



**EBA Consultation on Draft Regulatory Technical Standards  
on the assessment of recovery plans under the draft directive  
establishing a framework for the recovery and resolution of  
credit institutions and investment firms**

**(EBA/CP/2013/08)**

**BNP PARIBAS CONTRIBUTION**

Response sent by 20<sup>th</sup> August to: EBA

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BNP Paribas welcomes the opportunity to comment on the EBA Consultation on Draft Regulatory Technical Standards on the assessment of recovery plans under the draft directive establishing a framework for the recovery and resolution of credit institutions and investment firms, published on May 20, 2013.

**GENERAL REMARKS**

BNP Paribas feels that the proposed criteria for assessment of recovery plans are in general correct, but we feel that there is excessive reference to recovery scenario assessment as a proxy for assessment of recovery plans as a whole. A more holistic view of the completeness and credibility of recovery plans should be taken, including notably an assessment of the extent to which recovery plans contain a sufficiently wide variety of options that represent a significant portion of the group or institution under assessment. A wide and varied range of options should give comfort that an institution is as well prepared as possible to meet the challenges of a future financial crisis, the details of which cannot be foreseen in advance. We believe this to be a far better criterion for assessment of the overall strength of a recovery plan than doing detailed checking of the extent to which options have been successfully designed to meet the specific requirements of theoretical scenarios.

These general remarks are more fully developed in our detailed responses on the following pages.



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## DETAILED RESPONSES

### Questions related to the draft RTS:

*Q.01: If your recovery plan has already been assessed by a competent authority, what are your general comments to this RTS on the basis of your experience? In particular, which elements do you suggest to add to the assessment criteria specified in this RTS?*

No comment.

*Q.02: Do you think that the elements which shall be subject to assessment according to this Article are comprehensive? Do you think that some of the elements should be amended? Do you think that some additional elements should be added?*

This Article covers the completeness of recovery plans.

As with other comments in following questions, we are surprised at the importance given to scenarios in assessing the completeness of recovery plans, in particular in Article 3 (2) b, which asks for the identification of obstacles to the implementation of recovery measures for **each of the scenarios** (our emphasis). Surely it would be a better indication of completeness to check whether all potential obstacles to the implementation of recovery measures have been identified, rather than just those that would be of importance in particular scenarios that may prove to be erroneous.

*Q.03: Do you think that the elements which shall be subject to assessment according to this Article are comprehensive? Do you think that some of the elements should be amended? Do you think that some additional elements should be added?*

This Article covers the quality of recovery plans.

BNP Paribas does not believe that the criteria for internal consistency of a group plan are correct. It is clear that a group plan should be internally consistent, but we believe it is mistaken to require consistency with individual recovery plans of group members.

If individual plans are to be required, which we do not believe should be the case, there is no reason why they should be consistent with group plans. Individual entity plans, to be credible, must be capable of being implemented by the management of the entity, using local resources only.

Group plans should be far more than a collection of individual entity plans. They may contain recovery options that work at business line level, that involve multiple entities in different jurisdictions, and may contain actions that are only feasible at a group level. Actions that may be documented in an individual plan may be of a size or impact that could be relevant to a local recovery situation, but that would be meaningless or insignificant at a group level, or which would be better replaced by a group level action of greater impact and efficiency.



As group and individual plans do not have the same scope, there is no necessity to look for consistency between the two, if the two are to co-exist, which we believe to be neither desirable nor productive of added value.

We are also surprised by the reference in Article 4 a iv) to documents that are not contained in the recovery plan, which seems to suggest that this is a desirable feature of recovery plans. Should recovery plans not be self-contained and self-explanatory documents ?

*Q.04: Do you think that the elements which shall be subject to assessment according to this Article are comprehensive? Do you think that some of the elements should be amended? Do you think that some additional elements should be added?*

BNP Paribas feels that this article, concerning the credibility of recovery plans, places undue emphasis on testing recovery plans against scenarios, and omits far more fundamental aspects of credibility.

The article creates a requirement on the competent authority to assess the adequacy of the range of scenarios, to assess the adequacy of the testing carried out using the scenarios, to assess the extent to which recovery options and indicators are verified by the testing using scenarios, and to assess whether the options in the plan address the scenarios identified. This reliance on the quality of theoretical recovery scenarios seems to us to be highly over-played. Were it possible to identify in advance with certainty the scenarios of future financial stresses, then one could argue that recovery planning would not be necessary; it would form part of 'business as usual' management and supervision to take the necessary measures to avoid these pre-ordained events.

But reality will always be different from pre-determined scenarios, which is why recovery planning, ie dealing with unforeseen events, is important. A recovery option should never be disqualified because it does not fit with identified scenarios, it should on the contrary be retained as a possible response to events that have not been anticipated.

In our opinion, the credibility of a recovery plan is far better assessed by evaluation of the range and variety of recovery options, and the extent to which, together, they represent a significant portion of an institution's assets, liquidity and capital. Clearly, as is suggested in paragraph 1 b, the credibility of each individual option should be assessed, but we find it striking that the assessment of the whole is not given greater importance in the proposed RTS.

We also find it difficult to subscribe to the idea, conveyed in paragraph 2, that the plans of an institution or group should be assessed for credibility according to whether it would be more difficult to implement them if other institutions or groups are taking the same or similar actions at the same time. This is a situation which generally arises in the case of systemic crises, and it is naïve and wishful thinking to expect a range of institutions active in the financial sector to be able to simultaneously and successfully implement similar recovery plans in a systemic crisis. We would also point out that groups or institutions do not have the ability to address this issue, they have no knowledge of the recovery plans of other institutions, and probably little ability to invent recovery options that no other similar institution would not also be in a position to implement. Systemic crises call for systemic responses, not for responses at the level of individual groups or institutions.

As said above, we believe that the extent to which recovery options cover a significant portion of the group's activities is a far more important indicator of credibility than the ability of a specifically created set of options to meet a purely theoretical idiosyncratic or systemic crisis.



*Q.05: Could you describe what key elements the competent authority should assess when reviewing the matters stipulated in Article 5(3) letters a) to d)?*

We feel that the key elements have been correctly identified in Article 5 (3), although the reference to obstacles in relation to scenarios seems to us to be unnecessary..

#### **Questions related to the impact assessment**

*Q.10: Do you agree with our analysis of the impact of the proposals in this CP? 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 have no comment on the impact assessment.