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Recovery plans – Guidelines for credit institutions

Scope

This Communication applies to Belgian credit institutions and Belgian parent undertakings of credit institutions that are not directly supervised by the ECB pursuant to the SSM Regulation[1], with the exception of the following credit institutions:

- *Belgian credit institutions that are eligible for a regime of simplified obligations[2]. These institutions should draft their recovery plans according to the NBB Guidelines on simplified obligations for recovery plans[3].*
- *Belgian credit institutions which are subsidiaries of a Belgian parent credit institution, a Belgian (mixed) financial holding company or a Belgian mixed activity holding company, and for which it has not been decided that recovery plans should be drawn up at the individual level. These institutions are not required to draft individual recovery plans.*
- *Belgian credit institutions which are part of a group subject to consolidated supervision, the parent undertaking of which is established in another EU Member State, and for which it has not been decided that recovery plans should be drawn up at the individual level[4]. These institutions are not required to draft individual recovery plans.*

1 Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

2 For credit institutions falling under the supervision of the NBB, the NBB determines which institutions are eligible for simplified obligations on the basis of the criterion laid down in article 113, § 4 of the Banking Law, and further specified in the EBA Guidelines of 7 July 2015 on the application of simplified obligations under Article 4(5) of Directive 2014/59/EU (EBA/GL/2015/16).

3 Communication NBB_2022_10 of 29 March 2022 on Guidelines on simplified obligations for recovery plans.

4 Article 8(2) of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012.

The NBB has published specific guidelines for Belgian credit institutions and Belgian parent undertakings of credit institutions which also have the legal status of (institutions providing support to) central securities depositories (CSDs)[5]. These specific guidelines will integrate this Communication and the guidelines of the CPMI-IOSCO report on Recovery of financial market infrastructures[6].

Summary/Objective

This Communication sets out our expectations with respect to recovery planning. It is meant as a user-friendly tool to guide both credit institutions and parent undertakings in drafting recovery plans in accordance with the requirements of the Bank Recovery and Resolution Directive (BRRD), the EBA final draft Regulatory Technical Standards on the content of recovery plans[7], the EBA Guidelines on the range of scenarios to be used in recovery plans[8], the new EBA Guidelines on recovery plan indicators[9] and the EBA Recommendation on the coverage of entities in a group recovery plan[10]. Reference is also made to the EBA Technical Advice on the delegated acts on critical functions and core business lines[11].

This Communication replaces the previous Communication NBB_2018_10, which was modified to incorporate the recently published EBA Guidelines on recovery plan indicators. The changes in section 4.2 "Activation of the plan" relate to the list of recovery plan indicators, the calibration of the thresholds for the recovery plan indicators, and the actions and notifications upon an indicator threshold breach. This Communication includes templates to be used in the drafting of recovery plans.

Structure

1. General overview and motivation

2. Process of developing a recovery plan

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5. Strategic analysis

6. Communication and disclosure plan

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5 Communication NBB_2016_37 of 3 August 2016 on Recovery plans - Specific guidelines for Belgian Central Securities Depositories (CSD) and institutions supporting them.

6 Recovery of Financial Market Infrastructures, Bank for International Settlements and International Organization of Securities Commissions (October 2014, revised in July 2017).

7 EBA/RTS/2014/11 of 18 July 2014 on the content of recovery plans under Article 5(10) of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms.

8 Guidelines EBA/GL/2014/06 of 18 July 2014 on the range of scenarios to be used in recovery plans.

9 Guidelines EBA/GL/2021/11 of 9 November 2021 on recovery plan indicators.

10 Recommendation EBA/REC/2017/02 of 1 November 2017 on the coverage of entities in a group recovery plan.

11 Technical advice EBA/Op/2015/05 of 6 March 2015 on the delegated acts on critical functions and core business lines.

Dear Madam
Dear Sir

1. General overview and motivation

1. Recovery planning is a management strategy aimed at preventing a credit institution or a banking group from failing when faced with severe stress[12]. This strategy must exclude from consideration any extraordinary form of government or central bank support. The objective of recovery planning is to aid credit institutions in preparing their responses to potential shocks, allowing them to act more rapidly and effectively. Recovery plans, as laid out in this communication, contain five modules:

   (a) *Summary of the recovery plan*: The summary of the recovery plan provides a quick overview of the key sections of the plan and outlines the institution's own assessment of its overall recovery capacity.

   (b) *Governance*: The first part of this module describes the development of the recovery plan. An important element is the extent of involvement of senior management. This first part is an essential component of the recovery plan, as it provides insight into how and by whom the recovery plan was developed. The second part describes how and when the plan can be activated.

   (c) *Strategic analysis*: The strategic analysis is divided into two parts. The first part aims at providing a complete picture of the institution's activities and of their systemic importance. In the second part, the institution is expected to describe the most effective options for addressing an extreme solvency and/or liquidity shock. These options should not only include actions to bolster capital or liquidity, but also more radical measures such as disposing of some activities or business lines, selling subsidiaries, or restructuring debt.

   (d) *Communication and disclosure plan:* The institution must devise a communication and disclosure plan outlining how it intends to communicate internally and externally.

   (e) *Preparatory measures*: This section describes the measures that the institution has taken or plans to take in order to facilitate the activation or execution of the recovery plan.

2. The effectiveness of any given measure described in a recovery plan will naturally depend on the scenario in which that measure is applied. We leave the choice of scenarios open to the institution; however, we expect it to consider several extreme but plausible scenarios, including at least one scenario which comprises both an idiosyncratic and a systemic component. The events specified in the scenario should pose a threat of failure of the institution or the parent entity of the group or one or more material legal entities within the group, unless recovery measures are successfully implemented in a timely manner.

