



Public hearing

CP Draft GLs on the overall recovery capacity in recovery planning

14 February 2023

Overview

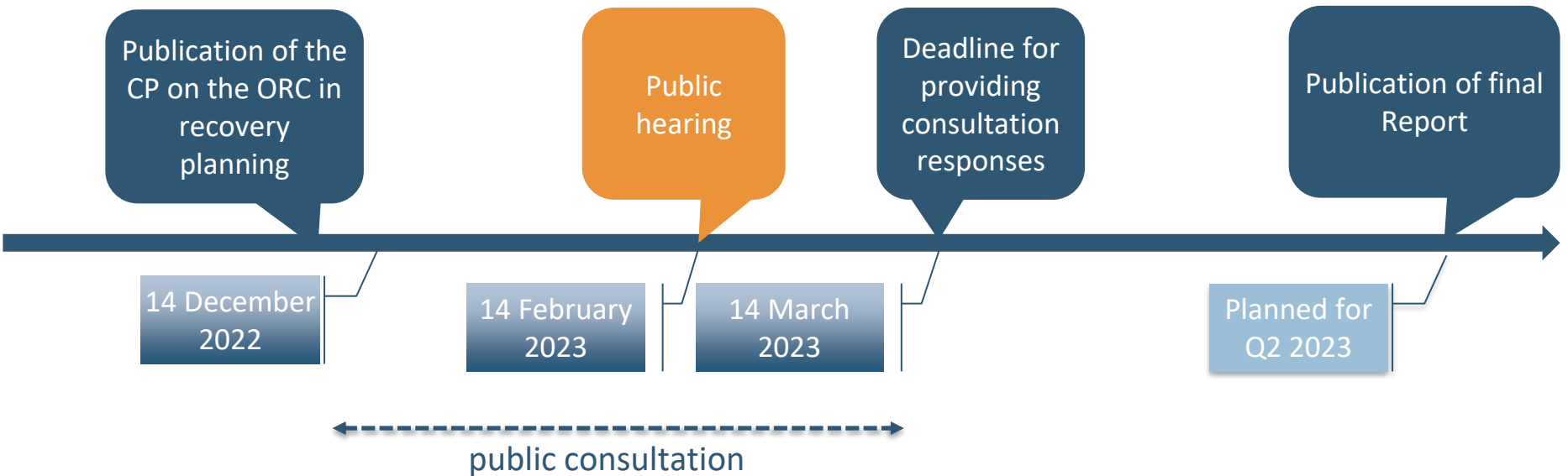
Agenda

- EBA presentation
 - Introduction and timelines
 - ORC framework for institutions
 - Competent authorities' assessment of ORC
 - Questions for consultations
- Questions and comments from participants

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Timeline for the publication of the final report



Background and structure of the GLs

- ORC represents a key outcome of recovery planning for institutions and competent authorities providing an indication of the **extent to which institutions would be able to overcome a range of potential crisis situations by implementing suitable recovery options**
- A recent survey carried out by the EBA among CAs highlighted that, in the absence of a specific guidance on the relevant steps underlying the ORC determination, institutions have developed a **wide range of different practices** regarding its calculation and expression
- Similarly, the ORC assessment by CAs turns out **not to be fully harmonised across jurisdictions** mostly due to the divergent practices among institutions

Overview of the structure of the GLs to institutions

I. ORC basic components

- List of credible and feasible options
- Range of scenarios of severe macroeconomic and financial stress

II. Defining ‘scenario-specific recovery capacity’

- Starting point
- Timeframe
- Representation

III. Determining ORC

- Step 1 – Selection of recovery options
- Step 2 – Adjustment of recovery options: additional constraining factors
- Step 3 – Calculation of ‘scenario-specific recovery capacity’
- Step 4 – Determination of the ORC range

Guidelines to competent authorities

I. Assessment of the ‘scenario-specific recovery capacity’

II. Assessment of ORC – ‘Adjusted ORC’

- ORC final score

Setting the ORC framework for institutions (1/2)

I. ORC basic components

- **Credible and feasible recovery options** – non-exhaustive set of general qualitative requirements (i.e. past experience, level of preparedness, expected financial impact, etc.) for assessment
- **Severe scenarios** – ‘near-default’ point corresponding to the minimum capital/leverage and liquidity requirements (e.g. P2R and P2R-LR). Flexibility to deviate is restricted to limited cases

