

June 11th 2013

UniCredit Group's reply to EBA's Consultation Paper for the Draft Technical Standards on the contents of recovery plans

UniCredit is a major international financial institution with strong roots in 20 European countries, active in approximately 50 markets, with about 9.200 branches. UniCredit is among the top market players in Italy, Austria, Poland and Germany and a market leader in the CEE region. UniCredit Group is acknowledged as a Global Systemically Important Bank.

Summary

UniCredit welcomes the possibility to comment on these Draft Technical Standards. Currently different practices are in place for defining the contents of recovery plans and therefore these Standards should sustain the regulatory harmonization in Europe.

In the current Draft however, UniCredit denotes some areas for improvement; in particular the following points ask for more attention in our view:

1. A Group Recovery Plan should be based on the principle that the **Plan should preserve the group's value while not endangering the local stability**, by ensuring a consistent Group approach; this implies the need to avoid conflicting and duplicative local requirements potentially jeopardizing the Group's effort;
2. A group Recovery Plan should see the **Holding Company in a coordination role**, while having **active involvement of the main Legal Entities**. The Holding Company has the responsibility to define the Group framework, methodologies and standards and to guarantee the overall coordination and coherence taking into account the Legal Entities' contributions. These contributions take into account specific needs, peculiarities and constraints in order to assure compliance with local specificities. Group coherence should also leverage on strong interaction among national competent Authorities, in particular in the Crisis Management Group;
3. The governance arrangements should **leverage on existing governance mechanisms** and recovery indicators should **not automatically trigger specific recovery measures**, but flexibility should be kept to assess the most suitable recovery option;

Q01: Have you already drafted/approved a recovery plan or are you in the process of doing so? Is your recovery plan in line with the contents of the draft RTS?

Yes. UniCredit Group was identified in November 2011 as a G-SIFI and as such confirmed by the FSB in subsequent updates.

The Group 2012 Recovery and Resolution Plan has been approved by the Board of Directors in December 2012 and was then submitted to Bank of Italy.

The Group's RRP has been shaped following the evolving regulatory environment, in a learning-by-doing process, while incorporating the different documents that have become available throughout this period from the various international bodies, first of all the FSB with its document "Key attributes of effective resolution regimes for financial institutions".

We believe our 2012 RRP is largely in line with this draft RTS; during 2013, based on the developments in the regulatory environment, the Plan will be further improved and integrated with new requirements.

Q02: Do you believe that the draft RTS on recovery plans is comprehensive and contains sufficient and relevant requirements to enable a timely and effective recovery of an institution in the event of financial distress?

Yes. In particular we support and would like to emphasize the importance of the following principles listed on pages 10-12:

- item (3): the five headings used to group the required information, together with the flexibility to present them in the order deemed most appropriate;
- item (4): the proportionality principle;
- item (6): indicators should not automatically trigger specific recovery measures, but flexibility should be kept to assess the most suitable recovery option in that particular situation and moment in time.

However, in item (2) it seems appropriate to underline that the **Group Recovery Plan** should be based on the principle that initiatives to be implemented in case of distress should **preserve the group's value while not endangering the local stability** through the impact on controlled institutions.

UniCredit Group's approach is built on this principle and the Plan is defined at Group level. The key goal is to meet regulatory requests with a single, coherent Group wide RRP leveraging on:

- **Holding Company coordination and active involvement of main Legal Entities.** The Holding Company has the responsibility to define the Group framework, methodologies and standards and to guarantee the overall coordination and coherence taking into account Legal Entities' inputs.
- Each Legal Entity has the responsibility to contribute to the Group RRP within the defined framework, methodologies and standards taking into consideration its specific needs, peculiarities and constraints in order to assure compliance with local specificities.
- **Strong interaction among national competent Authorities**, specifically leveraging on the CMG role in order to avoid centrifugal forces and not aligned local initiatives.

For cross border Groups like UniCredit Group, **coordination through the CMG is crucial** to preserve the Group's economic unity, despite the multiplicity of Legal Entities, to ensure a consistent approach and avoid conflicting and duplicative local requirements potentially jeopardizing the Group's effort. In such sense, the risk is to face incremental national requirements, ring fencing, trapped capital and liquidity pools, that could further lead to unjustified complexities, costs and inefficiencies in managing the Group structure (e.g. by duplication of operations and resources, loss of synergies, and higher funding costs).

A similar situation would have potentially negative implications on the Group's ability to exit a potential crisis situation safely, quickly and without destabilizing the financial system.

