EBA-GL-2015-02

23 July 2015

Guidelines

on the minimum list of qualitative and quantitative recovery plan indicators

Contents

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, the competent authorities and financial institutions must make every effort to comply with the guidelines.

These 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 which the Guidelines are addressed to comply with them. Competent authorities to whom the 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 the Guidelines are directed primarily at institutions.

Reporting requirements

According to Article 16(3) of the EBA Regulation, the competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise state their reasons for non-compliance, by 23.09.2015. In the absence of any notification by this deadline, the competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the relevant form to compliance@eba.europa.eu with the reference 'EBA/GL/2015/02'. 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 have been developed pursuant to Article 9(2) of 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 Directives 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'), which mandates 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, the 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 the 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 a 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.

5. For the purposes of these Guidelines 'recovery plan indicators' mean 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 the competent authorities and to those institutions which are obliged to develop recovery plans according to Directive 2014/59/EU.

7. Institutions and the competent authorities 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 partially exclude the application of the mandatory categories of recovery plan indicators set out in paragraph 11 of Title II of these Guidelines if it deems certain categories of recovery plan indicators irrelevant having regard to the business model of investment firms.

   Similarly, the competent authority should exclude in its supervisory practices the application of certain categories and indicators that are subject to rebuttable presumption set out in paragraphs 12 and 13 respectively, if it deems that such categories and indicators cannot apply to certain types of investment firms.

Title II – Framework of recovery plan indicators

9. The framework of recovery plan indicators should be established by institutions and assessed by the competent authority taking into consideration the criteria laid down in the following paragraphs.

10. Institutions should include recovery plan indicators of both a quantitative and qualitative nature.

11. Institutions should include in the recovery plan at least the following mandatory categories of recovery plan indicators which are explained in Titles III to VI of these Guidelines:

    - capital indicators;
    - liquidity indicators;
    - profitability indicators;
    - asset quality indicators.

12. Additionally, institutions should include in the recovery plan the two following categories of recovery plan indicators 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.

13. Institutions should include specific recovery plan indicators included in the list per category provided in Annex II 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). In any case

the institutions should include in their recovery plans at least one indicator from each of the mandatory categories which are specified in paragraph 11.

14. Institutions should not limit their set of indicators to the minimum list set out in Annex II, and should give consideration to the inclusion of other indicators following the principles laid down in Title II and in line with the description of the categories laid down in the following titles of these Guidelines. With this aim, Annex III includes a non-exhaustive list with examples of 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;

b) 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;

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 institution's governance and within the escalation and decision-making procedures;

f) include forward-looking indicators.

16. While setting the quantitative recovery plan indicators, an 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. An institution should recalibrate the recovery plan indicators when necessary and at least annually.

18. An institution should be able to provide the competent authority 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.The monitoring of recovery plan indicators should be undertaken on a continuous basis to ensure the institution can take appropriate measures in a timely manner to restore its financial position following a significant deterioration.

Title III – Capital indicators

21.Capital indicators should identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern, including increasing level of leverage.

22.While selecting capital indicators, institutions should consider ways to address the issues stemming from the fact that the capacity of such 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. In particular 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 into 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 existing risk management framework.

24.The thresholds should be calibrated based on the institution's risk profile and on the time needed to activate the recovery measures; should consider the recovery capacity resulting from those measures; and 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 from a breach of the capital requirements applicable to the institution (including minimum own funds requirements as specified in Article 92 of regulation (EU) 575/2013 and additional own funds requirements applied pursuant to Article 104(1)(a) of Directive 2013/36/EU but without taking into account any buffer requirements set out in Chapter 4 of Title VII of Directive 2013/36/EU).

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 to both the short-term and long-term liquidity and funding needs of the institution and capture the institution’s dependence on wholesale markets and retail deposits, 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 existing 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 stemming from off-balance structures.

30. The thresholds identified by the institution should be calibrated on the basis of the institution’s risk profile and should take into account how quickly the liquidity situation may change, given the institution's individual circumstances.

