



# REPORT ON INTERLINKAGES BETWEEN RECOVERY AND RESOLUTION PLANNING

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**EBA**

EUROPEAN  
BANKING  
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# Contents

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|  |           |
|--|-----------|
| <b>Abbreviations</b>   | <b>3</b>  |
| <b>Introduction</b>  | <b>4</b>  |
| <b>Executive summary</b>   | <b>5</b>  |
| <b>1. Comparative analysis of recovery and resolution plans</b>  | <b>8</b>  |
| 1.1 Background and main findings   | 8         |
| 1.1.1 Approach   | 8         |
| 1.1.2 Considerations and limitations   | 9         |
| 1.1.3 Main findings  | 10        |
| 1.2 Specific aspects of EBA's analysis   | 11        |
| 1.2.1 Common elements between recovery and resolution plans  | 11        |
| 1.2.2 Aspects of recovery plans of particular relevance to resolution plans  | 15        |
| 1.2.3 Aspects of resolution plans of particular relevance for recovery plans   | 17        |
| 1.2.4 Impact of resolution strategy, impediments to resolvability and measures to remove these impediments on recovery plans | 18        |
| <b>2. Focus on critical functions and use of central bank facilities</b>   | <b>19</b> |
| 2.1 Critical functions   | 19        |
| Key conclusions  | 19        |
| 2.1.1 Background information and analysis  | 20        |
| 2.1.2 Benefits of/synergies from alignment   | 24        |
| 2.1.3 Potential consequences/risks of misalignment   | 25        |
| 2.2 Use of central bank facilities   | 25        |
| Key conclusions  | 25        |
| 2.2.1 Background information and analysis  | 27        |
| 2.2.2 Benefits of/synergies from alignment   | 31        |
| 2.2.3 Potential consequences/risks of misalignment   | 31        |
| <b>3. Assessment of the potential impact of recovery options on resolvability</b>  | <b>32</b> |
| 3.1 Regulatory background  | 32        |
| 3.1.1 Introduction   | 32        |
| 3.1.2 Adverse impact on resolvability  | 32        |
| 3.1.3 Roles in assessing adverse impact on resolvability   | 33        |
| 3.2 Assessment table   | 34        |
| 3.2.1 Recovery options with probable adverse impacts on resolvability  | 34        |
| 3.2.2 Recovery options unlikely to have a negative impact on resolvability   | 36        |
| 3.3 Assessment approach  | 36        |
| 3.3.1 Steps for resolution authorities   | 36        |
| 3.3.2 Steps for competent authorities  | 38        |
| 3.3.3 Degree of potential impact   | 39        |
| 3.3.4 Information needed for the assessment  | 40        |
| 3.3.5 Outcome of the assessment and resolution authority recommendations   | 42        |
| <b>4. Future work</b>  | <b>43</b> |

# Abbreviations

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|               |  |
|---------------|--|
| <b>BRRD</b>   | Bank Recovery and Resolution Directive                     |
| <b>CA</b>     | competent authority  |
| <b>CB</b>     | central bank   |
| <b>CBL</b>    | core business line   |
| <b>CF</b>     | critical function  |
| <b>COREP</b>  | Common Reporting   |
| <b>EBA</b>    | European Banking Authority                                 |
| <b>EU</b>     | European Union   |
| <b>FINREP</b> | Financial Reporting  |
| <b>FMI</b>    | financial market infrastructure                            |
| <b>HQLA</b>   | high-quality liquid asset                                  |
| <b>ITS</b>    | implementing technical standards                           |
| <b>KPI</b>    | key performance indicator                                  |
| <b>LAC</b>    | loss-absorbing capacity                                    |
| <b>LSI</b>    | less significant institution                               |
| <b>MIS</b>    | management information system                              |
| <b>MLE</b>    | material legal entity                                      |
| <b>MPE</b>    | multiple point of entry                                    |
| <b>MREL</b>   | minimum requirement for own funds and eligible liabilities |
| <b>PIA</b>    | public interest assessment                                 |
| <b>PONV</b>   | point of non-viability                                     |
| <b>RA</b>     | resolution authority                                       |
| <b>RWA</b>    | risk-weighted asset  |
| <b>SPE</b>    | single point of entry                                      |

# Introduction

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1. The Bank Recovery and Resolution Directive (BRRD)<sup>1</sup> introduces into EU legislation two crisis preparation tools: (i) recovery plans (setting out the framework and specific actions an institution itself can take to recover from a severe stress situation and continue as a going concern); and (ii) resolution plans (providing for the resolution actions that the resolution authority (RA) may take where the institution meets the conditions for resolution).
2. Covering two potentially contiguous phases, the recovery and resolution plans have various common elements but are also characterised by some fundamental differences. On one hand, the two documents cover some common areas such as the description and mapping of core business lines (CBLs), critical functions (CFs) and the degree of interconnectedness/interdependency. At the same time, the BRRD requires that the recovery and resolution plans are prepared by two distinct parties, which will also directly implement them, that is, the recovery plan is prepared by an institution (and assessed by its supervisor) and the resolution plan is prepared by a RA. While the objective of the recovery plan is to restore the business and financial viability of the institution that is a going concern, the resolution plan aims to ensure that resolution objectives<sup>2</sup> are met.
3. Although formally separated under the BRRD, considering that in practice recovery and resolution could – although will not always – constitute a continuum, it is essential that both types of plan are effectively interlinked in order to maximise synergies and ensure a smooth transition from one phase to another. An effective interaction between the recovery and resolution plans is also important to ensure consistency between those two documents when their implementation becomes necessary. Moreover, it could help to prevent inconsistencies between their contents, and doubling work performed by institutions, as well as to eliminate the risk that competent authorities (CAs) and RAs send conflicting requests to institutions or take contradictory actions to overcome shortfalls in recovery/resolution plans. A comprehensive analysis of interlinkages between recovery and resolution plans should also support CAs and RAs in fulfilling their tasks under the BRRD and promote more effective cooperation between them.
4. Therefore, and pursuant to the role of the European Banking Authority (EBA) ‘to contribute to and participate actively in the development and coordination of effective and consistent recovery and resolution plans’<sup>3</sup>, the objective of this report is to examine the interlinkages between recovery and resolution planning with the aim of contributing to optimising it.
5. More precisely, the purpose of this report is to:

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<sup>1</sup> Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms.

<sup>2</sup> Article 31(2) of the BRRD.

<sup>3</sup> Article 25(1) of Regulation (EU) No 1093/2010.

- outline the EBA's observations deriving from its first comparative analysis of recovery and resolution plans, identifying best practices and areas where further improvement or clarification is needed (Section 1);
  - provide the EBA's views and conclusions on some specific common elements between recovery and resolution plans, clarifying their specific purpose in each planning phase and outline the advantages/disadvantages of convergence/harmonisation (Section 2);
  - analyse the potential impact of recovery options on an institution's resolvability, introducing an assessment framework comprising an 'assessment table' and an 'assessment approach', to support assessment and consultation between RAs and CAs on this aspect (Section 3); and
  - underline areas of interlinkage where further work could be performed by the EBA (Section 4).
6. The report is complemented by two separate annexes: (i) Annex 1 – the '**assessment grid**' template used to perform the comparative analysis of a sample of recovery and resolution plans; and (ii) Annex 2 – the **assessment table** (in Excel format), which is the practical tool for supporting RAs in conducting their analysis of the potential impact of recovery options on institutions' resolvability.

## Executive summary

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7. Recovery and resolution plans represent two fundamental tools to allow proper *ex ante* preparation in the case of a crisis in an institution. Effective interlinkages between these documents could result in numerous benefits, particularly in terms of maximising synergies and ensuring consistency in their potential implementation.
8. The objective of this interlinkage work was not to assess or aim to enable full alignment between recovery and resolution plans. Given their different purposes and different owners (institutions versus RAs), these documents could diverge in their coverage of common elements. However, it is important that material inconsistencies, where justified, are addressed through appropriate levels of explanation and interaction.
9. In order to fully understand the outcomes of the horizontal analysis, appropriate consideration should be given to the fact that it was conducted at a relatively early stage in terms of the development of those documents, in particular of the resolution plans. The EBA has observed, in the recent iterations of recovery and resolution plans, that progress has been made since their 2017 versions.
10. The EBA's first horizontal analysis of recovery and resolution plans showed that there were already some interlinkages between those documents. Resolution and recovery plans are increasingly using the information from the other; however, more progress is expected in the

effective leveraging and cross-referencing of information between the two documents and in the assessment of some key aspects of interlinkage such as the potential implications of recovery options on an institution's resolvability and the impact of resolution plans on recovery plans and ongoing supervision.

11. Moreover, where relevant common elements show material divergences between recovery and resolution plans, the EBA believes that it is important (i) that the plans contain, to the greatest extent possible, a clear and reasoned explanation for the divergences between documents and/or (ii) that a dialogue, for example in the form of a workshop, among the institution, the RA and the CA, is organised, so that differences in the assessments can be discussed. While the EBA recognises that these are good practices to implement, it acknowledges that currently they are not legal requirements and this could explain their limited use in the plans examined for this analysis.
12. On the important common element of CFs, the report concludes that full alignment is needed to ensure effective interlinkage and therefore the EBA encourages institutions to use their best efforts to align their analyses with RAs' assessments.
13. In this respect, the EBA believes that it would be beneficial for the institution to clearly state in its recovery plan whether the CFs listed in that plan are fully aligned with the CFs identified by the RA for resolution planning purposes. In order to prevent the duplication of work, the recovery plan could as much as possible leverage on the information on CFs that must be provided by an institution to the RA for resolution planning purposes, taking into account the potential misalignment of the reference dates of the plans.
14. With regard to the other common element that is the focus of this analysis – the access to central bank (CB) facilities in recovery and resolution plans – considering the different objectives of this element in the two documents, the report concludes that only some aspects of alignment should be pursued. In particular, it is important that the description of this element:
  - is consistent between the two documents with regard to the identification of assets eligible for CB funding (possibly with more detailed information provided in the recovery plan);
  - ensures a sequential link between the availability of CB funding in recovery and resolution phases (i.e. a resolution plan should take into account that CB-eligible assets might be pledged in the recovery phase and the resolution plan should also include an additional assessment of CBs' conditions for providing ordinary CB funding during resolution or after a resolution event); and
  - takes into account that a liquidity shock associated with a resolution will in general be assumed to be more severe than in the scenario analysis of a recovery plan.
15. In line with the overall objective of effectively supporting progress in interlinkage work, the final part of this report presents a comprehensive framework (an 'assessment table' and an

‘assessment approach’) developed to help resolution and competent authorities assess the potential impact of recovery options on an institution’s resolvability.