In light of the on-going definition of the regulatory framework and taking into consideration the guiding and steering role of the Holding Company in drawing the Group RRP, having the goal to preserve the Group's value, it should be assured that **in substance only one single (group) Plan exists and takes into consideration local** peculiarities and needs.

In this context the Basel Committee's proposal on Domestic SIBs, that are part of Global SIFIs, risks encouraging and formalizing the national ring fencing of capital and liquidity by national authorities which is hampering the efficiency of banks in providing financing to the real economy.

Q03: Please provide your views on the indicators and escalation process as stipulated in the draft RTS under Articles 2(2)(a) and 5(c), and on the other governance arrangements provided for by Article 5.

A key element in drafting and reviewing the Recovery Plan is the definition and update of the relevant metrics, triggers and limits within the Group Risk Appetite Framework ("RAF"), as a relevant input for identifying the occurrence of a critical situation and for possibly activating the appropriate remedial actions. These actions are described in two dedicated contingency policies one for Liquidity and one for Capital, that are key to understand how the Group moves from business-as-usual situation to Recovery phase according to the severity of the crisis. **Governance arrangements in the RRP thus leverage on existing governance mechanisms.**

The triggers and limits considered for the implementation of the Recovery Plan are consistent with the RAF, which is a management tool aimed to ensure that the business of the Group develops within the risk tolerance set by the Board. The Group RAF is currently defined based on **three main dimensions: capital adequacy, profitability & risk, funding and liquidity.** For each dimension relevant metrics are set and, based on the metric, target, trigger and limit are defined.

Following the definition of metrics and targets/trigger/limits, the Risk Appetite is regularly monitored and an escalation process at relevant organizational levels ensures a prompt reaction when triggers or limits are approached and/or breached.

It has to be considered that there is **no automatic, mechanistic contingency or recovery phase declaration.** The decision to call for a contingency or recovery phase remains a managerial decision which is embedded in the general risk management framework of the relevant bank's internal

contingency processes supported by the monitoring of the Risk Appetite Framework plus the experts judgmental evaluation.

Regarding Article 5, a clarification is needed for the use of the words "... the identification and functions of natural persons responsible ..." in Art. 5, (a), (1) and "... the identification of natural persons involved ..." in Art. 5, (c), (1), (a). In corporate documents like Policies and Internal Instructions it is custom not to use natural persons' names but a (nevertheless equally) precise indication like: "the head of ...", or "the responsible of ...". We seek confirmation that this can continue.

Q04: Please provide your views on the relationship between the governance arrangements provided for by Article 5 and current risk management processes/governance arrangements such as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP)

Without doubt in UniCredit the RRP governance has been based and leverages on the governance arrangements for the ICAAP (albeit the latter is more built for prudent management in "business as usual" circumstances), Capital and Liquidity contingency plans, as described under Question 3.

At the same time we would like to underline that the parallel should not be extended to metrics as well: ICAAP uses Pillar 2 metrics that lack comparability across the industry and therefore its usage endangers a level playing field. Under Pillar 2, Banks use different approaches and models, "host" regulators' discretion is higher than under Pillar 1 and the degree of regulatory harmonization is lower. As the goal is to manage a crisis rapidly, it is essential to use metrics that are as much as possible homogeneous, not only externally but also within a group structure.

Besides, Pillar 1 figures are already resulting more and more in an overarching risk representation, as we see a tendency of Regulators to use Pillar 2 results to demand "add-on"s to Pillar 1; this is enforcing our call to use Pillar 1 figures only.

Q05: Please provide your views on the requirements for the description of the institution or group, as stipulated by the strategic analysis in the draft RTS under Article 6 (3)

It could be useful to have some indication of the level of granularity that is required in the analyses, i.e. at which organizational level the analyses should be performed to describe the organizational units that compound a critical function or business line.

In our view, the analysis of interconnections should be approached based on **macro-aggregates** of functions, products, business lines or other aggregating characteristics.

When analysing the single economic functions it comes clear that there are aggregates that can hardly be separated and/or which are strongly interconnected. As it is clear that certain functions would be treated as one block in case of recovery or resolution, it seems more practical and closer to the real-life situation to analyse them as one aggregate.

This approach appears to be in line with ring-fencing concept arising in macro prudential trends for bank regulation (e.g. Likanen). Whereas these trends do not refer to specific resolution regulations, nevertheless they show a clear ex-ante indication that a bank is naturally characterized by areas of different systemic risk and importance and "naturally" consistent activities (critical economic functions) which a bank intends to preserve according to the same lines of separation.