II. Defining ‘scenario-specific recovery capacity’

- **Starting point** – breach of the recovery plan indicator/indicators threshold that, according to the institutions’ recovery plan, would result in the implementation of one or more recovery options
- **Timeframe** for the recovery options implementation and effect – 12 months for impact on institutions’ capital profile and 6 months for impact on liquidity profile from the starting point
- **Representation** – the sum of the impact of the recovery options is expressed in terms of the main capital and liquidity indicators
 - CET1 Ratio, Total Capital Ratio, Leverage Ratio
 - Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)

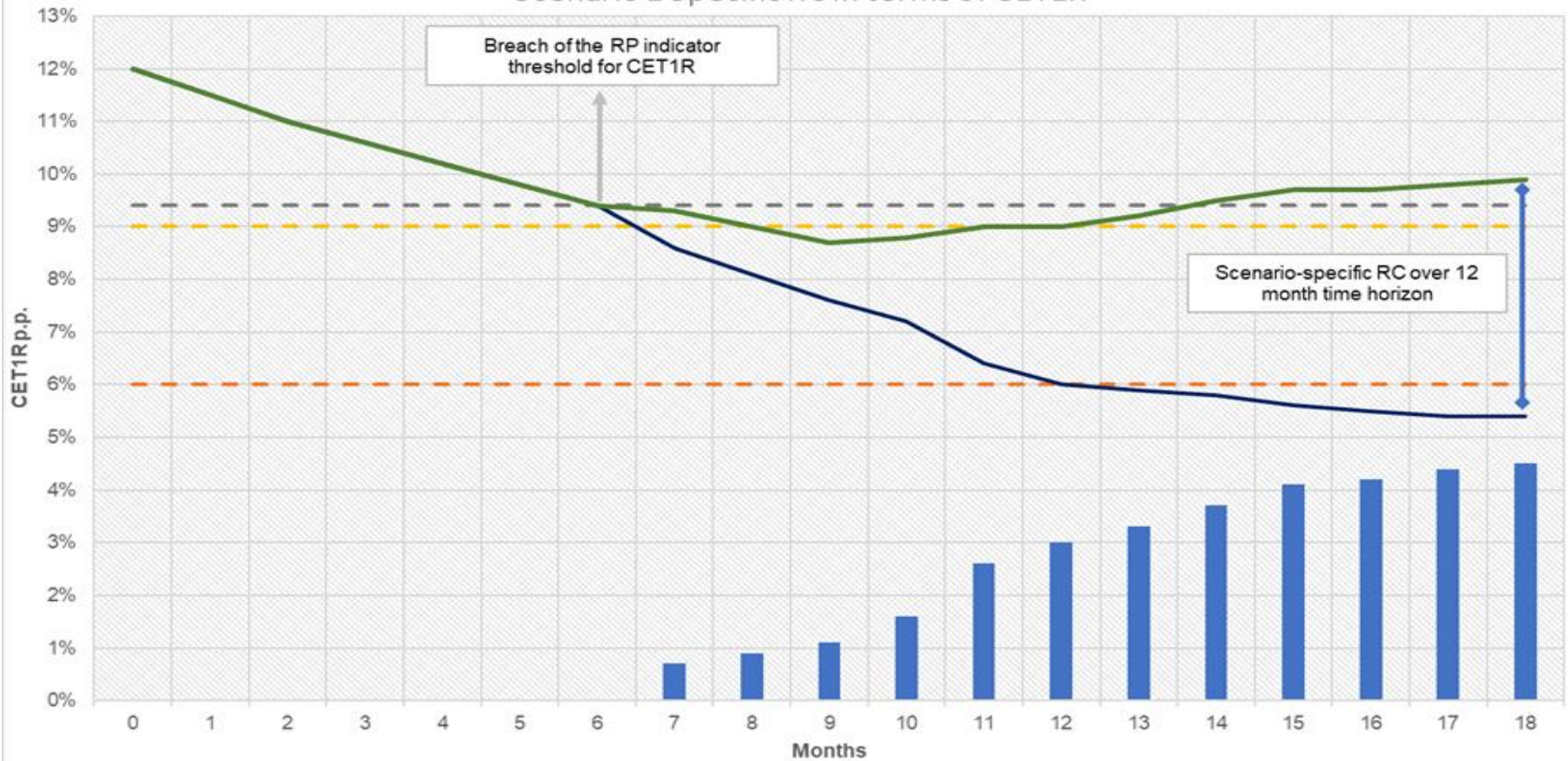
Setting the ORC framework for institutions (2/2)

