



# Public hearing on the Guidelines on recovery plan indicators

London, 25 November 2014

# Outline

1. EBA role in recovery planning
2. GL on recovery plan indicators
  - 2.1. Framework
  - 2.2. Categories of indicators
  - 2.3. Specific indicators
3. Q&A session

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## 1.2. EBA rulemaking role in recovery planning

May 2012	Discussion Paper on the template for recovery plan (RP)
June 2012	The Commission proposal for the BRRD
Jan 2013	Recommendation on development of RP
March 2013	CP on the RTS on the content of RP
May 2013	CP on the RTS on the assessment of RP CP on the RTS on the range of scenarios for RP
June 2014	Publication of the BRRD in the Official Journal of the EU
July 2014	Final RTS on the content of RP content Final RTS on the assessment of RP Final GL on the on the range of scenarios for RP
Sept 2014	CP on the GL on indicators for RP
Nov 2014	The Single Supervisory Handbook (SSH) - 2 <sup>nd</sup> Module on the Assessment of Recovery Plans (available to the competent authorities)
Summer 2015	Final GL on indicators for RP (expected)

## 1.3. Recovery planning

### Institutions

- Development and maintenance of recovery plans
- Monitoring of recovery plan indicators
- Applying recovery options when necessary to restore financial position

### Competent authorities

- Assessing and approving recovery plans prepared by institutions
- Applying early intervention measures (including *inter alia* a request to activate recovery option or update the recovery plan)

- **Development of RPs is an on-going process** based on dialogue between institutions and competent authorities
- RP should be developed according to the rules specified in: (i) the RTS on the content of RP, (ii) the GL on the RP indicators, (iii) the GL on the range of scenarios for RP
- The **building block approach** to the RP assessment:
  - the RTS on the assessment of RP set common standards
  - harmonised metrics and processes for assessment are specified in the SSH

## 1.4. Other Level 2 provisions on RP indicators

### RTS on the content of recovery plans

- Information on **governance** in the RP should (*inter alia*) include:
  - conditions and procedures necessary to ensure timely implementation of recovery options (indicators, internal escalation and decision-making process)
  - a detailed description of indicators
- **Strategic analysis** in the RP should (*inter alia*) describe assessment of the effectiveness of recovery options and adequacy of indicators in a range of scenarios of financial distress

### RTS on the assessment of recovery plans

- Completeness and quality assessment
- **Credibility assessment** whether the RP contains (*inter alia*) a sufficient number of plausible and variable recovery options which are reasonably likely to maintain or restore viability and financial position of the institution:
  - for each option analysis if the RP includes appropriate indicators, conditions and procedures that would ensure timely implementation of this option (feasibility test)

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## 2. GL on RP indicators – mandate and scope

### Scope of the GL on RP indicators

- The GL on recovery plan indicators have been developed according to Art. 9(2) BRRD and they specify:
  - the requirements for developing a framework for RP indicators
  - the minimum categories of RP indicators
  - a minimum list of quantitative and qualitative RP indicators

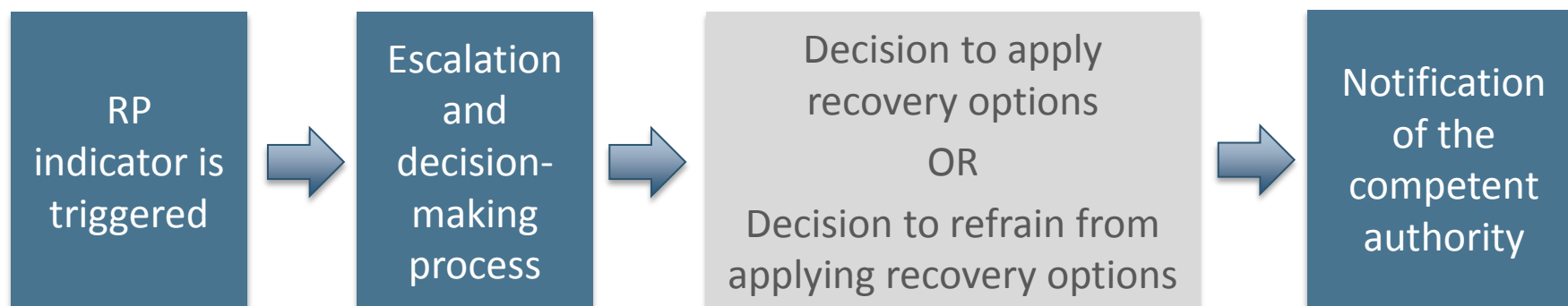
### Emerging practices in recovery planning:

- RPs for G-SIFIs were developed according to FSB ‘Key Attributes’ and ‘Guidance on Recovery Triggers and Stress Scenarios’, and discussed by Crisis Management Groups
- In Europe RPs were influenced by the EBA regulatory products on recovery planning
- The EBA conducted a peer review on RPs of major European cross-border groups