16. Although the assessment table does not provide the RA with the final assessment and should not be considered a checklist, the EBA believes that this tool would be beneficial for authorities to actively use it in order to focus the RA assessments on core aspects that could affect the resolvability of institutions. It would also support CAs in developing a better understanding of the issues raised by RAs and in taking into account RAs’ feedback on recovery plans.
17. Together with the assessment table, importantly the assessment approach indicates an optimal procedural framework for RAs and CAs to enhance their cooperation with regard to RAs’ consultation on recovery plans and the potential impact on how individual recovery options could affect resolvability.
18. The report covers various important aspects of the interlinkages between recovery and resolution plans. As evidenced from the findings of the comparative analysis of recovery and resolution plans, however, further work is needed. Therefore the EBA plans to perform further work on the impact of resolution plans – in particular the impact of measures to remove impediments to resolvability – on ongoing supervision and recovery planning. Guidance work on some practical aspects of interlinkage, such as on the timelines of recovery and resolution planning cycles, will also be undertaken, as such work is deemed useful for enhancing interactions among CAs and RAs.

# 1. Comparative analysis of recovery and resolution plans

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## 1.1 Background and main findings

19. As a first step in analysing the interlinkages between recovery and resolution plans, the EBA has performed a comparative analysis of the 2017 recovery and resolution plans of a sample of European banking groups. The objective of this analysis was to examine the state of interlinkages between recovery and resolution plans, as well as to identify key trends and best practices. The analysis was also intended to indicate areas of attention where further clarification is needed. In this respect, the analysis has been instrumental in the identification of specific areas of focus in terms of the subsequent work included in this report (i.e. selected common elements and work on the potential impact of recovery options on resolvability) and has also indicated potential areas for future analytical work, as indicated in the final section of this report.
20. The aim of the analysis was not to assess whether there is full alignment between recovery and resolution plans, given their different purposes and different ‘owners’ (institutions versus RAs). Instead, the analysis aimed (i) to verify how common elements are covered in both types of plan and identify material inconsistencies that need to be explained; and (ii) to identify the level of synergy and the degree of leveraging of information included in two documents.

### 1.1.1 Approach

21. In order to conduct the comparative analysis of recovery and resolution plans, the EBA has (i) developed an assessment grid and (ii) selected banks to be included in a sample.
22. The first step in the EBA’s analysis was to develop an ‘**assessment grid**’ (see Annex 1), i.e. a template consisting of a series of pre-defined questions to be analysed in both the recovery plan and the resolution plan of the same banking group. Annex 1 provides the list of general questions against which the plans were assessed, listed under the main categories of focus for analysing the interlinkages between the plans.
23. The second step was to restrict the analysis to a pre-defined **sample** of banks, trying to balance the reduction in the coverage of banks with the sample being representative enough. In addition, consideration had to be given to the fact that resolution plans are still being developed, and priority was given to large, cross-border banks for which more highly developed resolution plans were available.
24. A total of 12 banks were considered, headquartered in 10 EU Member States. The sample includes banking groups whose supervisory and resolution colleges are directly monitored by the EBA and that were chosen mainly on the basis of their systemic importance and cross-border geographical presence. In addition, the EBA asked Member States to nominate non-



systemic, smaller banks to be included in the sample. Consequently, one additional smaller bank (i.e. an EU subsidiary of a third-country banking group) was added to the analysis, partly reflecting the fact that less significant institutions (LSIs) can be subject to simplified obligation requirements and therefore lighter rules on their plans' contents and/or frequency of updating them.

25. The 2017<sup>4</sup> resolution and recovery plans of the sample banks were reviewed, because at the moment of conducting the analysis, 2017 was the last year in which both recovery and resolution plans were available for the majority of the banks included in the sample.

### 1.1.2 Considerations and limitations

26. In the context of the main findings, the following considerations should be helpful for understanding the outcomes of the exercise.
27. First of all, consideration should be given to the fact that the analysis was based on the 2017 versions of recovery and resolution plans and, on a number of issues highlighted in the analysis, in the more recent iterations of these plans, progress has been made since the 2017 versions. It is understood, for example, that, concerning the identification of CFs, in various cases supervisory authorities have been explicitly asking banks to fully align the CFs identified in the recovery plan with the resolution plan's identification of CFs and therefore it is expected that this element will be better aligned in the next iteration of plans. Moreover, considering the progress in resolution plans and the improved dialogue with banks on resolution, in some cases banks have introduced, in their recovery plans, a minimum requirement for own funds and eligible liabilities (MREL) in the recovery indicator framework and are starting to assess the impacts of recovery options on MREL capacity.
28. The scopes of recovery and resolution plans do not coincide. Recovery plans generally cover the group globally, while resolution plans cover mostly the EU part of the banking group. This difference should be taken into account when considering the results of the analysis.
29. Recovery and resolution plans are at different stages of development. While recovery plans are currently in their fourth or fifth iteration, the 2017 versions of resolution plans, which are the basis for the comparative analysis, represent only the second iteration of these plans. Moreover, various parts of the resolution plans considered for the analysis were not fully developed in 2017.
30. Differences in submission dates between recovery and resolution plans seem to influence the extent to which those documents contribute to each other. For example, where the 2017 recovery plan was submitted too late, the extent to which the 2017 resolution plan referred to the 2016 recovery plan was very limited, given that the information was not up to date and therefore less relevant. This evidence suggests that benefits in terms of effective interlinkages

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<sup>4</sup> The 2018 versions were used in the case of the smaller bank (an EU subsidiary of a third-country banking group), 2018 being the first year in which both documents were available for this bank.

between those documents could derive from the better alignment of the recovery and resolution planning cycle timelines.

31. For certain aspects, the recovery and resolution plans rely on different sets of information, with the resolution plan leveraging, where possible, on information collected through the EBA implementing technical standards (ITS) on resolution planning, which are more effectively tailored to collecting information relevant to resolution objectives.
32. Finally, various findings, for example in the case of the use of dry runs and playbooks or the impact on resolvability of recovery options, are influenced by the fact that there are currently no regulatory requirements to include this information in the respective plans.

### 1.1.3 Main findings

33. The main findings of the comparative analysis are as follows:
  - Overall, some interlinkages have been observed between recovery and resolution plans. Resolution plans often seem to use recovery plans as the basis of information for their assessments, although they make explicit references to recovery plans in only few cases. Recovery plans are also starting in some instances to consider the RA's work on resolution plans. This trend is likely to accelerate while resolution planning and dialogue between banks and RAs progress.
  - There are various common elements in which recovery and resolution plans already show a high degree of consistency (CBLs and, to some extent, communication policies with regard to the identified stakeholders and communication channels) or indicate a strong intention to increase consistency in the next iterations of the plans (CFs).
  - For the remaining common elements – such as the description of the group and interconnectedness – there is currently a limited level of consistency in terms of focus and the coverage of these sections between the two types of plans. Those discrepancies seem to reflect (i) differences in the objectives and geographical coverage of the documents; (ii) divergent practices and a lack of clarity on the purpose of some sections and their link with other parts of the plans; and (iii) differences in the level of development of recovery and resolution plans.
  - Some good practices identified in the analysis include – with respect to only substantial, relevant aspects – (i) the incorporation in plans of clear and reasoned explanations of divergences between the documents (for example in the case of differences in CF identification); and (ii) organising workshops for the institution, and the resolution and competent authorities so they can discuss differences in the respective assessments.
  - Progress is still needed in terms of assessing the potential implications of recovery options on institutions' resolvability or their usage in the post-stabilisation phase in resolution plans. At the same time, the recovery plan is not affected by relevant aspects of resolution

planning such as the setting of an MREL and the identification of impediments to resolvability. While those findings are influenced by the development stage of resolution planning, recovery and resolution plans have not yet started indicating how to effectively consider those aspects, and therefore further work on those aspects would potentially be beneficial.

## 1.2 Specific aspects of EBA's analysis

34. With respect to the different assessment categories analysed, the following specific observations were made.

### 1.2.1 Common elements between recovery and resolution plans

35. The analysis in this area focused on (i) the identification of common elements between recovery and resolution plans, and (ii) the verification of their level of consistency.

36. Common elements between recovery and resolution plans include:

- a. description of CFs;
- b. description of CBLs;
- c. description of an institution/group and its entities;
- d. mapping of CFs, CBLs and group entities;
- e. interconnectedness/interdependencies (including critical shared services and intra-group support); and
- f. use of CB facilities.

### Critical functions

37. While both recovery and resolution plans included an identification of CFs, in the sample analysed there was generally limited consistency between the plans in terms of the total number, type, approach used for the identification and/or description of CFs. Nevertheless, the majority of recovery and resolution plans indicated an intention to align CFs as a key priority in future iterations of the plans.

38. CFs were identified at the level of legal entities in both recovery and resolution plans. However, the number of legal entities covered under each plan often differed, which is one of the reasons that explains the discrepancies in the identification of CFs between the plans. For example, some recovery plans had broader coverage of the group than the resolution plan, which usually covered only those entities of the group located in the Banking Union and/or the EU.

39. In terms of approach, the identification of CFs in both types of plans was broadly based on both qualitative and quantitative criteria in line with Commission Delegated Regulation (EU) 2016/778. However, recovery plans on average included more detailed information on the

identification analysis of CFs, in particular in relation to market share and substitutability, than resolution plans, which usually presented only the conclusion of the analysis, i.e. the CFs identified, in the main document.

40. For various banks in the sample, the implementation of a self-assessment CF template developed by one RA seemed to be contributing to accelerating the pace of progress in terms of the consistent identification of CFs in the two types of plan. In those cases, for example the template was usually referenced in both recovery and resolution plans, and institutions made explicit references in the recovery plan to their self-assessment of CFs submitted to the RA, substantiating any differences between plans.
41. Only a minority of the plans provided a high-level explanation of the differences in CFs between recovery and resolution plans, partly reflecting the fact that this is not explicitly requested by current regulations. An example of good practice observed in one resolution plan was the inclusion of a table detailing the bank's self-assessment approach along with the RA's view and a clear explanation of any divergences. Another example of good practice noted in the case of another banking group was the explicit reference in the resolution plan to the organisation of a joint workshop for the institution, the CA and the RA so they could discuss the issue of differences in the identification of CFs.

### Core business lines

42. While the identification of CBLs was included in most resolution plans and in all recovery plans part of the sample, their description was more extensive in the recovery plans, being CBLs a concept familiar to banks and where the banks' analysis was based primarily on criteria in Commission Delegated Regulation (EU) 2016/778.
43. In most cases, resolution plans explicitly referred to the analysis conducted by institutions in their recovery plans and simply incorporated the list of CBLs, relying on the bank's assessment in the recovery plan. Therefore, the review identified this as being one of the areas with the highest level of alignment between resolution and recovery plans.
44. Discrepancies in CBLs between recovery and resolution plans were found only in a few cases, mainly arising from the different breakdowns of functions in the documents. Nevertheless, there were no explanations for the misalignments, although it is acknowledged that this is not something that is required under current rules.