III. Determining ORC

- **Selection of recovery options** – the institution should identify the recovery options that could be credibly and feasibly used under that specific scenario
- **Adjustment of recovery options** – the institution should further refine the choice of options to consider various constraining factors related to the simultaneous or sequential implementation of the combination of option (i.e. mutual exclusivity, interdependencies)
- **Calculation of ‘scenario-specific recovery capacity’** – the institution should add-up the impacts of the selected options under the specific scenario showing how the recovery capacity, both in terms of capital and liquidity, accumulates over time
- **Determination of the ORC range** – once the institution has calculated scenario-specific recovery capacity under each scenario, it will define its ORC as a range of these capacities. In order to build this range, institutions should consider the highest and lowest recovery capacity respectively in terms of capital (capital ORC) and liquidity (liquidity ORC) using the relevant scenarios – i.e. those scenarios where a depletion in terms of capital (for capital ORC) and/or liquidity (for liquidity ORC) has occurred

Illustrative representation – scenario specific recovery capacity

Scenario 1 Specific RC in terms of CET1R



- Scenario 1 Specific RC - CET1R
- Total SREP Capital Requirement (TSCR)
- Overall Capital Requirement (OCR)
- - RP Indicator threshold
- CET1R Evolution (no options)
- CET1R Evolution (with RC)

Competent authorities' assessment of ORC (1/2)

Severity of the scenario assessment

- In cases where CAs should not consider that institutions' scenario are severe enough, they could require institutions to make appropriate adjustments including the resubmission of the recovery plan as a result of the material deficiency assessment in accordance with Article 6 of Directive 2014/59/EU

Recovery options' assessment

- CAs should challenge institutions assumptions covering the following areas:
 - Feasibility/Probability that an option is successfully executed
 - Timeline for the implementation of the options
 - Assessment of the financial impact of the options
 - Additional constraining factors related to the simultaneous or sequential implementation of recovery options

'Adjusted ORC'

- 'Adjusted ORC' should reflect CAs assessment of the institutions' ORC having considered and reviewed the relevant elements underlying its determination

Competent authorities' assessment of ORC (2/2)

ORC final score

- **CAs should assign an indicative summary ORC** score with three potentially different outcomes (i.e. 'Satisfactory', 'Adequate with potential room for improvement', 'Weak') based on the level reached by the 'adjusted ORC' compared respectively to the institutions' relevant recovery plan indicators thresholds and regulatory requirements including the relevant buffers
- To properly reflect in the overall supervisory judgment both quantitative and qualitative aspects, **CAs have the possibility to adjust either upward or downward the assigned scoring by taking into account additional qualitative considerations on the overall ORC**
- The **ORC score supports the CAs' potential deployment of specific supervisory actions**, either in terms of identification of areas of improvement or material deficiencies related to the ORC
- The ORC score could serve as a **component of the assessment of the recovery plan** in the context of the overall assessment of the institution's risk profile **within SREP**

Questions for consultation (1/2)

Question 1: do you have any comments on the general factors to be considered when assessing credibility and feasibility of the recovery options?

Question 2: do you have any comments on the specification of the scenario severity for the purpose of calculating the ‘scenario-specific recovery capacity’?

Question 3: do you agree with the proposed criteria for the relevant starting point, timeframe (in particular with regard to the 6-month period for the LCR and NSFR) and representative indicators (in particular with regard to the explicit consideration of potential other/substitute indicators – e.g. MREL) for the ‘scenario-specific recovery capacity’?

Question 4: do you have any comments on the general steps to be followed for the determination of the ORC?

Questions for consultation (2/2)

Question 5: do you have any comments on the definition of the ORC as a range between the lowest and the highest ‘scenario-specific recovery capacity’ both in terms of capital and liquidity?

Question 6: do you have any comments on the scope of the assessment of the ‘scenario-specific recovery capacity’ by the competent authorities?

Question 7: do you have any comments on the proposed ORC score?

Question 8: do you have any comments on the possibility to identify areas of improvement or material deficiencies related to the competent authorities’ assessment of the ORC?

Thank you

Q&A



EUROPEAN BANKING AUTHORITY

20 avenue André Prothin CS 30154

92927 Paris La Défense CEDEX, France

Tel: +33 1 86 52 70 00

E-mail: info@eba.europa.eu

<https://eba.europa.eu/>