworks, i.e. some (qualitative) indicators may only create a need for further analysis and discussion instead of a need to take a decision on recovery measures. One respondent stressed that the governance associated with the indicators is at least as important as the indicators themselves.	According to the Guidelines recovery plan, indicators are defined as 'qualitative and quantitative indicators established by each institution on the basis of the framework laid down in these Guidelines to identify the points at which appropriate actions referred to in the recovery plan may be taken'. In addition, paragraph 4 of the Guidelines stipulates that the recovery plan should contain detailed information on the decision-making process with regard to the activation of the recovery plan as an essential element of the governance structure, based on an escalation process using indicators in accordance with Article 9(1) of Directive 2014/59/EU. It is clearly stated in Article 9(1) mentioned above and confirmed in paragraph 15(c) of the Guidelines that the institution may refrain from taking an action.	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		According to Directive 2014/59/EU, recovery plans shall include appropriate conditions and procedures to ensure a timely implementation of recovery actions. Article 5 of the EBA RTS on the content of recovery plans requires a description of the internal escalation and decision-making process, including the role and function of persons involved in this process, in particular a description of their responsibilities, and the procedures that need to be followed. The Guidelines on recovery plan indicators do not interfere with this approach.	
4. Group treatment	According to one respondent, the Guidelines should also consider whether the recovery plan indicators are to be applied at group or subsidiary level. The respondent also pointed out that some indicators are likely to be of less relevance at subsidiary level for groups that would take recovery actions at group level. One respondent suggested that a decision on monitoring indicators at group or legal entity level should be firm-specific. Another respondent emphasised the need for flexibility and reflection of relevance with respect to the implementation of indicators in subsidiaries.	The recovery plan indicators of a group recovery plan should be applied at group level. However, a competent authority may also request indicators for individual subsidiaries, depending on the structure of the group, taking into account the principle of proportionality.	No amendments
5. Monitoring and reporting of indicators	The respondents asked for clarity on the frequency of monitoring the indicators and clarification with regard to the frequency for both calculating the ratios and reporting them. One respondent questioned whether it would be helpful to specify how indicators should be calculated or	Indicators in the Guidelines do not purposely specify frequency of monitoring to provide the institution with appropriate flexibility to take into account the specific business and risk profile of the institution.	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	the frequency of indicators; however greater clarity on whether indicators should be monitored and reported on group or legal entity level should be given. In order to avoid duplication of reporting, respondents recommended coordinating the recovery plan indicators with the reporting requirements that already exist and aligning them with the management indicators used by the institution or with those included in supervisory processes. One respondent argued that the recovery plan indicators should focus on the overall risk and financial situation of a bank rather than on individual risk types or portfolios. Another respondent also found it useful to closely align the recovery plan indicators with the indicators used for the Deposit Guarantee Schemes (DGS) risk-based contributions.	The EBA has not sought to determine the nature or frequency of reporting and considers that this is a matter for the competent authority and its perception of the risk profile of the institution.	
6. Investment firms	One respondent remarked that some categories of indicators or some specific indicators are not relevant to investment firms. The respondent asked for further clarifications.	The requested clarifications make sense.	Paragraph 8 of the Guidelines was amended as follows: Without prejudice to the paragraph above, the competent authority may partially exclude the application of <u>the mandatory categories of recovery plan indicators set out</u> in paragraph 11 of Title II of these Guidelines if it deems certain categories of recovery plan indicators irrelevant having regard to the business model of investment firms. <u>Similarly, the competent authority should exclude in its supervisory practices the application of certain</u>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
			categories and indicators that are subject to rebuttable presumption set out in paragraphs 12 and 13 respectively, if it deems that such categories and indicators cannot apply to certain types of investment firms.
