

EBA/	CP/	′2014/	/28
------	-----	--------	-----

26 September 2014

# **Consultation Paper**

# **Draft Guidelines**

on the minimum list of qualitative and quantitative recovery plan indicators



# **Contents**

1.	Responding to this Consultation	3
2.	Executive Summary	4
3.	Background and rationale	6
4.	EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators	8
	Title I - Subject matter, scope and definitions	9
	Title II - Framework of recovery plan indicators	10
	Title III – Capital indicators	12
	Title IV – Liquidity indicators	13
	Title V – Profitability indicators	13
	Title VI – Asset quality indicators	14
	Title VII - Market based indicators	14
	Title VIII – Macroeconomic indicators	15
	Title IX – Final Provisions and Implementation	15
5.	Accompanying documents	18
5.1	Impact Assessment	18
5.2	2 Overview of questions for Consultation	23



# 1. Responding to this Consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in Section 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed / rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

#### **Submission of responses**

To submit your comments, click on the 'send your comments' button on the consultation page by 02.01.2015. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

#### **Publication of responses**

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

#### **Data protection**

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.



# 2. Executive Summary

Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms sets out a Union-wide framework for crisis prevention, management, and resolution of these entities. Directive 2014/59/EU sets obligations for institutions to develop and maintain recovery plans providing for measures to be taken by the institution to restore its financial position. The competent authorities shall evaluate such plans pursuant to the rules specified in the EBA Regulatory Technical Standards (RTS) on the assessment of recovery plans. In line with the EBA RTS on the content of recovery plans, the institutions should include in their recovery plans *inter alia* a set of recovery plan indicators and a range of scenarios to test recovery options. The EBA Guidelines on the range of scenarios for recovery plans provide guidance on how to select the appropriate range of scenarios. Whereas, the present Guidelines are developed by the EBA, pursuant to Article 9(2) of Directive 2014/59/EU and specify the minimum list of quantitative and qualitative indicators for the purposes of recovery planning.

The recovery plan indicators shall be established by each institution with the aim of identifying the points at which the escalation process should be activated to assess which appropriate actions referred to in the recovery plan may be taken. Such indicators shall be agreed by competent authorities when making the assessment of the recovery plans. In this regard, the competent authorities shall ensure that institutions put in place appropriate arrangements for the regular monitoring of the indicators.

These Guidelines recognise that the risks which each institution faces vary significantly according to its business and funding model, its activities and structure, its size or its interconnectedness to other institutions or to the financial system in general. The Guidelines also recognise that each institution should include both qualitative and quantitative indicators which are the most relevant when developing its recovery plan. Moving from this premise, the Guidelines provide the requirements that institutions should fulfil when developing the framework for recovery plan indicators and specify the minimum list of categories that should be included in all recovery plans: capital, liquidity, profitability and asset quality.

Besides, the Guidelines identify two other categories of recovery plan indicators (market-based indicators and macroeconomic indicators) that should be included in the recovery plan unless the institution justifies to the competent authorities that they are not relevant to its legal structure, risk profile, size and/or complexity (i.e. a rebuttable presumption).

For each category of recovery plan indicators, the Guidelines spell out specific indicators that should be included unless the institution justifies to the competent authorities that they are not relevant to its legal structure, risk profile, size and/or complexity (i.e. a rebuttable presumption). Finally, the Guidelines recognise that institutions should not limit their set of indicators to the minimum list. Within this context, the Guidelines provide a list with additional recovery plan indicators for illustration purposes only.



The Guidelines are structured into nine Titles. The first title establishes the subject matter and scope of the Guidelines. Title II provides the framework of recovery plan indicators. Titles III to VIII are dedicated to each category of recovery plan indicators. Finally, Title IX determines final provisions and implementation.

