

## **Nationwide response on the range of scenarios to be used in Recovery Plans**

Nationwide welcomes the European Banking Authority consultation on the range of scenarios to be used in recovery plans and, given the volume of technical standards that are currently envisaged, we also welcome the early publication approach to give sufficient opportunity for consideration to be given to the issues involved.

As the largest customer-owned building society, Nationwide is unique in UK retail financial services, providing a mass-market challenge to the plc banks and focusing on long-term, transparent customer relationships. We are one of the UK's largest gross mortgage lender and high street deposit-taker, with circa £190 billion in assets. The principles on which we are run are fundamentally different to those of our plc peers – we exist to deliver value to our members, and we are accountable to them. There is no divergence between customer and shareholder needs because they are one and the same. This results in a lower risk appetite and profile than our peers that has meant we have remained safe and secure throughout the financial crisis with capital and liquidity ratios amongst the highest in our peer group.

### Developments in the Directive

We note that the agreed text of the European Parliament has removed article 5(6) and therefore the requirement for the EBA to draft technical standards in this area. The Council text however retains the requirement. We recommend that if requirements are retained in the final agreed text that this should leverage as far as possible from the existing stress testing and reverse stress testing activity in the UK. Provided that the work is a complementary activity to this existing work it could be manageable and not unduly impact on existing resources. We believe that it is impossible to predict how an eventual recovery scenario will manifest itself and therefore we would argue that the focus should instead be on the authorities' ability to assess recovery plans instead. Provided that the range of options is credible and this has been appropriately challenged, we would argue that scenario testing is not required in the recovery plan itself. We will respond separately on the proposed standards on assessment of recovery plans. We have responded to selected questions below:

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 line with UK requirements, Nationwide undertakes stress testing at least annually and reverse stress testing work, although this activity is separate from the recovery plan. When considering suitable management actions the recovery plan options are considered. We would strongly advocate that as far as possible, any additional testing that is specifically required for recovery plans is incorporated into the existing stress testing requirements in order to maximise efficiencies

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

No, due to the structure of the group, this is not particularly relevant to Nationwide.

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?

In our experience, the reverse stress testing activity already includes the consideration of a combination of market wide and idiosyncratic events in order to stretch the institution to the tipping point; without a combination of events, the scenario would not be severe enough. We would question whether it is necessary to test three separate scenarios in the recovery plan as only the requirement in article 4(1)(c) is necessary. We would suggest that you consider redrafting recital 3 and Article 4(1) accordingly.

Q5: Have you used reverse stress testing as a starting point for developing financial distress scenarios?

Reverse stress testing uses a stress test as its base before factoring in a series of additional factors, both market wide events and Nationwide specific events such as a Eurozone crisis, multi-agency downgrade, removal of planned capital issuances, increased levies and operational risk events. These additional factors are designed to take Nationwide to the Tipping Point beyond which its key stakeholders would not be prepared to transact with it. The reverse stress testing work already considers the management actions in the recovery plan. We believe the best approach would be to refine the reverse stress testing activity slightly so as to draw out how effective the recovery plan would be in returning an institution to financial health, before proceeding to the tipping point required by the reverse stress test. This would enable the work to be absorbed into existing processes rather than requiring separate stress testing activity specifically for recovery scenarios.

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?

The scenarios included in the RTS look sensible and fit with the kinds of scenario we have used in our reverse stress testing work. All possible scenarios however are eventually going to have an impact on profits, capital, liquidity or a combination thereof. Therefore whether the options would be suitable to addressing one of those metrics in the context of an individual and market wide stress would seem to be a better approach rather than attempting to compare them against a wide range of possible stress events.

If you would like to discuss any of the points raised in this response, please do not hesitate to get in touch with me or one of my colleagues.

Yours sincerely



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