### Description of an institution/group and its entities

45. Descriptions of the institution/group and its entities were included in both recovery and resolution plans. However, the focus of resolution plans was specifically on aspects more relevant to resolution objectives such as group structure, ownership structure and governance. The descriptions in recovery plans were broader and usually included additional information on the institution's overall mission and values, business strategy and risk management framework also in the context of the activation of the recovery plan.

46. Although generally resolution plans did not explicitly refer to the use of information from recovery plans, for common areas it was evident that this was mostly the case, even though the information in resolution plans was more concise. In some cases, resolution plans included tables with information taken from the recovery plan; however, with regard to the financial overview of the group, resolution plans sometimes also used additional sources of financial information, e.g. recovery plans used information from the annual report, while resolution plans also referred to key performance indicators (KPIs) from the Common Reporting (COREP) or Financial Reporting (FINREP) Framework.
47. In half of the plans analysed, the coverage of the institution's/group's entities was not aligned between the recovery plan and the resolution plan. The identification of material legal entities (MLEs) in recovery plans was mostly performed on the basis of the EBA recommendation on the coverage of entities in a group recovery plan<sup>5</sup>. On the other hand, no specific criteria were used for the identification of entities in resolution plans (possibly partly reflecting the lack of specific regulation in this area). Moreover, discrepancies arose from the fact that recovery plans had a broader scope than resolution plans, which focused on only legal entities (and not branches) and covered mainly EU entities (with limited coverage, if any, of third-country entities). No explanations for these discrepancies were included in either recovery or resolution plans, also partly reflecting the lack of specific regulatory requirements.

#### Mapping of critical functions, core business lines and group entities

48. With regard to the mapping of CBLs and CFs to group entities, overall there was limited consistency between recovery and resolution plans. This is a reflection of the differences mentioned previously arising in particular from the different entities covered in the plans and the discrepancies in the identification of CFs.

#### Interconnectedness and interdependencies

49. A description of internal and external interconnectedness was included in all recovery and resolution plans. The key aspects covered included financial, operational and legal interdependencies. However, the analysis was usually presented from a different perspective in each type of plan, reflecting the different objectives of the plans. In particular, resolution plans focused on the degree of separability among entities and aspects related to operational continuity (such as access to financial market infrastructures (FMIs)), while the majority of recovery plans generally provided more information, often focused on financial interdependencies, without explaining clearly how the section on interdependencies was linked to the rest of the recovery plan.
50. Despite the different focuses of the plans, numerous resolution plans referred, some explicitly, to basic information contained in recovery plans for particular types of interdependencies, such as intra-group financing agreements or the identification of critical providers.

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<sup>5</sup> EBA/Rec/2017/02.

### Use of central bank facilities

51. Although both recovery and resolution plans included an analysis of how and when standard CB facilities may be used, this aspect was covered in more detail in the recovery plans, in most of which the use of CB facilities was included as a recovery option. Recovery plans in particular explained in more detail the timeline for mobilising assets that qualified for use as collateral for CB facilities than resolution plans.
52. In terms of resolution plans, most of them simply referred to the use of CBs as one of the funding sources available in resolution, indicating that the issue of funding in resolution was one of the topics identified for further work. In this respect, no resolution plan made a distinction between the potential use of CB facilities before resolution, in resolution and after the event of resolution; in only very few cases it was explicitly acknowledged that this source of liquidity may not be available in resolution.
53. Importantly, some resolution plans indicated the intention to examine further liquidity recovery options in the recovery plan as potential sources of liquidity for ensuring funding in resolution, assuming that these options would be available in resolution. However, this was an aspect evidenced for further work in various resolution plans.

### Impact of recovery options on an institution's resolvability

54. Pursuant to Article 6(4) of the BRRD, 'the CA shall provide the recovery plan to the RA. The RA may examine the recovery plan with a view to identifying any actions in the recovery plan which may adversely impact the resolvability of the institution and make recommendations to the CA with regard to those matters'.
55. The aim of focusing on this element was to gain an understanding of the extent to which recovery and resolution plans take into account this aspect.
56. In line with regulatory requirements<sup>6</sup>, all recovery plans included a description of the recovery options' impact on CFs. Many of them also included references to the impact of recovery options on other aspects that could be relevant for resolution planning purposes, such as the impact on the institution's access to FMIs, franchise value, clients, operational continuity, market confidence and reputation. No references to the impact of recovery options on the MREL level were included, as the indication to include such references as best practice was communicated by some supervisory authorities at a later stage. Nevertheless, the descriptions of the effects of the recovery options on those aspects were very general and high level, lacking substantiated references.
57. One recovery plan included the aspect of 'the impact on resolvability' in the description of all recovery options but without providing any detailed analysis (i.e. it simply stated that the recovery option would not have any impact on resolvability).

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<sup>6</sup> Article 10 of Commission Delegated Regulation (EU) 2016/1075.

58. Resolution plans did not include any explicit statements/assessments on the impact of recovery options on resolvability, partly reflecting the fact that this is not a requirement. Few references were made to the impact of recovery options on resolvability and, where such references were made, they did not provide conclusions but simply pointed to the need for further work in this area.

### 1.2.2 Aspects of recovery plans of particular relevance to resolution plans

59. Apart from common elements, there are also other aspects of recovery plans that may be relevant to resolution plans and vice versa (e.g. recovery/resolution planning communication strategies, management information systems (MISs), scenarios, etc.). The analysis in this area focuses on identifying elements of the recovery plans that could be beneficial to RAs when drafting resolution plans, as well as understanding why this information could be relevant and how it could be used by RAs.

#### Recovery and resolution scenarios

60. All of the recovery plans in the sample included scenarios, while this was not always the case for the resolution plans. Overall, potentially partly because of the different purposes of scenarios in the plans – in recovery plans to assess the feasibility of recovery options and in resolution plans to test the credibility and feasibility of the resolution strategy – the level of interlinkage between recovery and resolution plans was very limited and resolution plans usually did not make explicit reference to recovery plan scenarios. Only very few resolution plans referred to recovery plan scenarios and used them as a basis to further stress the assumptions included in the recovery plan (in order to make the scenario more severe and bring the entity to the point of resolution).

61. Scenarios were used across the resolution plans in the sample for different purposes. In some plans, for example, they focused on (i) testing the available funding in resolution, (ii) testing the resolution strategy (e.g. identifying conditions under which the strategy would not work), (iii) testing loss-absorbing capacity (LAC) or (iv) testing the separability of entities in resolution. Due to the different uses of scenarios in resolution plans, the point of non-viability (PONV) was not necessarily relevant and thus not clearly defined in most cases.

#### Description of management information systems

62. MISs were generally included and described in plans. Some resolution plans did not cover this aspect under a stand-alone subsection, yet information was provided in the resolvability assessment. The resolution plans generally focused on MISs as a potential impediment to resolvability in terms of the need to assess the ability of institutions to obtain and deliver the relevant information to resolution authorities. References in resolution plans to information derived from recovery plans were rare, with the data referenced in resolution plan assessments

more often deriving from Implementing Regulation (EU) 2018/1624<sup>7</sup>, related to information systems.

63. In the recovery plan documents, banks mostly covered this aspect in the ‘description of the group’ section, focusing the analysis on their ability to produce all the necessary information for the implementation of recovery options and the monitoring of recovery indicators.

#### Communication strategy

64. For the communication strategy, the resolution plans often referred to and used information from the communication section of the recovery plan, in particular in identifying stakeholders for communication purposes. In line with its objective, the resolution plan usually identified additional stakeholders, reflecting the specific communication needs in resolution and the need to for example communicate with other regulatory authorities.
65. Each recovery plan in the sample included a detailed description of their communication strategy for a crisis situation, covering the identification of critical internal and external stakeholders for communication purposes and describing the sequence of steps to be taken. For the majority of resolution plans, this section was indicated as being in need of development in the next iterations of the plan.

#### Recovery options (aspects other than recovery options’ impact on resolvability)

66. Considering that most resolution plans are still developing in the aspects of separability and defining the exact perimeter of entities to be separated, it was not possible to conclude from the comparative analysis whether the separability assessment of the RA was consistent with the recovery plan in terms of recovery options envisaging disposals.
67. No resolution plan in the sample foresaw the use of recovery options in the restructuring phase. In general, the plans seemed to focus on only the stabilisation phase. Nevertheless, resolution authorities explicitly recognised in some cases the need for future work on this issue.

#### Playbooks and setting of dry runs for testing various parts of recovery and resolution plans

68. The inclusion of playbooks and dry runs was limited in the recovery and resolution plans analysed and therefore it was not possible to analyse their level of interlinkage. This is not mandatorily requested by regulation and it should be noted that in several cases CAs had recommended the inclusion of playbooks and dry runs as best practice to improve the usability of recovery plans only the year after the year the sample was analysed.

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<sup>7</sup> Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2016/1066 (OJ L 277, 7.11.2018, p. 1–65).



69. Playbooks were included in only a few of the recovery plans in the sample. Similarly, in only one case had the institution/group conducted a dry run to test its recovery plan. In this case, the dry run involved a cyber-incident scenario with the aim of training the crisis management team and testing the performance of crisis protocols and communication.
70. No resolution plan in the sample included any information on playbooks or dry runs. However, one plan indicated that in the next iteration simulations and scenarios could be performed to illustrate the consequences of a resolution action and the bank's capacity to separate one resolution group from the rest of the group.

#### Other aspects (including the supervisory assessment of a recovery plan)

71. There were generally no references in the resolution plans to the supervisory assessment of the recovery plan or the RA's opinion of the recovery plan. This finding could be explained by the fact that the resolution plans analysed were in the early stages of development and consequently the consultation process of the authorities was at an early stage. The only exception was the resolution plan of one bank, which referred to a weakness that was identified by both the CA and the RA regarding the recovery scenarios. Few other resolution plans made only general references to the process of interaction between authorities and institutions.

#### 1.2.3 Aspects of resolution plans of particular relevance for recovery plans

72. The analysis focused on identifying areas in which the contents of resolution plans could impact on recovery plans.

#### MREL requirement

73. With the consolidated MREL requirement having just been set in the resolution plans analysed, it was too early to identify any potential impact of this on the recovery plans. Most of the resolution plans had just set an MREL requirement at consolidated level and indicated that in the future individual requirements<sup>8</sup> were also expected. In addition, one plan contained indicative targets at both consolidated level and individual level, while another plan explained the methodology without including a requirement.
74. When an MREL requirement was set, it did not take into account any additional buffer to allow for cases in which recovery options may adversely affect resolvability. However, in most cases resolution authorities signalled that the recovery options would be studied in order to reduce the target level.
75. The MREL requirement was not included as a recovery indicator in the sample of recovery plans<sup>9</sup>.

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<sup>8</sup> Directive (EU) 2019/879 introduced the internal MREL requirement under Article 45(f).