3. The scenarios should adequately take into account all relevant risk exposures of the institution, considering, among other relevant factors, its business model, activities, structure, size or interconnectedness with other institutions or with the financial system in general and, in particular, any identified vulnerabilities or weaknesses of the institution. Each of the scenarios mentioned should be clearly described in the plan. The NBB may also request the addition of specific scenarios, in line with its assessment of the institution's weaknesses.

4. While the recovery plan is to be drafted exclusively by the institution, it does not represent a commitment by the institution or its management to take any particular action. Each crisis is unique and requires a response that is tailored to the circumstances. The objective of the recovery plan is to increase the number of available measures that can be taken in response to a severe shock, and to facilitate their swift implementation should they be judged necessary. Before specific measures are implemented, their effectiveness should be assessed in light of the particular shock.

[12] Except where an explicit distinction is made between a group recovery plan and the recovery plan of an institution in the group, all references in this document to (the recovery plan of) an institution should be interpreted as meaning (the recovery plan of) either a credit institution or a banking group.

5. The recovery plan is a strategic document with highly sensitive contents. Throughout the process, the recovery plan remains the institution's property and should only be transmitted to the NBB for assessment. The information contained in the plan is subject to confidentiality restrictions.

2. Process of developing a recovery plan

6. The drafting of a recovery plan is a flexible, iterative process, often requiring repeated interaction between the institution and the NBB. The objective of this communication is to facilitate the development of a plan that analyses in depth the feasibility and potential impact of each of the envisioned recovery options.

7. Sections 4 to 6 of this document include general templates for the drafting of the recovery plan. They cover the essential issues to be addressed in a recovery plan and provide a non-exhaustive guide to the minimum information to be provided. We expect institutions to build on these templates to develop their own unique recovery plan and to provide any additional information deemed useful.

8. During the process the NBB may make requests for clarification, formulate new questions and develop new templates, and specify additional requirements if deemed necessary. At the same time, we stand ready to answer any questions the institution might have or discuss any difficulties it may encounter in the drafting of its recovery plan.

9. Because the recovery plan is a strategic document, we expect active involvement of the senior decision-making bodies of the institution. In particular, while the recovery plan may be drafted by senior staff members, its final version should be presented to and formally approved by the management committee and the statutory governing body (for an NV/SA, the board of directors). The plan should be accompanied by a letter signed by the statutory governing body stating that the recovery plan is owned, understood, and fully supported by the statutory governing body.

10. The recovery plan is also a living document that should be reviewed and updated regularly. Pursuant to Article 111 of the Banking Law, the institution is required to update the recovery plan annually as well as following any significant change in the institution's legal or organisational structure, its activities or its financial position.

11. The institution is asked to designate a single point of contact for all communication with the NBB relating to recovery plans. This point of contact should be a senior staff member who, in addition to centralising the communication with the NBB, co-ordinates the development of the recovery plan and initiates updates of the plan on an ongoing basis.

3. Summary of the recovery plan

12. The first section of the recovery plan must provide a summary of the main parts of the plan as well as a general, readable overview of the main conclusions of the recovery plan, and should be easily accessible to an uninitiated reader. It should, in particular, include a review of the assessment of the overall recovery capacity of the entities covered by the plan, i.e. the extent to which the recovery options allow the entities concerned to recover in a range of severe macroeconomic and financial stress situations.

13. In addition to presenting the main conclusions of the recovery plan, the summary should also highlight the key assumptions used in estimating the impact of the scenario and the recovery options.

4. Governance

4.1 Development, approval and updates of the plan

14. In this section of the recovery plan, the institution is expected to provide an overview of the process of drafting the plan. In Table 1, the institution should provide information on the following aspects:

    (a) the process, so as to document that the development of the recovery plan is well integrated in the institution's risk management system and corporate governance. This should include a description of the measures and arrangements implemented within the group to ensure the coordination and consistency of recovery options at the level of the group and of the individual subsidiaries[13];

    (b) the approval of the plan, so as to document that the plan has been explained to, and approved by, the highest decision-making bodies of the institution; and

    (c) future updates of the plan, so as to show that the plan will remain accurate over time.

Table 1. – Development, approval and updates of the plan

Questions	***Answers***
Development of the plan	
Describe the process of developing the plan, including the key departments and people involved in the development of the plan, as well as their position.	
What existing processes and tools did you rely on to develop the recovery plan?	
What new processes and tools were created following the development of the recovery plan?	
Approval of the plan	
Describe the policies and procedures for verification and validation of the plan.	
Has the plan been presented to and approved by the institution's statutory governing body (for an NV/SA, the board of directors)?	
Was the internal audit, risk committee (if applicable) or external audit involved in the verification of the plan? If yes, please provide their opinion.	
Updates of the plan	
Describe the process of updating the recovery plan to respond to material changes affecting the institution or its environment. Please provide the name, position and contact details of the persons responsible for deciding on future updates to the plan.	

4.2 Activation of the plan

15. In this section of the recovery plan, the institution is expected to explain the process for activating the recovery plan. In Table 2, the institution should provide information on the activation of the plan, so as to demonstrate that the plan will be implemented at an early enough stage, when any problems are still manageable. The recovery plan should include a monitoring framework with indicators designed to detect stress at a sufficiently early stage. Institutions are expected to describe the early warning system that is part of the monitoring framework, and specify when the recovery plan escalation process should be activated to determine whether the triggering of recovery options is appropriate.

[13] For more information on group recovery plans, see Recommendation EBA/REC/2017/02 of 1 November 2017 on the coverage of entities in a group recovery plan.