7. Combination of factors or indicators	Respondents noted that the decision to take recovery measures should be based on a combination of factors which include, but are not limited to, quantitative indicators.	According to Article 9(1) of Directive 2014/59/EU, an institution may (a) take action under its recovery plan where the relevant indicator has not been met, but where the management body of the institution considers it to be appropriate in the circumstances; or (b) refrain from taking such an action where the management body of the institution does not consider it to be appropriate in the circumstances of the situation. This approach allows for the flexibility to take different factors into account. The Guidelines do not interfere with this approach.	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Responses to questions in Consultation Paper EBA/CP/2014/28			
Question 1. Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?	All respondents who provided an answer to this question were supportive of including quantitative and qualitative indicators for the purpose of recovery planning. One respondent asked for further specifications as to when and for which metrics institutions should apply the quantitative or qualitative indicators. Another respondent disagreed that the Guidelines should clarify which minimum indicators are quantitative and which are qualitative. A few respondents considered some indicators as unquantifiable. Others raised concerns over how the proposed 'traffic light approach' would work in relation to qualitative indicators. Another respondent stated that the 'traffic light approach' should not be required for all early warning indicators. One respondent noted that the 'traffic light approach' would not be appropriate for all types of quantitative indicators.	In general, the EBA abstains from providing prescriptive definitions of indicators in order to leave room for a firm-specific treatment and alignment with its existing risk-management frameworks of indicators. According to paragraph 16 of the Guidelines, while setting the quantitative recovery plan indicators, the institution should consider using progressive metrics ('traffic light approach') in order to inform the institution's management that such indicators could potentially be reached. The Guidelines only refer to considering a 'traffic light approach' for quantitative recovery plan indicators and do not contain a strict obligation to do so. Therefore, the EBA does not see a need for further amendments.	No amendments
Question 2. Do you consider that there are other categories of indicators apart from those reflected in the draft Guidelines which should	One respondent suggested including an additional category, 'operational indicators', covering, for example, internal or external loss events. The majority of respondents did not propose further categories but preferred to restrict the mandatory categories to capital and liquidity, because indicators from these two categories constitute the most important factors which describe the health of an institution. They also claimed that all other categories should be treated as	The EBA agrees with the consideration of operational loss events which could lead to an analysis as to whether recovery options are needed, for example a failure of the IT systems or terrorist attacks in key financial locations. The draft Guidelines already included an indicator 'significant losses' which scope can be extended (please see the amendments suggested with regard	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
be included in the minimum list of recovery plan indicators?	additional, illustrative or optional categories. The respondents also argued that an advantage of deleting the rebuttable presumption approach would be that indicators could be optimally tailored to the institution's risk profile and risk management processes. In particular, the selected indicators could be agreed with the competent authority during the annual recovery plan process, and firms and supervisors could shift their focus away from discussion of rebuttable presumptions to focus on the assessment of recovery options, which is equally, if not a more important aspect of recovery planning. *Profitability and asset quality indicators* A few respondents argued that: - Consistency with other prudential regulation should be ensured. Both categories are ultimately reflected in the capital indicator (profitability through the effect of retained earnings and asset quality through impairments). - The categories 'profitability' and 'asset quality' cannot be treated in the same way for all institutions. They are not applicable or significant to all types of institutions. *Market-based and macroeconomic indicators* Some respondents disagreed with the use of macroeconomic indicators as recovery plan indicators, stating that they do not reflect a firm's actual position. They argued that an impact of macroeconomic factors on the institution would be captured by capital or liquidity ratios or other institution-specific indicators. One respondent was against the qualification of market-based indicators as	to Question 3). Article 9(2) of Directive 2014/59/EU obliges EBA to issue Guidelines to specify the minimum list of qualitative and quantitative recovery plan indicators. According to Article 5(c)(ii) of the draft RTS on the content of recovery plans, plans have to include a detailed description of the indicators, reflecting possible vulnerabilities, weaknesses or threats to, as a minimum, the capital position, liquidity situation, profitability and risk profile of the entity or entities covered in the recovery plan. The current approach used in the Guidelines recognises the specificities of each institution in terms of its business and funding model, its activities and structure, size or interconnectedness to other institutions or to the financial system in general. In particular, the rebuttable presumption for all indicators mentioned in Annex II of the final Guidelines takes into account the relevance of the recovery plan indicators with respect to the legal structure, risk profile, size and/or complexity of the institution. In addition, mentioning the indicators without prescriptive definitions leaves room for interpretation and firm-specific treatment. Regarding investment firms, see the amendments mentioned above.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	recovery plan indicators because these indicators would often be influenced by factors which would not reflect the idiosyncratic situation of an individual institution. The respondents raised concerns that market-based and macroeconomic indicators (in particular stock and CDS prices were mentioned) alone are frequently insufficient to steer concrete actions as these indicators often gave imprecise indication of or weak correlations with the institution's financial and liquidity position. Rather than using CDS spreads as an indicator, the impact of this would be better captured by liquidity indicators such as cost of wholesale funding.	The possibility to provide a justification for abstaining from market-based and macroeconomic indicators (the rebuttable presumption) in the Guidelines takes into account the specifics of these categories of indicators. It is considered that both profitability and asset quality indicators are important. They constitute key components of risk management in banks and, depending on the circumstances, they could give additional and/or earlier indication of developing problems than capital indicators. In addition, profitability and asset quality indicators are also very useful in measuring the viability of an institution's business model, not merely its ability to fulfil regulatory requirements.	
