

August 20th 2013

UniCredit's reply to EBA's Consultation Paper for the Draft Technical Standards specifying the range of scenarios used in recovery plans

UniCredit is a major international financial institution with strong roots in 22 European countries, active in approximately 50 markets, with about 9.100 branches and more than 155.000 employees. UniCredit is among the top market players in Italy, Austria, Poland and Germany. In the CEE region, UniCredit operates the largest international banking network with around 4.000 branches and outlets, and is a market leader.

General Considerations

UniCredit welcomes the possibility to comment on these draft RTS. Currently different practices are in place for defining the contents of recovery plans and proposed RTS should firstly promote the effectiveness of the Group's Recovery Plans and secondly foster the regulatory harmonization within the EU.

To this end, UniCredit would like to highlight the following:

1. A certain level of flexibility should be left to groups/institutions in designing the scenarios to be taken into consideration to concretely test the recovery actions. In this regard, neither option B1 nor B2 seem to fully recognise the need to maintain a proper balance between the need to adapt to the group characteristics and to safeguard the level playing field. Should the option B2 be chosen at the beginning, UniCredit strongly advises that an effective coordination amongst the competent authorities is pursued, also by the means of the Crisis Management Group. UniCredit draws the attention to the need to avoid incremental national requirements such as ring fencing, trapped capital and/or liquidity pools, that could hamper the effectiveness of the group's recovery actions and further lead to unjustified complexities, costs and inefficiencies in managing the Group structure. A third option could be considered to adapt specified scenarios regardless of the countries. UniCredit would expect the EBA to consider ECB's proposals in this regard.
2. It is assumed that competent authorities are fully aware that **group-wide idiosyncratic scenarios** are not consistent with the construction of the definition of G-SIFIs. Therefore, UniCredit Group would expect for the groups' structural features to be properly taken into account, that either the competent authorities adjust, in a coordinated manner, such scenarios accordingly, or the EBA to provide a EU-guided flexibility to a predefined set of financial institutions.

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?

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 (RRP) was approved by the Board of Directors in December 2012 and then submitted to Bank of Italy, the home supervisor.

The UniCredit RRP will be reviewed on an on-going basis to take into account any relevant changes within the legal entities, the financial system and the regulatory environment. The same applies to specific financial distressed scenarios. Indeed such scenarios are already aligned with what has been drafted by the draft RTS and will take in, step by step, any upcoming indications from competent authorities and/or evolving regulatory environment.

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

Both scenarios have been requested by the NSA and therefore developed.

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?

In order to ensure that recovery plans are adequately tested UniCredit strongly supports the concept that scenarios should be based on the events that are the most relevant to the institutions or groups and consequently could trigger their failures. This could mean that the set of scenarios could not be fully exhaustive if compared to those currently listed in the draft RTS.

“Pure” idiosyncratic events cannot always properly fit in with the definition of a G-SIFI given that, being global and to a certain extent “systemic”, a significantly important financial institution is present in several geographies by different businesses and such a business set up is likely to trigger rather system-wide effects. Hence, by construction, the event cannot be purely idiosyncratic.

Moreover when designing scenarios of financial distress, assessments of the impact of the events such as the impact on available capital and liquidity should be included. Still important but less relevant to this matter is the assessment of group’s profitability being the latter more a consequence of specifically taken measures rather than a direct lever to play with as well as less urgent in a crisis situation. Finally from the technical option point of view as per this Consultation Paper, UniCredit fully agrees with the option A2 that is not to require any additional test of extreme positive and negative results in addition of the stress parameters already considered in each scenario. Should option B2 be chosen at the beginning (that is to leave the discretion to the national supervisory authorities (NSAs) on the type and number of scenarios that will need to be tested), UniCredit strongly advises that an effective coordination amongst the competent authorities is pursued, also by the means of the Crisis Management Group. UniCredit draws the attention to the need to avoid incremental national requirements such as ring fencing, trapped capital and/or liquidity pools, that could hamper the effectiveness of the group recovery actions and 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 third option could be considered to adapt specified scenarios regardless of the countries (e.g. for the G-SIBs or those subject to direct supervision by the ECB). UniCredit would expect the EBA to consider ECB’s proposals in this regard.

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?

All scenarios UniCredit was required to develop have taken into account the recommendations given by this Consultation Paper. Hence, system-wide, idiosyncratic events and both fast and low scenarios have been developed.

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

Yes, reverse stress testing analyses were designed and used as an input for developing financial distress scenarios.

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

UniCredit does not expect significant additional costs for designing financial distress scenarios as envisaged by the Consultation Paper.

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?

UniCredit deems they are comprehensive.

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

No other relevant remarks nor comments as Q03 exhaustively covered the matter.

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

Yes they are.

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?

It is believed that compliance costs of testing recovery actions are offset by the additional degree of transparency and clarity the group can reach through the Group Recovery Plan. Moreover, for cross border banking groups like UniCredit, an **effective and efficient Single Supervisory Mechanism as well as coordination through the CMG are crucial** in order:

- a) to guarantee effectiveness of the group recovery actions and
- b) to avoid 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).

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?

Yes we do.

Contacts

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

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