Standard Chartered

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**Subject:** EBA Discussion Paper on a template for recovery plans
**Reference No:** EBA/DP/2012/2

15 June 2012

Standard Chartered should like to respond to the EBA Discussion Paper ("DP") on the template for recovery plans published on 15 May 2012. This letter contains summary observations about the structure and contents of the template and some specific responses to the detailed questions set out in the DP.

Standard Chartered is headquartered in the United Kingdom and authorised and lead regulated by the UK Financial Services Authority ("FSA"). Standard Chartered is a participant in the FSA pilot exercise for Recovery and Resolution Planning ("RRP").

**Summary observations**

Standard Chartered supports recovery planning and views it as a necessary tool with which to help minimise market disruption in any future financial crisis. Standard Chartered is encouraged to see this EBA DP published with an overarching aim of developing best practice, however we would note that it is key that the requirements of the regulatory authorities' in this regard are harmonised.

Furthermore, Standard Chartered would encourage the EBA to engage closely with national regulators, both within and outside Europe, when developing the requirements. To assist in this process, engagement with the FSB on this subject should also be sought. This is of particular importance to large international banks with a global footprint such as Standard Chartered.

It is hoped that the feedback provided in the Appendix below will be useful to the EBA in taking this agenda forward, and Standard Chartered look forward to engaging further on this topic as the supporting regulatory framework develops in the forthcoming months.

Yours faithfully

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**Appendix A - Responses to specific questions**

**Q1. Have you already drafted/approved a recovery plan or are you in the process of doing so? If so, please refer to the following questions referring to your experience.**

Standard Chartered has developed and implemented a recovery planning framework and is expecting to implement it in BAU from 1 July 2012, subject to obtaining the necessary internal approvals.

The responses provided below are based on our experience of drafting this framework and piloting it for a 3 month period in early 2012.

**Q2. Is your recovery plan or would your future recovery plan be in line with the contents of the template and its underlying approach? Please mention the relevant differences if there are any.**

We note that the broad structure and contents of the template are largely consistent with the FSA's draft requirements on recovery planning set out in CP 11/16 and FS 12/1 and under which it has developed its own recovery planning framework. However, we would request the consideration of the following points when formulating the final standards:

1. Standard Chartered has provided, in line with FSA draft requirements, all information relating to the firm's financial structure and the inter-dependencies across its business as part of its Resolution Pack. While some of this information may also be relevant to recovery planning it should be ensured that the same information is not requested twice.

2. Standard Chartered believes that the use of hard triggers in escalating for decision, informed discussions around entry to recovery, is dangerous and possibly counterproductive. Instead, given that entering a state of recovery is a serious event, with potential regulatory implications, the point of entry to recovery, while usefully informed by a set of appropriate financial metrics, should ultimately be a question of management judgement.

3. The draft template notes the need to incorporate "*criteria that will determine which management action will be implemented*". We do not believe any management actions should be pre-programmed as there are an infinite number of different stresses that could be encountered by a firm, each with their own optimal combination of responses in terms of management actions taken. Instead, the focus should be on ensuring the appropriate senior management discussion is held sufficiently rapidly, and that such a discussion is furnished with the necessary information. It will also be important that the attendees have the necessary executive authority with which to make a decision to implement the optimal management action(s) at that time.

4. As part of the governance over a firm's recovery plan, we would recommend the appointment of business "owners" of each of the management actions set out in its recovery plan. These owners would take responsibility for overseeing the implementation of their respective actions, and calibrating the potential liquidity, capital and profitability impacts. Such an approach would help to embed the recovery plan within BAU operations.

5. If there is specific information that the authorities would require in a recovery scenario in order to make their own assessment of the situation, we would encourage

regulators to engage with firms on the structure and form of such information in advance so that steps can be taken to ensure that this would be readily available.

6. Standard Chartered would strongly recommend including forward looking metrics based on measuring the adequacy of a firm's liquidity resources under stress, taking into account the management actions available to it, in addition to traditional point-in-time financial metrics.

