boulevard de Berlaimont 14 – BE-1000 Brussels
phone +32 2 221 54 65
company number: 0203.201.340
RPM (Trade Register) Brussels
www.nbb.be

BanqueNationaleBank DE BELGIQUE VAN BELGIË
Eurosystem

Communication

Brussels, 26 March 2024

Reference: NBB_2024_06

contact person:
Annick Bruggeman
phone +32 2 221 51 47
annick.bruggeman@nbb.be

Guidelines on recovery plans

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] *and to Belgian stockbroking firms (hereinafter collectively referred to as "institutions"), with the exception of:*

- *institutions subject to simplified obligations.*[2] *These institutions should draft their recovery plans according to the NBB guidelines on simplified obligations for recovery plans*[3]*.*
- *institutions that are subsidiaries of a Belgian parent undertaking, 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.*
- *institutions that 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 institutions under NBB supervision, the NBB determines which of them are eligible for simplified obligations on the basis of the criterion laid down in article 113 §4 of the Banking Act 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), or on the basis of Article 116 §1 of the Act of 20 July 2022 on the legal status and supervision of stockbroking firms.

[3] Communication NBB_2024_07 of 26 March 2024 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.

Summary/Objective

This communication sets out the NBB's expectations with respect to recovery planning. It is meant as a user-friendly tool to guide institutions in drafting their 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[5], the EBA Guidelines on the range of scenarios to be used in recovery plans[6], the EBA Recommendation on the coverage of entities in a group recovery plan[7], the EBA Guidelines on recovery plan indicators[8] and the new EBA Guidelines on overall recovery capacity in recovery planning[9]. Reference is also made to the EBA Technical Advice on the delegated acts on critical functions and core business lines[10].

This communication replaces Communication NBB_2022_07, which was modified to incorporate the recently published EBA Guidelines on overall recovery capacity in recovery planning and to extend its scope to stockbroking firms.

The recovery plan and the associated tables must be submitted each year through OneGate by 15 December.

Structure

5 Final draft Regulatory Technical Standards 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.

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

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

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

9 Guidelines EBA/GL/2023/06 of 19 July 2023 on overall recovery capacity in recovery planning.

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

Dear Sir or Madam,

1. General overview and motivation

1. Recovery planning is a management strategy aimed at preventing an institution or group from failing when faced with severe stress.[11] This strategy must exclude from consideration any extraordinary form of government support. The objective of recovery planning is to aid the institution in preparing its response to potential shocks, allowing it 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 in each of the scenarios considered.

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

   (c) *Strategic analysis*: The strategic analysis is divided into three parts. The first part is intended to provide a complete picture of the institution’s activities and their systemic importance. The second part lists the institution’s exposures to its main counterparties. In the third 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 threaten the survival of the institution or the parent entity of the group, or of one or more material legal entities within the group, unless recovery measures are successfully and timely implemented.

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 drafting of the recovery plan is the sole responsibility of 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 any measures are implemented, their effectiveness should be assessed in light of the specific shock.

[11] 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) a credit institution, a stockbroking firm or a group.

5. The recovery plan is a strategic document with highly sensitive contents. Throughout the process, it 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 elements 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 required. We expect institutions to build on these elements 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 specify additional requirements it deems 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 Act and Article 114 of the Act of 20 July 2022 on the legal status and supervision of stockbroking firms (hereinafter "the Stockbroking Firms Act"), the recovery plan should be updated annually as well as following any significant change in the institution's legal or organisational structure, its activities or its financial position. Where circumstances require, the supervisor may also request that the recovery plan be updated more frequently.

11. The institution should 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 its main conclusions, and should be easily accessible to uninitiated readers. 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 each of the severe macroeconomic and financial stress situations considered.

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. 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. Where appropriate, 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;[12]

    (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.

15. In drafting this section, the following structure should be used as a guide:

    (a) Preparation of the plan

    i. Describe the process of preparing the plan and list the key departments and individuals involved in the preparation, as well as, for the latter, their positions.

    ii. What existing processes and tools did the institution rely on to prepare the recovery plan?

    iii. What new processes and tools were created following the preparation of the recovery plan?

    (b) Approval of the plan

    i. Describe the policies and procedures for verification and validation of the plan.

    ii. When was the plan submitted to and approved by the institution's statutory governing body (for an NV/SA, the board of directors)?

    iii. Were internal audit, the risk committee (where applicable) or external audit involved in the verification of the plan? If yes, include their opinion.

    (c) Future updates to the plan

    i. Describe the process of updating the recovery plan to respond to material changes affecting the institution or its environment.

    ii. List the names, positions and contact details of the persons responsible for deciding on further updates to the plan.