16. Institutions may also have identified certain measures that could be implemented in an early stage of the stress situation but that would no longer be appropriate or feasible in a recovery phase and, therefore, cannot be included in the recovery plan as recovery options. Such “business options” could nevertheless be included in the monitoring framework, together with a description of when, prior to the triggering of the recovery plan, these options would be considered.

4.2.1 Framework of indicators and thresholds

17. The choice of indicators should be adapted to the institution’s business model and strategy, as well as to its risk profile. The indicators chosen should enable the institution to identify the key vulnerabilities most likely to impact its financial situation. The recovery plan indicators may be of a qualitative or quantitative nature, and should include forward-looking indicators.

18. The institution should describe the links and consistency between its recovery plan indicator framework, its general risk management framework, the existing liquidity or capital contingency plan indicators and the business continuity plan indicators. The recovery plan indicator framework should provide for regular monitoring and be integrated into the institution’s governance and within the escalation and decision-making procedures.

19. Institutions should include the 17 indicators below in their recovery plan, divided into six categories, unless they can demonstrate that these indicators are not relevant to their legal structure, risk profile, size and/or complexity. In such a case, the institution should replace these indicators where possible with another indicator from the same category which is more relevant for this institution (e.g. growth rate of impairments on financial assets). More information on each of these categories is provided under 4.2.1.1 through 4.2.1.6. Institutions may also include other indicators deemed more useful in the recovery plan. To that end, the Annex contains a non-exhaustive list of examples of additional recovery plan indicators. The number of indicators should be sufficient to alert the institution of deteriorating conditions in a variety of areas. At the same time, this number of indicators should be goal oriented and manageable by the institution.

Category 1: Capital indicators
a) Common Equity Tier 1 ratio
b) Total Capital ratio
c) Leverage ratio
d) MREL and TLAC (where relevant)
Category 2: Liquidity indicators
a) Liquidity Coverage Ratio (LCR)
b) Net Stable Funding Ratio (NSFR)
c) Available central-bank eligible unencumbered assets
d) Liquidity position: other liquidity metrics used for internal monitoring
Category 3: Profitability indicators
a) Return on Assets (RoA) or Return on Equity (RoE)
b) Significant operational losses
Category 4: Asset quality indicators
a) Growth rate of gross non-performing loans
b) Coverage ratio (Provisions / Total non-performing loans)

Category 5: Market-based indicators
a) Rating under negative review or rating downgrade
b) Credit default swap (CDS) spread
c) Stock price variation
Category 6: Macroeconomic indicators
a) GDP variations
b) CDS of sovereigns

20. When setting the quantitative recovery plan indicator thresholds, the institution should use progressive metrics ("traffic light approach") in order to inform its management committee that these indicator thresholds could potentially be reached. For each of the quantitative indicators that are included in the monitoring framework, institutions should specify at least two threshold values: (1) an early warning threshold, and (2) a "recovery plan threshold". Early warning threshold values should be calibrated in such a way as to signal emerging stress well before a recovery plan would be expected to be activated, in order to increase the chances of a successful implementation of the recovery options.

21. The institution should be able to provide the NBB with an explanation of how the calibrations of the recovery plan indicator thresholds have been determined. For these calibrations, the institution should consider the overall recovery capacity of the available options, the complexity of the options, and the time needed to implement them.

22. Institutions should integrate their asset encumbrance threshold values and the asset encumbrance monitoring framework in their general monitoring framework. More guidance on the asset encumbrance requirements can be found in the NBB Communication on asset encumbrance[14].

23. The appropriateness of the calibrations of the recovery plan indicator thresholds should be reviewed regularly, and these thresholds should be updated at least annually or more frequently when necessary due to a change in the financial or business situation of the institution.

24. The NBB, in its supervisory capacity, and the resolution authority may decide to implement temporary relief measures in the case of a systemic crisis with the aim of alleviating the regulatory burdens that could adversely impact the institutions' ability to continue supporting the real economy. Considering the temporary nature and the specific objective of such relief measures, their granting should not automatically result in the institutions recalibrating their recovery plan indicator thresholds.

4.2.1.1. Capital indicators

25. Capital indicators should enable institutions to identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern, including an increasing use of leverage.

26. When selecting capital indicators, institutions should consider ways to address the issues stemming from the fact that the capacity of such indicators to allow for a timely reaction can be lower than for other types of indicators, and certain measures to restore an institution's capital position can be subject to longer execution periods or greater sensitivity to market and other conditions. In particular, these issues can be addressed by establishing forward-looking projections, which should consider material contractual maturities relating to capital instruments.

27. The capital indicators should also be integrated into the institution's Internal Capital Adequacy Assessment Process (ICAAP).

[14] Communication NBB 2016_34 of 18 July 2016 on recovery plans – obligations with regard to asset encumbrance (in French).

28. The thresholds for indicators based on regulatory capital requirements should be calibrated by the institution in such a way as to ensure a sufficient margin to avoid a breach of its capital requirements (including minimum own funds requirements as specified in Article 92 of Regulation (EU) No 575/2013 and specific additional own funds requirements applied pursuant to Article 149 of the Banking Law).

29. In line with the objective of the recovery process and considering the flexibility given to the institution to act independently in the event of an indicator threshold breach, thresholds for regulatory capital indicators should be set at a level higher than those allowing the NBB's intervention.

30. Generally, the thresholds for regulatory capital indicators should be calibrated above the combined capital buffer requirement[15]. Where an institution calibrates its capital indicators within the buffers, it should clearly demonstrate in its recovery plan that its recovery options can be implemented in a situation where the buffers have been totally or partially used.

