



BANKING STAKEHOLDER GROUP

DRAFT RESPONSE TO THE CP OF EBA ON DRAFT GUIDELINES ON
THE MINIMUM LIST OF QUALITATIVE AND QUANTITATIVE
RECOVERY PLAN INDICATORS (EBA/CP/ 2014/28)

General Comments and Replies to Questions

BY THE EBA BANKING STAKEHOLDER GROUP

London, December 18, 2014

Foreword

The BSG welcomes the opportunity to contribute to the development of the guidelines for the specification of the qualitative and quantitative recovery plan indicators, which will complement the regulatory framework of the recovery plan document that entities are required to formulate annually. To this end, this document is an additional piece that perfectly complements the Guidelines and Regulatory Technical Standards (RTS) published in July 2014 to develop the recovery plan (Guidelines on Recovery Plan Scenarios, RTS on content of recovery plans and on assessment of recovery plans) under the Bank Recovery and Resolution Directive (BRRD).

These guidelines aim to facilitate bank recovery on a cross-border basis and enhance financial stability by ensuring consistent high regulatory standards in this area and a level playing field across the EU. They will provide the common framework and language which are indispensable for effective joint assessment of recovery plans for cross-border groups, and will form part of the European Single Rulebook in banking.

General comments

As a preliminary comment, the BSG wishes to convey its broad support for the approach of a case-by-case analysis of indicators (qualitative or quantitative) in the recovery plan as established by Article 9(1) of Directive 2014/59/EU. In this sense, it is important that each recovery plan includes a framework of indicators established by the institution according to the relevant risks that it faces as paragraph 15 of the draft guidelines establishes, identifying the points at which appropriate actions referred to in the plan may be taken, and such indicators shall be agreed by competent authorities when making the assessment of recovery plan.

We make some general and more specific remarks.

General comments:

First, the requirement for a list of indicators must respect the principle of proportionality (measures should be suitable, necessary and proportionate). This is especially true for institutions with a decentralized model and the need for developing these indicators for different subsidiaries. Second, those indicators

should be closely aligned with the management indicators used by the institution and those included in supervisory processes. Consistency should be safeguarded. This would avoid the duplication of effort in obtaining the required information and simultaneously ensure that the information is still relevant and so enabling both the authority and the bank itself to take decisions. Third, it must be kept in mind that the thresholds for the recovery indicators are considered as a reference, without meaning any automatic answer in terms of recovery actions. Indicators just allow for assessing the underlying situation, and signal whether to take action under a deteriorated situation or not. We believe that this point should be included in the guidelines.

Specific comments:

First, in relation to the minimum and the additional list of recovery plan indicators, we consider that the minimum list is sufficiently extensive, and some of the additional indicators could be considered unnecessary. Correlations among some indicators are very significant. Some of the indicators listed in Section C of Annex I should be included in Annex II as illustrative examples of indicators that could be applied in respect of the minimum list of categories of indicators.

Second, the guidelines should clarify the definition of these indicators, in terms of the specific items comprising them, and the periodicity (daily, weekly, monthly, half-yearly or annually) for both calculating the ratios and reporting them. It is key that the definition of the indicators must be clear and objective so as to ensure consistency in the application of these indicators throughout the European Union, since the absence of a common definition of the metrics may undermine the level playing-field and the credibility of the new recovery framework. At the same time, it is important to ensure that the most relevant indicators are selected for each institution.

Finally, we highlight the difficulty of quantifying some of the indicators using the “traffic-light approach”. As the guidelines do not define when a quantitative or qualitative metric should be used, this could cause certain misunderstanding and should therefore be clarified in advance.

In the following sections we provide specific answers to the questions included in the Consultation Paper.

Replies to Questions

1. Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?

Yes, we welcome the possibility of using both quantitative and qualitative indicators, although we have some concerns regarding the definition of quantitative metrics for some of the indicators, such as the market-based and the macroeconomic indicators. The guidelines should clarify when, and in which metric, the institution should apply the quantitative or qualitative indicators.

In relation to qualitative indicators, we are concerned about how the proposed requirement for institutions to consider using progressive metrics (traffic-light approach) in paragraph 16 is intended to fit with the existing requirements for internal escalation when any indicator is met. In this sense, we consider that the EBA should not use progressive metrics since establishing qualitative thresholds would introduce additional, and unnecessary, complexity to the exercise.

2. Do you consider that there are other categories of indicators apart from those reflected in the draft guidelines which should be included in the minimum list of recovery plan indicators?

No: the categories defined in the guidelines are more than adequate to measure a situation when the entity has to start recovery measures detailed in the recovery plan. Nevertheless, until authorities have published a clear definition of the composition of some indicators (especially the additional recovery plan indicators) it would be better to substitute them with management indicators that are monitored regularly by the entity and can be more valuable for decision-making if a recovery option has to be implemented.

3. 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 to this section?

As we have noted in our answer to Question 2, we agree with the list of categories of recovery indicators defined in Annex I, Section C. It would be very helpful to specify: i) the specific items that comprise the calculation of these indicators; and ii) the periodicity (daily, weekly, monthly, half-yearly or annual) for both calculating and reporting the ratios. Additionally, the guidelines should clarify which indicators should be assessed quantitatively or qualitatively.

However, some indicators seem more difficult to define and be used in the plans, such as some liquidity indicators (short-term wholesale funding ratio; net outflow of retail and corporate funding, cost of wholesale funding), profitability indicators (significant losses due to administrative/regulatory fines or adverse court rulings) and market-based indicators (default of a peer institution).

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 restore its financial position?

No, the threshold must be defined by each institution, as they can provide thresholds using the best available information based on their own management experience and their management indicators. The banks themselves are best-

qualified to establish the quantitative and qualitative indicators, as they have the best knowledge of the nature, value of the business model, activities and strategic choices.

Nevertheless, we consider it absolutely necessary that all indicators should be discussed and agreed with the competent authority.

5. Do you agree with our analysis of the impact of the proposal 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 proposal?

In general terms, we are aligned with the impact proposal.

Submitted on behalf of the EBA Banking Stakeholder Group

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