The Guidelines also include two annexes. Annex I includes the minimum list of recovery plan indicators where Section A refers to the minimum list of categories of recovery plan indicators, Section B refers to the two categories that should be included subject to a rebuttable presumption, and Section C provides specific indicators that should be included under the rebuttable presumption. Finally, Annex II includes an additional list of recovery plan indicators for illustration purposes only.



# 3. Background and rationale

At the international level, the initiatives on recovery and resolution planning are carried out under the auspices of the Financial Stability Board which in its 'Key Attributes of Effective Resolution Regimes for Financial Institutions' identifies the essential elements of recovery and resolution plans, and recommends recovery and resolution plans to be in place at least for any financial institution that could be systemically significant or critical if it fails.

At the EU level, the co-legislators have adopted Directive 2014/59/EU, establishing a recovery and resolution framework in the European Union. The EBA has developed these Guidelines in accordance with Article 9(2) of Directive 2014/59/EU, which mandates the EBA to issue guidelines to specify the minimum list of quantitative and qualitative indicators for the purposes of recovery planning. These Guidelines should be read in conjunction with other regulatory products developed by the EBA in the area of recovery planning, in particular: (i) the EBA regulatory technical standards specifying the information to be contained in the recovery plan (developed pursuant to Article 5(10) of Directive 2014/59/EU); (ii) the EBA regulatory technical standards specifying the minimum criteria that the competent authority is to assess for the purposes of the assessment of recovery plans (developed pursuant to Article 6(8) of Directive 2014/59/EU); (iii) the EBA guidelines further specifying the range of scenarios to be used for recovery plans (developed pursuant to Article 5(7) of Directive 2014/59/EU).

#### Rationale and regulatory approach followed in the Guidelines

Directive 2014/59/EU stipulates in Article 9(1) that competent authorities shall ensure that each recovery plan includes a framework of indicators established by the institution which identifies the points at which appropriate actions referred to in the plan may be taken. Such indicators shall be agreed by the competent authorities when making the assessment of recovery plans and competent authorities shall ensure that institutions put in place appropriate arrangements for the regular monitoring of the indicators.

Following this mandate, these Guidelines are prepared taking into account the FSB 'Key Attributes of Effective Resolution Regimes for Financial Institution's and the 'FSB Guidance on Recovery Triggers and Stress Scenarios'. The Guidelines also benefit from the knowledge developed during the comparison exercise performed by the EBA in relation to the Group recovery plans received following the EBA Recommendation on the development of recovery plans launched in January 2013.

The Guidelines cover the framework specifying the key elements and essential issues that should be addressed by institutions when developing their recovery plan indicators as well as a minimum list of categories that should be covered (capital, liquidity, profitability and asset quality

<sup>&</sup>lt;sup>1</sup> Key Attributes of Effective Resolution Regimes for Financial Institutions, FSB, October 2011.

<sup>&</sup>lt;sup>2</sup> FSB Guidance on Recovery Triggers and Stress Scenarios, July 2013.



indicators) plus two other categories (market-based and macroeconomic indicators) to be included unless the institution justifies to the competent authorities that they are not relevant to its legal structure, its risk profile, size and/or complexity (i.e. a rebuttable presumption).

For each category, the Guidelines provide a list of specific recovery plan indicators to be included unless the institution can justify to the competent authorities that it is not relevant to its legal structure, risk profile, size and/or complexity. Institutions should not limit their set of indicators to the minimum list, and for this reason the Guidelines also include a list with additional recovery plan indicators broken down by categories.

Drafting a recovery plan is a duty of institutions undertaken prior to a crisis in order to assess the potential options that an institution or a group could itself implement to restore financial strength and viability should the institution or group come under severe stress. A key assumption is that recovery plans shall not assume that extraordinary public financial support would be provided. The recovery plan is drafted and owned by the institution, and assessed by the relevant competent authority or authorities.

The objective of preparing a set of recovery plan indicators is to define a set of indicators that can be used by each institution to define the points at which it has to decide whether to take action under its recovery plan or refrain from taking such action.