<u>Question 3.</u> Do you agree with the list of specific recovery plan indicators included in Annex I, Section C, or would you propose to add other indicators	Some respondents made the following general comments relating to the recovery plan indicators proposed in the draft Guidelines: - the number of mandatory indicators is too large and not all indicators are meaningful for all institutions; - the approach of defining the minimum list of recovery plan indicators is inappropriate because it does not take into account special characteristics of various institutions (e.g. different risk profiles, risk management frameworks and internal escalation	Article 9(2) of Directive 2014/59/EU requires the EBA to issue Guidelines specifying the minimum list or qualitative and quantitative recovery plan indicators. Taking into account the EBA mandate laid down in Article 9(2) of Directive 2014/59/EU and the provisions of Article 5(c)(ii) of the RTS on the content of recovery plans, the EBA will not change the current approach of including in the Guidelines two separate annexes including	See the amendments regarding various indicators below.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
to this section?	procedures); therefore, it would be better to move all indicators listed in Section C of Annex I (the minimum list) into Annex II which includes only examples of indicators which should be taken into consideration by the institutions when selecting indicators for their recovery plans together with their competent authorities; - only a limited number of indicators should remain in the minimum list in Annex I of the draft Guidelines, and the other indicators should be moved to Annex II; - some indicators constitute early warning or day-to-day risk management indicators rather than recovery plan indicators; - at a minimum, the principles of paragraph 15 of the Guidelines should be of general application and override any rebuttable presumption that a particular indicator must be included in a recovery plan; - some indicators are highly correlated or repetitive; - only indicators which the institution can actively and efficiently steer (control) should be included in the recovery plan.	both the minimum list of recovery indicators and a list of additional examples. It should be noted that all indicators in Annex II are subject to a rebuttable presumption, whereas the indicators in Annex III constitute only illustrative examples. Therefore, the EBA believes that the possibility for a firm-specific treatment is ensured in the Guidelines. The differentiation between currently used risk management indicators and recovery plan indicators is very important for the calibration of indicators (especially when using a 'traffic light approach'). In addition, recovery plan indicators should also include forward-looking indicators.	
	A few respondents asked for definitions for some indicators. One respondent claimed that an absence of common definitions of the metrics could undermine the level-playing field and the credibility of the new recovery framework. Another stakeholder remarked that a lack of precise definitions would be justified if the EBA's intention was to leave room for interpretation and firm-specific treatment. One respondent did not believe it would be	In general, the EBA's intention is to avoid prescriptive description of indicators in order to leave room for a firm-specific treatment and allow alignment with indicators monitored by institutions within their risk management frameworks. However, for a few indicators, some clarification of definitions or formulas was	See the amendments regarding various indicators below.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	helpful to specify how indicators should be calculated or the frequency of calculating them.	added, in order to eliminate any confusion in applying them. The competent authorities will assess to what extent the requirements of the Guidelines are met by institutions and will examine what indicators are the most relevant for different institutions in the context of their business model, size and complexity, regulatory requirements and other considerations.	
	A few respondents made specific comments regarding indicators on the minimum list proposed in the draft Guidelines or on provisions included in Titles III-VIII. One stakeholder (in a confidential response) provided comments on every indicator included in the Guidelines and also suggested other indicators. The summary of comments received is provided below.		See the amendments regarding various indicators below.