7. There is no mention in the draft template of the link to existing internal risk management practices or regulatory requirements. Suggested areas of consideration would include:

    - Contingency Funding Plans
    - Liquidity stress testing
    - Individual Liquidity Adequacy Assessments
    - Individual Capital Adequacy Assessment Processes
    - Reverse stress testing

**Q3. Are there legal provisions and/or guidelines in place in your jurisdiction with regard to recovery plans and resolution plans? If so, are there any elements of this template which conflict with those provisions?**

The FSA released CP 11/16 on RRP in August 2011 and Standard Chartered has formulated its recovery planning framework in line with these draft requirements. This was followed by a release of FS 12/1 in May 2012 which, taking into account feedback received on CP 11/16, includes updated RRP requirements although those relating to a firm's recovery plan are largely unchanged.

The release of the FSA's final rules on RRP had been delayed until after the release of the European Commission's Draft Crisis Management Directive and these are now expected in the autumn, 2012.

There are no major conflicts between the FSA's draft requirements and those set out in this template. Please refer to the answer provided to question 2 above, which includes details of any observed inconsistencies.

## Q4. What kind of legal implications and/or binding effects does the plan have in your jurisdictions, if any, and what should they be, in your opinion?

All UK banks will be required to produce RRPs under the current draft FSA requirements.

In due course, RRP policy and supervision will fall under the auspices of the Prudential Regulation Authority ("PRA") in the UK. The PRA intends to set up a Proactive Intervention Framework ("PIF") which will map the PRA's assessment of risk to a firm's viability, with the potential for remedial actions to be enforced. The strength of a firm's recovery plan is likely to be a material factor in making such an assessment.

Additionally, the final Independent Commission on Banking ("ICB") report published in September 2011 specifically recommended that the biggest UK banks should be required to hold primary loss absorbency capacity of at least 17%, with scope to increase to 20% depending on the risk posed to the UK taxpayer from its international operations - largely measured through assessing the credibility and effectiveness of a firm's RRP. This clearly incentivises the production of high quality recovery plans, although the scope and rationale of the capital surcharge needs to be made clearer.

**Q5. Do you believe the draft recovery template to be sufficiently comprehensive and cover all the aspects relevant for the purpose of the recovery plan? If not, please specify what is missing.**

Standard Chartered believes that the draft recovery template captures each of the key elements that need to be considered when creating a robust and effective recovery plan.

However, prior to any such template being formally adopted, Standard Chartered would request the following:

1. That work is undertaken to ensure that the requirements included in such a template are consistent and aligned with similar national requirements on RRP. This should include engagement with the FSB to ensure that any suggested requirements they release are harmonised with those of the EBA. This is of particular importance for those financial institutions with a global footprint such as Standard Chartered.

2. That further work is undertaken to develop the current high-level template into a more detailed set of requirements. This will be imperative in ensuring consistency in adoption at a national level and the subsequent preparation of banks' recovery plans to an appropriate standard.

**Q6. Should the recovery plan include scenarios and assumptions as possible points of reference for testing the various recovery options? What role should they play within the recovery plan and with respect to the possibility to consider per se the various triggers and negative impacts?**

Scenario analysis can be useful, to an extent, in measuring the effectiveness of a firm's recovery plan under severe stress.

As noted in the answer to question 2 provided above, Standard Chartered believes however that the use of a forward-looking metric which measures the adequacy of a firm's liquidity resources under severe stress, taking into account the management actions available to it, would be an effective and informative complementary tool to any scenario or metrics-based assessment. However, requiring multiple scenario analyses to be undertaken would not be an effective use of time or resource as it is not possible to forecast the specific stress scenario a firm would be faced with in practice.

