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European Banking Authority

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RTS specifying the range of scenarios to be used in recovery plans

The Swedish Banker’s Association believes that the draft technical standard is too detailed to fit individual institutions. Flexibility is one key issue. Another is harmonization. While the regulatory framework must provide sufficient flexibility to function for individual institutions, the regulatory framework has to be adapted to the globally applicable rules. The scenarios have, further, to be realistic and help to improve the ability to prevent an actual crisis.

Q1 Have you already drafted financial distress scenarios for the purpose of testing a recovery plan or are you in the process of doing so? If so, are these financial distress scenarios in line with the contents of the draft RTS?

In accordance with the EBA’s recommendation EBA/REC/2013/02 four of the Swedish banks are recommended to develop and present a group recovery plan to the Swedish Supervisory Authority (Finansinspektionen) by 31 December 2013. One bank of those Swedish banks was requested to submit their Group Recovery Plan to the Swedish FSA in June 2012, following G-SIFI classification in November 2011. The remaining three banks are in process of developing a group recovery plan. Since the Swedish banks are in the process of developing recovery plans the submitted answers should be read in the light of that.

Q2 Have you developed group or solo specific scenarios to test the adequacy of the recovery plan?

The adequacy of the recovery plan is tested against group scenarios. While banks must be allowed flexibility to tailor scenarios to reflect their particular operating model and degree of centralization, they should be asked to consider how to link the recovery plan and scenarios to existing contingency plans, ensuring that the crisis management framework in the bank is consistent and coherent. Two separate plans without coordination pose a risk that one of the plans will only become a paper product.

Q3 Do you believe that the draft RTS on the range of scenarios for recovery
plans is adequate to ensure that firms test their recovery plans against a range of scenarios of financial distress?
To be able to judge the range of scenarios the definition of "likely to fail" has to be clear. The recovery level must be considered in relation to individual levels and in relation to existing rules (CRDIV/CRR).

Q4 How many scenarios have you been required to develop to test the adequacy of the recovery plan? Have you included slow or fast moving events?
Fast and slow moving events have been included. The situations from which recoverability is evaluated are spanning from idiosyncratic to global scenarios.

Q5 Have you used reverse stress testing as a starting point for developing financial distress scenarios?
No. We do not find this to be a meaningful tool for recovery planning, since mathematical modelling relies on observed historical relationships, which are very likely to break down when unprecedented events occur. This implies that reverse stress testing models are not useful for evaluation of the financial implications of unprecedented events (which can bring the bank into recovery), and that these models consequently cannot be relied on for the financial analysis in the recovery plans.

Q6 What are the additional costs to develop financial distress scenarios in respect to the current practices of reverse stress testing?
See our answer to Q5.

Q7 Do you believe that the events that institutions or groups need to consider and include where relevant are most suitable? If not, what other events ought to be taken into account?
We cannot see the benefit with too many scenarios. The scenarios as such must be adjusted to the respective institution. However, it is relevant to distinguish between a systemic crisis and an idiosyncratic event for the institution, and evaluate the efficiency of the different recovery options against such diverse financial environments.

Q8 Do you have any general or specific comments on the draft RTS?
In general we believe the draft RTS is too detailed to fit the individual institution. There has to be some flexibility to give the institution a possibility to adjust the requirement with already existing regulations.
Q9 Are the definitions and terminology used in the draft RTS clear?
It is in the application of the RTS that any lack of clarity in terminology will reveal itself. For now the definitions and terminology is quite clear. However, it will be necessary to take steps to ensure harmonization of the terminology used on a global scale. In this respect, the EBA must ensure that the terms used in a European context are aligned with the global definitions, such as set out by the FSB.

SWEDISH BANKERS' ASSOCIATION

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