31. The thresholds for indicators related to the requirements set out in Articles 45c and 45d of Directive 2014/59/EU (minimum requirement for own funds and eligible liabilities – MREL) and Article 92a or 92b of Regulation (EU) No 575/2013 (TLAC), expressed as percentages of the total risk exposure amount (TREA) and total exposure measure (TEM), should be aligned with the calibration of the thresholds of the regulatory capital indicators. Furthermore, they should be set at a level higher than those allowing the resolution authority's intervention in accordance with Article 16a of Directive 2014/59/EU [as amended by Directive (EU) 2019/879] and Article 128 of Directive 2013/36/EU [as amended by Directive (EU) 2019/878].

32. These thresholds should generally be calibrated by the institution above the combined buffer requirement when considered in addition to (i) the TLAC minimum requirement and (ii) the final MREL or the binding intermediate target levels of MREL (if different) expressed as percentages of TREA. The institution should also take into account any additional elements considered relevant when determining those requirements, including a subordination requirement, as applicable. If an institution should decide to calibrate indicators related to MREL and TLAC within the buffers, it should clearly demonstrate in its recovery plan that its recovery options can be implemented in a situation where the buffers have been totally or partially used.

33. The indicator thresholds should be calibrated taking into account the maturity profile of eligible liabilities and the institution's ability to roll them over. For groups with an MPE (Multiple Points of Entry) resolution strategy, where the prudential and resolution scopes might differ, the institution should calibrate the consolidated level MREL/TLAC indicators for each of the resolution entities/groups.

34. The threshold calibration for MREL should be agreed by the NBB, in its supervisory capacity, in consultation with the resolution authority when making their assessment of the recovery plan.

4.2.1.2. Liquidity indicators

35. Liquidity indicators should inform an institution of a potential or actual deterioration of its capacity to meet its current and foreseen liquidity and funding needs.

36. The institution's liquidity indicators should refer to both its short-term and long-term liquidity and funding needs, and capture the institution's dependence on wholesale markets and retail deposits, distinguishing among key currencies where relevant.

37. The liquidity indicators should be integrated into the strategies, policies, processes and systems developed by each institution pursuant to Article 94 of the Banking Law, and into its existing risk management framework.

38. The liquidity indicators should also cover other potential liquidity and funding needs, such as intra-group funding exposures and exposures stemming from off-balance structures.

[15] Defined in article 96 of the Banking Law: the capital conservation buffer extended by, if applicable, the institution-specific countercyclical capital buffer, the capital buffer for systemically important institutions and the capital buffer for systemic or macroprudential risks.

39. The thresholds should be calibrated on the basis of the institution's risk profile and should take into account how quickly the liquidity situation may change, given the institution's individual circumstances. The thresholds should be calibrated taking into account the time needed to activate the recovery measures as well as the recovery capacity resulting from those measures.

40. The thresholds for liquidity indicators should be calibrated at adequate levels by the institution, allowing the institution to be informed of potential and/or actual risks of non-compliance with the minimum requirements (including specific additional liquidity requirements imposed pursuant to Article 151 of the Banking Law, if applicable).

41. The thresholds for indicators based on regulatory liquidity requirements (Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)) should therefore be calibrated above the minimum requirements of 100%.

42. To calibrate the thresholds of the liquidity position, the institution should consider liquidity metrics used for internal monitoring, reflecting its own assumptions on the liquidity that could realistically be derived from sources not taken into account in the regulatory requirements. For this, the institution could consider the amounts of the counterbalancing capacity (CBC), other liquidity sources (e.g. deposits with other credit institutions) and any other relevant adjustments. When establishing forward-looking indicators, the institution should assess which maturity to consider, according to the institution's risk profile, and then take into account the estimated inflows and outflows.

4.2.1.3. Profitability indicators

43. Profitability indicators should capture any income-related aspects of the institution that could lead to a rapid deterioration in its financial position through lowered retained earnings (or losses) impacting on its own funds.

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

4.2.1.4. Asset quality indicators

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

46. The asset quality indicators may include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.

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

4.2.1.5. Market-based indicators

48. Market-based indicators aim to capture market participants' expectations regarding a rapidly deteriorating financial situation of the institution that could potentially lead to disruptions in access to funding and capital markets. In accordance with this objective, the framework of qualitative and quantitative indicators should refer to the following types of indicators:

    (a) equity-based indicators which capture variations in the share price of listed companies, or ratios that measure the relationship between the book and market value of equity;

    (b) debt-based indicators, capturing expectations of providers of wholesale funding such as credit default swaps or debt spreads;

    (c) portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each institution (e.g. real estate);

(d) (long-term and/or short-term) rating downgrades, as they reflect rating agencies' expectations that can lead to rapid changes in market participants' expectations regarding the institution's financial position.

4.2.1.6. Macroeconomic indicators

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

50. The macroeconomic indicators should be based on metrics that influence the performance of the institution in specific geographical areas or business sectors that are relevant to the institution.

51. The macroeconomic indicators should be classified into the following typologies:

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

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

4.2.2 Monitoring of indicators

52. Recovery plan indicators should be defined in such a way that they can be easily monitored. It should clearly be established at what points the recovery plan escalation process must be triggered and the institution has to decide whether or not to activate a recovery option. Institutions should have appropriate arrangements for the regular monitoring of the indicators. They should be able to provide the Bank with an explanation of how the calibrations of the recovery plan indicators have been determined, and to demonstrate that any breach of the thresholds would occur early enough to be effective. In this context, the magnitude and speed of the breach of the threshold should be taken into account.

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

54. The institution's management information systems should ensure easy and frequent monitoring of the indicators by the institution and allow for the timely submission of the indicators to the NBB upon request.

