

EBA/CP/2013/09

Draft Regulatory Technical Standards

Specifying the range of scenarios to be used in recovery plans under the draft directive establishing a framework for the recovery and resolution of credit institutions and investment firms

Deadline 20-08-2013

Questions related to the draft RTS:

As a general comment, rather than a scenario driven analysis, the main focus of a recovery plan should be the description and qualitative evaluation of procedures, mechanisms and governance in place to deal with adverse situations.

Q01 - Have you already drafted financial distress scenarios for the purpose of testing a recovery plan or are you in the process of doing so? If so, are these financial distress scenarios in line with the contents of the draft RTS?

In Portugal, recovery plans were prepared for the first time in the first quarter of 2013. In order to elaborate them, banks had to prepare financial distress scenarios for the purpose of testing them.

Bank of Portugal (BoP) and the Portuguese banks had previous discussions regarding the preparation of these scenarios and whether any guidelines or economic perspectives would be provided by the national authority on which to build scenarios and test the recovery plans.

Since this was the first time that recovery plans would be presented, BoP gave banks some discretion on the preparation of scenarios, but recommended banks to use as a starting point the adverse stress scenarios that had been designed by BoP for purposes of construction of Funding and Capital Plans.

Each institution was asked to build at least one system wide event scenario and one that combined the system wide event with an idiosyncratic event. This allowed banks to build what they found to be the most appropriate aggravated stress scenarios to test recovery plans, and to adjust them to each institution's own characteristics and reality.

On average, banks built from 4 to 6 scenarios, consisting of system wide, idiosyncratic and combination scenarios.

Q02 - Have you developed group or solo specific scenarios to test the adequacy of the recovery plan?

Portuguese banks had to develop group and individual recovery plans.

Q03 - Do you believe that the draft RTS on the range of scenarios for recovery plans is adequate to ensure that firms test their recovery plans against a range of scenarios of financial distress?

Article 4 needs clarification:

- Since a system wide event does not need to have all the disturbances that are predicted in paragraph 2 (specially simultaneously), it is important to clarify if subparagraphs (a) to (e) represent a mandatory check list that is needed to incorporate in the construction of these scenarios, or merely suggestions;
- It is important to define "slow-moving" and "fast-moving" in the adverse events that are mentioned in paragraph 5;
- It is important to clarify how paragraphs 4 and 5 articulate.

Q04 - How many scenarios have you been required to develop to test the adequacy of the recovery plan? Have you included slow or fast moving events?

Please read the answer to Q01.

On average, banks built from 4 to 6 scenarios, consisting in system wide, idiosyncratic and combination scenarios.

Q05 - Have you used reverse stress testing as a starting point for developing financial distress scenarios?

Please read the answer to Q01. Some banks did, some banks didn't.

Q06 - What are the additional costs to develop financial distress scenarios in respect to the current practices of reverse stress testing?

Building a coherent financial and economical environment/story to provide for the intended end effects under a reverse stress testing procedure is of a more complex nature than simply running an economic/financial stress scenario.

Q07 - Do you believe that the events that institutions or groups need to consider and include where relevant are most suitable? If not, what other events ought to be taken into account?

Please read the answer to Q03.

Q08 - Do you have any general or specific comments on the draft RTS?

No comments.

Q09 - Are the definitions and terminology used in the draft RTS clear?

Please read the answer to Q03.

Article 3.1.b needs clarification in the definition of "*failure*". Several options can be used to define failure, such as being "below regulatory minimum capital", "lack of liquidity", or "need to resort to emergency backstops" (would it include the ones of temporary nature?).

Questions related to the Impact Assessment

Q10 - Do you agree that, for an institution, the costs of developing financial distress scenarios to test 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?

The preparation of recovery plans is a very time consuming task, since the level of information that is requested is very high, and the analysis that is needed to perform is profound and meticulous. In every bank, several departments have to be involved in the preparation of the information and of the recovery plans.

Smaller banks, that have narrower structures and less physical resources than larger institutions, felt that the costs and the time of producing recovery plans were not proportional to their size and complexity. But the complexity also rises as Groups are concerned and in that sense there might be reasons to expect that costs only start being diluted when a significant dimension is achieved. So, small to medium size groups may be particularly impacted on a relative basis.

Q11 - 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?

No comments.