FOR PUBLICATION

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UniCredit reply to the EBA consultation on:
"Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators"
CP/2014/28

UniCredit is a major international financial institution with strong roots in 17 European countries, active in approximately 50 markets, with almost 7,700 branches and nearly 130,000 employees. UniCredit is among the top market players in Italy, Germany, Austria, Poland and Central-Eastern Europe.

Summary

UniCredit welcomes the opportunity to comment on the draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators. Our Group has been very active over the years in contributing to industry and regulatory discussions on the various initiatives aimed at establishing credible and effective recovery and resolution frameworks.

The draft Guidelines try to establish a common framework for the Recovery Plan indicators, with the declared aim to improve harmonization of the frameworks used by institutions. We are less concerned in this sense because in our view the framework should be personalised to reflect the particular characteristics of the institution, like the business model and mix, geographical footprint, etc.
While the Guidelines seem to present the framework as something "new", in our view each single institution should try to leverage on its existing and tested framework(s) of financial and risk control that reflects its individual footprint and experience. This could, for example, include the Risk Appetite Framework metrics, those used in the ICAAP or ILAAP and other measures already used for the bank's steering.
The current Guidelines in our view do not cater sufficiently (and automatically, i.e. without the burden of proof) for this kind of flexibility.

Consequently, the main points of attention where we see room for improvements are:

- the categories of "profitability" and "asset quality" indicators might not be applicable, or better still, not significant to all types of institutions; they are also more "business as usual", not necessarily crisis related. We therefore suggest these two categories to be made subject to a rebuttable presumption, like the "market-based" and "macroeconomic indicators";

- the detailed indicators listed in the paragraphs three to six of Section C of Annex I (i.e., all indicators except the ones for Capital and Liquidity) should be included in Annex II as illustrative examples; this to allow a higher degree of flexibility to use more tailor-made indicators that best fit the individual institution;

- ideally, for the same reasons of flexibility and possibility to best fit the framework to the single institution, the principles in paragraph 15 would be of general application and override any rebuttable presumption that a particular indicator must be included;

- the need to personalize the framework also arises when these will be implemented in subsidiaries, where some indicators probably will not be applicable (stock price, CDS) and others might be not significant, for example in case of a particular mono-business subsidiary.

Answers to specific questions

Question 1: Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?

Yes, even if the monitoring and setting of thresholds for qualitative indicators will be challenging and trigger discussions.

Question 2: 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?

No; the categories are more than sufficient.

Question 3: 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?

As a general remark, a strong link should be made with the institution's Risk Appetite framework. Flexibility should be allowed to strongly leverage on those specific indicators – it is anyway very probable that these frameworks already cover the areas of capital, liquidity, profitability and asset quality, i.e. the first four categories of the Guidelines. The Risk Appetite indicators and the critical thresholds (limits, triggers, or any particular boundary) are specifically conceived taking into account the bank business model, risk and geographical footprint.
As stated before, for the indicators in paragraphs three to six there should not be a rebuttable presumption for every indicator, but they should be moved directly into Annex 2. The presence of similar but better (tailor-made) indicators in the Risk Appetite framework would spur these alternatives.

Furthermore, no definitions are given for the single indicators. This would be correct if the intention is to leave some room for personalization for the single institution; if, however, there are clear expectations from the rule-makers in terms of applied definitions this would better be detailed. In that case existing regulatory definitions used in supervisory processes are preferred to avoid duplication of efforts.

Comments on specific indicators:

- on **Capital indicators**, it is not clear to us what is meant in paragraph 23 with "The capital indicators should also be integrated in the institution's Internal Capital Adequacy Assessment Process (ICAAP)". In our view the correct approach would be the other way around: (a selection of) the capital measures used in the existing ICAAP procedures should be included in the Recovery Plan set of indicators. The same approach should be applied for certain other indicators: the Recovery Plan set can take them from existing, tailor-made, efficient and tested sets of indicators used in other frameworks. Similar for **Liquidity indicators**, paragraph 28.

- In paragraph 33 on **Profitability indicators**, deviations from the Budget alone are not significant for the purposes of the Recovery Plan or meaningful in stress situations;

- in general terms, profitability indictors will move through economic cycles and are not a direct indication for the nearing of a capital or liquidity crisis; consequently they are rather weak in the Recovery Plan context, or at least should be seen as a "very early warning" indicator;
- for the indicator "Significant losses due to administrative/regulatory fine or adverse court ruling" we wonder why these specific losses should be considered and not in general the "operational risk losses".

- On **Asset Quality indicators**, a useful indicator could be the ratio Loan Loss Provisions / Gross Operating Profit. If a bank is not credit intensive, but has asset quality problems, this indicator is useful to indicate if the bank is close to a crisis. If the indicator remains low, this means that the other activities of the bank more than offset the asset quality problems generated by a small part of its operations. The asset quality problem has to be faced, but without necessarily entering in an alert/alarm phase.

- **Market based and Macroeconomic indicators** are very indirect measures with often imprecise indications or a weak correlation for the institution's financial and liquidity position. As in similar circumstances, these indicators alone or a temporary flection of the same are frequently not sufficient to steer concrete actions;

- In particular, stock and CDS prices (the latter also with an undefined price-making) are influenced by many factors, some not related to the institution's financial or liquidity situation.

Question 4: 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, thresholds need to be personalised, tailored to individual characteristics, and then discussed with regulators in the Recovery Plan assessment.

Question 5: 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?

No comment.