ESBG response to the European Banking Authority consultation on draft Guidelines **on the overall recovery capacity in recovery planning**

ESBG (European Savings and Retail Banking Group)

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**Questions for consultation**

**Question 1. Do you have any comments on the general factors to be considered when assessing credibility and feasibility of the recovery options?**

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| Paragraph. 19a) and e): it is not clear enough and we kindly ask the EBA to specify the requirements regarding an impact assessment of the recovery option on the financial system (e.g. qualitative, quantitative and if quantitative which impact parameters) and also how to measure the impact on the risk profile.  |

**Question 2. Do you have any comments on the specification of the scenario severity for the purpose of calculating the ‘scenario-specific recovery capacity’?**

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| 1. Not clear whether breaching the near-default point refers to TSCR and TSLRR or alternatively either TSCR or TSLRR.
2. If the severity of scenarios requires breaching the minimum requirement seen as near-default point, does this mean that this is the failing-or-likely-to-fail (FOLTF) point declared by the supervisor/NRA leading to resolution proceedings?
3. Not clear how does the early intervention buffer according to Article 27(1) BRRD triggering notification of the SRB and start of valuation 1 fit into the near-default point.
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**Question 3. Do you agree with the proposed criteria for the relevant starting point, timeframe (in particular with regard to the 6-month period for the LCR and NSFR) and representative indicators (in particular with regard to the explicit consideration of potential other/substitute indicators – e.g. MREL) for the ‘scenario-specific recovery capacity’?**

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| In our view the timeframe for NSFR is too short as NSFR is a long-term liquidity metric. |

**Question 4. Do you have any comments on the general steps to be followed for the determination of the ORC?**

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| 1. Lacking level playing field: although a harmonized FOLTF point setting may appear as level playing field, in fact it is not. High capital/liquidity levels as starting points for the scenario calculations influence recovery capacities.
	1. High reported capital/liquidity ratios of banks increase the starting point for the scenario calculation.
	2. The necessity to decrease from high capital/liquidity starting point to FOLTF point assumes more impact on economies and markets, hence, more severe impact on banks’ financials, capital and liquidity ratios compared to banks with lower starting points.
	3. This leads to **more severe haircuts on recovery options**, hence, lower ORC for banks compared to banks with a lower starting point of capital/liquidity ratios.
	4. This is a clear disadvantage for banks with high or increasing capital/liquidity ratios.
	5. The starting point for the scenario calculations should be decoupled.
2. The sum of ORC related to indicators assumes that the ratio impacts per recovery measure are summed up.
	1. This leads to an aggregated ORC which does not properly reflect a correctly calculated summing up of measure impacts based on summed up nominator divided by summed up denominator.
	2. Therefore a mathematically correct methodology should be used. E.g.: The total amount of combined RWA reducing and capital increasing measures may result in a different recovery ratio impact (= ORC) per bank depending on the usage of RWA reductions (denominator reduction may have significant impact on the ratio).
	3. For a proper peer group comparison of the ORC the scenario starting points, the failing or likely-to-fail points and the total ORC impact methodology should be harmonized.
3. The following illustrative example shall demonstrate the shortcomings described in points 1 and 2 of this question:

Illustrative example of diverging "aggregated ORC" vs. mathematically correct "calculated ORC": |

**Question 5. Do you have any comments on the definition of the ORC as a range between the lowest and the highest ‘scenario-specific recovery capacity’ both in terms of capital and liquidity?**

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**Question 6. Do you have any comments on the scope of the assessment of the ‘scenario-specific recovery capacity’ by the competent authorities?**

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**Question 7. Do you have any comments on the proposed ORC score?**

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| It is in our opinion not realistic to fulfil all the buffers included into the recovery indicator levels in such a short period after such severe crisis (going below TSCR or TSLRR). Therefore, we propose the following scores:1. Satisfactory - in cases where the ‘relevant RP indicators’ of the institutions after the inclusion of the ‘adjusted ORC’ would fail to be above the thresholds defined in line with the “Guidelines on Recovery Indicators”, but they would still be equal to or higher than institutions’ capital including leverage and liquidity regulatory requirements referred to in paragraph 21 adding all applicable regulatory buffers;
2. Adequate with potential room for improvement - in cases where the ‘relevant RP indicators’ of the institutions after the inclusion of the ‘adjusted ORC’ would meet the institutions’ capital (including leverage) and liquidity regulatory requirements referred to in paragraph 21 but would fail to meet all applicable regulatory buffers.
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**Question 8. Do you have any comments on the possibility to identify areas of improvement or material deficiencies related to the competent authorities’ assessment of the ORC?**

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**About ESBG (European Savings and Retail Banking Group)**



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