# 4. EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators

#### Status of these Guidelines

This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC ('the EBA Regulation'). In accordance with Article 16(3) of the EBA Regulation, competent authorities and financial institutions must make every effort to comply with the guidelines.

Guidelines set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. The EBA therefore expects all competent authorities and financial institutions to whom guidelines are addressed to comply with guidelines. Competent authorities to whom guidelines apply should comply by incorporating them into their supervisory practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

## Reporting Requirements

According to Article 16(3) of the EBA Regulation, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by dd.mm.yyyy. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form provided at Section 5 to <a href="mailto:compliance@eba.europa.eu">compliance@eba.europa.eu</a> with the reference 'EBA/GL/2014/xx'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities.

Notifications will be published on the EBA website, in line with Article 16(3).



## Title I - Subject matter, scope and definitions

#### **Subject matter**

- 1. These Guidelines fulfil the requirement set out in Article 9(2) of the Directive 2014/59/EU of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directive 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council ('Directive 2014/59/EU') mandating the EBA to develop guidelines, aimed at specifying the minimum list of quantitative and qualitative recovery plan indicators.
- 2. According to Article 9(1) of Directive 2014/59/EU, competent authorities shall require that each recovery plan includes a framework of indicators established by the institution which identifies the points at which appropriate actions referred to in the plan may be taken. The framework of indicators should be included in the recovery plans developed pursuant to the regulatory technical standard on the content of recovery plans developed pursuant to Article 5(10) of Directive 2014/59/EU.
- 3. Such indicators shall be agreed by competent authorities when making the assessment of recovery plans in accordance with Articles 6 and 8 of Directive 2014/59/EU, as further specified in the EBA regulatory technical standard on the assessment of recovery plans developed pursuant to Article 6(8) of Directive 2014/59/EU. The indicators may be of qualitative or quantitative nature relating to the institution's financial position and shall be capable of being monitored easily. The competent authorities shall ensure that institutions put in place appropriate arrangements for the regular monitoring of the indicators.
- 4. In view of the relevance for the assessment of the feasibility of the recovery options, the recovery plan should contain detailed information on the decision—making process with regard to the activation of the recovery plan as an essential element of the governance structure, based on an escalation process using indicators in accordance with Article 9(1) of Directive 2014/59/EU.

#### **Definitions**

5. 'Recovery plan indicators' are qualitative and quantitative indicators established by each institution on the basis of the framework laid down in these Guidelines to identify the points at which appropriate actions referred to in the recovery plan may be taken.

#### Scope and level of application

6. The Guidelines are addressed to competent authorities and to those institutions which are obliged to develop recovery plans according to Directive 2014/59/EU.



- 7. With the exception of paragraph 11 of Title II, institutions and competent authorities, where relevant, should apply these Guidelines consistently with provisions on simplified obligations for certain institutions specified in Article 4 of Directive 2014/59/EU.
- 8. Without prejudice to the paragraph above, the competent authority may waive partially the application of paragraph 11 of Title II of these Guidelines if it deems certain categories of recovery plan indicators irrelevant having regard to the risks of a particular investment firm. The investment firms should include in their recovery plans specific indicators that take into account their particular risks.

## Title II - Framework of recovery plan indicators

- 9. The framework of recovery plan indicators should be established by institutions and assessed by competent authorities taking into consideration the criteria laid down in the following paragraphs.
- 10.Institutions should include recovery plan indicators both of a quantitative and qualitative nature.
- Q1 Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?
- 11.Institutions should include in the recovery plan at least the following categories of recovery plan indicators (as set out in Annex I, Section A) which are explained in Titles III to VI of these Guidelines:
  - capital indicators;
  - liquidity indicators;
  - profitability indicators;
  - asset quality indicators.
- 12.Institutions should include in the recovery plan the two following categories of recovery plan indicators (as set out in Annex I, Section B) which are explained in Titles VII and VIII of these Guidelines, unless they provide satisfactory justifications to the competent authorities that such categories are not relevant to the legal structure, risk profile, size and/or complexity of the institution (i.e. a rebuttable presumption):
  - market based indicators;
  - macroeconomic indicators.
- Q2 Do you consider that there are other categories of indicators apart from those reflected in the draft Guidelines which should be included in the minimum list of recovery plan indicators?