**Q7. How would/do you identify quantitative and qualitative recovery early warnings and triggers? What are the key metrics you would use to develop early warnings and triggers?**

Escalating the discussions regarding a firm's entry to recovery should be based on two types of metric, assessed together. These are as follows:

1. **Early Warning Indicators ("EWIs")** – a set of metrics specific to the firm which will inform in advance whether the market and/ or firm are likely to come under severe stress. These EWIs should include metrics which measure:

   a. The firm's existing balance sheet structure, both from a liability and asset perspective;
   b. The condition of the external funding markets;
   c. The external market perception of the firm; and,
   d. The performance of the firm in meeting regulatory liquidity and capital requirements.

2. **Forward looking balance sheet metric** – a projection of cash-flows under stress over a prolonged period measured against the liquidity realistically realisable through executing the management actions available in that specific scenario.

The EWIs are used to determine whether the market or firm is, or has the potential to come under stress, and the forward-looking balance sheet metric provides an analysis of how the firm would perform if the stress were to hit. This relationship can be summarised in the following table:

**Table 1: Escalation quadrant**

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Forward-looking balance sheet metric</th></tr>
<tr><th>Normal</th><th>Below minima</th></tr>
<tr><th rowspan="2">EWIS</th><th>Normal</th><td>No issue – continue monitoring</td><td>Balance sheet structure escalation discussion</td></tr>
<tr><th>Below / above minima</th><td>Recovery escalation discussion – heightened state of alert</td><td>Recovery escalation</td></tr>
</table>

As is clear from the relationship described in the table above, these metrics should not hard-wire any decision making, but instead inform the need for management to escalate the issues for rapid consideration and decision at an appropriate forum.

## Q8. What kind of corporate governance arrangements have you adopted or would you adopt for recovery planning? Please comment on differences to the template.

Firms should ensure that governance arrangements for recovery planning are aligned with those that are currently in place with regards to existing crisis management planning.

The governance arrangements supporting  the Standard Chartered framework for recovery planning have been structured in a manner which is consistent with the draft requirements set out in the FSA's CP 11/16 and FS 12/1 on RRP.

These requirements are broadly as follows:

1. A firm's recovery planning framework should be reviewed and approved by the Board or an appropriate senior governance committee.
2. A firm should nominate an executive director responsible for the firm's recovery plan (and resolution pack) and for acting as the firm's contact point with the authorities on its recovery plan.

In addition to the above arrangements, each aspect of Standard Chartered's recovery plan has a specific and tailored review and approval process prior to submission for the ultimate sign-off. This process begins in the business and escalates through the appropriate senior governance committees across the firm.

There are no conflicts between this approach and that outlined in the template.

### Q9. How do/would you ensure the consistency between your group recovery plan and recovery plans drafted by your main entities? For this purpose, are you aware of any obstacles in the current legal framework?

Given that recovery may require a firm to take franchise damaging actions, it should inherently be a group level decision.

Recovery planning should therefore be carried out on a top-down basis, coordinated centrally at the group level in consultation, as necessary, with the home and host regulators. The requirement for local level recovery plans should therefore not be necessary.

Furthermore, consideration of and comment on, a firm's recovery plan by a host supervisor should be managed by the home regulator through the firm's Crisis Management Group ("CMG").

### Q10. What range of recovery measures do you think should be envisaged in the template?

A firm's recovery options should incorporate all the balance sheet levers that it has at its disposal in order to generate liquidity, deleverage the balance sheet and raise capital rapidly. These options should be robust to severe stress.

### Q.11 Have you got any remarks or concerns related to the confidential nature of the information provided in the recovery plan? If so, please elaborate.

Firms' recovery plans are inherently very sensitive documents and therefore highly confidential. Access to such documents should be strictly controlled to ensure that this confidentiality is maintained.

As noted in the answer to question 9 above, information within a firm's recovery plan should only be shared with host regulators through a firm's CMG, and only then when there is a robust Memorandum of Understanding ("MOU") or other legal structure in place between the home and host regulator. Such an arrangement should protect the confidentiality of information in respect to any Freedom of Information request that may be raised in the country of the host regulator.

Furthermore, proper safeguards need to be put in place within firms and their home regulators to ensure that such plans are only accessible by a controlled list of staff members with the appropriate permission rights.

