

EBA/CP/2013/01

Q 01 - 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 contents of the draft RTS?

- Yes, Portuguese banks are already obliged to presenting recovery plans.
- The contents are organized differently, and EBA’s plans seem more detailed than current national plans.
- Some of the information that is required in EBA’s plans is already available and reported, but it is contained in different reporting requirements. Hence, some work of gathering and/or reorganizing information will be needed.
- Part of the information that EBA requires is new, but available.

Q 02 - Do you believe that the draft RTS on recovery plans is comprehensive and contains sufficient and relevant requirements to enable a timely and effective recovery of an institution in the event of financial distress?

- Regarding the type of information that this RTS requires, yes, EBA’s recovery plans are very detailed and contain a lot of information.
- Regarding the relevance, timing and effectiveness of the information that is contained in the recovery plans, it is hard to predict how effective it will under a period of financial stress. Specifically:
 - o The financing structure may change a lot in a short period of time (“short period of time” meaning less than 1 year);
 - o Communication will depend on the events and circumstances at the time;
 - o Preparatory measures may be hard or impossible to implement.

Q 03 - Please provide your views 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.

- Rather than simply indentifying the physical persons who were involved in making or updating the recovery plans, we find it more important:
 - o To describe the positions inside the institution that comprise those tasks, the responsibilities that are associated to those positions and how they relate to the rest of the organization;
 - o To keep records, at the institution level, of who was filling those positions throughout time (including the names of the persons or entities that decided the contents of each plans);
- It should be made clear that an entity should not be defined as material simply because it performs a key commercial activity inside a group; this is particularly true when the size of the entity is negligible in comparison to the size of that group, when the group is not materially affected by a potential imbalance or failure of that single entity, or when the entity does not represent a significant market share in that country.
- Regarding Article 5-b1, we find it important to emphasize that recovery plans should not be reviewed by external auditors. Authorities should be the only external entities to assess and approve recovery plans, and WE emphasize that current national provisions predict that these plans should be kept strictly confidential.

Q 04 - Please provide your views on the relationship between the governance arrangements provided for by Article 5 and current risk management processes/governance arrangements such as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

- We believe that current ICAAP and the future LCR metrics may have positive contributes to the construction of indicators that may constitute triggers to the application of Recovery Plans.

Q 05 - 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).

- Firstly, the information contained in paragraphs 3, 4 and 5 of Article 6 is very detailed.
- Secondly, the information that is required is very volatile and subject to sudden changes, namely the information regarding funding and exposures (either external or intergroup).

- This means that although the information contained in recovery plans will be very useful to help the supervisor to understand the institution at that point in time, this information is also going to be outdated by the time that it will be needed. For instance, liquidity information such as the one included in recovery plans is crucial to any financial institution, and is permanently followed and kept up-to-date.
- Moreover, already in normal times, but even more in times of stress such as the ones that we are currently experiencing, relationships between counterparties are very dynamic and volatile. The information that will be reported in this matter will also be a static photograph of one moment in time. Hence, this information will have lost accuracy at the time that will be needed, and will always require an update before being feasible.
- Furthermore, for small banks that are active on a local basis and only perform traditional banking activities, a detailed description might not be entirely relevant, in particular the differentiation between core and non-core business lines and critical functions.
- For all these reasons, we believe that it is more important to include a broad picture of the current situation regarding relations with counterparties and external interconnectedness, and try to focus a bit more on the measures and financial agreements that can be put in practice in times of stress.
- We believe that it could be useful to keep an analysis that is updated on a regular basis regarding the profitability of business lines, activities and units of the institution. When constructed with some level of granularity, this information can be a valuable tool in choosing the alternatives that will be predicted in recovery plans.

Q 06 - Please provide your views on the 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?

- It is very hard to predict if the recovery options that were included in these plans will be available at a time of need, since it will depend on a number of factors that are impossible to predict *a priori*.
- For sure, under scenarios of financial distress, normal markets will probably be inaccessible, and therefore most of the “theoretical” options will be unavailable.
- Additionally, a clearer wording may be needed in order to assure that the recovery options will include both normal and extraordinary measures. The current wording may suggest that only extraordinary measures will be allowed.
- We consider that the nature and the impact of each measure predicted in recovery plans should be explained, and accompanied by information clarifying if that measure is already a normal procedure inside the organization.
- Finally, data requirements for smaller institutions seem excessive.

Q 07 - Please provide your views on the requirements for the communication plan, as stipulated in the draft RTS under Article 7.

- Although it can be difficult to predict the circumstances that led to the events, it can be positive to have internal communication plans or strategies.
- However, communication plans will have to be fully adjusted to each situation, and consider all circumstances involved at that time.
- For these reasons, we do not see value added in including communication plans in recovery plans.
- Additionally, we strongly oppose any kind of public exposure regarding communication plans or strategies, as we are dealing with very sensitive and unpredictable situations that will have to be managed in a very carefully way.

Q 08 - 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.

- In practice and realistically, if market conditions are as severe as the ones that are being currently felt in some specific countries, preparatory measures may be very hard or impossible to be put in practice.
- Regarding internal procedures, institutions will have internal mechanisms and procedures to follow. However, we are not entirely sure that it justifies including them in recovery plans.
- Preparatory measures could include an update of the profitability of each business line of the institution, and the list of impacts of applying, to the group or institution, any of the steps that are predicted in recovery plans.

Questions related to the impact assessment

Q 09 - Do you agree that some of the costs of preparing recovery plan are already incurred by the requirements of having a proper risk management framework?

- Since Portuguese institutions are already obliged to submitting recovery plans, we can say that to some extent, yes, the costs of preparing recovery plans have already been partially incorporated.
- Some of the information that is included in EBA's recovery plans is already available, and some of it will require some degree of reorganization in order to comply to EBA's requirements. Finally, part of the information that will be included is new, but easily obtainable. If further IT developments are necessary, more costs will be incurred.
- We believe that further costs may arise in the future related to the implementation of preparatory measures, such as evaluations of the institution.

Q 10 - Could you indicate whether all the main drivers of costs and benefits have been identified? Are there any other costs or benefits missing? If yes, could you specify which ones?

- The benefits seem to be identified.
- The costs can be a bit harder to predict.

Q 11 - Do you agree that, for an institution, the costs of producing a recovery plan are likely to be proportional to the size/complexity of the firm and so of the costs its failure may create? If not, could you explain why?

- Although simplified obligations will imply smaller recovery plans for smaller institutions, burden costs of simplified obligations do not seem to be proportional, when compared to greater ones.
- As a matter of fact, reporting requirements (and recovery plans) represent, in a proportional way, a much larger burden for smaller institutions than for greater ones, since the organic structure and resources available are clearly different.
- On the other hand, larger institution may enjoy from economies of scale in certain points.

Q 12 - 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?

- No Comments.