- 13.Institutions should include specific recovery plan indicators included in the list per category provided in Annex I, Section C, to these Guidelines, unless they provide satisfactory justifications to the competent authorities that such specific indicators are not relevant to the legal structure, risk profile, size and/or complexity of the institution (i.e. a rebuttable presumption).
- Q3 Do you agree with the list of specific recovery plan indicators included in Annex I, Section C, or would you propose to add other indicators to this Section?
- 14.Institutions should not limit their set of indicators to the minimum list set out in Annex I, and should give consideration to the inclusion of other indicators following the principles laid down in this Title II and in line with the description of the categories laid down in the following Titles of these Guidelines. With this aim, Annex II includes a list with additional recovery plan indicators broken down by categories.

#### 15. The framework of recovery plan indicators should:

- a. be adapted to the business model and strategy of an institution and be adequate to its risk profile. It should identify the key vulnerabilities most likely to impact the institution's financial situation and lead to the point at which it has to decide whether to activate the recovery plan or not;
- be adequate to the size and complexity of each institution. In particular, the number of indicators should be sufficient to alert the institution of deteriorating conditions in a variety of areas. At the same time, this number of indicators should be adequately targeted and manageable by institutions;
- c. be capable of defining the point at which an institution has to decide whether to take an action referred to in the recovery plan or to refrain from taking such an action;
- Q4 Do you consider that these Guidelines should establish the threshold for each quantitative recovery plan indicator to define the point at which the institution may need to take recovery measures to restore its financial position?
  - d. be aligned with the overall risk management framework and with the existing liquidity or capital contingency plan indicators, and business continuity plan indicators;
  - e. be integrated into the governance of the institution and within the escalation and decision-making procedures;
  - f. include forward looking indicators.



- 16. While setting the quantitative recovery plan indicators, the institution should consider using progressive metrics ('traffic light approach') in order to inform the institution's management that such indicators could potentially be reached.
- 17.Institutions should recalibrate the recovery plan indicators when necessary and at least annually.
- 18.Institutions should be able to provide competent authorities with an explanation of how the calibrations of the recovery plan indicators have been determined and to demonstrate that the thresholds would be breached early enough to be effective. In this context, the magnitude and speed of the breach of the threshold should be taken into account.
- 19. The management information systems of the institution should ensure an easy and frequent monitoring of the indicators by the institution and allow for the timely submission of the indicators to the competent authorities upon request.
- 20. Monitoring of recovery plan indicators should be undertaken on a continuous basis to ensure that measures can be taken by the institution, in a timely manner to restore the institution's financial position following a significant deterioration of its financial position.

## Title III – Capital indicators

- 21.Capital indicators should identify a significant actual or likely future deterioration of the quantity and quality of capital in going concern, including increasing level of leverage.
- 22. The capacity of capital indicators to allow for a timely reaction can be lower than for other types of indicators, and certain measures to restore an institution's capital position can be subject to longer execution periods or greater sensitivity to market and other conditions. Institutions should consider ways to address such issues. This can be achieved by means of establishing forward looking projections, which should consider material contractual maturities relating to capital instruments.
- 23.The capital indicators should also be integrated in the institution's Internal Capital Adequacy Assessment Process (ICAAP) pursuant to Article 73 of Directive 2013/36/EU of the European parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ('Directive 2013/36/EU), and its general risk management framework.
- 24. The thresholds should be calibrated based on institution specific risks and on the time needed to activate the recovery measures and should consider the recovery capacity resulting from those measures. The thresholds should also take into account how quickly the capital situation may change, given the institution's individual circumstances.



