

Nationwide response on Content of Recovery Plans

Nationwide welcomes the European Banking Authority consultation on the content of 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 the UK's second largest gross mortgage lender and second largest 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.

We have reviewed the whole of the consultation paper on the content of recovery plans but below we only comment on issues where we seek further clarity.

Question 1: Have you already drafted/approved a recovery plan or are you in the process of doing so? Is your recovery plan in line with the content of the draft RTS?

Nationwide submitted its Recovery and Resolution Pack to the FSA in June 2012, which followed the guidance issued by the FSA in CP 11/16¹ and FS 12/1². We believe that the RTS are broadly in line with the current rules³ in the UK; however, there are a few specific points which we would like to bring to your attention. We have raised these under the appropriate questions below.

Cross over between recovery plan and recovery pack

The UK guidance draws a very clear distinction between the recovery plan and the recovery pack. We strongly agree with the sentiment of recital 4, which describes the need for competent authorities to be proportionate in their consideration of recovery plans and consider risk, size etc. However, what is meant by “tools at their disposal” needs to be further clarified because this wording fits more with resolution than recovery. We also believe it is commonly agreed that implementation of recovery plans should be under the control of management of the institution, and not therefore the jurisdiction of competent authorities, whereas resolution will involve the resolution authorities and a variety of tools that will be developed. This does not compromise the competent authority's important role in challenging the credibility of the recovery plan. We have suggested some amended wording to recital 4 below which seeks to clarify both of these points.

Recital 4

¹ http://www.fsa.gov.uk/static/pubs/cp/cp11_16.pdf

² <http://www.fsa.gov.uk/pubs/discussion/fs12-01.pdf>

³ The FSA indicated that amended guidance would be issued following legal cutover to the PRA which was on 1 April 2013. This is expected to be received in Q2 2013 but has not been received to date.

*In line with the principle of proportionality the competent authorities should take into account the risk, size and interconnectedness of an institution or group in the context of recovery plans ~~and when using the different tools at their disposal~~, making sure that the recovery plans for the institution or group are **capable of being** implemented in an appropriate way.*

Question 3: Please provide your view on the indicators and escalation process as stipulated in the draft RTS under Articles 2(2)(a) and 5(c), and on the other governance arrangements provided for by Article 5?

We strongly support the commentary in recital 6 that indicators should not automatically activate a specific recovery measure, but that they should stimulate debate both internally and also with the competent authority about whether it is necessary to activate the recovery plan.

We would like to clarify whether the indicators in article 2 still envisage a series of early warning indicators and separate recovery triggers as was described on page 10 of the EBA discussion paper on a template for recovery plans⁴. This would be consistent with our existing recovery plan and we would support this approach.

In our experience quantitative indicators e.g. profit, capital and liquidity as described in article 5(c)(2) are easier to monitor than qualitative indicators however some of the latter indicators with the added protection of flexibility may also add to the overall trigger framework. We are less clear about what you mean by risk profile and think it would be helpful if the type of indicators which might be considered here is made clear.

We broadly agree with the Governance process as set out in the standard, with the possible exception of the requirement for a description of management information systems (Article 5(d)) which is more appropriate in the resolution pack. We don't have any particular concerns or comments regarding question 4 either.

Question 5 Please provide your views on the requirements for the description of the institution or group, as stipulated by the strategic analysis in the draft RTS under Article 6(3)

Our comments in this section also refer to recital 7. We believe that the vast majority of the first part of the strategic analysis found in article 6(3) in the current UK guidance can be found in the resolution sections which as we mentioned above are separate from the recovery sections. We don't think there is a big gap in the content proposed in the RTS when compared to the existing UK requirements. We would argue that it is more appropriate in the resolution pack. Management already have this information to hand because they work in the business, and ultimately are responsible for the recovery plan. It is the resolution pack that needs to contain this information in order to inform the resolution authority's decision on resolution for a particular institution.