31. The thresholds should be calibrated on the basis of the institution’s risk profile 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 in the institution’s financial position through lowered retained earnings (or losses) impacting on the own funds of the institution.

33. This category should include recovery plan indicators referring to operational risk-related losses which may have a significant impact on the profit and loss statement, including but not limited to, conduct-related issues, external and internal fraud and/or other events.

Title VI – Asset quality indicators

34. Asset quality indicators should measure and monitor the asset quality evolution of the institution. More specifically, they should indicate when asset quality deterioration could lead to the point at which the institution should consider taking an action described in the recovery plan.

35. 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.

36. The asset quality indicators should cover aspects such as off-balance sheet exposures and the impact of non-performing loans on the asset quality.

Title VII – Market-based indicators

37. Market-based indicators aim to capture the expectations from market participants of a rapidly deteriorating financial condition of the institution that could potentially lead to disruptions in access to funding and capital markets. In accordance 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 of the institution's financial position.

Title VIII – Macroeconomic indicators

38. Macroeconomic indicators aim to capture signals of deterioration in the economic conditions where the institution operates, or of concentrations of exposures or funding.

39. 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.

40.The macroeconomic indicators should include the following typologies:

a) geographical macroeconomic indicators, relating to various jurisdictions to which the institution is exposed, giving also consideration to risks stemming from potential legal barriers;

b) sectoral macroeconomic indicators, relating to major specific sectors of economic activity to which the institution is exposed (e.g. shipping, real estate).

Title IX – Final provisions and implementation

41.These Guidelines apply from 31 July 2015.

Annex I – Categories of recovery plan indicators

Categories of recovery plan indicators (the first four categories are mandatory, while the last two categories may be excluded if an institution justifies that they are not relevant for it)
Mandatory categories
1. Capital indicators
2. Liquidity indicators
3. Profitability indicators
4. Asset quality indicators
Categories subject to rebuttable presumption
5. Market-based indicators
6. Macroeconomic indicators

Annex II – Minimum list of recovery plan indicators

Minimum list of recovery plan indicators (each indicator is subject to the possibility for an institution to justify that it is not relevant for it, however in such a case it should be substituted with another indicator which is more relevant for this institution)
1. Capital indicators
a) Common Equity Tier 1 ratio
b) Total Capital ratio
c) Leverage ratio
2. Liquidity indicators
a) Liquidity Coverage Ratio
b) Net Stable Funding Ratio
c) Cost of wholesale funding
3. Profitability indicators
a) (Return on Assets) or (Return on Equity)
b) Significant operational losses
4. Asset quality indicators
a) Growth rate of gross non-performing loans
b) Coverage ratio [Provisions / (Total non-performing loans)]
5. Market-based indicators
a) Rating under negative review or rating downgrade
b) CDS spread
c) Stock price variation
6. Macroeconomic indicators
a) GDP variations
b) CDS of sovereigns

Annex III – Illustrative list of additional recovery plan indicators

Additional recovery plan indicators (non-exhaustive list provided for illustration purposes only)
1. Capital indicators
a) (Retained earnings and Reserves) / Total Equity
b) Adverse information on the financial position of significant counterparties
2. Liquidity indicators
a) Concentration of liquidity and funding sources
b) Cost of total funding (retail and wholesale funding)
c) Average tenure of wholesale funding
d) Contractual maturity mismatch
e) Available unencumbered assets
3. Profitability indicators
a) Cost-income ratio (Operating costs / Operating income)
b) Net interest margin
4. Asset quality indicators
a) Net non-performing loans / Equity
b) (Gross non-performing loans) / Total loans
c) Growth rate of impairments on financial assets
d) Non-performing loans by significant geographic or sector concentration
e) Forborne exposures[1]/ Total exposures
5. Market-based indicators
a) Price to book ratio
b) Reputational threat to the institution or significant reputational damage
6. Macroeconomic indicators
a) Rating under negative review or rating downgrade of sovereigns
b) Unemployment rate

[1] 'Forborne exposures' as defined in Articles 163-183 of the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.