## 2. GL on RP indicators – definition of indicators

- **Recovery plan indicators** – qualitative and quantitative indicators established by each institution [...] to identify the points at which appropriate actions referred to in the RP may be taken
  - RP indicators identify **ONLY** when to trigger the escalation process envisaged in the RP in order to assess whether appropriate recovery actions are to be taken
  - Recovery options do not have to be automatically applied when indicators are triggered (and vice versa the recovery actions can still be taken if indicators are not met)



## 2.1. Framework of RP indicators (1/2)

### Main characteristics of the framework

#### **Adequate to an institution**

- Adapted to business model, strategy and risk profile of an institution
- Identifies its key vulnerabilities
- Adequate to its size and complexity

#### **Aligned with internal governance**

- Aligned with overall risk management framework
- Integrated into governance, escalation and decision-making procedures

#### **Based on appropriate indicators**

- Has quantitative and qualitative indicators
- Include also forward looking indicators
- Can be easily monitored by institutions
- Properly calibrated indicators

## 2.1. Framework of RP indicators (2/2)

### Calibration of thresholds for quantitative indicators

- “Traffic light approach” but with clear identification of the point when a decision on the application of recovery option should be taken



- Thresholds should be set at levels enabling institutions to take recovery actions early enough to be effective
- The GL do not establish specific thresholds for the quantitative indicators included in the minimum list of RP indicators but they provide general guidance on how different categories of indicators should be calibrated
- Institutions need to explain how the thresholds were calibrated
- Recalibration of limits at least annually or more frequently if necessary

## 2.2. Categories of RP indicators

- **Obligatory categories of indicators:**

Capital indicators

Profitability indicators

Liquidity indicators

Asset quality indicators

- **Categories subject to rebuttable presumption** (they can be excluded if not relevant to the legal structure, risk profile, size and/or complexity of the institution):

Market based indicators

Macroeconomic indicators

## 2.3. Specific RP indicators

**Goal:** Ensuring common standards (minimum list of categories and indicators) but allowing flexibility at the same time (rebuttable presumption)

- Indicators from the minimum list should be included unless the institution can justify to the competent authority that they are not relevant for its characteristics (rebuttable presumption)
- Institutions should not limit themselves to the minimum list of indicators included in the GL
- Institutions should calibrate indicators according to the rules specified in the GL and taking into account their own characteristics

**Overarching principle:** Institutions should include in their RPs these indicators which are the most relevant for them

## 2.3. Capital and liquidity indicators

### Capital indicators

- Deterioration of the quantity and quality of capital
- Forward looking indicators and/or stricter calibration may cater for lower capacity of capital ratios to identify stress at an early stage
- Calibration based on Pillar 1 and Pillar 2 capital requirements; and time needed to implement recovery options

#### Minimum list of indicators:

- CET 1 ratio
- Total capital ratio
- Leverage ratio

### Liquidity indicators

- Decreased capacity to meet current and foreseen liquidity and funding needs
- Coverage: short- and long-term funding; dependence on various sources of funding; key currencies; intra-group funding exposures and off-balance sheet structures
- Calibration based on Pillar 1 and Pillar 2 requirements; and time needed to implement recovery options

#### Minimum list of indicators:

- LCR
- Short-term wholesale funding ratio
- Net outflow of retail and corporate funding
- Cost of wholesale funding

## 2.3. Profitability and asset quality indicators

### Profitability indicators

- Losses or low retained earnings
- Significant operational losses

#### Minimum list of indicators:

- RoA
- RoE
- Significant losses due to regulatory/ administrative fines or adverse course ruling

### Asset quality indicators

- Deterioration of asset quality (capturing also off-balance sheet exposures)
- Stock and flow NPL ratio to capture level / dynamics of the asset quality deterioration

#### Minimum list of indicators:

- Impaired and past due loans/Total loans
- Coverage ratio
- NPL loans by counterparty sector

## 2.3. Market-based and macroeconomic indicators

### Market-based indicators

- Expectations of market participants that could lead to a disrupted access to funding and capital markets
- Types of market-based indicators:
  - Equity-based indicators
  - Debt-based indicators
  - Portfolio-related indicators
  - Rating downgrades

#### Minimum list of indicators:

- Rating under review/downgrade
- CDS spread
- Stock price variations
- Default of a peer institution

### Macroeconomic indicators

- Signals of economic deterioration in relevant geographical areas and business sectors
- Geographical indicators and sectoral indicators
- Concentration of institution's exposures and funding

#### Minimum list of indicators:

- GDP variations
- CDS of sovereigns
- Rating downgrades of sovereigns



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# Questions



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