

Nationwide response on the assessment of Recovery Plans

Nationwide welcomes the European Banking Authority consultation on the assessment of recovery plans and, given the volume of technical standards that are currently envisaged, we also welcome the early publication approach to give sufficient opportunity for consideration to be given to the issues involved.

As the largest customer-owned building society, Nationwide is unique in UK retail financial services, providing a mass-market challenge to the plc banks and focusing on long-term, transparent customer relationships. We are one of the UK's largest gross mortgage lender and high street deposit-taker, with circa £190 billion in assets. The principles on which we are run are fundamentally different to those of our plc peers – we exist to deliver value to our members, and we are accountable to them. There is no divergence between customer and shareholder needs because they are one and the same. This results in a lower risk appetite and profile than our peers that has meant we have remained safe and secure throughout the financial crisis with capital and liquidity ratios amongst the highest in our peer group.

Regarding Article 3(1) we would suggest that it may also be appropriate for the competent authority to consider whether the range of options is comparable to other organisations with a comparable size, legal structure and complexity. It should be possible to do this and recommend additional recovery options if gaps are identified without disclosing the source of those conclusions.

We believe that paragraph 5(1)(b) which requires the recovery plan to contain a number of plausible actions is very important. This assessment should take account of whether the profit, capital and liquidity benefits are plausible, and also whether the actions 'move the dial' but should not force institutions into creating an exhaustive list of increasingly immaterial possible actions. In our opinion, provided the process around this is undertaken properly then this would remove the need for any significant stress testing requirements outside of the existing anchor stress testing and reverse stress testing work that institutions are already required to perform .

We would question what the standards mean when they describe a "lasting" restoration (para 5(1)(b)(iv)). An option which for example restores capital ratios, may restore the capital strength of the institution and buy time for the underlying problem that required recovery itself to be resolved. If however the recovery option and the underlying problem are not connected¹, and the underlying problem is not corrected, then the financial soundness is likely to be a temporary fix. It may therefore be appropriate to consider deleting the words "and to achieve the lasting restoration of its financial soundness" or dislocating this assessment from individual recovery options.

We would question the value of article 5(1)(b)(v) because it is likely to be of limited use. Each recovery situation is likely to be institution and scenario specific so past experience may not help much for a later recovery situation. Key management are also likely to have changed due to the length of time between expected recovery situations.

We believe that it will be difficult to assess (article 5(1)(c)) whether recovery options address the scenarios identified. We would suggest that the assessment of plausibility in Article

¹ For example if the recovery option was to issue more capital, but the underlying problem was a fundamental lack of margin income, then eventually the additional capital would be eroded and the institution would again be in recovery.

5(1)(b) is a more appropriate method of assessing recovery options, particular in connection with key indicators for profit, capital and liquidity, and that therefore article 5(1)(c) could be deleted.

We believe that it will be difficult to assess recovery options in the context of recovery actions of other institutions being undertaken at the same time (para 5(2)(a) and (b)). An assessment of plausibility should be limited to an idiosyncratic event and also during a market wide stress, without considering particular stressed third parties.

If you would like to discuss any of the points raised in this response, please do not hesitate to get in touch with me or one of my colleagues.

Yours sincerely

A handwritten signature in black ink that reads "Jason Carter". The signature is written in a cursive style and is centered within a light gray rectangular box.

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