55. When requested by the NBB, the institution should be able to provide it with values for its full set of recovery plan indicators (breached or not) at least on a monthly basis. In certain situations, the NBB could also request such information with an increased frequency, particularly in crisis situations or where one or more recovery plan indicators have been breached, having regard to the nature and speed of the crisis (fast or slow moving) and the type of indicator (e.g. liquidity indicators).

4.2.3 Actions and notifications upon breaching an indicator

56. Indicator breaches do not automatically trigger the activation of a specific recovery option, but indicate that an escalation process should be started to decide whether to take action or not. In the context of that escalation process, the institution should:

    (a) alert the institution's management committee within one business day of observing the breach; and

    (b) notify the breach to the relevant competent authority within one additional business day.

57. Where a recovery plan indicator threshold has been breached, the institution's management committee should assess the situation, decide whether recovery actions should be taken and notify its decision promptly to the competent authority.

58. The decision referred to in the previous paragraph should be based on a reasoned analysis of the circumstances surrounding the breach. Where it is decided that the institution will take action in accordance with the recovery plan, the NBB should be provided with an action plan with a list of potential credible and feasible recovery options for use in this stress situation, as well as a timeline for the remediation of the breach. If no action has been decided, the NBB should be provided with an explanation which clearly articulates the reasons why and, where appropriate, demonstrates how the remediation of specific types of indicators and their breaches is possible without the use of recovery measures.

59. Any action or option taken or considered by the institution following an indicator breach, even if previously not included in the recovery plan, should be deemed relevant for the communication with the NBB. In this respect, recovery options should include measures which are extraordinary in nature as well as measures that could also be taken in the course of normal business as referred to in Article 8 of Commission Delegated Regulation (EU) 2016/1075 (ranging from contingency measures to more extreme and radical recovery options).

Table 2. – Activation of the plan

Questions	***Answers***
Activation of the plan	
Describe your monitoring framework for potential trigger events and your escalation decision-making processes used to assess and determine which recovery option may need to be applied (including a description of the procedure for informing the NBB of a breach of indicator threshold values). The description of the monitoring framework should include a description of the indicators used, specifying their threshold values. These indicators should include the minimum list of recovery plan indicators specified above. Additional indicators should reflect additional possible vulnerabilities, weaknesses or threats to the institution's capital position, liquidity situation, profitability or asset quality.	
Describe the consistency of the monitoring framework with the risk management framework, including a description of the early warning signals that are part of the institution's regular internal risk management process, where these benchmarks are useful to inform the management that the indicator thresholds could potentially be reached.	
Please provide the name, position and contact details of the persons responsible for the monitoring of potential trigger events and the activation of the plan, as well as the role, responsibilities and positions of the members of the committees involved.	
Describe how the institution will ensure that the information necessary for the possible implementation of recovery options can be made available in a reliable and timely manner for the purposes of decision-making under stressed conditions.	

5. Strategic analysis

60. The strategic analysis consists of three parts. The first aims at providing an analysis of the group structure, where relevant, and of the main activities performed within the institution. These activities include both the institution's core business activities and any critical functions performed by it. In the second part, the institution is expected to list its exposures to its main counterparties. The third part, which is central to the recovery plan, requires institutions to identify scenarios so severe as to pose a threat of failure of the institution if no recovery measures are taken. Institutions must also identify the available recovery options and then assess the recovery options in the context of each scenario.

61. Where relevant information has already been submitted to the resolution authority with a view to the drafting of the resolution plan, the NBB will accept cross references to the relevant sections of the resolution plan as sufficient for the purposes of this section, insofar as these cross references do not compromise the completeness and the quality of the recovery plan.

5.1 Material entities of the institution and critical functions

62. The objective of this section of the recovery plan is to provide some background information on the institution and, where relevant, on the organisational structure of the banking group. For groups, this includes a general overview of the legal structure, activities, and interdependencies between the different entities within the group. (The EBA Recommendation on coverage of entities in a group recovery plan provides detailed guidance on identifying the material entities of the group.)

63. The description of the institution should include a description of its overall business and risk strategy and of its business model and business plan. For groups, the business models and plans of all material entities of the group should be included. The description of the institution should also include a list of all core business lines and critical functions. Core business lines are defined as business lines and associated services which represent material sources of revenue, profit or franchise value for the institution. Critical functions are defined as activities, services and operations of which the discontinuation would be likely to lead to the disruption of services that are essential to the real economy or to disruptions of financial stability due to the institution's size, market share, external and internal interconnectedness, complexity or cross-border activities, including by undermining public confidence in financial stability in one or more countries[16]. The description of core business lines and critical functions should include information on the process and criteria used for identifying them.

64. When the recovery plan concerns a group, the description of the group should include a diagram of the material branches or legal entities within the group, and their organisation. A material branch or legal entity is defined as any entity:

    (a) that substantially contributes to the profit or funding of the group, or that holds an important share of its assets, liabilities or capital; or

    (b) that performs key commercial activities; or

    (c) that centrally performs key operational, risk or administrative functions; or

    (d) that bears substantial risks that could, in a worst-case scenario, jeopardise the viability of the group; or

    (e) that cannot be disposed of or liquidated without being likely to trigger a major risk for the group as a whole; or

    (f) that is important for the financial stability of at least one country in which it operates.

65. There is no need to provide detailed information regarding branches or legal entities that are not material.

66. Table 3 provides a list of questions that should be answered for the institution or for each material branch or legal entity of a group. For groups, the table can be used inter alia to map core business lines and critical functions to material legal entities and branches, and to provide a detailed description of the group's financial structure.

[16] See also the EBA Technical Advice EBA/Op/2015/05 of 6 March 2015 on the delegated acts on critical functions and core business lines.