	Capital indicators - Concerns about the additional indicator '**Requests from counterparties for early redemption of liabilities'**. - One respondent disagreed with paragraph 23 of the Guidelines and preferred an approach which would be the other way round, i.e. the indicators used in the internal capital adequacy assessment process (ICAAP) procedures should be included in the recovery plan. - One respondent claimed that it is not always relevant to set capital indicators at a sufficient distance from a	Indicators used in ICAAP procedures could be a useful reference but will need to be supplemented in view of the specific purposes of recovery planning.	No amendments to paragraph 23 of the Guidelines. In Annex III, the additional indicator **'Requests from counterparties for early redemption of liabilities'** was removed.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	breach of the minimum capital requirements, e.g. in the case of a one-off loss capital may drop, but as long as it remains above regulatory requirements the situation would not require taking recovery measures.		
	Liquidity indicators - Another respondent asked whether the indicator '**Cost of wholesale funding**' refers to the present cost of wholesale issuance rather than the cost linked to the stock amount of wholesale funding. - It was suggested that some liquidity indicators be replaced with other indicators which are recommended by the Basel Committee and to include '**MREL'** in the minimum list of recovery plan indicators.	The costs of wholesale funding should refer to the present cost of funding (new issuance). However, no further clarification is necessary in the Guidelines. The suggestion makes sense. The EBA acknowledges that MREL (i.e. the minimum requirement for own funds and eligible liabilities set for the institutions pursuant to Directive 2014/59/EU) constitutes a new important regulatory requirement. Nevertheless, it is currently premature to include MREL in the mandatory list of recovery plan indicators specified in the Guidelines because, especially in the initial phase following Directive 2014/59/EU implementation, institutions may face problems with the appropriate calibration of such indicator for the purposes of recovery planning. The MREL could be introduced to the Guidelines on recovery plan indicators at a later stage when this regulatory product would be reviewed.	In Annex II (minimum list of indicators) the indicator(s): - **'Net Stable Funding Ratio'** was added - mentioned in the Consultation Paper (CP) in Annex I, Section C in points 2(b) and 2(c) were deleted In Annex III the additional indicator(s): - **'Average tenure of wholesale funding'** was added - **'Contractual maturity mismatch'** was added - **'Available unencumbered assets'** was added - mentioned in Annex II of the CP in points 2(b) and 2(c) were deleted

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	Profitability indicators - The '**Significant losses due to administrative/regulatory fine or adverse court ruling**' indicator should be replaced by 'Operational risk losses' or 'Significant losses'. - Concerns that the **'Return on Assets'** indicator may not be relevant to investment firms or centralised settlement depositaries (CSDs). - The profitability indicators based on **deviation from budgets** should be removed because they would be difficult to calibrate and would not be symptomatic of issues requiring an escalation process.	The suggestions make sense and will be reflected in the revised text of the Guidelines.	In Annex II the indicator **'Significant losses due to administrative /regulatory fine or adverse court ruling'** was replaced by '**Significant operational losses'.** Instead of including 'Roth return on assets' (RoA) and 'Return on equity' (RoE), institutions will be able to select only one indicator. Paragraph 33 of the Guidelines was deleted due to concerns expressed with regard to this forward-looking measure. In Annex III the additional indicator(s): - **'Cost-income ratio'** was further clarified - **'Net interest margin'** was added - mentioned in Annex II of the CP in points 3(a), 3(c) and 3(d) were deleted

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	Asset quality indicators - One respondent requested clarification on whether the indicator **'Impaired and past due loans/Total loans'** referred to one or two separate ratios. - For the indicator **'Non-performing loans by counterparty sector'**, respondents requested clarification with respect to the counterparty sector. - Stakeholders also expressed their concerns about other asset quality indicators included in the draft Guidelines and they proposed alternative ones.	Both indicators were clarified and moved from Annex II (the minimum list) to Annex III (additional examples).	<u>In Annex II the indicator</u>: - **'Growth rate of gross non-performing loans'** replaced the ratio '**Impaired and past due loans / Total loans'** Clarifications were added to Annex III with regard to the following additional indicators: - **'(Gross non-performing loans)/Total loans'** - **'Non-performing loans by significant geographic and sector concentration'** <u>In Annex III the additional indicators</u>: - mentioned in Annex II of the CP in points 4(a), 4(b) and 4(c) were further specified
