


POSITION PAPER



ESBG response to the EBA public consultation on revised Guidelines on recovery plan indicators

ESBG (European Savings and Retail Banking Group)

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Question 1: Do you have any comments on the general requirements that should drive the calibration of recovery indicators as proposed in paragraph 27 of these guidelines?

Question 2: Do you have any comments on the requirement that there should be no automatic recalibration of recovery indicators upon the application of temporary supervisory relief measures, however it could be allowed by competent authorities in those cases specified in paragraph 31 of these guidelines?

Question 3: Do you have any comments on guidance introduced in relation to actions and notifications upon breaching recovery indicators, including the proposed timelines for internal escalation and notification to the competent authorities?

Question 4: Do you have any comments on introducing a possibility for competent authorities to request institutions to provide a full set of recovery indicators (breached or not)?

Question 5: Do you have any comments on the proposed threshold calibration of regulatory capital indicators at levels above those requiring supervisory intervention and therefore to be generally calibrated above the combined capital buffer requirement while still allowing calibration within buffers only under certain conditions?

An institution establishes the recovery thresholds in its Risk Appetite Framework **just at the Maximum Distributable Amount - MDA** level for Common Equity Tier 1 (CET1), Total Capital and MREL (not above).

It is considered that the **level proposed by the GL is excessive** and that the thresholds should not be higher in general for all entities because:

- ✓ Prior to recovery levels (alert, non-compliance ...) established within the **Internal Capital Adequacy Assessment Process (ICAAP)** and recovery framework, capital management measures contemplated in the recovery plan are already beginning to be implemented to return to ap-petite levels => global coherence between the ICAAP mechanisms and recovery plans (ICAAP ECB guide).
- ✓ Narrowing the scaling of the different ICAAP/Recovery levels would **dilute the effectiveness of management** at each of the levels

Question 6: Do you have any comments on the proposed calibration of the recovery threshold for MREL?

An institution establishes the recovery thresholds in its Risk Appetite Framework **just at the Maximum Distributable Amount - MDA** level for Common Equity Tier 1 (CET1), Total Capital and MREL (not above).

It is considered that the **level proposed by the GL is excessive** and that the thresholds should not be higher in general for all entities because:



- ✓ Prior to recovery levels (alert, non-compliance ...) established within the **Internal Capital Adequacy Assessment Process (ICAAP)** and recovery framework, capital management measures contemplated in the recovery plan are already beginning to be implemented to return to appetite levels => global coherence between the ICAAP mechanisms and recovery plans (ICAAP ECB guide).
- ✓ Narrowing the scaling of the different ICAAP/Recovery levels would **dilute the effectiveness of management** at each of the levels

Question 7: Do you have any comments on the proposed threshold calibration of regulatory liquidity indicators (LCR and NSFR) above their minimum regulatory requirement i.e. 100%?

We think it is accurate to set liquidity indicators recovery thresholds **above the minimum regulatory requirements**. Having said that, it should be up to the entities to take the decision of how much buffer to establish against the regulatory threshold. Banks should consider, among others, the following elements:

- an adequate balance with the **rest of thresholds in RAF framework**, and
- the promptness and capacity of monitoring and managing the ratios considering also the availability and timings of **recovery measures**.

In our case, the entity has already set the recovery threshold above 100% in the Liquidity Coverage Ratio (LCR) and Net Stable Funding ratio (NSFR) indicators.

Question 8: Do you have any comments on the proposed threshold calibration for the indicator of liquidity position?

Considering the counterbalancing capacity (CBC) and main liquidity sources, it seems appropriate to establish and calibrate total liquidity indicator. However, in case either some CBC components and sources are not relevant for the bank or its inclusion is deemed not to be appropriate – following for instance a more conservative approach - the entity should **have the option of developing its own definition of the indicator**, so greater flexibility would be positive for institutions to use the metric that best suits their risk profile.

Calibration should also be consistent, if applicable, with other liquidity metrics already established in the bank.

We also think that the definition / components of the liquidity position metric set as recovery indicator should be based, if possible, on **liquidity indicators that might have already been designed, calibrated, tested, monitored and successfully integrated** within the liquidity management framework.

At internal level, an institution has the indicator of “potential liquidity” which is considered to capture adequately this risk.

Question 9: Do you have any comments on the proposed changes to the minimum list of recovery plan indicators?

Regarding liquidity, we completely **agree to the exclusion of cost of funding** as recovery indicator, due to its practical limitations, as it is not feasible for banks to directly manage the metric and it relies on external and market expectations which are not easily foreseeable, let alone manageable.



We also understand that the inclusion of indicators related to unencumbered central bank eligible assets and total liquidity position, although we think that it might lead to some overlapping, as the liquidity position recovery indicator will probably include by definition the amount of available unencumbered central bank eligible assets, so if that is the case, **we do not see the need of establishing both indicators as recovery metrics**, regardless they are both implicitly or explicitly measured and reported.

We also think entities should have **margin of discretion** to decide how to define such metrics and / or substituting them with others, provided they comply with the same purpose and such **alternative indicators are more relevant** for the entity and already and thoroughly used and integrated in the liquidity management framework.

In our case, indicators with a similar purpose (asset encumbrance and potential (total) liquidity -which include itself most of the unencumbered central bank eligible assets-) are considered.

Question 10: Do you have any comments on the impact assessment?

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About ESBG (European Savings and Retail Banking Group)

The European Savings and Retail Banking Group (ESBG) represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, which together employ 656,000 people driven to innovate at 48,900 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans, including to SMEs, and serve 150 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking. Learn more at www.wsbi-esbg.org.



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