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**UniCredit Group's reply
to the EBA Discussion Paper (2012/02) on a Template for Recovery
Plans**

UniCredit is a major international financial institution with strong roots in 22 European countries, active in approximately 50 markets, with about 9.500 branches and more than 150.000 employees. UniCredit is among the top market players in Italy, Austria, Poland and Germany. In the CEE region, UniCredit operates the largest international banking network with around 4.000 branches and outlets. UniCredit Group is a market leader in the CEE region. Furthermore UniCredit was recently recognized as Global Systemically Important Bank.

GENERAL REMARKS

UniCredit appreciates the efforts of EBA to review and examine the content of the various legislative and supervisory national initiatives taken with regard to the Recovery Plans, in order to help developing best practices and fostering convergence within EU.

We would encourage a similar initiative also with regards the Resolution Plans given that, even if the Recovery and Resolution Plan (RRP) may leverage on existing processes, it is a new task, extremely demanding and requiring significant effort, resources and issues to be solved/addressed also by the competent authorities.

With regard to the last point we think that the main general challenges to be addressed are:

- **clarify responsibilities:** the EU legislation should clearly define national competent authorities' and EBA's roles and responsibilities. In the current environment, it is quite unclear which approach should be taken. An approach built on the concept that the Recovery Plan is defined at Group Level – which implies that the Group's interest prevails, without creating instability in local jurisdictions and with the aim to avoid contagion effects in the Group – should be the highly advisable. Our goal is to meet the requirements through a single, coherent, group-wide RRP, with:
 - an active involvement on main foreign legal entities (LE) in order to take into account their specific needs/peculiarities/constraints (e.g. scenarios tailored to local jurisdictions and contingency actions to be developed at local level) and identify local impediments to be removed in order to allow the group to exit the crisis safely, quickly and without destabilizing the financial system
 - a strong interactions between national competent authorities, leveraging on the Crisis Management Group (CMG). Otherwise, if relevant Regulators that are part of the CMG should define different requirements (both in terms of information and time line), the efforts to integrate the jurisdiction-specific requirements may jeopardise the whole process and result;
- **focus on critical issues:** it is fundamental not to burden the banks with conflicting instructions or excessive data request but leverage on the international experience to focus on the critical information to be required (for example for the identification of critical functions). Such requirements should be set by EBA to ensure the leveling playing field;
- **set common definitions:** clear and common definition should be set for: 1) data requirement (i.e. accounting, regulatory and managerial); 2) boundary between recovery and resolution; 3) scenarios to be analysed (systemic vs idiosyncratic);

- **removal of the existing legislative and regulatory barriers** at national level for the smooth functioning of the internal capital markets (within each financial group): in those circumstances where external markets are frozen and characterized by lack of confidence, it is key to let the internal markets functioning (i.e. unconstrained circulation of liquidity, assets, capital, human resources, data and information). This is crucial to avoid the worsening of crisis situation and ineffective management of liquidity, assets (and capital), which may be “trapped” in some legal entities and for instance hamper the effectiveness of liquidity interventions taken also by the ECB, affecting the implementation of contingency actions in the Group legal entities;
- **management of a large amount of highly sensitive data and information:** free flow of information should be ensured within the group but sensitive data (on the recovery and resolution topic) should be carefully managed to avoid unwanted disclosures and “panic effects and transmission”.

With reference to the proposed EBA template, Unicredit strongly supports EBA’s view regarding the fact that the core of the Recovery Plan is to assess if options available to cope with a crisis are sufficiently robust and to face a wide range of shocks of different nature, rather than to forecast the factors which could prompt a crisis and to lose time in the computational efforts to quantify the precise impacts. In this sense we strongly support the logic of a reverse stress testing with the focus on the remedial actions and on the decision making process.

We support EBA’s view about the inclusion of “significant branches and legal entities”; moreover we would emphasize the need, in the initial phase, of a prioritization of the main group subsidiaries to be considered while the potential inclusion of additional legal entities should be evaluated in a second step in the following years and possibly considering an “entry threshold”.

