

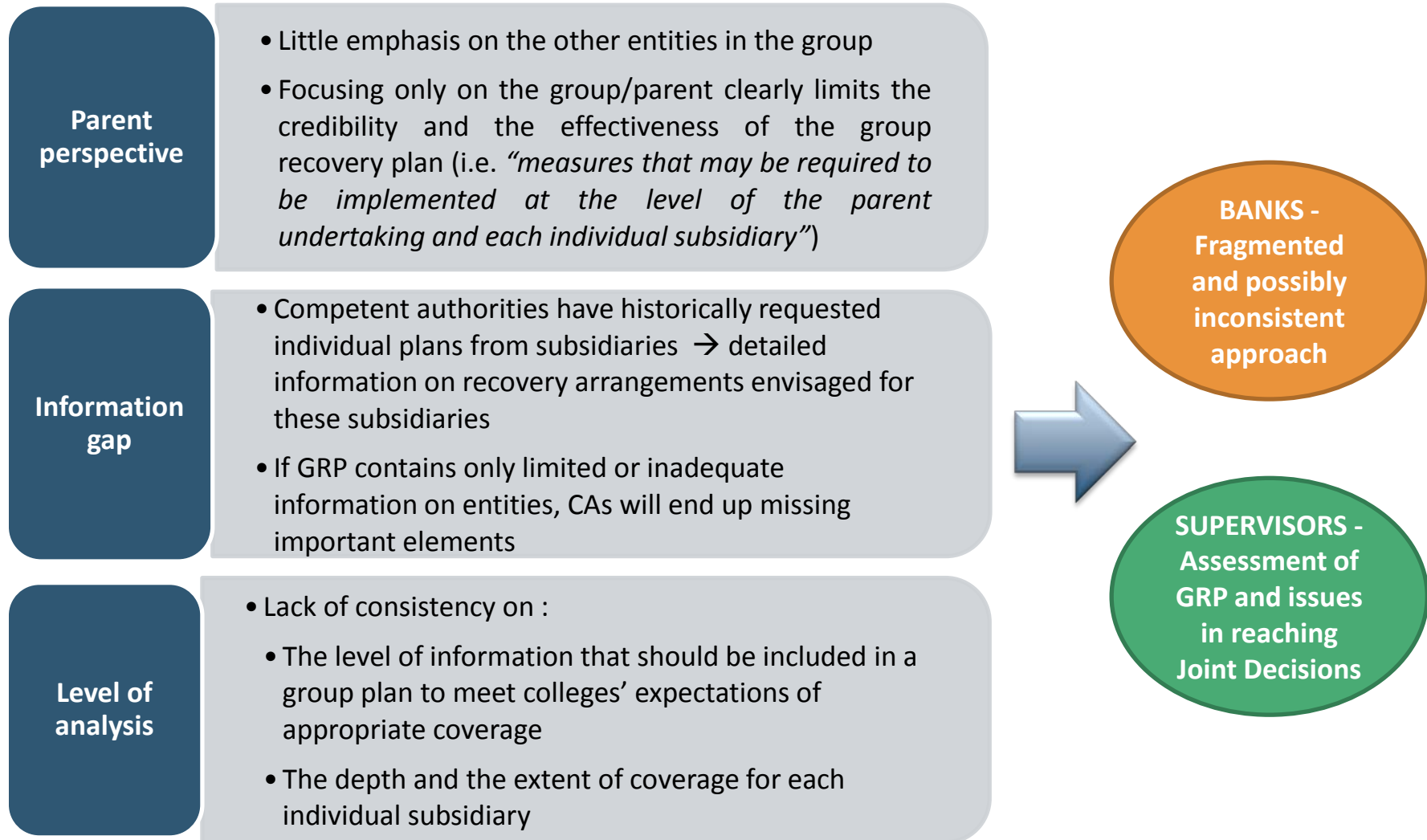


Recommendation of coverage of entities in Group Recovery Plans

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Issues identified in assessing group recovery plans



Defining the “appropriate coverage” is a key step

With regards to entities that needs to be covered by the Group recovery plan, the main provisions are included in the Commission Delegated Regulation 1075/2016:

- Provide description of **entities covered by the plan** (business models, strategy, core business lines, critical functions)
- For entities and branches identified in COM DR Art.(7)(2), provide:
 - **Mapping of core business lines and critical functions**
 - **Analysis of internal and external interconnections**
- Set out a **range of recovery options** to maintain of restore viability and financial position of the entities covered by the plan
- Set out a **range of capital and liquidity actions** required to maintain or restore the viability and financial position of the entity or entities covered by the recovery plan which have as their primary aim ensuring the viability of critical functions and core business lines

COM DR 7(1)(a)

COM DR Art. 7(1)(b,c)

COM DR Art. 8(2)

COM DR Art. 9(1)(a)



The definition of a common guidance could be beneficial both to home and host supervisors, and institutions as well. The guidance is designed to avoid a fragmented approach to obtaining information on groups and relevant subsidiaries, by setting out a common framework for achieving the needs of home and host subsidiaries in the group recovery plan.