### Q.12 Should the plan include a ranking among the various recovery measures, differentiating between them with regard to possible scenarios and assumptions and taking into account the expected impact of each measure?

We do not believe it to be appropriate to rank recovery options with regard to possible scenarios and assumptions. This would be a superficial exercise, adding no value to a firm's recovery plan, with potentially dangerous implications.

A firm's recovery plan should not contain hard-wired decisions with regards to the actions to be taken in different scenarios, as each scenario is different, no stress is the same as the last, and the optimal actions to deal with such a stress cannot be pre-programmed.

Instead, such decisions should be based on management judgement. This judgement would be made after assessing the characteristics of the prevailing stress and the range of options available. Management would then be best placed to determine the optimal combination of actions to contain and correct the prevailing stress.

### Q.13 How would you assess the credibility of a recovery plan? Please comment on your experience.

The credibility of a firm's recovery plan is primarily driven by the scope and scale of the management actions available to it and their effectiveness under severe stress, supported by a robust operational framework for their rapid implementation in the event that they were needed.

Furthermore, these management actions should be able to restore regulatory metrics above minimum requirements over a relatively short time-frame, in a manner which ensures regulatory and market faith in the firm.

Such a judgement is not straightforward given that a recovery plan has many components without which it would not be effective. Therefore, it is important that this is considered by the appropriate level of executive management within firms. Also, the incorporation of recovery plans into existing stress testing initiatives will assist.

### Q.14 What kind of information arrangements have you put in place to ensure that the right information is available within a short time frame for decision-making in a stress situation?

As noted in answers above, each stress is different and therefore the information requested by senior management in response to these scenarios should not be pre-programmed as they will naturally be different and wide-ranging.

The Group already produce a significant amount of internal MI and regulatory information in relation to the balance sheet and its liquidity, including a forward looking measure of stress cash-flows, which can be generated rapidly if needed.

### Q.15 How frequent should interactions/iterations between the supervisor and the financial institution be? What role should the supervisor play?

As firms draft and evolve their recovery plans, engagement with home regulators should be relatively frequent, to ensure a strong level of understanding and the support for the direction of its development.

Once a firm's recovery plan has been reviewed and approved by the home regulator, the frequency of interaction should ultimately be a function of the risk profile of the firm, in part driven by their potential systemic importance.

Where possible, such ongoing engagement should be conducted through existing channels that are set up as part of the ILAA and ICAAP review processes given the close relationship between these exercises and the recovery plan.

### Q.16 The implementation of a recovery plan is likely to structurally modify the financial institution and its sources of revenues. Should a forward looking business plan, assuming the implementation of the recovery options, also be part of the recovery plan?

Standard Chartered does not believe it appropriate or of any value to include a business plan within a firm's recovery plan which assumes the implementation of the recovery options. Although it is true that the structure of the firm is likely to be materially different post the stress event and the application of corrective management actions, it is impossible to forecast which actions will be taken and to what extent. It would therefore not be possible to write an accurate business plan and it would be of no benefit to draft one on the basis of a set of assumptions.

Furthermore, the stress event which caused the firm to enter recovery cannot be forecast, and this in itself would be a material driver in the shape of any such business plan.

### Q.17 Please provide views on the impact, including your costs and benefits analysis, of the issues involved in the preparation of a recovery plan?

Developing recovery plans is a very resource intensive exercise, particularly given the tight regulatory timelines in place. As such, for larger financial institutions, either substantial project teams need to put in place or external assistance resourced in order to ensure timely delivery, both of which carry a substantial cost.

Standard Chartered would encourage frequent and active engagement with a firm's regulator when developing all aspects of its RRP in order to help guide the direction of its development and ensure the efficient use of time and resources.

### Q.18 Have you made, or do you plan, changes in the organisation to facilitate successful implementation of the recovery plan in the future?

Standard Chartered does not envisage making any organisational changes to facilitate the successful implementation of its recovery plan.