<sup>9</sup> A recommendation to include this indicator to institutions was communicated by various supervisory authorities only after the versions of the recovery plans used in the sample.

### Single point of entry or multiple point of entry resolution approach

76. The description of the level of interconnectedness in the group in the recovery plan and its underlying conclusion appeared generally coherent with the resolution approach (single point of entry (SPE) or multiple point of entry (MPE)), as chosen in the resolution plan. Although there were no explicit references to recovery plan information on this aspect, it was evident that this information had contributed to the decision of whether to adopt an SPE or an MPE approach in the resolution plan.

#### **1.2.4 Impact of resolution strategy, impediments to resolvability and measures to remove these impediments on recovery plans**

77. The analysis focused on understanding whether resolution planning, including measures to improve resolvability, influences the recovery plan.

### Impact of MREL requirements on liquidity recovery options – impact of separations of legal entities on disposal options

78. Many resolution plans identified potential impediments to resolvability, mainly related to LAC, operational continuity, provision of information and funding sources. Nevertheless, in the versions of the plans analysed, resolution plans did not generally include any formal requests for banks to remove these impediments for example to change the funding profile or increase the level of eligible liabilities.

79. Recovery plans did not refer to the potential impediments identified by the resolution authorities. However, this could reflect the fact that measures to remove those impediments were communicated at a later stage.

## 2. Focus on critical functions and use of central bank facilities

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80. On the basis of their importance to recovery and resolution planning, the EBA has decided to focus on two specific common elements:

1. critical functions;
2. the use of CB facilities.

81. For each element, the EBA provides clarification on its specific purpose with respect to its inclusion in the recovery and the resolution plans, and also expresses views on the potential advantages of alignment and disadvantages of misalignment.

### 2.1 Critical functions

#### Key conclusions

1. While the overall purpose of the analysis of CFs in a recovery plan differs in some aspects from the purpose of CF analysis in a resolution plan, it is important for institutions to use their best efforts to align these analyses, and also consider guidelines and instructions (including data collection templates) issued by RAs.
2. In line with Article 13 of Delegated Regulation (EU) 2016/1075, and acknowledging the limitations due to any differences in the timing of the submission of the two types of plan, CAs are encouraged to accept cross-references to resolution planning information in relation to CFs, and to recommend to institutions that they include in their recovery plans a list of CFs as identified by the RA:
  - It is beneficial for the institution to clearly state in its recovery plan whether the CFs listed in that plan are fully aligned with the CFs identified by the RA for resolution planning purposes. It is important in this respect that, once the RA identifies the CFs, it communicates them clearly to the institution. The CA could verify this alignment together with the RA while providing its assessment of the recovery plan.
  - In order to prevent the duplication of work, the identification analysis in the recovery plan could as much as possible leverage on the information on CFs that must be provided by an institution to an RA for resolution planning purposes, taking into account the misalignment between the reference dates of the two plans.
3. Overall, RAs (rather than institutions) have the most relevant role in the identification of CFs, because continuity in CFs is a key element of resolution planning. RAs can also determine a more appropriate market share for certain criteria used to assess the impact on third parties,

as they have aggregated data at the level of the whole industry, while institutions do not have this information when drafting their recovery plans.

4. If needed, in order to increase the mutual understanding of CFs, the CAs and RAs could engage in technical dialogue or organise trilateral workshops with the institutions before the finalisation of the two types of plan. In these workshops, the following two aspects could be addressed:
  - the differences in the determination of the criticality of a function by two similar entities in different jurisdictions but in the same group;
  - the differences in the determination of the criticality of a function by the group-level RA and the RAs of subsidiaries in the same group.

### 2.1.1 Background information and analysis

#### Introduction – regulatory requirements and purpose

82. CFs constitute one of the key concepts introduced by the BRRD, which is important for both recovery planning and resolution planning. Article 2(1)(35) of the BRRD defines CFs as ‘activities, services or operations the discontinuance of which is likely in one or more Member States, to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity or cross-border activities of an institution or group, with particular regard to the substitutability of those activities, services or operations’.
83. This general definition of CFs is further specified in Commission Delegated Regulation (EU) 2016/778<sup>10</sup>, which sets out criteria that both institutions and RAs should take into account in their determination of CFs.
84. Both recovery plans and resolution plans should include CFs and there is only one definition of CFs in the BRRD; therefore, CFs are considered a common element of these two types of plan. In fact, Article 13 of Delegated Regulation (EU) 2016/1075 explicitly acknowledges the existence of these common elements, by allowing CAs to accept cross-references to information shared by institutions with RAs, describing the elements listed in Article 7 of that Regulation, provided that this does not compromise the completeness and quality of the recovery plan.

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<sup>10</sup> Commission Delegated Regulation (EU) 2016/778 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to the circumstances and conditions under which the payment of extraordinary *ex post* contributions may be partially or entirely deferred, and on the criteria for the determination of the activities, services and operations with regard to critical functions, and for the determination of the business lines and associated services with regard to core business lines (OJ L 131, 20.5.2016, p. 41–47).

### Purpose in recovery planning

85. Pursuant to Article 5(5) of the BRRD, the recovery plan shall provide the information listed in Section A of the Annex to the BRRD, which includes *inter alia* the identification of CFs (point 7 of that Annex). Delegated Regulation (EU) 2016/1075 further specifies the contents of recovery plans and includes more specific requirements related to CFs that should be covered within the strategic analysis of the plan:

- the recovery plan should provide a description of the process and metrics for the identification of CFs [...] (Article 7(1)(a)(iv) of Delegated Regulation (EU) 2016/1075);
- the strategic analysis should include a mapping of the core business lines and CFs for certain legal entities and branches [...] (Article 7(1)(b) of Delegated Regulation (EU) 2016/1075);
- the strategic analysis should identify CFs [...] and set out the key steps to maintaining them in a situation of financial stress (Article 6(1) of Delegated Regulation (EU) 2016/1075);
- each recovery option should ensure the viability of CFs (Article 9(1)(a) of Delegated Regulation (EU) 2016/1075);
- each recovery option should contain an impact assessment covering *inter alia* an assessment of external impact and systemic consequences which sets out the expected impact on CFs performed by the entity or entities covered by the recovery plan (Article 10(2) of Delegated Regulation (EU) 2016/1075).

86. Pursuant to Article 6(2) of the BRRD, the CA shall review the recovery plan prepared by the institution and assess the extent to which it satisfies the requirements laid down in Article 5 of the BRRD. The CAs should, *inter alia*, assess whether the recovery plan and specific options are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other institutions to implement recovery plans within the same period. The assessment process is further specified in Articles 16–21 of Delegated Regulation (EU) 2016/1075 and certain aspects of it might be followed from the CF perspective, such as completeness (whether the recovery plan covers CFs), quality (definitions, descriptions and metrics for CFs, or the mapping of CFs to entities in the case of groups).

87. It is important that institutions provide accurate and detailed identification and mapping of CFs in their recovery plan with the following objectives:

- to ensure and safeguard the continuity of the institution's CFs in times of stress, when the institution activates its recovery plan and implements recovery options; the analysis of the potential impact of the recovery options on the CFs provided in the recovery plan further supports the achievement of this objective;

- to ensure that a sale or the divestment of a CF or a CBL could be executed without any negative impact on financial stability; the objective of preserving the continuity of a CF does not therefore imply or prevent the sale of the CF to a different entity outside the group, but it is, however, essential that the disposal also ensures the continuity of that CF;
- to inform the decision on which entities will be covered in the group recovery plan and the recovery actions that will be taken accordingly (as detailed in the EBA's Recommendation on the coverage of entities in a group recovery plan<sup>11</sup>);
- to increase awareness of the role and contribution of the institution in safeguarding financial stability; the identification and mapping of CFs will help the institution to better assess its competitive position, as well as the operational and other types of interdependencies it may have with other institutions in the same group or in the market.

### Purpose in resolution planning

88. Article 31(2)(a) of the BRRD provides that one of the objectives of resolution is to ensure the continuity of CFs. Therefore, CFs constitute a vital element in the resolution planning process, performed by the RAs based on information received from institutions.
89. CFs are not only analysed extensively in a detailed chapter of the resolution plan, but they also feed into the resolution planning work on various other topics, such as the assessment of the credibility of liquidation, the public interest assessment, the identification of the preferred and variant resolution strategy, the choice of an SPE or an MPE approach and the assessment of resolvability.
90. In line with Section B of the Annex to the BRRD, in the resolution planning process, the RAs require institutions to provide information on the mapping of CFs and CBLs by reference (i) to legal persons (point 4) and (ii) to each system of the institution that is significant for its activity and to each payment, clearing or settlement system of which the institution is a member (points 11 and 12).
91. More precisely, pursuant to Implementing Regulation (EU) 2018/1624<sup>12</sup>, institutions should submit to RAs several templates related to CFs and CBLs (templates Z 07–Z 10), including in relation to identification and mapping, critical services, FMI services and critical information systems, and their mapping at group level. The identification of CFs is based on the quantitative

<sup>11</sup> EBA's Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02).

<sup>12</sup> Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2016/1066 (OJ L 277, 7.11.2018, p. 1–65).

and qualitative criteria described in Delegated Regulation (EU) 2016/778 (and synthesised in these templates)<sup>13</sup>.

92. The BRRD specifies that a resolution plan should include the following information on CFs, quantified whenever appropriate and possible:

- a description of the processes for determining the value and marketability of the CFs (Article 10(7)(g) of the BRRD);
- a demonstration of how CFs and CBLs could be legally and economically separated so as to ensure continuity upon failure (Article 10(7)(c) and Article 12(3)(d) of the BRRD);
- a description of essential operations and systems for maintaining continuity in operational processes (Article 10(7)(q) of the BRRD).

93. The content of resolution plans is further specified in Delegated Regulation (EU) 2016/1075, which, regarding CFs, provides that:

- the identification of CFs is part of the resolution strategy (Article 22(2)(c));
- the CFs identified by the institution/group are considered in assessing the credibility of liquidation, in the identification of a resolution strategy and in the assessment of both the feasibility and credibility of a resolution strategy or its variant resolution strategy (Article 24(2) and Articles 25–27, 29 and 32).

94. The identification of CFs is also closely related to the assessment of resolvability, which constitutes another key element of the resolution plan. In accordance with Articles 15 and 16 of the BRRD, the RAs examine the matters specified in Section C of the Annex to the BRRD, covering such aspects as:

- the institution's ability to map CBLs and critical operations to legal persons (point 1);
- the alignment of legal and corporate structures to CFs or CBLs or the existence of both processes for transitioning the services provided under service level agreements to third parties in the event of separation of the CFs or CBLs, as well as arrangements to provide for essential staff, infrastructure, funding, liquidity and capital to support and maintain them (points 2, 3 and 6);
- the existence of MISs providing accurate and complete information regarding CBLs and critical operations in order to facilitate rapid decisions or the ability to ensure the

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<sup>13</sup> Institutions may identify CFs from five possible economic functions, namely (i) deposits, (ii) lending, (iii) payments, cash, settlement, clearing, custody services, (iv) capital markets and (v) wholesale funding, and/or sub-functions, the disruption of which could be critical for the whole economy. Institutions can identify as critical either a subcategory (e.g. households) or even the whole category (e.g. deposits) if all possible subcategories of that category are critical.

continuity of these MISs in resolution where critical operations and CBLs are separated (points 8 and 11).