25. The thresholds for indicators based on regulatory capital requirements should be calibrated by the institution at adequate levels in order to ensure a sufficient distance to a breach of the minimum capital requirements applicable to the institution (including additional own funds requirements pursuant to Article 104 of Directive 2013/36/EU, where relevant).

## Title IV – Liquidity indicators

- 26.Liquidity indicators should be able to inform an institution of the potential for, or an actual deterioration of the capacity of the institution to meet its current and foreseen liquidity and funding needs.
- 27. The institution's liquidity indicators should refer both to the short term and long term liquidity and funding needs of the institution and capture the institution's dependence on wholesale markets, retail deposits, and intragroup funding, distinguishing among key currencies where relevant.
- 28.The liquidity indicators should be integrated with the strategies, policies, processes and systems developed by each institution pursuant to Article 86 of Directive 2013/36/EU and its general risk management framework.
- 29. The liquidity indicators should also cover other potential liquidity and funding needs, such as the intra-group funding exposures and those coming from off-balance structures.
- 30. The thresholds identified by the institution should be calibrated based on institution specific risks and should take into account how quickly the liquidity situation may change, given the institution's individual circumstances.
- 31. The thresholds should be calibrated based on institution's specific risks and on the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures. When referring to minimum regulatory requirements applicable to the institution (including additional liquidity requirements pursuant to Article 105 of Directive 2013/36/EU, if applicable) the indicators should be calibrated by the institution at adequate levels in order to be able to inform the institution of potential and/or actual risks of not complying with those minimum requirements.

# Title V – Profitability indicators

32. Profitability indicators should capture any institution's income related aspect that could lead to a rapid deterioration of the institution's financial conditions through lowered retained earnings (or losses) impacting on the own funds of the institution.



- 33.As an alternative or complementary approach institutions should establish different thresholds to deviations from the institution's budget.
- 34. This section should include recovery plan indicators referring to operational risk related losses which may have a significant impact on the Profit & Loss statement, including but not limited to the conduct related issues, external and internal fraud and/or other events.

## Title VI – Asset quality indicators

- 35.Asset quality indicators should measure and monitor the asset quality evolution of the institution, and more specifically indicate when asset quality deterioration could lead to the point at which the institution should consider taking an action described in the recovery plan or not.
- 36. The asset quality indicators may include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.
- 37. The asset quality indicators should include aspects such as the off-balance sheet exposures and the impact of non-performing loans on the asset quality.

#### Title VII - Market based indicators

- 38.Market based indicators are aimed at capturing the expectations from market participants on a rapidly deteriorating financial condition of the institution, that could potentially lead to disruptions in access to funding and capital markets. With this objective, the framework of qualitative and quantitative indicators should refer to the following types of indicators:
  - a. equity-based indicators which capture variations in the share price of listed companies, or ratios that measure the relationship between the book and market value of equity;
  - b. debt-based indicators, capturing expectations from wholesale funding providers such as credit default swaps or debt spreads;
  - c. portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each institution (e.g. real estate);
  - d. rating downgrades (long term and/or short term) as they reflect expectations of the rating agencies that can lead to rapid changes in the expectations from market participants on the institution's financial position.



#### Title VIII – Macroeconomic indicators

- 39. Macroeconomic indicators are aimed at capturing signals of deterioration of the economic conditions where the institution operates, or of concentrations of exposures or funding.
- 40. The macroeconomic indicators should be based on metrics that influence the performance of the institution in specific geographical areas or business sectors that are relevant for the institution.
- 41. The macroeconomic indicators should include the following typologies:
  - a. geographical macroeconomic indicators, related to different jurisdictions to which the institution is exposed, giving also consideration to risks steaming from potential legal barriers;
  - b. sectoral macroeconomic indicators, related to major specific sectors of economic activity to which the institution is exposed (e.g. shipping, real estate).