4.2 Activation of the recovery plan

16. In this section of the recovery plan, the institution is expected to explain the process for activating the plan. It 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.

17. 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

[12] 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.

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.

18. In drafting this section, the following structure should be used as a guide:

(a) Describe the monitoring framework for potential triggering events and the escalation processes the institution has in place internally 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).

(b) Describe the indicators used and specify their threshold values. These indicators should include the recovery plan indicators set out in the minimum list (paragraphs 21 to 24). Additional indicators should reflect any other possible vulnerabilities, weaknesses or threats to the institution's capital position, liquidity situation, profitability or asset quality.

(c) 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, if these benchmarks are useful to inform management that the indicator thresholds may have been reached.

(d) List the names, positions and contact details of the persons responsible for monitoring potential triggering events and for activating the plan, as well as the roles, responsibilities and positions of the members of the committees involved.

(e) Describe how the institution will ensure that the information required for the potential implementation of the recovery options can be made available in a reliable and timely manner for decision-making under stress conditions.

4.2.1 Framework of indicators and thresholds

19. 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.

20. 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.

21. Credit institutions should include at least the following 19 indicators, divided into six categories, in their recovery plan:

(a) Capital indicators

i. Common Equity Tier 1 ratio

ii. Total capital ratio

iii. Leverage ratio

iv. MREL, if applicable

(b) Liquidity indicators

v. Liquidity coverage ratio (LCR)

vi. Net stable funding ratio (NSFR)

vii. Available central-bank eligible unencumbered assets

viii. Proportion of available assets in the strict sense as described in Communication NBB_2016_34 of 18 July 2016 on recovery plans and obligations with regard to asset encumbrance (French version)

ix. Proportion of available assets in the broad sense as described in the aforementioned Communication NBB_2016_34 (French version)

(c) Profitability indicators

x. Return on assets (RoA) or return on equity (RoE)

xi. Significant operational losses

(d) Asset quality indicators

xii. Growth rate of gross non-performing loans

xiii. Coverage ratio (provisions / total non-performing loans)

xiv. Impairments on financial assets (in % of the outstanding amount)

(e) Market-based indicators

xv. Rating under negative review or rating downgrade, if applicable

xvi. Credit default swap (CDS) spread, if applicable

xvii. Stock price variation, if applicable

(f) Macroeconomic indicators

xviii. GDP variations

xix. CDS of sovereigns

22. If a credit institution can demonstrate that any of these indicators are not relevant to its legal structure, risk profile, size and/or complexity, it should replace this indicator where possible with another, more relevant indicator of the same category.

23. Stockbroking firms should include at least the following 14 indicators, divided into six categories, in their recovery plan:

(a) Capital indicators

i. Common Equity Tier 1 ratio as defined in Articles 9(1)(a) and 11(1) of the Investment Firms Regulation (IFR)[13]

ii. Total capital ratio as defined in Articles 9(1)(c) and 11(1) of the IFR

iii. Total assets excluding cash belonging to clients / total equity

iv. MREL, if applicable

(b) Liquidity indicators

v. Liquidity ratio (liquid assets / liquidity requirements) as defined in Article 43 of the IFR

(c) Profitability indicators

vi. Return on assets (RoA) or return on equity (RoE)

vii. Cost-income ratio (operating costs / operating income)

viii. Significant operational losses

(d) Asset quality indicators

ix. Realised and unrealised losses on the investment and trading portfolio (in % of the outstanding amount)

(e) Market-based indicators

x. Rating under negative review or rating downgrade, if applicable

xi. Credit default swap (CDS) spread, if applicable

xii. Stock price variation, if applicable

[13] Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014.

(f) Macroeconomic indicators

    xiii. GDP variations

    xiv. CDS of sovereigns

24. If a stockbroking firm can demonstrate that any of these indicators are not relevant to its legal structure, risk profile, size and/or complexity, it should replace this indicator where possible with another, more relevant indicator of the same category.

25. More information on each of these categories is provided in sections 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.

26. 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. A breach of recovery plan thresholds should trigger the escalation process for decision-making regarding a recovery plan, to decide whether recovery options should be activated, and if so, which ones.

27. 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. For example, institutions with limited recovery capacity in terms of their capital position should apply higher thresholds for the capital indicators.

28. 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.

29. 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 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

30. 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.

31. 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. Among other things, these issues can be addressed by establishing forward-looking projections, which should consider material contractual maturities relating to capital instruments.

32. 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 (both the minimum own funds requirements specified in Article 92 of Regulation (EU) No 575/2013 and the specific additional own funds requirements applied pursuant to Article 149 of the Banking Act or Article 138 of the Stockbroking Firms Act).