95. The presence of CFs is also one of the criteria to consider when performing the public interest assessment (PIA) required by Article 32(1)(c) and Article 32(5) of the BRRD.

96. Resolution plans should include accurate and detailed identification and mapping of CFs with the objective to:

- ensure continuity of CFs post resolution, following the implementation of the resolution strategy, as one of the key resolution goals;
- support the assessment of the credibility and feasibility of liquidation, and the determination of the appropriate resolution strategy for the institution/group (including the selection of the resolution tools to be used and the identification of points of entry in case of groups); for cases where the preferred resolution strategy is not deemed feasible or credible, a variant strategy shall be identified and assessed;
- support the public interest assessment carried out by the RAs. For a resolution action to be treated in the public interest, it needs to be ‘necessary for the achievement of, and ... proportionate to one or more of the resolution objectives ...’. The identification of public interest is a necessary precondition for taking resolution action in respect of a failing institution/group, because liquidation under normal insolvency proceedings would put resolution objectives at risk. To this end, resolution plans should adequately assess if the institution/group performs CFs essential to the real economy, and whether its failure and the disruption of the services it provides is expected to have significant adverse effects on the financial systems of one or several Member States;
- allow an accurate and reliable separability analysis for the institution/group. CFs are important when the RAs determine the ‘resolution units’ (namely the parts of the institution/group that will be separated), assess the separability and any respective legal and structural operational challenges in cases of ‘transfer strategies’, and estimate the LAC of the institution/group or the funding and liquidity capacity of the institution prior, during and post resolution, including the continuity of the internal and external services, systems and infrastructure necessary for the provision of such functions.

### **2.1.2 Benefits of/synergies from alignment**

97. Institutions and RAs are required to identify CFs and ensure their continuance in recovery and resolution planning, respectively. Therefore, the key benefits of maintaining consistency and alignment between CF identification to recovery and resolution planning are the following:

- ensuring that the implementation of recovery options will foster the continuity of CFs that are also assessed as critical by RAs and that would be preserved in the case of resolution;



- facilitating the consultation process between RAs and CAs during the assessment of a recovery plan, as well as improving the dialogue between them, especially concerning recovery options' impact on institutions' CFs;
- enabling an institution to reflect in its recovery plan the horizontal view of the RA on the criticality of various functions (via the top-down assessment process, taking into account an overview of the whole market);
- making use of cross-referencing between recovery and resolution planning to prevent the duplication of work by CAs and RAs in assessing CFs.

### 2.1.3 Potential consequences/risks of misalignment

98. The main risks of misalignment between CFs identified in recovery and resolution plans are:

- Some CFs that are identified by the RA, and constitute a basis for resolution planning, might not be preserved in the implementation of recovery options by the institution, where they have not been classified as critical in the recovery plan. This might impair the implementation of a resolution strategy in the case of a gradually developing crisis, when the resolution phase follows an unsuccessful recovery stage.
- Institutions might receive contradictory feedback and recommendations from CAs and RAs regarding CF identification, which might also result in a distorted perception of the concept of CFs.
- Possible misalignment in the identification and mapping of CFs in recovery and resolution plans increase the challenges for RAs, especially in the case of an MPE approach and/or 'transfer strategy' where a credible and efficient separability of sub-groups or entities should be warranted.

## 2.2 Use of central bank facilities

### Key conclusions

1. It is important that the description of access to CB facilities in recovery and resolution plans:
  - is consistent with regard to identification of assets eligible for CB funding (possibly with more detailed information provided in the recovery plan than in the resolution plan);
  - ensures a sequential link between the availability of CB funding in recovery and resolution phases (i.e. a resolution plan should take into account the fact that CB-eligible assets might be pledged in the recovery phase and the resolution plan should also include an additional assessment of CBs' conditions for providing ordinary CB funding in resolution or after a resolution event); and

- takes into account that assumptions of a liquidity shock associated with a resolution will in general be more severe than those included in the scenario analysis of a recovery plan.
2. The description of the use of CB funding in resolution plans is expected to be broader than in recovery plans, because apart from the identification of assets eligible as collateral it would also include the RA's analysis of conditions applied by relevant CBs for granting CB funding to institutions in resolution.
  3. The RA is responsible for assessing the anticipated liquidity and funding needs in resolution based on standard operating funding needs plus stress scenarios (stressing both intensity and duration of 'stress' liquidity needs). It would be beneficial for the CA to comment on that assessment. Furthermore, if the CA has major concerns over the quality of the liquidity reporting of an institution, it is important that the CA communicates these concerns to the RA (allowing it to apply a more conservative approach).
  4. In line with its role, it is important for the RA to ensure that post resolution the resolved entity has access to CB funding and to prepare for that. In the case of a share deal (full sale), the RA could explore what the necessary preconditions and steps are that need to be taken to maintain access to CB facilities, unless the resolved entity would be able to use the access of the acquirer. In the case of a partial sale, the acquirer should have the necessary authorisation/access, or at least enough liquidity to support the needs of the transferred business in the initial phase. In the case of a bridge bank, the RA could explore what the necessary preconditions and steps are that need to be taken to get access to CB funding and prepare for this in advance in the resolution plan.
  5. For institutions with cross-border presence, it could be important to assess in the planning phase:
    - the location of available collateral and the possibility of transferring collateral/liquidity to different jurisdictions, because potential restrictions (operational, legal or regulatory) might exist;
    - funding in different currencies;
    - for SPE vs MPE approach, which CB would provide the funding in resolution and under what conditions, taking into account that:
      - ✓ under an MPE approach, where liquidity might be less fungible across the group in a crisis, it is necessary to ensure that each relevant subsidiary maintains independent access to CB facilities to enhance the stand-alone recoverability and resolvability of the entity and its ability to secure the necessary funding in and after a resolution event itself.

- ✓ under an SPE approach, the situation where only one group entity would have access to CB facilities should not be a concern unless part of the resolution strategy requires a separation for which a new or another existing entity requires funding access – requiring a case-by-case *ex ante* analysis by the RA; the assumption is that under an SPE approach both the liquidity and the eligible collateral are transferable, to a certain degree, across the group if necessary.

## 2.2.1 Background information and analysis

### Introduction – regulatory requirements and purpose

99. CB liquidity support aims to ensure access to funding for institutions that are otherwise solvent but face temporary liquidity problems. This support is provided under equivalent conditions for all credit institutions in the same jurisdiction. While private market interest and funding cannot be guaranteed at all times, ordinary CB financing remains available to solvent institutions, provided that they meet the preconditions.

### Purpose in recovery planning

100. Pursuant to Article 5(4) of the BRRD, recovery plans shall include, where applicable, an analysis of how and when an institution may apply, in the conditions addressed by the plan, for the use of CB facilities and identify those assets which would be expected to qualify as collateral.

101. Moreover, pursuant to Article 9(1)(c) of Delegated Regulation (EU) 2016/1075, recovery options shall indicate the necessary arrangements and measures (including external ones) to ensure that the entity or entities have adequate access to contingency funding sources and that they can carry on their operations and meet their obligations as they fall due. The contingency funding sources shall include potential liquidity sources and an assessment of available collateral.

102. Pursuant to Article 10(1), Article 11(1) and Article 12(1) of Delegated Regulation (EU) 2016/1075, the description provided in the recovery plan should contain an assessment of the impact of each recovery option on the liquidity and funding positions of the entity or entities, a feasibility assessment and an assessment of how the continuity of operations will be ensured when implementing that option. It could be beneficial for recovery plans to identify and quantify which assets would qualify as collateral for using CB facilities. They could also explain in detail the timeline for mobilising these assets.

103. The main objectives of covering the use of CB facilities in a recovery plan could include the following:

- The description of recovery options in recovery plans (including the timeline of their implementation) would allow CAs to evaluate the institutions' capacity for ensuring sufficient liquidity in order to recover from a situation of financial stress. To this end, a

recovery plan could include all liquidity options available to an institution, including those included in its contingency funding plan.

- The recourse to ordinary CB facilities is a liquidity recovery option in virtually every recovery plan. However, it should be kept in mind that there should also be other liquidity recovery options included in recovery plans.
- The proper identification of assets eligible for CB collateral ahead of a stress situation would ensure that an institution had the necessary technical (e.g. IT systems capable of identifying such assets) and operational (e.g. skilled staff) abilities to conduct such an exercise in a case of severe stress. It could also enable the institution to conduct such an exercise more smoothly if required to act under time pressure.
- Where an institution includes 'asset encumbrance' in its framework of recovery plan indicators, it might be possible to monitor the evolution of that indicator in the recovery options' implementation phase (e.g. by reflecting it in a liquidity shock scenario). The same could be done for other liquidity indicators, such as 'counterbalancing capacity'.

### Purpose in resolution planning

104. Pursuant to Article 10(3) and (4) of the BRRD and Article 22(5)(c) of Delegated Regulation (EU) 2016/1075, resolution plans shall include an analysis of how and when an institution or a group may apply, in the conditions addressed by the plan, for the use of standard CB facilities (other than emergency liquidity assistance or other assistance on non-standard terms, tenor and interest rate terms) and shall identify those assets which would be expected to qualify as collateral. The analysis forms part of the description of the potential financing requirements and financing sources necessary for the implementation of the resolution strategy foreseen in the plan.

105. Article 28(3) of Delegated Regulation (EU) 2016/1075 also requires RAs to consider the size of funding needs in the run-up to and during resolution, as well as the availability of sources of funding, when assessing whether there are potential impediments to resolution related to financial resources.

106. Article 29(2) of Delegated Regulation (EU) 2016/1075 requires RAs to consider the capability of the institution or group to provide information on the amount, and location within the group, of assets which would be expected to qualify as collateral for CB facilities (i) in assessing whether there are potential impediments to resolution related to information; and (ii) as part of the assessment of the feasibility of a resolution strategy.

107. Pursuant to Article 10(7)(i) of the BRRD, the resolution plan [...] shall include, quantified whenever appropriate and possible [...] an explanation by the RA as to how the resolution options could be financed without the assumption of any of the following: (i) any extraordinary public financial support besides the use of the financing arrangements established in

accordance with Article 100; (ii) any CB emergency liquidity assistance; or (iii) any CB liquidity assistance provided under non-standard collateralisation, tenor and interest rate terms.

108. Article 15(1) and Article 16(1) of the BRRD require Member States to ensure that the RA (or group-level RA) assesses the extent to which an institution/group is resolvable without the assumption of any extraordinary funding/support (as explained in the paragraph 10 above).