## Title IX – Final Provisions and Implementation

42.Competent authorities should transpose these Guidelines into their supervisory practice within 6 months of their adoption. After that date, competent authorities should ensure that institutions comply with them effectively.



#### Annex I – Minimum list of recovery plan indicators

# Section A Minimum list of categories of recovery plan indicators

- 1. Capital indicators
- 2. Liquidity indicators
- 3. Profitability indicators
- 4. Asset quality indicators

#### **Section B**

Categories of recovery plan indicators to be included subject to a rebuttable presumption

- 5. Market based indicators
- 6. Macroeconomic indicators

#### **Section C**

List of specific indicators per category subject to a rebuttable presumption

#### To be included in the minimum list of categories of recovery plan indicators

- 1. Capital indicators
  - a) Common Equity Tier 1 ratio
  - b) Total Capital ratio
  - c) Leverage ratio
- 2. Liquidity indicators
  - a) Liquidity Coverage Ratio
  - b) Short-term wholesale funding ratio
  - c) Net outflow of retail and corporate funding
  - d) Cost of wholesale funding
- 3. Profitability indicators
  - a) Return on Assets
  - b) Return on Equity
  - c) Significant losses due to administrative/regulatory fine or adverse court ruling
- 4. Asset quality indicators
  - a) Impaired and past due loans / Total loans
  - b) Coverage ratio (loans and debt instruments)
  - c) Non-performing loans by counterparty sector

#### To be included in the list of categories subject to a rebuttable presumption

- 5. Market based indicators
  - a) Rating under review or/rating downgrade
  - b) CDS spread
  - c) Stock price variation (daily or weekly)
  - d) Default of a peer institution
- 6. Macroeconomic indicators
  - a) GDP variations
  - b) CDS of sovereigns
  - c) Rating downgrades of sovereigns



# Annex II – Illustrative list of additional recovery plan indicators

Additional recovery plan indicators (for illustration purposes only)
To be included in the minimum list of categories of recovery plan indicators
1. Capital indicators
a) Retained Earnings and Reserves / Total Equity
b) Adverse information on the financial position of significant counterparties
c) Requests from counterparties for early redemption of liabilities
2. Liquidity indicators
a) Concentration of liquidity and funding sources
b) Increase in drawdowns of uncommitted facilities
c) Core Funding Ratio (% of total liabilities)
d) Cost of total funding (retail and wholesale funding)
3. Profitability indicators
a) Return on investment
b) Cost income ratio
c) Severe credit losses
d) Significant losses due to external fraud or internal event
4. Asset quality indicators
a) Non-performing loans / Equity
b) Restructured loans / Total loans
c) Annual growth rate of impairments on financial assets
d) Flow of gross new NPLs / Total performing loans
To be included in the list of categories subject to a rebuttable presumption
5. Market-based indicators
a) Price to book ratio
b) Reputational threat to the institution
c) Negative market press and significant reputational damage
6. Macroeconomic indicators
a) Rating under review of sovereigns
b) A macroeconomic downturn
c) Unemployment ratio



# 5. Accompanying documents

## 5.1 Impact Assessment

#### Introduction

Directive 2014/59/EU stipulates in Article 9(1) that competent authorities shall ensure that each recovery plan includes a framework of indicators established by an institution which identifies the points at which appropriate actions referred to in the recovery plan may be taken. Following this mandate, the draft Guidelines cover the framework specifying the key elements and essential issues that should be addressed by the institutions when developing their recovery plan indicators; as well as lay down a list of recovery plan indicators to be included subject to a rebuttable presumption and specify the categories that should be covered by such indicators.

As per Article 16(2) of the EBA Regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any draft guidelines developed by the EBA shall be accompanied by a cost and benefit analysis. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts. This annex presents the impact assessment of the policy options considered in the Guidelines described in the Consultation Paper. Given the nature of the study, the Impact Assessment is high level and qualitative in nature.