33. 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.

34. Credit institutions should generally calibrate the thresholds for their regulatory capital indicators above the combined capital buffer requirement.[14] Where a credit 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.

35. The thresholds for indicators related to the requirements set out in Articles 267/5/1 and 267/5/2 of the Banking Act (minimum requirement for own funds and eligible liabilities – MREL), expressed as percentage of the total risk exposure amount (TREA), 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 Articles 230/1 through 230/4 of the Banking Act, read in combination with Article 95 of the same Act.

36. These thresholds should generally be calibrated by the institution above the combined buffer requirement when considered in addition to 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 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.

37. 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 indicators for each of the resolution entities/groups.

38. 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

39. 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.

40. 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.

41. The liquidity indicators should be integrated into the strategies, policies, processes and systems developed by each institution pursuant to Article 94 of the Banking Act or Article 106 of the Stockbroking Firms Act, and into its existing risk management framework.

42. 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.

43. 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 overall recovery capacity resulting from those measures.

44. 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 Act or Article 144 of the Stockbroking Firms Act, if applicable).

[14] 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.

45. The thresholds for indicators based on regulatory liquidity requirements should therefore be calibrated above the minimum requirements of 100%.

46. 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 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

47. 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.

48. 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

49. 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.

50. 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. The movement in impairments or losses on the investment and trading portfolio should also be monitored.

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

4.2.1.5. Market-based indicators

52. 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

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

54. 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.

55. 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).

4.2.1.7. Summary table

56. A summary of all indicators and their thresholds should be included in the "Indicators" table in the attached Excel file. It should be specified for each indicator to which category it belongs, in which unit it is expressed, with which frequency it is monitored and which thresholds were chosen. The value of the indicator for the four most recent quarters should also be reported.

4.2.2 Monitoring of indicators

57. 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 NBB 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.

58. Recovery plan indicators should be monitored 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.

59. 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.

60. 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 threshold value

61. 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 by the following business day at the latest.

62. 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.

63. 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 that includes 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.

64. Any recovery action taken or considered by the institution following an indicator breach, even if previously not included in the recovery plan, should be deemed relevant for 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).

5. Strategic analysis

65. 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 assess their impact in the context of each scenario.

66. 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

67. 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 group. For groups, this includes a general overview of the legal structure, activities, and interdependencies between the different entities within the group.

68. 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.[15] The institution should indicate in which country the entity is established and in which country(ies) it mainly operates. 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.

[15] Recommendation EBA/REC/2017/02 of 1 November 2017 on the coverage of entities in a group recovery plan provides detailed guidance on identifying the material entities of the group.

[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.

69. If the recovery plan pertains to a group, it should also contain information on the overall organisation of the financial relationships between the different legal entities of the group, including a description of how the treasury function is organised and an overview of the intra-group funding relationships. In addition, 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.

70. For each material branch or legal entity within the group, the following questions should be answered:

(a) For what reasons is the entity considered material?

(b) Is the entity a branch or a subsidiary?

(c) Is the entity subject to direct prudential supervision locally, and if so, which is the competent authority?

(d) What percentage of the group's assets does the entity represent?

(e) What proportion of the group's (regulatory and accounting) capital is held by the entity? Figures should be provided for CET1, T1 and T2 capital.

(f) To what extent does the entity contribute to the funding of the group?

(g) What are the entity's main activities and what is their quantitative importance (e.g. retail and wholesale deposit taking, retail and corporate lending, insurance, wholesale payments, corporate financial services, debt and equity capital markets, proprietary trading, asset management, brokerage, cash services, payment services, third-party services, corporate advisory services, research, etc.)?

(h) Does the entity perform critical functions or is it part of a core business line?

(i) What are the key operational, risk or administrative functions for which the entity depends on services provided either centrally or by another entity within the group (e.g. corporate treasury, back office, group internal audit, risk management, human resources management, finance, IT, legal services, etc.)?

(j) Does the entity provide key operational, risk or administrative services to other entities within the group? How significant is the entity's contribution to group profits?

(k) What intra-group support does the entity enjoy and what support does it provide to other group entities? When answering this question, take into account intra-group exposures arising from intra-group committed facilities, intra-group senior and subordinated loans, intra-group bond lending and repo agreements and intra-group guarantees. Distinguish between support intended for normal operations (business as usual) and support intended for crisis periods.

(l) What other major financial or non-financial links, if any, exist between the entity and other legal entities within the group, including material legally binding agreements between group entities, for example the existence of domination agreements and profit and loss transfer agreements ?

(m) How do the entity's risk management and control functions fit into the group's broader risk management framework (management reporting, internal audit, compliance, etc.)?