109. Finally, pursuant to Article 12(3)(f) of the BRRD, the group resolution plan shall set out principles for sharing responsibility for that financing between sources of funding in different Member States.

110. There might also be other relevant local regulatory requirements, or guidance from RAs related to CB funding. For instance, the UK 'Resolution Liquidity Framework' enables lending to banks within a resolution led by the Bank of England, where liquidity support may be secured against a wide range of collateral, building on the eligible collateral included in the Bank of England's published funding facilities. The Bank of England provides funding, pledging a wider range of assets than available under 'normal' conditions; however, no similar facility exists in the Eurosystem.

111. The main objectives of covering the use of CB funding in a resolution plan could be the following:

- The availability of liquidity (and collateral) is necessary to implement the resolution and is thus an important aspect of resolution planning and for ensuring the feasibility of the resolution strategy.
- One prerequisite for taking recourse to ordinary CB funding during and after resolution is available collateral. Furthermore, the type of resolution strategy to be used is also key in this respect, as it determines whether there is a possibility to recourse to ordinary CB funding and the necessary steps that should be taken to prepare for such an action on behalf of the RAs. In this vein, in the case of transfer resolution strategies (i.e. the sale of the business and a bridge bank), it is key that the resolution plan assesses the 'transferability' of eligible remaining collateral to the entity post resolution and any possible restrictions, or preconditions, that such transferability may require.
- Resolution planning work, with regard to this aspect, focuses on funding needs and sources in resolution. It is important that a resolution plan contains a description of the financing requirements and financing sources necessary for the implementation of the resolution strategy, including at least (i) a description of the funding requirements implied by the resolution strategy; and (ii) a description of potential sources of resolution funding, including the terms of financing, preconditions for use, the timing of availability, the entities to which funding may be provided and any collateral requirements. The description of the financing requirements and sources could cover, where relevant, a description and analysis of how and when an institution may apply, in the conditions

addressed by the resolution plan, for the use of 'normal' CB facilities in resolution, including identification of available collateral.

- If and to what extent CB funding can be used clearly also depends on the amount, quality and availability of collateral. Poor data quality on collateral may delay and hinder the feasibility of funding in times of financial stress, as well as in the run up to resolution. An assessment of institutions' capabilities to support monitoring, reporting and estimating funding needs in resolution, as well as identifying institutions' assets and funding sources to be relied upon as preferred sources of funding in resolution, is therefore another important aspect for RAs to consider. It is important that the institutions rapidly identify, mobilise, report and monitor, on a timely basis, all their assets eligible to access ordinary CB facilities, not only high-quality liquid assets (HQLAs). In particular, with respect to the location of the assets (jurisdiction, legal entity), it is important to identify under which CB framework the institution's assets are eligible and related haircuts.
- It could be beneficial for the resolution plan to address funding needs in different currencies and provide for an extensive review of funding 'responsibility sharing' between jurisdictions. SPE and MPE approaches may have different implications, since under an SPE approach the free flow of funds in a crisis can be a realistic assumption, while under an MPE approach the movement of funds may be restricted.

112. An important element for evaluating the feasibility of CB funding in support of orderly resolution is to ensure that the institution will be able to meet the 'conditions' under which the CB could continue providing this type of funding.

113. It is also important that the RA assess the ability of the institution to access CB funding in the different phases of resolution (by assessing the CB requirements and preconditions). In various jurisdictions, the CB reserves its right to deny providing CB facilities if the institution is not considered solvent in the short term. That discretion of CBs might cause uncertainties about the ability to access CB funding when the entity approaches and during the resolution stage. For instance, in the Eurosystem access to monetary policy operations is limited if a counterparty is deemed to be 'failing or likely to fail' by the relevant authorities. In addition to limiting access, the Eurosystem may, on the grounds of prudence, suspend, further limit or exclude counterparties from accessing Eurosystem monetary policy operations if they are deemed to be 'failing or likely to fail' and they meet further specified conditions<sup>14</sup>.

114. Therefore, it could be beneficial for the resolution plan's description of the access to ordinary CB facilities to not only take into account that the assets could have been pledged, but also include an analysis across jurisdictions, considering potential differences in the conditions of relevant CBs, as well as analyses of funding needs across the group and in different currencies.

115. If a CB in a given jurisdiction has no approach to providing ordinary CB funding to institutions in resolution, it could be prudent for the RA to assume the most conservative approach and not

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<sup>14</sup> For further details, see Article 158 of General Documentation Guideline (ECB/2014/60).

take into account the use of ordinary CB funding for financing resolution, while they prepare a resolution plan.

### **2.2.2 Benefits of/synergies from alignment**

116.A consistent description of assets eligible as collateral for CB funding would improve the mutual understanding between CAs and RAs, and could facilitate dialogue between these authorities on an institution's outstanding capacity to use ordinary CB funding as the situation evolves. Even in the case of recovery and resolution plans having different reference dates, ensuring the same level of granularity and the same documentation style would be beneficial.

117.By ensuring continuity in the analysis of CB funding availability both before resolution (i.e. in the recovery phase) and during/after resolution, the resolution plan is built on more solid assumptions in terms of the access to sources of funding, including potential terms, preconditions, timing, affected entities and collateral, allowing for the smooth implementation of the resolution strategy in terms of funding.

118.There is a high probability that resolution will happen after the unsuccessful implementation of recovery options. Hence, in order to be more useful and realistic, liquidity planning in resolution should take into account the potential liquidity measures that could be taken by an institution in the recovery stage.

### **2.2.3 Potential consequences/risks of misalignment**

119.Differences in the identification of assets eligible for CB funding between recovery and resolution planning may indicate underlying problems in an institution's capability to identify such assets, which may cause problems in acquiring CB funding in a case of severe stress/resolution.

120.Such discrepancies between recovery and resolution planning may also signal that the CAs and/or RAs have a false perception of institutions' recovery capacities and/or potential to recourse to CB funding in resolution.

121.A lack of sequential perception of RAs in assessments of CB funding in resolution might result in the underestimation of other necessary funding required to finance resolution.

122.It could be probable that assets that would be used to obtain CB funding when an institution enters a recovery phase would not be the same as those remaining once recovery options are likely to have been unsuccessfully implemented and the institution finds itself in resolution. If the same collateral is already encumbered by the institution in a recovery phase, this may not be available to fund resolution. However, it could be beneficial for recovery and resolution plans to be aligned in terms of the available starting collateral, with the resolution plan recognising that some of that collateral could already have been used in the recovery phase.

## 3. Assessment of the potential impact of recovery options on resolvability

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123. An important finding of the comparative analysis of recovery and resolution plans is the need for progress in terms of assessing the potential implications of recovery options. On this basis, the EBA has therefore developed a comprehensive framework (an ‘assessment table’ and an ‘assessment approach’) to help resolution and competent authorities when assessing the potential impact of recovery options on institutions’ resolvability.

124. After an analysis of the role of authorities and institutions in assessing the potential impact of recovery options on resolvability, this section introduces and explains the purpose and structure of the ‘assessment table’ and how it can be used in the consultation process. It also summarises the operational steps in an RA’s assessment of recovery options in terms of their potential impact on resolvability.

### 3.1 Regulatory background

#### 3.1.1 Introduction

125. Article 6(4) of the BRRD provides that a CA must provide the recovery plan to an RA, which may examine it with a view to identifying any actions in the recovery plan, which may adversely impact the resolvability of the institution and make recommendations to the CA with regard to those matters. In particular, such actions should refer to recovery options included in the recovery plan drafted by the institution and assessed by a relevant CA in accordance with applicable regulations.

126. It would be useful to develop a common understanding of the possible impact that the implementation of various recovery options might have on an institution’s resolvability. This has been accomplished by developing a practical tool – an **assessment table** (in Excel format – see Annex 2) – that aims to support RAs in conducting their analysis of the potential impact of recovery options on an institution’s resolvability. This assessment table is supplemented by additional analytical work, described in the following paragraphs, that covers some general issues applicable across various categories of recovery options and provides additional explanations/instructions on how to use the table.

127. Furthermore, it would also be beneficial to identify the specific steps that RAs could take in order to assess the potential impact of recovery options on resolvability. These procedural aspects are covered in Section 3.3 (**‘Assessment approach’**) further below.

#### 3.1.2 Adverse impact on resolvability

128. Pursuant to Article 15(1) and Article 16(1) of the BRRD, the RAs should perform the assessment of resolvability for institutions or groups, deciding whether to apply normal insolvency



proceedings or resolution to the institution. Thus, after the identification of the resolution strategy, the RAs shall assess whether it is feasible to apply the selected resolution strategy effectively in an appropriate time frame. In this respect, RAs shall consider either impediments to the short-term stabilisation of the institution or group or any foreseeable impediments to the long-term viability of the institution or group being restored. Pursuant to Article 26(3) of Delegated Regulation (EU) 1075/2016, the impediments shall at least be classified as being related to (i) structure and operations; (ii) financial resources; (iii) information; (iv) cross-border issues; and (v) other (legal) issues. Articles 27–31 of Delegated Regulation (EU) 1075/2016 provide further guidance in this respect, as they address both the matters specified in Section C of the Annex to the BRRD and other additional matters, strictly related to each type of impediment.

129. In this context, although the actions and measures described in the recovery plan may help an institution to avoid resolution, certain recovery options might also have an adverse impact on the resolvability of an institution. There are no specific provisions in Delegated Regulation (EU) 1075/2016 on the potential negative impacts that recovery options might have on an institution's resolvability. There might be cases when the RA will have to implement the resolution strategy after the institution has applied some of its recovery options. In such cases, there could be some recovery options that may substantially affect the feasibility of the resolution strategy. Therefore, as early as the planning phase it is important to analyse the potential impact of recovery options' implementation on resolvability.

130. However, it should be noted that, even though recovery and resolution measures may overlap, this alone does not necessarily constitute an adverse impact on resolvability in the meaning of Article 6(4) of the BRRD. Moreover, it should be further clarified that measures that affect resolution do not necessarily affect resolvability. More specifically, while some measures, if taken during the recovery phase, will not be available in resolution, this does not necessarily make an institution more or less resolvable. For example, while measures to ensure funding or increase liquidity in recovery may in some cases negatively affect the funding or liquidity capacity in resolution, it should be noted that these measures would not necessarily adversely affect resolvability in themselves. Likewise, the disposal of some subsidiaries, portfolios or activities executed during the recovery phase cannot be considered to adversely affect the resolvability of the institution by itself, even if these options were foreseen in the preferred resolution strategy.

### **3.1.3 Roles in assessing adverse impact on resolvability**

131. Article 6(4) of the BRRD gives the RA the option to provide feedback to the supervisor on the possible adverse impacts of recovery options on an institution's resolvability. Only the RA has full information on the preferred/variant resolution strategy/tools selected for a given institution. Therefore, it has the expertise to review the recovery plan with the aim of assessing the potential impact of recovery options on resolvability. Institutions do not have the necessary information to conduct this assessment.