	Market-based and macroeconomic indicators - The indicators '**CDS spread'** and **'Stock price variation'** would not be widely applicable. - One respondent did not consider the **'Default of a peer institution'** to be a suitable recovery indicator as the relevant issue would be the effect of this default on the institution. Another respondent asked for further	The rebuttable presumption will allow the exclusion of market-based indicators which are not relevant for particular institutions. The comment was taken on board.	<u>In Annex II (minimum list of indicators)</u>: - the market-based indicator **'Default of a peer institution'** was deleted. - the macroeconomic indicator

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	clarification.		**'Rating downgrades of sovereigns'** was moved to Annex III (additional indicators) and merged with indicator 6(a) In Annex III (additional indicators): - the market-based indicators mentioned in Annex II of the CP in points 5(b) and 5(c) were merged - the macroeconomic indicator mentioned in Annex II of the CP in point 6(b) was deleted
Question 4. Do you consider that these Guidelines should establish the threshold for each quantitative recovery plan indicator to define the point at which the institution may need to take recovery measures to	All respondents who provided an answer to this question advised against setting out in the Guidelines any thresholds for quantitative indicators. Most of the respondents argued that the thresholds have to be defined by the institutions which are best-qualified to set them, taking into account their individual characteristics, in particular their business model, risk management, risk appetite framework, organisational structure, risk profile and specific vulnerabilities. One respondent remarked that it could be difficult to quantify some of the indicators, in particular in the context of the 'traffic light approach'.	The EBA agrees that a one-size-fits-all approach would not reflect the specific characteristics of each institution.	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
restore its financial position?			
<u>Question 5.</u> Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?	According to one respondent, the Impact Assessment analysis could be improved by taking into account the following two points: - the cost of the rebuttable presumption process is not factored into the EBA's analysis; - the possibility to limit the 'obligatory' list to the lowest common denominator to all institutions, irrespective of their type, and the creation of obligatory lists per type of institution has not been considered.	The ongoing costs of monitoring irrelevant indicators can be compared with the potential one-off costs of rebutting the presumption of indicators' relevance. Taking into account a large variety of business models and potential problems in making a clear-cut categorisation of institutions, the EBA considers that the approach based on rebuttable presumption is better than creating separate minimum lists of indicators for different types of institutions.	The assessment of the advantages and disadvantages of option B2 (minimum list of recovery plan indicators) in the Impact Assessment has been updated to reflect the comments received from stakeholders.
	One respondent stated that the range of options for categories and the minimum list of indicators was not complete; furthermore, the following options should be considered: - Option A4: The Guidelines should require mandatory use of the capital and liquidity categories and state further illustrative categories which should be considered by a firm, depending on its specific risk profile; - Option B3: The Guidelines should provide a list of illustrative indicators that should be applied by a firm based on its specific risk profile.	The EBA considers that a similar approach has already been proposed in the draft Guidelines by introducing a distinction between four minimum categories (that should be applicable to all institutions) and two categories which are subject to the rebuttable presumption (that may not be relevant to some institutions, depending on their characteristics and risk profile). The suggested option B3 is against the mandate of these Guidelines as specified in Article 9(2) of Directive 2014/59/EU which requires the EBA <u>to specify the 'minimum list of qualitative and quantitative</u>	No amendments

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		indicators'. By providing only a list of illustrative examples of recovery plan indicators, the EBA would not fulfil its regulatory mandate given in the Level 1 text.	
	Two respondents stated that option D2 from the Impact Assessment (regarding the 'traffic light approach') would not take into consideration circumstances in which a sudden stress occurs.	The 'traffic light approach' allows for the identification of risks at an early stage; however it does not imply that the highest level (calibrated for a recovery phase) cannot be directly breached in situations of a sudden stress. The gradual awareness of a risk, via an internal risk management framework, does not constitute a prerequisite for the implementation of recovery measures.	No amendments