Comments

on the Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA/CP/2014/28)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 2,000 banks.

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Comments to questions related to the Draft Guidelines

Q1: Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?

Yes, our members have already included a vast set of quantitative and qualitative indicators, mainly with early warning character, in order to supplement their internally-set recovery indicators on their stress scenarios. Within the set of indicators, we believe a differentiation is required concerning the severity of a potential breach of such indicators against a given set of thresholds ('traffic light system') and the need to define these thresholds. Only those indicators which expose the institution to a significant economic risk should be viewed as 'recovery trigger. For liquidity, such indicators could be the overall aggregated liquidity position as expressed by the internal liquidity model or considering binding regulatory requirement such as the LCR, NSFR or MaRisk Survival Period, for example. For capital, following the same approach, such indicators could be the overall risk-bearing capacity or binding regulatory requirements such as the CET1 ratio or leverage ratio (after definition of a binding minimum requirement). On the other hand, the institution may choose many other early warning indicators, where each of the indicators itself is not necessarily seen as being highly critical (e.g. CDS spread movement in business volume of a particular product or product group). Those early indicators nevertheless provide a trigger point for a deeper assessment of the prevailing situation. Also, a breach of such an indicator should not necessarily 'penalize' the institution by way of potential regulatory interventions. Also a limit framework or 'traffic light system' should not be required for all early warning indicators. The purpose of early warning indicators is to warn the institution early about a potential unfavorable development in the economic environment. For this purpose, the bank should set monitoring requirements and thresholds wide rather than narrow. If, in contrast, the bank has to expect intervention from the regulatory side, the bank may be inclined to set the thresholds rather narrow, which would jeopardize the purpose of the concept of early warning indicators.

We suggest implementing a tier-2 indicator concept where the bank agrees with the relevant competent authority a set of primary indicators ('recovery triggers') and secondary indicators ('early warning indicators'). 'Recovery triggers' do have a significant economic impact and may trigger the recovery plan (i.e. starting the decision-making process at senior management level on counterbalancing measures) if there is a sustainable breach of a given limit. 'Early warning indicators' that do not necessarily have a critical impact on the institution on a standalone basis do not necessarily trigger any actions via threshold settings, but need to be discussed and assessed by a responsible committee or risk management function.

Q2: Do you consider that there are other categories of indicators apart from those reflected in the draft Guidelines which should be included in the minimum list of recovery plan indicators?

We understand this question as referring to the categories listed in Annex I, Sections A and B. If so, we do not consider further categories necessary.

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Q3: Do you agree with the list of specific recovery plan indicators included in Annex I, Section C, or would you propose to add other indicators to this Section?

When deciding on the inclusion of specific indicators, the ability of the institution to actively and efficiently steer those indicators should be considered. It would be useful to include only steering-relevant internal and external liquidity ratios and stress scenarios. Indicators which cannot be directly steered, e.g. CDS spreads on the secondary market or cost of wholesale funding, might be a useful indicator to observe, but a breach of any target level may not necessarily indicate an institution-specific issue, nor can a breach be directly resolved.

Q4: Do you consider that these Guidelines should establish the threshold for each quantitative recovery plan indicator to define the point at which the institution may need to take recovery measures to restore its financial position?

No, we deem it appropriate for the bank and its responsible competent authority to agree on a set of 'recovery indicators' (primary indicators) and supplementary 'early warning indicators' (secondary indicators) and on a traffic light system taking the bank-specific business and risk management model into consideration under the guidelines given in Title IV. There should be no automatic action following any breaches, but strong governance on how to deal with breaches (notification, escalation, mitigation actions) of 'recovery indicators' and 'early warning indicators'.

Q5: Do you agree with our analysis of the impact of the proposals in this Consultation Paper? 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?

We agree with the analysis if the above-mentioned remarks are included, especially

- the differentiation between proper recovery indicators and early warning indicators and
- the understanding that there should be no automatic action following any breach of an indicator.

Further remarks

An explanation of the calibration of indicators mentioned in paragraph 18 of Title II should be required only in the case of the recovery indicators under the tier-2 approach described above. Since early warning indicators are not considered to expose the institution to a significant economic risk, such an explanation of early warning indicators – including a demonstration that the threshold would be breached early enough to be effective – is not meaningful.

Questions of interpretation/Clarification of terms

- "Retained Earnings and Reserves / Total Equity": What´s the meaning of "reserves"? Which time period is covered (month, quarter, year-to-date)?
- "Return on Assets": What's the meaning of "Assets"?; Which time period is covered (month, quarter, year-to-date)?

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- "Return on Equity": What's the meaning of "Equitiy"?; Which time period is covered (month, quarter, year-to-date)?
- "Significant losses due to administrative/regulatory fine": Definitions? Remark: This indicator seems to be redundant to other indicators like "Cost income ratio". Which time period is covered (month, quarter, year-to-date)?; Which figure shall be shown (accruals, overall fine)?
- "Return on investment": Definition of "return on investment"?; Which time period is covered (month, quarter, year-to-date)?
- "Cost income ratio": Which time period is covered (month, quarter, year-to-date)?
- "Non-performing loans by counterparty sector": Which counterparty sectors should be distinguished?

by proxy

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