The Key Attributes references to strategic analysis are very limited. On page 33 in the recovery plan section it is clear that strategic options refer to a list of possible executable options. The references to 'strategic' on pages 28 and 38 clearly refer to resolution, and whilst we acknowledge that the remaining two references on pages 36-37 talk in a context of both recovery and resolution, we cannot see the merit in the amount of duplication this will create. We would argue that restricting the strategic analysis as described in the whole of subparagraph 3 of article 6 to the resolution pack would be more in line with the current FS 12/1 in the UK and therefore it could be deleted from these standards along with para 2(a). We also note the reference to 'critical functions' in section A of the annex to the EU directive,

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<http://www.eba.europa.eu/cebs/media/Publications/Discussion%20Papers/DP%202012%2002/Discussion-Paper-on-Template-for-Recovery-Plans.pdf>

however we would again argue that any description in the recovery plan should be limited to whether an individual option will have an impact on those functions. Detailed analysis of critical functions should be an issue to be considered in the resolution pack.

For the same reasons as given above recital 8 is more appropriate in the Resolution pack and could be deleted.

Question 6: Please provide your views on the draft requirements for the recovery options, as stipulated by the strategic analysis in the draft RTS under Article 6(4). Does this requirement comprehensively and adequately capture the different categories of recovery options that could be considered?

Our existing approach has been to develop a suite of options that seeks to support the organisation from either a profit, capital or liquidity perspective which links to the indicators in article 5(2)(c). We do not have any concerns with any of the items listed in article 6(5)(a)(1-6), as they largely follow the requirements of section A of the annex to the EU Directive but would comment that they all would appear to ultimately seek to improve the aforementioned metrics: profit, capital and liquidity.

If article 6(5)(a) deals with the types of recovery option an institution should consider, we would suggest that article 6(5)(b) could incorporate sub paras (c) and (d) and provide a bullet point list of the types of sub heading that an institution should consider in every recovery option. Not all requirements will necessarily apply to all options so it may be worth adding the words "where relevant" to the text at the end of article 6(5)(b).

With regard to article 6(5)(c), again we would argue that this potentially starts to touch on resolution rather than recovery. We believe that many options could be exercised without causing a significant concern regarding the continuity of other operations, so if this needs to be included it should only be "where relevant". Regarding article 6(5)(d) the applicability of an option is limited to either an idiosyncratic stress or a market wide stress in the UK. We would question whether any further analysis than that is possible or desirable, because you are never going to be able to predict how an actual stress event might manifest itself nor identify which competitors may be in a similar position at that point. Consideration of an idiosyncratic stress can assume the rest of the market is likely to be willing and able to transact with the institution, whereas the market wide stress may mean that certain transactions in the market, may be less likely or impossible depending on their nature. We would encourage this article to focus purely on idiosyncratic and market wide stresses and not seek to contemplate a wider range of stress events.

Question 8: Please provide your views on the requirements for preparatory measures, as stipulated in the draft RTS under article 8, providing in particular your views on the question what types of preparatory arrangements or measures could or should be taken into account in the analysis of the recovery plan.

We agree that material changes in an organisation will warrant an update of the plan, but we do wonder whether the need to describe preparatory measures as mentioned in recital 11 again starts to confuse the boundary between recovery and resolution. Arguably, if a recovery plan needs preparatory measures in order for it to be implemented, then it is not ready to go, and is not therefore a recovery option. We would suggest that it may be more appropriate to discuss preparatory measures in the context of resolution e.g. in removing barriers to resolution as described in Module 6 of the existing UK guidance and delete the references in this RTS.

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

A handwritten signature in black ink, appearing to read "Jason Carter", is centered within a light gray rectangular box.

Jason Carter
Head of Recovery & Resolution Planning
Jason.carter@nationwide.co.uk

Alternative contacts:

Kieran.black@nationwide.co.uk RRP Senior Consultant
Karen.colmer@nationwide.co.uk Recovery & Resolution Specialist