132. The RA performs this assessment within the consultation process related to the assessment of a recovery plan developed by an institution. The RA conducts its assessment based on the recovery plan received from the CA in accordance with Article 6(4) of the BRRD. It is important to ensure that the RA has sufficient information on which it can form its opinion. However, it is important to clarify that this does not mean that this information should be included in the recovery plan or that the institution itself should be required to perform this assessment. This is a task for the RA, and the institution's role is to describe recovery options appropriately and in line with the BRRD.

133. Recovery plans are developed by institutions and reviewed by the relevant CAs. In line with Article 6(2) of the BRRD, the CAs shall review the recovery plan and assess the extent to which it satisfies the regulatory requirements. The CA's assessment of a recovery plan is further detailed in Articles 18–20 of Delegated Regulation (EU) 1075/2016. When the CA assesses that there are material deficiencies in the recovery plan or material impediments to its implementation (see Article 6 of the BRRD), it shall make use of Article 6(5) of the BRRD, i.e. address the material deficiencies of the plan.

134. The supervisory assessment of recovery options puts an emphasis on the feasibility and credibility of implementing recovery options to restore the financial position of the institution, so it is different from the focus of the RA. However, the same information that is useful for the CA's assessment of the recovery options' feasibility and credibility can be useful for the RA's assessment of the potential impact of recovery options on resolvability. For example, a description of recovery options' impacts on CFs and operational continuity is useful for both the CAs and the RAs. Therefore, the supervisory feedback/assessment of a recovery plan (in particular the review of recovery options) may also constitute an additional source of information for the RAs in conducting their own assessments. However, the potential sharing of this document should not create any additional burdens for the supervisor with respect to the time available for the CAs to assess the recovery plan.

## 3.2 Assessment table

### 3.2.1 Recovery options with probable adverse impacts on resolvability

#### Purpose of the assessment table

135. The purpose of the assessment table is to support RAs in determining (i) how individual recovery options might impact on resolvability and (ii) what potential actions might be taken to eliminate/minimise any negative impact (with an indication of the entities deemed most appropriate to implement the recommended actions, i.e. the institution and the RAs).

136. The table is a practical, non-exhaustive tool meant to facilitate and support the work of RAs when they assess recovery plans as part of the consultation process with CAs (conducted at least annually). It may also help CAs to develop a better understanding of the issues raised by the RAs. The assessment table has been developed by leveraging as much as possible on the

existing work of some EU authorities, in order to contribute to a consistent approach across the EU.

137. The assessment table should be considered a living document that provides a structure for collecting, comparing and aggregating the current insights and best practices of EU authorities with respect to this specific aspect of interlinkages between recovery and resolution plans. We expect the table to continue to evolve and be updated regularly and become more detailed as more experience is gathered in upcoming years.

### Structure of the assessment table

138. The assessment table (an Excel spreadsheet – Annex 2) consists of four parts:

- **Part I: categories of recovery options** – columns B and C provide a list of categories and subcategories of the recovery options that are most likely to have a negative impact on resolvability. The table for now includes only the most common options found in recovery plans, recognising that there could be cases where specific options have not been included but they will need to be assessed by the RA.
- **Part II: impact on/impediments to resolvability** – columns E to K describe the potential impact of each category/subcategory of recovery option on various categories of impediments to resolvability. These impediments are grouped mostly following the classification in Delegated Regulation (EU) 1075/2016. However, where necessary and simply for illustrative purposes, certain impediments explicitly mentioned in Delegated Regulation (EU) 1075/2016 have been further disaggregated (e.g. ‘Financial resources’ is split into two subcategories – ‘MREL’ and ‘Liquidity’) or grouped together to increase the readability of the table, taking into account the limited input to some individual categories. Within ‘Additional categories of impediments to resolvability’ (which are not explicitly mentioned in Delegated Regulation (EU) 1075/2016), there are two subcategories distinguished in the table – ‘Viability of business model’ and ‘Others’.

This section aims to identify negative impacts (–); however, positive impacts (+) are also included, as their consideration could be relevant to determining the final (net) impact. In some instances, the potential impacts are reported as being potentially positive or negative (as indicated by ‘(+)’ or ‘(–)’) because it would be possible to determine the final impact only by considering the characteristics of each specific institution/case.

This information could help the RA assess resolvability and could also contribute to the feedback provided to the CA as part of the RA’s consultation on the recovery plan.

- **Part III: potential actions** – on the one hand, in column M, ‘supporting analyses’ are suggested that could enable RAs to better gauge the relevance of the potential ‘impact’ for a specific institution. These ‘supporting analyses’ should allow RAs to take into account special characteristics of an institution, which may determine the potential impact of recovery options on the institution’s resolvability (the special features can either intensify the expected negative impact or reduce it, or potentially even neutralise it).

On the other hand, column N provides some potential actions that could be taken directly by RAs or requested by RAs to be taken by institutions in order to mitigate the potential negative impacts on resolvability of the relevant recovery options. The proposed actions are only examples of responses and they should not be treated as constituting an exhaustive list to be implemented automatically. Depending on the evaluation of the impact of the recovery option, the RA should consider whether there is a definite need for action. Those actions should be part of the RA's work on the resolvability assessment.

- **Part IV: resolution tools** – the last four columns of the table (columns P–S) indicate which resolution tools could be affected by particular categories of recovery options. For example, the liability management option could be particularly relevant for the bail-in tool and less relevant for other types of resolution tools (bridge bank, sale of business and asset separation tools).

### 3.2.2 Recovery options unlikely to have a negative impact on resolvability

139. The assessment table (Table 1 in Annex 2) is complemented by an additional Excel worksheet (Table 2 in Annex 2) summarising a list of categories/subcategories of recovery options that are unlikely to have a negative impact on resolvability.

140. Nevertheless, it is important that the RA also takes into account specific features of the institution and its recovery options when assessing their potential impact on resolvability.

## 3.3 Assessment approach

141. The purpose of this section is (i) to summarise the steps in the RA's assessment of recovery options in terms of their potential impact on resolvability and (ii) to explain how the assessment table could be used in this assessment process.

### 3.3.1 Steps for resolution authorities

#### **Step 1 – the resolution authority receives a recovery plan from the competent authority**

142. In accordance with Article 6(4) of the BRRD, the RA should be consulted on the recovery plan. In this respect, the CA should provide the recovery plan document to the RA in accordance with Article 7(3) or Article 6(4) of the BRRD.

143. For cross-border banking groups, the timeline for sharing the group recovery plan and its preliminary assessment in line with Article 8(3) of the BRRD with the RA should be aligned with the timeline envisaged for assessing the group recovery plan and reaching a joint decision on that plan by members of a supervisory college.

#### **Step 2 – the resolution authority conducts a preliminary assessment of the potential impact on resolvability of the recovery plan, in particular of the recovery options**

144. Following receipt of the plan, the RA assesses the recovery plan, in particular its recovery options to evaluate whether they could have any adverse impact on the resolvability of the institution.

145. The RA may use the assessment table to (i) help identify which recovery options from a specific plan are likely to have a negative impact on the resolvability of the institution and (ii) clarify what their potential impact could be:

- First, the RA should check whether the set of recovery options included in the recovery plan includes any categories of options listed in the assessment table (columns B and C).
- Second, the RA should primarily focus on these recovery options, and assess whether they are likely to have a potential negative impact on resolvability in the context of the resolution strategy/tools selected for a particular institution (columns P–S). The assessment should be performed both against the preferred resolution strategy and against variants/different combinations of resolution tools.
- Third, for recovery options passing the first two steps the RA can use the assessment table (columns E–K) to determine what the potential impact of these options could be on the institution’s resolvability.

146. The table does not provide the RA with the final assessment but focuses the RA’s assessment on core aspects that could impact on the resolvability of an institution. In this respect, the table should be used as guidance with helpful indications/hints on likely impacts on resolvability, and should not be considered a checklist. Indeed, the RA should apply a qualitative approach to their assessment, taking into account specific features of the institution and the recovery option under review.

147. When using the assessment table, it is necessary to keep in mind that not all considerations will be relevant for all institutions. Their relevance will strongly depend on the specific characteristics of each institution and its recovery plan.

**Step 3 – the resolution authority finalises its assessment by conducting supporting analyses (where relevant)**

148. Once the RA has conducted the preliminary assessment, it could use the assessment table to identify supporting analysis (column M) that could help to evaluate the degree of the potential impact on resolvability. Depending on the type of analysis, the RA might:

- (i) perform the analysis directly;
- (ii) request the institution to provide additional information that is necessary for the RA to perform its resolvability analysis (in cases where this information is already available to the CA, it can give it to the RA without issuing a request to the institution). These information requests should be conducted separately from the

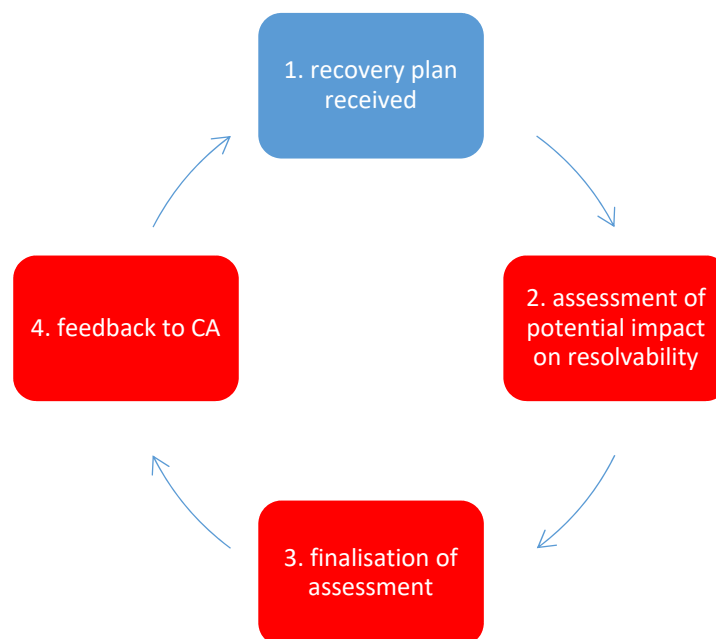
recovery plan, as they pertain to the RA’s resolvability assessment work rather than representing additional information requirements that should be included in the recovery plan. In any case, the CA should be kept informed of these information requests and any information provided by the institutions.

149. Once the type and degree (in Section 3.3.3. below) of the potential impact have been identified, the RA can summarise and finalise its assessment.

**Step 4 – the resolution authority provides feedback to the competent authority**

150. The RA provides feedback to the CA on the results of its assessment, which could contribute to the CA’s final assessment of the recovery plan. Depending on the results of the final assessment, the RA could provide various types of feedback to the CA.