Finally we think that it would be helpful to introduce the definition of “core functions”, that should be the products/activities needed to guarantee the franchise value of the group and that should be relevant in the recovery’s phase in order to distinguish them from the “critical functions” that are the products/activities of the firm whose withdrawal or disorderly wind down could have material impacts on the financial system and on the economy itself.

This should be useful to better define the boundaries between recovery and resolution.

In particular, even if it is important to consider the activities performed by the Group in order to propose coherent recovery options, we would interpret FSB key attributes in the sense that the detailed investigation of critical functions and their interconnections should be performed in the Resolution Plan.

SPECIFIC QUESTIONS

Q.1 Have you already drafted/approved a recovery plan or are you in the process of doing so? If so, please reply to the following questions referring to your experience

A first draft of the Recovery Plan has been defined by the end of 2011, approved by Board of Directors and sent to the consolidating supervisor, to be shared with the Crisis Management Group (CMG). The update of 2012 plan is ongoing and will include feedbacks coming from the CMG and based on the forthcoming European Directive establishing a framework for recovery and resolution.

Q.2 Is your recovery plan or would your future recovery plan be in line with the contents of the template and its underlying approach? Please mention the relevant differences, if there are any

As mentioned above the updated version of the plan will leverage also on the inputs coming from the evolution of the legislative framework at European level. The major concerns are the ones mentioned in the general topics.

Q.3 Are there legal provisions and/or guidelines in place in your jurisdiction with regard to recovery plans and resolution plans? If so, are there any elements of this template which conflict with those provisions?

We fully support the attempt to establish standards at International level by the FSB and BCBS as well as a legal framework by the EU Commission. We are not aware of development of specific local legislations on RRP as currently defined and we would not encourage them at a local level.

We are aware that in a number of cases, some national competent authorities are addressing specific requests to reform resolution regimes within the context of the IMF/EU financial assistance program and that national competent authorities are engaged directly in the RRP drafting process, even where they have no drafted specific legislation on this issue, due to their involvement as FSB members in the international work on SIFIs.

Against this background, we support the EBA's effort necessary to develop best practices and foster convergence on them within the EU. This should result in a chapter of the Single rule book, which should also be complemented by a confidential Guidebook for competent authorities. The Guidebook should describe the tools and procedures for performing their tasks in a consistent and effective manner, ensuring appropriate coordination and preserving confidentiality.

Q.4 What kind of legal implications and/or binding effects does the plan have in your jurisdictions, if any, and what should they be, in your opinion?

Currently, given also the lack of a national and European regulation on the recovery topics, the plan does not have any legal implications or binding effects being mainly aimed at providing a clear picture of the overall structure of the banking group and at highlighting potential solutions to face possible problem. In our view, it should not have any binding effects in all jurisdictions, otherwise it will lose its flexibility.

At a broader level, the structure of the plan and the related requirements should not be different across jurisdictions within the group in order to ensure the leveling playing field and above all should be neutral with regard the business models adopted.

Q.5 Do you believe the draft recovery template to be sufficiently comprehensive and cover all the aspects relevant for the purpose of the recovery plan? If not, please specify what is missing.

In addition to the point mentioned in the general topics, we see, as possible area of improvement, a more active interaction between firm and the CMG for the evaluation of the main cross border recovery topics (as already detailed in the general remarks).

Q.6 Should the recovery plan include scenarios and assumptions as possible points of reference for testing the various recovery options? What role should they play within the recovery plan and with respect to the possibility to consider per se the various triggers and negative impacts?

UniCredit recovery plan, both actual and future, is already including scenarios, governance and escalation processes.

Regarding the EBA proposal at pag.11, it seems preferable to focus the effort on differentiating the developments of the plan among different types of financial stress rather than among slow and fast moving financial stress.

Moreover, build a scenario envisaging a default of the parent company, does not seem coherent with the aim of the recovery plan, given that a default of the parent company taking

into account the current legal environment should send the group directly into a resolution phase.

Finally, because of scenarios are evaluated as linked to the recovery trigger/limit, saying that “scenario should be selected believing they are sufficiently liked to occur” could generate not justified panic effect.

