European Banking Federation

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Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU alone.

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

General Comments

We support the approach of a case-by-case analysis of indicators (qualitative or quantitative) in the recovery plan as Article 9(1) of Directive 2014/59/EU establishes. In this sense, it is important that each recovery plan includes a framework of indicators established by the institution according to the relevant risks that it faces as the paragraph 15 of the draft guidelines establishes, identifying the points at which appropriate actions referred to in the plan may be taken, and such indicators shall be agreed by competent authorities when making the assessment of recovery plan. We would like to share with you some general remarks.

- The minimum list of indicators should be restricted to capital and liquidity indicators, with all other categories being illustrative. Indicators should be closely aligned with the management indicators used by the institution and those included in supervisory processes. Consistency should be safeguarded. This would avoid the duplication of efforts in obtaining the required information and simultaneously to ensure that the information is still relevant to enable both the authority and the bank itself to take decisions. This would shift the focus away a "rebuttable presumption" that all indicators listed must apply.

    - The requirement for a list of indicators must respect the principle of proportionality in terms of the size and complexity of the bank. This is also true for institutions with a decentralised model and the need for developing these indicators for different subsidiaries. Against this background, it is important that the guidelines are structured as guidelines with a view to promote the safety and soundness of markets and convergence of regulatory practice and not designed as imperative requirements, such as rebuttable presumptions.

- It must be kept in mind that the thresholds for the recovery indicators are considered as a reference, without assuming any automatic response in terms of recovery actions. Indicators just allow for assessing the underlying situation, and should not be seen as a signal to take recovery actions but rather as the signal that an analysis should be done to determine what actions should be taken, if any. Due to the fact that several authorities will be involved in a cross boarder situation, there is a risk that actions will be trigged too early. This point should be included in the guidelines.

- Macroeconomic indicators should not be used as recovery plan indicators as they do not reflect a firm's actual position.

Answer to specific questions

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

While the EBF supports the possibility of using both quantitative and qualitative indicators, we disagree that the guideline should clarify which minimum indicators are quantitative and which ones qualitative. This needs to be determined by each firm based on existing reporting and risk profile. Thus, the indicators should be coordinated with the reporting requirements that already exists such as risk appetite, key risk.

Also, we would have some concerns regarding the definition of quantitative metrics for some of the indicators, such as the market-based and the macroeconomic indicators.

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?

As stated above, we do not agree that macroeconomic indicators should be used and do not see the need for an overly prescriptive list of indicators. These should be determined by a firm and its resolution authority. We would also expect the minimum list to be restricted to capital and liquidity indicators, as stated above. Nevertheless, authorities should have the flexibility to use indicators similar management indicators that are monitored regularly by the entity which can be more valuable for decision-making if a recovery option has to be implemented.

In relation to the minimum and the additional list of recovery plan indicators, we consider that the minimum list is sufficiently extensive. Therefore, some of the additional indicators may be considered unnecessary for banks that do not have certain types of business or exposures. Some indicators are either highly correlated or somewhat repetitive. Some of the indicators listed in Section C of Annex I should be included in Annex II as illustrative examples of indicators that could be applied, rather than in the minimum list of categories of indicators.

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?

As we have noted in our answer to Question 2, while we agree with Section A and B as minimum recovery indicators, and we generally support banks using the categories of recovery indicators defined in Section C, the specific underlying indicators should either all be rebuttable or part of the illustrative list. This is because they may overlap with existing management indicators which may be better suited, or they may not be appropriate to all banks, or they are better as “early warning” indicators.

The EBF as stated above is of the opinion that indicators should be institution specific. However, greater clarity around whether indicators should be monitored / reported on a Group or legal entity basis should be given.

Furthermore, we note that the deviation from budget is difficult to calibrate and not necessarily an indicator of stress. Therefore we propose to exclude this indicator.

Similarly we do not believe it would be helpful to specify how indicators were calculated, or the periodicity of indicators, or indeed which indicators should be assessed quantitatively or qualitatively. This should also be firm-specific.

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, the threshold must be defined by each institution depending on their risk appetite and risk management framework. The banks themselves are best-qualified to establish the quantitative and qualitative indicators, as they have the best knowledge of the nature, value of the business model, activities and strategic choices. Therefore banks in collaboration with their supervisors should establish the appropriate thresholds for each quantitative recovery plan indicator which is relevant to its business model and risk appetite.

We would like to remark on the difficulty of quantifying some of the indicators using the "traffic-light approach."

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?

No comment.