Table 3. – Presentation of material entities of the institution or group

Questions	***Answers***
In what country is the entity established?	
In what country does the entity mainly operate?	
For groups: For what reasons is this entity considered to be material?	
For groups: Is the entity a branch or a subsidiary?	
For groups: Is the entity locally subject to direct prudential supervision, and if so, what is the competent authority?	
For groups: List the main activities performed by the entity and specify their quantitative importance (e.g. retail and wholesale deposit taking, retail and corporate lending, insurance, wholesale payments, merchant services, debt and equity capital markets, proprietary trading, asset management, brokerage, cash services, payment services, third party services, corporate advisory services, research, etc.).	
For groups: Does the entity provide critical functions or is it part of a core business line?	
For groups: List the key operational, risk or administrative functions, if any, for which the entity depends on services provided either centrally or by another entity within the group (e.g. corporate treasury, back office, group's internal audit, risk management, human resources management, finance, IT, legal, etc.). Does the entity provide any key operational, risk or administrative services to other entities within the group? How important is the contribution of the entity to the profit of the group?	
For groups: What percentage of the group's assets is booked in this entity?	
For groups: To what share of the group's funding does the entity contribute?	
For groups: What share of the group's (regulatory and accounting) capital is held by the entity? Figures should be indicated for CET1, T1 and T2.	
For groups: Describe the intra-group support from which the entity benefits as well as the support it provides to other entities within the group. When answering this question, please consider intra-group exposures arising from intra-group committed facilities, intra-group senior and subordinated loans, intra-group bond lending / repo agreements and intra-group guarantees. Please make a distinction between support intended for business as usual and support intended for crisis periods.	
For groups: Describe any other major financial or non-financial linkages between the entity and other legal entities within the group, including material legally binding agreements between entities of the group, for example the existence of domination agreements and profit and loss transfer agreements.	
For groups: Describe how the risk management and control functions of the entity fit in the broader risk management framework of the group (management reporting, internal audit, compliance, etc.).	

67. For groups, the plan should also contain information regarding the overall organisation of financial relationships between the different legal entities of the group. This should include:

    (a) a description of how the treasury function is organised; and

    (b) an overview of the funding relationships within the group.

5.2 Exposures to main counterparties

68. If not already included elsewhere, the institution is expected to provide in this section information on main external interconnectedness, including:

    (a) a description of significant financial products and services provided by the institution to other financial market participants;

    (b) a description of significant services provided to the institution by third parties;

    (c) a description of significant exposures and liabilities to main counterparties (including interbank exposures).

69. For the description of significant interbank exposures, the institution is expected to report, in particular, its exposure to Dexia, KBC, BNP Paribas (including a special breakdown for BNP Paribas Fortis), Belfius and ING (including a special breakdown for ING Belgium). The institution should then list its ten largest exposures to financial institutions. All data can be reported in Table 4. For each exposure, the institution is expected to specify the internal limit on the amount of the total exposure, the largest actual exposure during the past year, and a breakdown of that exposure into the following categories (where relevant):

    (a) overnight deposits;

    (b) unsecured deposits:

        i. from next day to three months;

        ii. from three months to one year;

        iii. over one year;

    (c) unsecured unguaranteed marketable securities:

        i. under three months;

        ii. from three months to one year;

        iii. from one year to three years;

        iv. over three years;

    (d) covered bonds;

    (e) ABS;

    (f) guaranteed bonds;

    (g) repo exposures (and any information available on collateral);

    (h) marked to market value of OTC derivatives exposures;

    (i) credit and liquidity lines;

    (j) other.

Table 4. - Exposures to financial institutions

Name of the counterparty	*Internal limit on the size of exposure*	*Largest actual exposure over the past year*	*Breakdown of the exposure*
Dexia SA			
Belfius			
KBC			
BNP Paribas			
of which BNP Paribas Fortis			
ING			
of which ING Belgium			

5.3 Strategic analysis: scenarios and recovery options

70. The presentation of scenarios and recovery options is built up in three tables. Table 5 is intended to provide a description of the different scenarios developed in the recovery plan and their estimated impact. Table 6 is expected to provide a description and an assessment of the feasibility of different recovery options. Finally, Table 7 is intended to provide an assessment of the impact of each recovery option on the institution's financial situation, particularly on its solvency, liquidity, and profitability.

5.3.1 Description of scenarios

71. In this section of the recovery plan, the institution is expected to describe the scenarios which it believes would cause it to face a severe shock. We leave the choice of relevant scenarios open to the institutions. This is to allow each institution to base its scenarios on events that are most relevant to it, taking into account appropriate factors such as the business and funding model, the activities and structure, the size or the interconnectedness with other institutions or with the financial system in general, and, in particular, any identified vulnerabilities or weaknesses of the institution.

72. The institution should first identify the maximum capital and liquidity shocks that the institution believes it could withstand without having to enter into resolution. A shock that goes beyond these thresholds would imply that the institution has reached the point of resolution, i.e. a situation in which the institution believes it would no longer be viable.

73. The institution should then describe at least three extreme but plausible scenarios which would require the triggering of recovery options. We require that among these scenarios, the institution include a mix of levels of severity. While each scenario should pose a threat of failure of the institution or group, unless recovery measures are implemented in a timely manner, one scenario in particular should incorporate shocks that are so severe that they would certainly bring the institution or the parent entity of the group or one or more material legal entities within the group close to the point it considers to be its resolution point. Reverse stress testing should be considered as a starting point for developing the very severe scenarios.