#### Problem definition

These Guidelines try to address institutions' problems in selecting indicators for their recovery plans which will be relevant to their risk profile and cover the key areas of their activities. In most Member States only the largest institutions and banking groups have developed the framework of recovery plan indicators, whereas the smaller ones have no experience in this area.

The recovery plans developed by the largest banking groups show deficiencies in the set of indicators used to identify the points at which appropriate actions referred to in the recovery plan may be taken. Additionally, it has been identified that recovery plans should include a sufficient number of recovery plan indicators which are relevant to the risk profile of each institution and should cover a minimum set of categories.

Moreover, there is a lack of harmonization in current practices among institutions across the EU in developing recovery plan indicators. This lack of a homogeneous framework within the EU to identify the circumstances which can lead to a significant deterioration of the financial situation of each institution makes the management of recovery planning very complex for cross border banking groups. This situation also makes the assessment of the recovery plans very challenging for the competent authorities.



#### Objectives of the Guidelines

The Guidelines provide institutions with a set of indicators to identify circumstances which can lead to a significant deterioration of their financial situation.

The objective of the Guidelines is to ensure that recovery plans developed by the institutions include a minimum common framework of indicators to identify the points at which appropriate actions referred to in the plan may be taken. With this aim, the Guidelines specify the criteria that should be fulfilled by institutions when developing the list of quantitative and qualitative recovery plan indicators.

#### **Technical options**

When developing the Guidelines the EBA has considered alternative options under each of the four main areas:

#### A. Categories of recovery plan indicators

**Option A1:** The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions.

**Option A2:** The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions subject to a rebuttable presumption.

**Option A3:** The Guidelines would establish a list of categories of recovery plan indicators that should be included in all recovery plans plus other categories that should be included subject to a rebuttable presumption.

#### B. Minimum list of recovery plan indicators

**Option B1:** The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions.

**Option B2:** The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions subject to a rebuttable presumption.

#### C. Nature of the recovery plan indicators

Option C1: The recovery plan indicators would contain quantitative metrics only.

Option C2: The recovery plan indicators would contain quantitative and qualitative metrics.

#### D. Thresholds for the quantitative recovery plan indicators

**Option D1:** The Guidelines would require institutions to set a unique threshold for each quantitative indicator.

**Option D2:** The Guidelines would allow for gradual awareness of the point at which the institution may need to take recovery measures to restore its financial position with progressive metrics (i.e. traffic light approach) in order to inform the institution's management that such indicators could potentially be reached.



# Assessment of the technical options

	Technical options	Pros	Cons
	Option A1: The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions	All recovery plans would include the same minimum list of categories of recovery plan indicators (full harmonisation would be reached).	Institutions would not have any possibility to adapt their list of categories. This might result in including in the institution's recovery plans indicators from the categories which are not relevant to their business model, size and complexity.
A. Categories of recovery plan indicators	Option A2: The Guidelines would establish the minimum categories of recovery plan indicators that should be included by institutions subject to a rebuttable presumption.	Under this option each institution would be able to adapt their own list of categories to their business model, size and complexity.	Not all recovery plans would include the same minimum list of categories of recovery plan indicators and, therefore, full harmonisation would not be reached.
	Option A3: The Guidelines would establish a list of categories of recovery plan indicators that should be included in all recovery plans plus other categories that should be included subject to a rebuttable presumption.	Under this option all recovery plans would include the same core minimum list of categories of recovery plan indicators and each institution would be able to adapt their list of categories indicators to their business model, size and complexity.	The monitoring of these indicators would be done on a case by case basis and would be, as a consequence, more time and resource consuming.
B. Minimum	Option B1: The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions.	By defining a minimum list of specific indicators that all recovery plans should have, comparison between institutions will be easier and there will more harmonization among recovery plan indicators.	Given the diversity of banks' business models, this 'one size-fits all' approach would not be adequate to capture accurately potential risks that each institution could face.
list of recovery plan indicators	Option B2: The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions subject to a rebuttable presumption.	By defining a minimum list of specific indicators that are applicable subject to a rebuttable presumption, each institution would be able to adapt their own list of indicators to their business model, size and complexity whilst ensuring harmonization among institutions.	The monitoring of the indicators would be done on a case by case basis and would be, as a consequence, more time and resource consuming



