

50 Bank Street
Canary Wharf
London E14 5NT
United Kingdom
Tel +44 (0) 20 7982 2000
Fax +44 (0) 20 7982 2002



Northern Trust

European Banking Authority
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ

11th June 2013

Consultation Paper (EBA /CP/2013/01)

**Draft Regulatory Technical Standards (RTS) on the Content of Recovery Plans
under the Draft Directive Establishing a Framework for the Recovery & Resolution
of Credit Institutions and Investment Firms**

Northern Trust Corporation (NTC) is a U.S. multi-bank holding company with its headquarters in Chicago, Illinois. The corporation has an evolving network of offices in 18 U.S. states and 16 international offices in North America, Europe, the Middle East and the Asia-Pacific region. As of 31st March 2013, Northern Trust Corporation had assets under custody of \$5.02 trillion, assets under management of \$810 billion, and total assets of \$91.6 billion.

NTC conducts much of its global activities through The Northern Trust Company (TNTC), an Illinois-chartered bank with subsidiary banks and branches in the U.K., Europe and Asia-Pacific.

The primary reason for responding to this consultation paper is to highlight our concern that for third country US headquartered organisations, individual subsidiary or EU group recovery plans are of limited value outside of a whole group context.

We appreciate that the EBA is primarily concerned with developing a common supervisory culture across the EU, however, we believe there needs to be a consistent approach between home and host state regulators to create a set of requirements that are appropriate for global organisations. Otherwise there is a risk that well-constructed local recovery plans may not achieve their stated aim.

Our responses to the 12 questions within your consultation paper are as follows:

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?

As a US headquartered organisation with banking operations in the US and UK, Northern Trust has been in discussions with local regulators in those jurisdictions regarding the format and scope of our recovery and resolution plans.



Under the phased implementation outlined by the Federal Reserve in their letter of December 17, 2012 (SR 12-17), we have yet to commence work on our US recovery plan. However, recovery plans have been completed for our UK subsidiaries in line with Financial Services Authority (now Prudential Regulation Authority) requirements – Feedback Statement (FS) 12/1.

The key difference between the EBA’s proposals and the PRA requirements is in respect of Article 6 – strategic analysis. Firms completing UK Recovery Plans are asked to document a range or “menu” of recovery options, but are not asked to test those options against specific stress scenarios.

Whilst there are no other major differences between the requirements of FS 12/1 and the EBA’s proposals, some of the information required by the EBA RTS does not appear directly within the PRA Recovery Plan (Module 2). For example, much of the strategic analysis under Article 6, falls within Module 3 – Group Structure & Key Legal Entity Information.

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?

While the draft RTS would appear to be sufficiently comprehensive, for third country non EEA headquartered organisation such as ourselves, local recovery plans have limited value outside of a group context.

The operating models of Global banks are built to take advantage of efficiencies across the organisation. Consequently, subsidiaries are likely to be dependent upon the wider Group for a range of services, such as technology, personnel and premises.

Therefore, unless home and host state regulators work together, there is the possibility that well-constructed local recovery plans may not be effective in ensuring the timely and effective recovery of an EU subsidiary.

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.

In order for recovery plans to be effective, there needs to be sufficient time to enable the selected recovery action(s) to take effect. The use of early warning indicators is instrumental in providing senior management with adequate notice to take mitigating action.



The RTS is closely aligned to the requirements in FS12/1, which asks firms to describe the internal decision making process for determining when recovery triggers are reached and for agreeing what remedial actions are necessary. FS 12/1 also requires a list of the key staff involved in that decision making process.

The EBA may want to revise its draft RTS to include a requirement for firms to provide high level estimates of the time they believe it would take to realise the benefits of each recovery action.

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)

With their focus on capital, liquidity, profitability and risk profile, recovery plans cover much of the same ground as ICAAPs and ILAAPs. This point was recognised by the FSA in their Feedback Statement 12/1, proposing that firms may want to streamline their processes by merging the Recovery Plan with their Contingent Funding Plan (CFP). Therefore, in embedding their recovery plans firms will be looking to extract maximum efficiencies from their existing capital and liquidity risk management and governance framework.

Subsidiaries with individual recovery plans need to retain local control/governance so they can react to situations directly impacting their business. Further, as the subsidiary's Board is responsible for approval of the Recovery Plan, ICAAP and ILAAP, the need for local governance is essential.

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)

To be most effective, we agree the recovery plan should include the requirements outlined in Article 6 (3). This information will help senior management and regulators better understand the interconnectedness between the individual entity, the group and any third parties.

However, this information does not need to be contained within the Recovery Plan, but can be incorporated into other modules of a firm's recovery and resolution plan such as the case with the framework established by the PRA, where that context is primarily provided in Module 3 – Group Structure & Key Legal Entity Information.



Whatever is finally decided regarding the location of the strategic analysis data, we ask that the EBA minimise any duplication.

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?

We believe the strategic analysis required under Article 6 (4) & (5) is sufficiently comprehensive.

However, while the EBA proposals are relevant in the context of an EU Group, there needs to be a consistent approach between home and host state regulators to create a set of requirements that are appropriate for global organisations such as ourselves.

Q07

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

We agree the need for firms to have plans in place that deal with external and internal communication at the level of each recovery option – a proposed requirement in the UK – however, we believe the need to complete an impact assessment can only be performed at the time.

The number of variables means that it is very difficult to anticipate the exact circumstances under which each option will be deployed. However, the use of effective early warning indicators should provide firms with sufficient time to assess the impact any communication will have on both their business and financial stability in general.

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.

Depending on the composition of the Group, there may be limited opportunities for EU subsidiaries to take preparatory measures such as the sale of assets and/or business lines.



Therefore we believe there needs to be a coordinated approach between the firm, home and host state regulators to create a set of requirements that are appropriate for global organisations such as ourselves.

Questions related to the impact assessment

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?

A recovery plan is an extension of a firm's existing risk management framework and so we would agree with the above statement.

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?

As stated in our response to Q01 above, much of the proposed EBA RTS are in line with the PRA requirements and so there should not be any significant additional costs, other than the resources required to test each recovery option against specific stress scenarios. Without knowing the number of scenarios, it is not possible to quantify the associated cost of this work.

We agree with the benefits identified, however, to ensure the use of similar data and practices there needs to be a coordinated approach between the firm, home and host state regulators to create a set of requirements that are appropriate for global organisations such as ourselves.

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 general terms we agree that the costs of producing a recovery plan will be proportionate to the size, complexity and interconnectedness of the institution. However, we believe that for global firms such as ourselves, the only effective way to perform recovery planning is at the group rather than the individual entity level. There are likely to be actions open to the group which are unavailable to the subsidiaries and which may override anything the subsidiary is planning.



Northern Trust

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?

Depending on the size and complexity of a firm, the failure of a non EEA parent entity is likely to have significant consequences for its EU subsidiaries. Assuming the subsidiaries have sufficient capital and liquidity resources to cover the duration of any wind-down period, they are still likely to depend on the parent for information technology, premises and shared services.

To truly understand the impact failure of a global firm would represent, there needs to be a coordinated supervisory approach by both home and host state regulators. Otherwise, despite the investment made in the creation of local recovery plans, there is likely to be a reduced chance of successfully recovering subsidiaries from severe stress scenarios.

Mark Jones
Senior Vice President
Corporate Risk Management