74. While the choice of scenarios is open to the institution, we ask to consider at least one scenario based on idiosyncratic events, one scenario based on system-wide events and one scenario in which both an idiosyncratic shock and a systemic shock occur simultaneously. Scenarios should integrate both slow-moving and fast-moving elements. Finally, at least one scenario should have an impact on both solvency and liquidity.

75. In designing scenarios based on system-wide events, the institution should assess the relevance of the following events:

    (a) the failure of significant counterparties which affects financial stability;

    (b) a decrease in liquidity available in the interbank lending market;

    (c) increased country risk and generalised capital outflow from a significant country of operation of the institution;

    (d) adverse movements in the prices of assets in one or several markets;

    (e) a macroeconomic downturn.

76. In designing scenarios based on idiosyncratic events, the institution should assess the relevance of the following events:

    (a) the failure of significant counterparties;

    (b) damage to the institution's reputation;

    (c) a severe outflow of liquidity;

    (d) severe credit losses;

    (e) a severe operational risk loss.

77. The events included in the idiosyncratic scenarios should be the most relevant events for the institution.

78. In Table 5, in addition to describing the scenarios, the institution should also assess the initial impact of the shock on its solvency, liquidity and profitability. Any other material impact should be described as well, including the impact on the institution's business model, its payment and settlement operations and its reputation.

79. Finally, for each of the scenarios, the institution is required to identify critical assumptions in assessing the impact of the scenarios and to indicate how the scenario would differ if the assumptions were changed.

Table 5. – Scenario descriptions and initial impact

	Description	*Impact on capital*	*Impact on funding*	*Impact on liquidity*	*Impact on profitability*	*Impact on risk profile*	*Impact on operations*	*Any other material impact*
Scenario 1								
Critical assumptions								
Scenario 2								
Critical assumptions								
Scenario 3								
Critical assumptions								
Scenario 4								
Critical assumptions								
Scenario 5								
Critical assumptions								
Scenario 6								
Critical assumptions								

5.3.2 Recovery options

80. In Table 6, the institution should describe the measures that could be implemented if any of the scenarios described in Table 5 were to materialise. These measures constitute the management's strategy for preventing a failure in circumstances where the institution's solvency or liquidity is at risk.

81. Table 6 should include a sufficient number of potential measures. As mentioned above, the list should include not only actions to strengthen capital, but also more radical measures such as disposing of certain activities or business lines, selling subsidiaries, or restructuring debt. These options should not involve any assumption of extraordinary forms of government or central bank support. They should also be implementable at very short notice and should have a tangible impact in the short run. Recovery options should include measures which are extraordinary in nature and which are not measures taken in the course of the institution's normal business. The following types of measures should be included where appropriate:

    (a) a range of capital and liquidity actions which are necessary to maintain operations of and funding for the institution's critical functions and core business lines, and which have as their primary aim to ensure the viability of these critical functions and core business lines;

    (b) arrangements and measures the primary aim of which is to conserve or restore the institution's consolidated own funds through external recapitalisations and internal measures to improve the capital position of the institution;

    (c) arrangements and measures to ensure that the institution has adequate access to contingency funding sources, including potential liquidity sources, as well as an assessment of available collateral and an assessment of the possibility to transfer liquidity across group entities and business lines, to ensure that the institution can carry on its operations and meet its obligations as they fall due. For groups, these measures should include external measures and, where appropriate, measures aimed at reorganising the available liquidity within the institution;

    (d) arrangements and measures to reduce risk and leverage or to restructure business lines including, where appropriate, an analysis of possible material divestments of assets, legal entities, or business lines;

(e) arrangements and measures the primary aim of which is to achieve a voluntary restructuring of liabilities, without triggering an event of default or termination or a similar event;

(f) where the institution considers it necessary, any other management actions or strategies the primary aim of which is to restore the financial soundness of the institution.

82. The table is divided into four parts:

(a) *Description*: Each option should be briefly described, and the legal entities involved in the option should be listed. For groups, the involvement of a legal entity may result from the shareholding structure, an operational link, financial interdependence, or any other substantive relationship.

(b) *Process*: In the second part of the table, information should be provided about the internal decision-making process, including the steps to be followed, the timing, and the parties involved, up to the point of implementing the option. If the timing is uncertain, estimated ranges (best case, base line and worst case) may be provided, together with reference to factors that would affect these ranges. Finally, the information needs and potential barriers (including operational barriers) to the provision of information should be indicated.

(c) *Risk assessment*: The objective of this part of the table is to assess the feasibility of the option and to identify potential pitfalls in implementing it. The main assumptions relating to the option and its feasibility should be outlined, in particular the conditions to be met in order for the option to be feasible. For example, it may be necessary that specific markets are operating normally or that certain legal or operational requirements are fulfilled. The main risks associated with the option, including financial, operational, and reputation risks, should be reported, as well as any other significant risk not falling within these three categories. The assessment of the risk associated with the recovery option should draw on any prior experience relating to the implementation of the recovery option or of a similar measure. Information on potential rating downgrades and on the profiles of possible buyers for disposals of any activities or entities should also be provided. Finally, any potential legal or regulatory obstacles should be mentioned, covering at a minimum issues relating to shareholder rights, competition law, tax issues, and social law.

(d) *Identification of potential consequences for the financial system*: In this part of the table, any system-wide implications associated with the implementation of the option should be identified.