C. Nature of indicators	Option C1: Institutions would take into account exclusively quantitative indicators when referring to the point at which there is a significant deterioration of their financial situation.	Quantitative indicators are a precise way to measure the point at which there is a significant deterioration of the financial situation of an institution.	Precision may not necessarily lead to accuracy. Quantitative threshold to trigger an action may give incorrect signal to the institutions and the competent authorities.  Specifically, when a certain threshold has been breached, institutions and the competent authorities may feel obliged to take action even though the action is not optimal given qualitative assessment.
	Option C2: Institutions would consider both qualitative and quantitative indicators when referring to the point at which there is a significant deterioration of their financial situation.	Qualitative indicators allow each institution to better identify the point at which there is a significant deterioration of its financial situation.	Certain degree of judgement is added in relation to the point at which the qualitative indicators are breached.
D. Thresholds for quantitative	Option D1: Institutions should establish a unique threshold for each quantitative indicator.  The breach of the threshold would give the institution the signal on whether to take the actions referred to in the recovery plan or not.	The practice is simple and precise. The rule would create common standards across jurisdictions.	This approach would not be flexible and it may not be proactive, i.e. the signal may be too late to prepare for action.  The unique cut-off point may give insufficient signals, i.e. when the certain unique threshold has been breached, the institutions and competent authorities may feel obliged to take an action even though the action is not optimal given qualitative assessment.
indicators	Option D2: The Guidelines would allow for gradual awareness of the point at which the institution may need to take recovery measures to restore its financial position with progressive metrics (i.e. traffic light approach) in order to inform the institution's management that such indicators could potentially be reached.	The inclusion of additional thresholds per each quantitative indicator would allow for gradual awareness of the institution before having to consider whether to take the actions referred to in the recovery plan or not.	The establishment of multiple thresholds would add complexity to the calibration process that has to be done by each institution.



#### **Preferred options**

Giving the results of the Impact Assessment the EBA preferred options for each of the areas taken into consideration are as follows:

#### A. Categories of recovery plan indicators

**Option A3:** The Guidelines would establish a list of categories of recovery plan indicators that should be included in all recovery plans plus other categories that should be included subject to a rebuttable presumption.

#### B. Minimum list of recovery plan indicators

**Option B2:** The Guidelines would establish a minimum list of specific recovery plan indicators that should be included by institutions subject to a rebuttable presumption.

#### C. Nature of the recovery plan indicators

**Option C2:** The recovery plan indicators include both quantitative and qualitative recovery plan indicators.

#### D. Thresholds for the quantitative recovery plan indicators

**Option D2:** The Guidelines allow for gradual awareness of the point at which the institution may need to take recovery measures to restore its financial position with progressive metrics (i.e. traffic light approach) in order to inform the institution's management that such indicators could potentially be reached.

Q5 Do you agree with our analysis of the impact of the proposals in this Consultation Paper? 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?



# 5.2 Overview of questions for Consultation

#### **Questions related to the draft Guidelines**

Q1	Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?
Q2	Do you consider that there are other categories of indicators apart from those reflected in the draft Guidelines which should be included in the minimum list of recovery plan indicators?
Q3	Do you agree with the list of specific recovery plan indicators included in Annex I, Section C, or would you propose to add other indicators to this Section?
Q4	Do you consider that these Guidelines should establish the threshold for each quantitative recovery plan indicator to define the point at which the institution may need to take recovery measures to restore its financial position?

#### **Questions related to the Impact Assessment**