Coverage of entities: towards a common guidance

- EBA Staff and experts from competent authorities have worked intensively to draft a **common supervisory approach that could provide consistent guidance on how different legal entities should be covered** within group recovery plans.
- The approach starts from the **identification of entities according to Art. 7 COM DR** and their mapping to core business lines and critical functions to define their relevance. In turn, relevance will be the basis to define the extension of coverage, in a proportionate and targeted manner:
 - Entity that is **group-relevant**: such an entity would need to be covered in an extensive manner, in all the sections of the group recovery plan.
 - Entity that is **locally relevant**: in this situation, the key point is the need to preserve critical functions in case of distress.
 - Entity that is **less relevant** for the group, for the local economy or financial system: here the coverage will feature the description of the entity and how the parent company should be made aware of a distress situation a local level

TREATMENT OF BRANCHES

- **Group or locally-relevant:** same approach, either as part of the legal entity to which they belong or independently. Key to ensure that any branch-specific information is included in the group recovery plan
- **Non group or locally-relevant:** need not be identified in the group recovery plan separately from the legal entity to which they belong
- **“Significant +” Branches:** should be covered in the group recovery plan, either as group relevant or as locally relevant entities

Case #1: Group-relevant entities

Topic	Coverage
Governance	<ul style="list-style-type: none"> • Decision-making process across the group to enable CAs to have information both from a bottom-up and from a top-down perspective. • Development, adoption, review and update of RP (local Mgmt should be adequately involved) • How procedures to ensure implementation of options at local level are coordinated with those at parent level. • Consistency of internal escalation processes when indicators are triggered
Indicators	<ul style="list-style-type: none"> • Recovery indicators should be considered at entity-specific level, e.g. depending on the business and governance model of the group. • Relevant entity-specific indicators for entities supporting core business lines and critical functions should be considered
Options	<ul style="list-style-type: none"> • Sufficient amount of options that could restore the entity to viability following a stress • Consistency with business models and internal governance • Estimation of possible impact on the entity where the option is exercised, but to all possibly affected group-relevant entities • Focus on the implications for the continuity of the critical functions and other group interdependencies
Scenarios	<ul style="list-style-type: none"> • Impact of group-wide or local scenarios on group-relevant entities • Entity-specific scenarios should be included if business of entity is isolated (i.e. the entity is not group-generic and a group-wide scenario would not capture all risks) • If CBLs and CFs are already covered by group scenarios, no need of separate scenarios

Case #2: Locally relevant entities

Topic	Coverage
Governance	<ul style="list-style-type: none"> • Focus on escalation procedures (move of decision making from entity to parent vs. parent only informed but not involved) • No need for to specify governance arrangements for the development and maintenance of the plan in respect of the individual entity (unless different assessment in JD) • Possibility that recovery is activated directly from the parent and/or from the entity • Clarity on the ability of the group management to implement recovery options at local level, and options at group level with impact on local CFs
Indicators	<ul style="list-style-type: none"> • The inclusion of indicators for locally-relevant entities to which critical functions are mapped (proportionate and appropriate) should be considered
Options	<ul style="list-style-type: none"> • The choice of appropriate recovery options among group-wide or entity-specific should be consistent with the objective to preserve critical functions of the entity (considering business models, internal governance and regulatory requirements) • Include an estimate of materialization of key recovery options with particular focus on the implications for the continuity of the critical functions taking into account all pertinent group interdependencies.
Scenarios	<ul style="list-style-type: none"> • Specific scenarios relating to the locally-relevant entity should not be considered as necessary, as long as the impact of group-wide scenarios is deemed significant

Case #3: Less relevant entities

- Coverage of those entities in the group recovery plan should be **concise, including by means of a sole chart or table**, and should focus on information necessary to identify those entities and briefly describe their position in the group's overall strategy.
- To this extent, the plan should, where appropriate and in a general manner, ensure that **governance arrangements allow that information on a distress situation at the local level is swiftly transmitted upwards** to the parent level and the relevant competent authority.
- Any **significant impacts of recovery options** on these entities should generally be noted in the group recovery plan as appropriate taking into account the group structure.

Introduction of a transitional phase

Transitional provisions have been included, to provide assurance to home and host supervisors that a coordinated approach towards the comprehensive group recovery plans will be achieved under the jointly agreed steps recognized in the joint decision and communicated to the parent institution.

CURRENT CRITICALITY

If the group recovery plan does not cover adequately the respective individual entity, the absence of an individual plan implies that appropriate arrangements for that entity might be missing until the submission of the next recovery plan, thus creating possible criticalities if the distress were to occur in the meantime.



TEMPORARY SOLUTION

In the context of the joint decision, CAs may agree that existing individual plans will be considered as a temporary step, where both conditions are satisfied:

- a. individual plans are necessary to preserve recovery planning information already available at the local level and to ensure the full migration of this data to the group recovery plan; and
- b. these individual plans are communicated to the consolidating supervisor and are correlated and fully consistent with the group recovery plan.



Questions and points for discussion

- What are the views about the proportional approach and the identification of the three categories of entities according to their relevance?
- What are the views on the level of coverage for entities that are relevant for the group?
- What are the views on the level of coverage for entities that are relevant for the economy of financial system of a member state?
- What is the experience of participants when dealing with appropriate coverage of entities within recovery plans? Which are the most critical challenges?



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