Table 6. – <u>Description of recovery options (to be filled in separately for each option)</u>

	Questions	***Answers***
Description	Describe the option.	
	For groups: Which legal entities within the group would be involved in implementing the option?	
	What is the likely impact of the option on shareholders, customers, counterparties or, for groups, the rest of the group?	
Process	Describe the internal decision-making process, including the timing and the different steps involved in the decision to implement the option.	
	What information would be necessary in order to implement the option? Is this information readily available? Are there any legal or operational barriers to the provision of this information?	
Risk assessment	Describe your main assumptions relating to the feasibility of the option and to its impact.	
	Identify the main risks associated with the option, making a distinction between financial, operational and reputation risks.	
	Is the implementation of the option expected to result in a rating downgrade?	
	If the option is a disposal, indicate the potential types of buyers.	
	Would the implementation of the option be affected by any legal constraints? What are the key regulatory and legal issues (shareholder / third-party approval, pre-emption rights, breach of contractual covenant, stopping a service line, obstacles relating to competition law, tax issues, pensions or HR issues ...)?	
Operational contingency plan	Can the continuity of operations be maintained if the recovery option is implemented? Please describe any measures necessary to maintain continuous access to relevant financial market infrastructures, any arrangements and measures necessary to maintain the continuous functioning of the institution's operational processes, including infrastructure and IT services, and, where the option involves the separation of an entity from the group, an explanation of how the separated entity can continue to operate without any group support.	
Negative consequences	Describe the impact the implementation is expected to have on the institution's capacity to perform critical functions.	
	Are there any potential system-wide implications associated with the implementation of the option?	

5.3.3 Impact assessment

83. The objective of this section is to provide an impact assessment for each measure proposed above in each of the scenarios described in Table 5. Where relevant, the assessment should clearly identify the different entities of the institution which may be affected by the option or which are involved in its implementation. This assessment should be provided in Table 7, which should be filled in separately for each of the scenarios listed in Table 5. For each scenario, all of the measures that could potentially be used in that scenario should be included. Then, for each measure, an assessment should be made of its impact on the institution's capital position/solvency, funding/liquidity, and profitability. Any other material impact on the institution should also be mentioned. An estimate of the likelihood of success should be provided, as well as the factors that would facilitate or complicate the implementation of the measure in that scenario. This assessment should take explicit account of the time necessary to implement the option. Finally, a score reflecting the effectiveness/appropriateness of the measure in the specific scenario should be given, ranging from 0 (not appropriate / ineffective) to 5 (most appropriate / highly effective).

84. The description of the impact of the recovery options should specify the key valuation and other assumptions that have been made and the sensitivity of the impact estimates to these assumptions.

85. For every measure, a specific assessment should be provided for each of the different scenarios. If the impact of a given measure is invariant across scenarios, the same row may be copy-pasted in all of the tables. Naturally, certain measures will not be feasible for some scenarios. In this case, no impact assessment is required. However, we ask that the institution explains why the measure cannot be implemented in that scenario.

86. The bottom row of the table summarises the combined impact of a simultaneous implementation of all measures listed for a given scenario.

87. In addition to this table, we require the institution to identify and describe all critical assumptions that underlie the impact assessment for each of the recovery options. The institution should indicate how the impact of the scenario would differ if the critical assumptions were changed. The institution is also expected to provide a detailed description of the valuation assumptions and all other assumptions made concerning inter alia the marketability of the assets, or the behaviour of other institutions. The impact assessment should include, where relevant for the assessment of the option, a detailed description of the processes for determining the value and marketability of the core business lines, operations and assets of the institution.

88. In analysing the appropriateness of recovery options, institutions are advised to consider the impact of recovery options during both the crisis year and subsequent years.

Table 7. – <u>Impact assessment of the measures in the different scenarios (to be filled in separately for each scenario)</u>

Measure	*Potential impact on capital / solvency*	*Potential impact on funding/liquidity*	*Potential impact on profitability*	*Potential impact on operations*	*Any other material impact*	*Probability of success and factors influencing the probability of success*	*Appropriateness/effectiveness (0 = not appropriate / ineffective; 5 = most appropriate / highly effective)*
Option 1							
Option 2							
Option 3							
Option 4							
Option 5							
Option 6							
Option 7							
Option 8							
Option 9							
Option 10							
Option 11							
Option 12							
Total							

6. Communication and disclosure plan

89. In Table 8, the institution should present a detailed communication and disclosure plan which covers the following:

    (a) internal communication, in particular to staff, the works council or other staff representatives in local and foreign entities;

    (b) external communication, in particular to shareholders, resolution or supervisory authorities, counterparties, financial markets, financial market infrastructures, investors, depositors and the public in general, as appropriate. In particular, the plan should explain how any negative market reaction would be managed.

90. The recovery plan should include an analysis of how the communication and disclosure plan would be implemented for each recovery option, providing an assessment of the potential impact on the business and on the financial stability in general.

Table 8. – Communication plan

Questions	***Answers***
Please describe your internal communication plan. Specify each of the relevant parties that need to be informed, why they need to be informed, the stage at which they need to be informed and the channel through which they will be informed.	
Please describe your external communication plan. Specify each of the relevant parties that need to be informed, why they need to be informed, the stage at which they need to be informed and the channel through which they will be informed.	
Please specify how you intend to manage any potentially negative market reaction.	
Please specify at which stage you intend to inform supervisory authorities.	

7. Preparatory measures

91. In this section of its recovery plan, the institution is expected to present a detailed analysis of:

    (a) any preparatory measure taken to facilitate the sale of assets or business lines in a timeframe appropriate for the restoration of financial soundness;

    (b) any preparatory measure that the institution has taken or plans to take in order to facilitate the implementation of the recovery plan or improve its effectiveness, including measures necessary to enable the timely recapitalisation of the institution and to overcome obstacles to the effective implementation of recovery options.

A copy of this communication is also sent to the accredited statutory auditor(s) of your institution.

Yours faithfully,

Pierre Wunsch
Governor

Illustrative list of additional recovery plan indicators

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