Q06: Please provide your views on the requirements for the recovery options, as stipulated by the strategic analysis in the draft RTS under Article 6 (4). Does this requirement comprehensively and adequately capture the different categories of recovery options that could be considered?

Yes, we believe all significant options have been considered.

Q07: Please provide your views on the requirements for the communication plan, as stipulated in the draft RTS under Article 7.

Item (2) states in essence that an implementation plan for communication and disclosure should be made for each single recovery option. We wonder if this could be done more efficiently by a number of different plans applicable to groups/clusters of recovery options that present the same communication and disclosure needs.

Q08: Please provide your views on the requirements for preparatory measures, as stipulated in the draft RTS under Article 8, providing in particular your views on the question what types of preparatory arrangements or measures could or should be taken into account in the analysis of the recovery plan.

Rather simply stated, preparatory measures should focus on the main barriers and obstacles that hinder, make inefficient or delay the implementation of the recovery actions and that can be implemented already at a reasonable cost. Analyses of the feasibility / affordability of the cost depend on how serious the barrier would be.

As item (a) describes an (although important) example of recovery actions, we do not see the need to maintain two different items and suggest to merge the text of (a) and (b) in one single item.

Q09: Do you agree that some of the costs of preparing recovery plan are already incurred by the requirements of having a proper risk management framework?

To a certain extent, yes. Some costs are already partially sustained in existing risk and risk appetite management frameworks.

Nevertheless, various parts of the Recovery Plan need to be implemented separately and therefore produce additional costs. Costs are dependent on the requirements that are still being drafted; for example the treatment of macro-aggregates and other pragmatic solutions can improve efficiency and contain additional costs.

Q10: Could you indicate whether all the main drivers of costs and benefits have been identified? Are there any other costs or benefits missing? If yes, could you specify which ones?

In our view the impact assessment covers all relevant costs and benefits.

Q11: Do you agree that, for an institution, the costs of producing a recovery plan are likely to be proportional to the size/complexity of the firm and so of the costs its failure may create? If not, could you explain why?

In principle and as a rule of thumb we agree that size and complexity determine the costs for the Plan and are more or less in proportion of the cost of failure. Complexity also stems from a multiple country presence.

In any case, the costs will depend primarily from the way the Regulators will apply the proportionality principle on the smaller institutes, as well as in defining relevant or non-relevant entities within financial groups. If for example for local interest, Regulators will insist on having individual recovery plans for relative smaller entities, the costs of producing recovery plans will not be proportional. In this sense it is important also to understand up to which degree local plans should be different in comparison with the corresponding group plans, and therefore how much of the group synergy will be "lost".

Q12: Do you agree with our analysis of the impact of the proposals in this CP? 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?

Yes, we agree with the analysis of the impact of the proposals although further analyses / quantitative study of the likely impact of the proposals would be desirable.

Contacts

Please find below the list of the people involved, whose contribution enabled the coordination and drafting of the UniCredit answers to this Consultation.

Coordination and Reviewing Team:

Fabrizio Rinaldi - Cross Risks Analysis And Control (Group Basel Program), UniCredit SpA
Hubert Crielaard - Cross Risks Analysis And Control (Group Basel Program), UniCredit SpA
Monika Goschler-Praxmarer – PMO Recovery & Resolution Plan Project, UniCredit Bank Austria AG
Karin Linnenbrink - Risk Framework and Strategies, UniCredit Bank AG
Emilio Dilorenzo - Cross Risks Analysis And Control (Group Basel Program), UniCredit SpA
Simone Davi - Cross Risks Analysis And Control (Group Basel Program), UniCredit SpA

Contributors:

Fabio Amati, Antonello Antinolfi – Organizational Governance & Rules, UniCredit SpA
William Della Vedova – Group Liquidity Risk Management, UniCredit SpA
Davide Stroppa – Capital Management, UniCredit SpA
Piero Bondi – Global Legal, Unicredit Spa
Lorenzo Berneri – Back Office and Publishing, Unicredit Spa
Costanza Buttinelli – Data Governance, Unicredit Spa
Costanza Bufalini- European and Regulatory Affairs, Unicredit Spa
Marco Laganà- European and Regulatory Affairs, Unicredit Spa
Sara Mazzoleni- ICT Coordination for Regulatory, Unicredit Business Integrated Solutions