151. The diagram below summarises the four steps of the assessment process for the RA. It also indicates (red boxes) the steps for which the use of the assessment table could be beneficial.



### 3.3.2 Steps for competent authorities

**Step 5 – the competent authority has a dialogue with resolution authority on the feedback received**

152. Upon receipt of the feedback from the RA, the CA can start a dialogue with the RA to better understand the type and severity of the potential adverse impact. In cases of the RA having significant concerns regarding the impact of recovery options on an institution’s resolvability, an example of good practice could be to involve the RA in the meeting with the institution to allow the RA to explain in greater detail the potential impact on resolvability.

153. The use of the assessment table could also help the CA to better understand the potential impact on resolvability of specific categories of recovery options, contributing to better dialogue with the RA and the institution on this aspect.

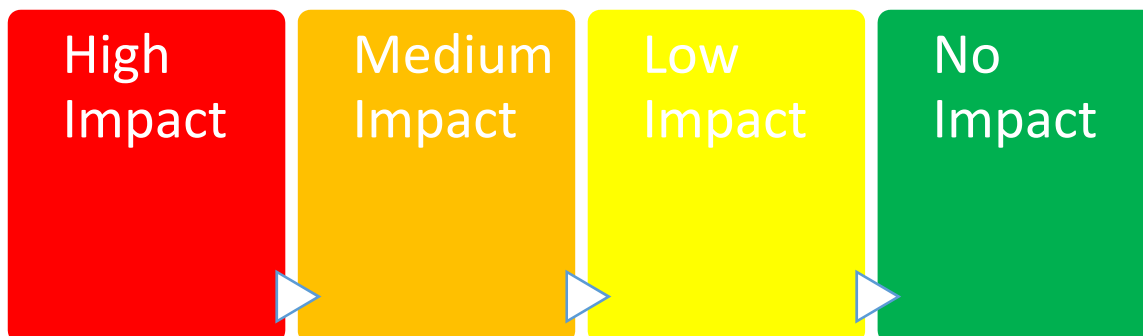
### 3.3.3 Degree of potential impact

154. In assessing the impact of recovery options on resolvability, the RA needs to not only consider the type of potential impact (supported by the use of the assessment table) but also estimate the degree of the impact. This will be dependent on the specific characteristics of the institution, the recovery option proposed and the planned resolution strategy. Therefore, it cannot be pre-assigned *ex ante* to specific types of recovery options; rather, an expert qualitative judgement by the RA is needed. This qualitative assessment should be based on the information contained in the recovery plan and possibly other supporting analysis (with some suggested in the assessment table) that the RA could initiate. The RA shall inform the CA about the degree of potential impact of the recovery options in the recovery plan consultation feedback provided to the CA.

155. The degree of potential impact also depends on the **probability** that a recovery option is implemented. This probability depends on the characteristics of the crisis and is therefore difficult to predict. Nevertheless, if the CA has determined that the recovery option has limited feasibility, this would be an important element to take into account in evaluating this probability.

156. For the estimation of the degree of impact on resolvability, the following four-grade scale can be used:

- **High impact** – the implementation of the recovery option could **materially** impact on the resolvability of the institution in one or more aspects (e.g. the recovery option could materially deteriorate the MREL level of the institution or the impact on the structure of the group could significantly affect operational continuity).
- **Medium impact** – the implementation of the recovery option could have a **moderate** impact on the resolvability of the institution (e.g. the recovery option could have some impact on the operational and financial interconnectedness of the group but not to the point of materially affecting the resolution strategy and its tools).
- **Low Impact** – the implementation of the recovery option could have a **marginal** impact on the resolvability of the institution (e.g. the recovery option could result in operational changes but these would only minimally affect essential critical services of the institution and its operational continuity).
- **No impact** – the implementation of the recovery option is likely to have **no** impact on the resolvability of the institution (this category would generally be chosen for types of options that are not likely to have any adverse impact on resolvability).



### 3.3.4 Information needed for the assessment

157. It is important that the RA has sufficient information to assess the potential impact of recovery options on resolvability.

158. There are specific regulatory requirements for institutions related to the contents of a recovery plan and to the description of recovery options. In particular, pursuant to Articles 4 and 8 of Delegated Regulation (EU) 1075/2016, the recovery plan shall include, in the strategic analysis, a list of all recovery options and a description of each option.

159. In particular, the description should include a financial and operational impact assessment that sets out the expected impact of each recovery option on the entity or entities covered by the recovery plan on:

- a. solvency;
- b. liquidity;
- c. funding positions;
- d. profitability;
- e. operations.

160. It should also include an analysis of potential impediments to the effective implementation of each recovery option, which would result from the structure of the group or intra-group arrangements.

161. These mandatory details in the descriptions of recovery options might be useful for RAs in assessing the potential impact of recovery options on resolvability. However, even if this information is included in recovery plans, it may be too high level and not detailed enough to enable a proper assessment by the RA. Regardless of the specific type of recovery option, useful information that could enable the RA to assess the impact of recovery options on resolvability includes (but may not be necessarily limited to) the following **general information**, which does not necessarily need to be part of the recovery plan:

- information on the impact of recovery options on the interdependencies/interconnections within a group;



- information on the financial impact of recovery options – in particular on the liabilities’ structure and on the MREL amount;
- information on changes to the asset encumbrance level;
- information on changes to the ownership/shareholding structure of the group;
- information on operational impact, in particular the impact on critical services;
- information on the impact of recovery option implementation on the institution’s business and financial models, in particular the impact on its funding structure.

162. In addition, for each (sub)category of recovery option, **specific information could also be required in order to estimate the impact on resolvability**. The assessment table describes supporting analyses that could be conducted for distinct (sub)categories of recovery options (in column M, ‘Supporting analyses (factors affecting resolvability)’). Some examples of additional information required to conduct supporting analyses are provided below:

- Disposal options: information on (i) the nature of the entity to be disposed (whether it provides CFs or critical/essential services to the rest of the group); (ii) the extent to which the entity contributes to MREL generation (in terms of risk-weighted assets (RWAs), eligible instruments for individual requirements); and (iii) the financial weight of the entity within the group before disposal.
- Capital-raising options: information on (i) counterparty (internal/external); and (ii) maturity.
- Access to wholesale funding: information on (i) the type of assets pledged; (ii) the type of legal arrangement considered (whether repo, securitisation, covered bonds or loans); and (iii) the amount, counterparties and maturity.

163. The lists of specific additional information needs per category of recovery option indicated above and in the assessment table are not intended to be exhaustive. The information required will be dependent on the specific characteristics of the recovery option, the unique features of the institution and the resolution strategy/tools selected.

164. The additional information needs should be assessed by the RA and dealt with by the institution as an ad hoc specific request to support the RA’s assessment of the potential impact of a recovery option on the resolvability of the institution. In this respect, the process of making these information requests should be conducted separately from the recovery plan, as the requests pertain to the RA’s resolvability assessment work rather than representing an additional information requirement related to the recovery options contained in the recovery plan. However, the RA should keep the CA informed about information requests related to recovery options.

165. Nevertheless, some key general information, essential to resolvability, such as on the impact of recovery options on the MREL amount, as well as on CFs, could in principle also be included in the recovery plan.

### 3.3.5 Outcome of the assessment and resolution authority recommendations

166. In line with the BRRD requirements, the feedback provided by the RA in its assessment of recovery options **should be submitted to the CA** and not directly to the institution. Upon receipt of the feedback, the CA will start a dialogue with the RA with the aims of discussing and – to the greatest extent possible – agreeing on the feedback to be given to the institution with regard to this specific aspect.

167. In those cases in which the impact of a recovery option on resolvability is potentially material (i.e. it could have a high degree of impact), the CA could raise the RA's concerns in the feedback to the institution in order to make the institution's management aware of this potential impact when deciding on which option to use. The institution should include this feedback in the recovery plan, indicating that the RA has expressed the view that this option has a significant impact on resolvability. Nevertheless, this should not result in an *ex ante* elimination of that option from the recovery plan. In a crisis situation, an intense dialogue between the CA and the RA needs to take place to weigh up the benefits of the option for restoring the institution's viability against the option's potentially negative impact on resolvability.

168. The assessment of recovery options (type and degree) could lead to various outcomes and might result in different recommendations being provided by the RA. The assessment table provides a non-exhaustive list of some potential recommendations for each of the distinguished (sub)categories of recovery options.

#### The resolution authority's recommendations to the institution (as part of the resolution authority's resolvability work)

169. On the basis of the RA's assessment of the potential impact of the recovery options, the RA could determine the need to:

- **Request additional information.** The RA could require the institution to provide additional information to allow the RA to better assess the relevance of the impediment. Before reaching out to the institution, RAs should cooperate with CAs and keep CAs informed about any dialogue with the institution.
- **Request for mitigating actions (as part of the RA's resolvability work).** As part of its resolvability assessment work and in consultation with the CA, the RA could require the institution to suggest and potentially even implement actions that could mitigate the potential impact of the recovery option on the resolvability of the institution.

170. The RA will perform this work in relation to also providing recommendations to the institution as part of its resolvability assessment work. Depending on the type of recommendation and provided that there is an agreement between the RA and the CA, some recommendations could also be included in the feedback provided to the CA as part of the annual consultation on the recovery plan.

## 4. Future work

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171. Through the EBA comparative analysis of recovery and resolution plans, the EBA has identified some areas for further work on interlinkages:

(i) **Implications of resolution plans and in particular the impact of measures to remove impediments to resolvability on ongoing supervision and recovery plans.**

Work could analyse the potential implications of various aspects of resolution plans on institutions' recovery planning and ongoing functioning including actions to remove impediments to resolvability.

Article 17 of the BRRD gives RAs powers, in consultation with CAs, to address or remove substantive impediments to resolvability. Actions taken in agreement with an institution or by the RA, through the exercise of these powers, might have an impact on the going-concern functioning of an institution and therefore on its recovery plan. For example, if an institution is required to alter its funding profile to meet its MREL requirement, this could affect the type of liquidity recovery options available, whereas a request of the RA for separate legal entities to reduce operational interconnectedness could impact on disposal options in a recovery plan.

(ii) **Practical aspects of interlinkage work.** The comparative analysis of recovery and resolution plans indicated that having different submission dates influences the extent to which recovery and resolution plans can contribute to each other.

Guidance work could be done on some operational aspects of interlinkages such as how to better align the timelines of recovery and resolution planning cycles in order to ensure a sequence that would optimise effective interlinkages between recovery and resolution plans and facilitate interactions.

To minimise overlap and reduce the information burden on institutions, the EBA could perform work to optimise current practices in terms of approaches governing the flow of information between institutions, CAs and RAs, in the context of recovery and resolution planning, in order to optimise the overall process of information exchange and facilitate effective interlinkages between the recovery and resolution phases.



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