Q.7 How would/do you identify quantitative and qualitative recovery early warnings and triggers? What are the key metrics you would use to develop early warnings and triggers?

Definition of early warnings and triggers are actually linked to group risk appetite metrics as defined in UniCredit internal regulations, thus providing a direct link with existing governance and organisational practices.

Q.8 What kind of corporate governance arrangements have you adopted or would you adopt for recovery planning? Please comment on differences to the template.

In order to avoid inefficiencies, the group recovery plan has been developed leveraging as much as possible on the existing capital and contingency liquidity policies (which proved effective so far) in order to define an overall robust governance framework. The goal remains to manage the potential crisis at group level in a coordinated manner, identifying the remedial actions. The above mentioned policies define:

- quantitative and qualitative criteria which would trigger the implementation of the recovery plan;
- roles and responsibilities of the involved functions;
- backstops and escalation procedures;
- the relationships with sub-holdings and other legal entities of the group;
- the escalation processes and the connected delegation powers between the competent bodies (risk committees, top management, Board of Directors).

Q.9 How do/would you ensure the consistency between your group recovery plan and recovery plans drafted by your main entities? For this purpose, are you aware of any obstacles in the current legal framework?

In order to manage the preparation of the recovery plan a proper project structure has been set up, identifying functions/committee involved and roles and responsibilities of the relevant actors, both at holding and sub-holding levels.

The holding project workstreams coordinate the local ones for each area of competence.

The steering guidelines and the overall management of the project are provided by the holding top management. Local representatives of each workstream support the holding functions in order to take into account specific needs/peculiarities/constraints and impediments at local level.

The aim is to ensure consistency by active co-operation between the key group legal entities and by bringing consistency issues to the attention of the CMG.

An EU legal framework for recovery plans would facilitate the task of achieving consistency for recovery plans of European cross-border banking groups.

Q.10 What range of recovery measures do you think should be envisaged in the template?

The range of the recovery measures listed in paragraph D of the consultation paper can be considered acceptable. It has to be said, however, that it should be considered more as a generic and flexible guide to the recovery plan rather than a rigid set of options amongst which the institution would be constrained to choose. Any bank should be let free to identify the measures more appropriate to the concrete and specific situation in which it will

be involved. It is important to add that the considered measures should be feasible and effective.

Q.11 Have you got any remarks or concerns related to the confidential nature of the information provided in the recovery plan? If so, please elaborate.

Yes, we have concerns both referred to information that will be exchanged and to the outcomes of the plan itself. We are partially addressing these issues putting in place the adequate countermeasures to minimize the risks, such as special confidentiality agreements and insider lists but, as anticipated in the general topic, a strong support also from the competent authorities is needed in order to remove barrier across borders and legal entities related to the free flow of information within the group and relevant authorities. Otherwise this barrier could put at risk the capabilities of the group to timely detect a crisis situation and solve it safely, quickly and without destabilizing the financial system, in addition to create serious problem in the preparation of the group resolution plan.

Q.12 Should the plan include a ranking among the various recovery measures, differentiating between them with regard to possible scenarios and assumptions and taking into account the expected impact of each measure?

In order to define and select a recovery measure it is necessary to analyse its effectiveness and expected impacts considering the situations/circumstances in which a specific option may result as inappropriate and unfeasible. . The qualitative dimension of the measures is the most important element that defines an appropriate recovery plan. We do not consider including a quantitative ranking among the various recovery measures as a priority. Moreover, we believe that the introduction of an excessive number of quantitative parameters can reduce the degree of flexibility of the plan. The credibility of any recovery plan is in fact more related to its overall flexibility and feasibility.

Q.13 How would you assess the credibility of a recovery plan? Please comment on your experience

The credibility of a recovery plan under both an idiosyncratic and a systemic stress scenario should be judged in relation to these two main dimensions:

- the likely effectiveness of each recovery option as highlighted in Q12,
- the definition of a formalized process, with a clear governance, that should identify a course of actions to be put in place. The process should also consider and define how to overcome any substantial and formal obstacles that may arise.

Q.14 What kind of information arrangements have you put in place to ensure that the right information is available within a short time frame for decision-making in a stress situation?

The management of a relevant financial institution is strictly related on the availability of accurate and timely information in the day by day activities in order to try to detect in advance potential crisis situations. Consequently the activities related to the constant enhancement of the quality of the data and in general of the information systems is part of the regular activities of the bank with a strong interaction with Regulators in their supervisory activities.

For what regards the specific quantitative information needed within the G-SIFIs' framework currently under definition by the FSB and the European authorities, in line with the project structure defined in Q9, a specific workstream (at holding and legal entities' level) has been identified in order to manage and coordinate the activities related to the overall governance of the data.

Based on the list of information indicated in the FSB key attributes and in the consultation papers analysed so far we are evaluating the possibility to leverage on different projects that the group is setting up for regulatory purposes, like for example Basel 3 in order to generate

potential synergies among different regulatory data requests. However, considering that the above mentioned regulatory SIFI framework didn't finalize so far contents, metrics, rules, timeline of the quantitative information required, any additional ad hoc internal arrangements will be planned once the regulatory framework will be more complete and exhaustive. Depending on the type and frequency of data required it will be necessary to evaluate the efforts and the investments (e.g. IT platform) in order to guarantee the timely availability.

Q.15 How frequent should interactions/iterations between the supervisor and the financial institution be? What role should the supervisor play?

The competent authorities should assess the recovery plan and provide the Group with guidance in setting it up.

Therefore we would deem as appropriate to have at least two meetings per year, one in spring time to assess the plan delivered at the end of the previous year, and another one in autumn to fine tune the requirements for the subsequent delivery. Until the plan is not in the steady state, we would expect more frequent interactions are needed.

As general principle we would deem of the utmost relevance that host supervisory authorities coordinate any requirement to group subsidiaries with the consolidating supervisory in order to avoid inconsistencies across jurisdictions.

In this regard we deem as relevant to specify the different roles of the supervisors.

The consolidating supervisor should organize and steer the CMS, e.g. setting the agenda and proposing adaptations of European legislation to the group. Furthermore the consolidated competent authority, i.e. the competent authority of the country where the holding company is headquartered, should have bilateral meetings with the supervisory authorities of the countries where the group has a subsidiary that is locally relevant.

Q.16 The implementation of a recovery plan is likely to structurally modify the financial institution and its sources of revenues. Should a forward looking business plan, assuming the implementation of the recovery options, also be part of the recovery plan?

We agree that the structural impact of any recovery plan on the financial institution has to be identified. We include this analysis in our recovery plan. However, we consider the definition of a proper and complete new business plan, as a consequence of the recovery plan, a measure not in line with the overall aim of the project.

Q.17 Please provide views on the impact, including your costs and benefits analysis, of the issues involved in the preparation of a recovery plan?

Please see general topic for the issues identified and question n. 9 for the project organization useful for the preparation of the recovery plan.

Given that there isn't still a clear and finalised regulatory framework, it is not possible at this stage to provide a precise cost / benefit analysis.

Producing RRP requires firms to collect data, information and provide detailed analysis on relevant legal entities. Expected costs are of different types:

- One-off costs such as IT and systems costs, plus external support to deal with the topic (that is new in this format);
- On-going cost of producing and update the RRP modules (data, information and analysis);
- Additional on-going costs including, for example, staffing involved and to be dedicated to the production the recovery and resolution analysis and information.

We are strongly convinced that the activities on the recovery plan should go in the direction of a continuous improvements of the capital and liquidity risk management best practices and bring to an increase of the level of confidence towards the overall (local and international) banking system.



Q.18 Have you made, or do you plan, changes in the organisation to facilitate successful implementation of the recovery plan in the future?

At the moment there are no planned changes in the organisational model strictly connected to the recovery plan.



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Please find below a list of the key people involved in this work, whose invaluable help made possible to provide UniCredit answers to this Discussion Paper. Of course, some other experts have been involved alongside the UniCredit Group, but are not listed below.

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