71. It is not necessary to provide detailed information regarding branches or legal entities that are not material.

5.2 Exposures to main counterparties

72. If not already included elsewhere, the institution is expected to provide in this section information on its 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).

73. For the description of significant interbank exposures, the institution is expected to report, in particular, its exposure to Belfius, BNP Paribas (including a special breakdown for BNP Paribas Fortis), ING (including a special breakdown for ING Belgium) and KBC. The institution should then list its ten largest exposures to financial institutions. 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.

5.3 Strategic analysis: scenarios and recovery options

74. The scenarios and recovery options are set out in two tables. The "Scenarios" table in the attached Excel file should be used to provide a description of the different scenarios developed in the recovery plan and their estimated impact on the institution's capital and liquidity position. The "Recovery Capacity" table in the attached Excel file should include, for each scenario, a description and an assessment of the feasibility of the different recovery options, as well as a calculation of the impact of the relevant recovery options on the institution's financial situation, particularly its solvency, liquidity, and profitability.

5.3.1 Description of scenarios

75. 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 of severe macroeconomic and financial stress 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 its business and funding model, its activities and structure, its size or interconnectedness with other institutions or with the financial system in general, and, in particular, any identified vulnerabilities or weaknesses of the institution.

76. Each institution should describe at least three extreme but plausible scenarios that would threaten its viability if it did not take recovery measures. Each scenario should lead to a situation where the institution no longer meets its total SREP capital requirement or total SREP leverage ratio requirement, or its minimum regulatory liquidity requirements as set out in the most recent SREP assessment, unless timely recovery measures are implemented. If an institution considers that it is unable to develop a plausibly severe scenario in which it can no longer meet capital or leverage requirements, it should explain to the NBB in detail why that particular scenario should nevertheless be considered severe enough to pose a risk of failure if recovery measures are not implemented in a timely manner. The scenarios should be more severe than those assumed in any other regulatory exercises, e.g. stress tests or ICAAP (Internal Capital Adequacy Assessment Process).

77. 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.

78. 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.

79. 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) adverse movements in the prices of assets in which the institution has significant positions;

    (e) severe credit losses;

    (f) a severe operational risk loss.

80. The events included in the idiosyncratic scenarios should be those that are most relevant to the institution.

81. In the “Scenarios” table in the attached Excel file, the institution should, in addition to describing the scenarios, also assess the initial impact of the shock on its solvency, liquidity and profitability. The recovery plan should also specify any other material impact, including on the institution’s business model, payment and settlement operations and reputation.

82. 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.

5.3.2 Recovery options

83. In this section of the recovery plan, the institution should describe the measures that could be implemented if any of the scenarios described in section 5.3.1 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.

84. As mentioned above, the list should include not only actions to strengthen capital or liquidity, 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 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.

85. The following five elements should be included for each recovery option:

    (a) *Description*: Briefly describe the option and list the legal entities that would be involved in its implementation. For groups, also list the legal entities within the group that would be involved in implementing the option. Such involvement may result from the shareholding structure, an operational link, financial interdependence, or any other substantive relationship. The likely impact of the option on shareholders, clients, counterparties or the rest of the group should also be disclosed.

    (b) *Process*: Describe 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, baseline 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*: Describe the feasibility of the option and any potential implementation pitfalls. The main assumptions relating to the option’s feasibility and impact 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 also 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 least issues relating to shareholder rights and to competition, tax and social law.

(d) *Operational contingency plan:* Can the continuity of operations be maintained in a recovery phase if the recovery option is implemented? Describe all measures required to maintain continuous access to relevant financial market infrastructures, as well as all arrangements and measures necessary to maintain the continuity of the institution's operational processes, including network and information systems established and managed in accordance with Regulation (EU) 2022/2554[17]. Where the option involves the separation of an entity from the group, also explain how the separated entity can continue to operate without any group support.

(e) *Negative consequences:* Describe the impact the implementation of the option is expected to have on the institution's ability to continue to perform its critical functions. Could the implementation of the option have system-wide implications?

5.3.3 Impact assessment

86. In this section, the institution should provide an estimate, for each of the scenarios described above, of the impact of the recovery options proposed above, provided that they would be appropriate and feasible in that scenario. Where relevant, the assessment should clearly identify the different entities of the institution that may be impacted by the option or involved in its implementation. For each option, an assessment should be made of its impact on the capital position/solvency over an 18-month period and on the liquidity position/funding over a 6-month period, both to be measured from the point at which the threshold of any recovery plan indicator is breached, which would prompt the institution to implement one or more recovery options. The impact on the institution's profitability should also be estimated.

87. This assessment should take into account the limiting factors associated with the simultaneous or sequential implementation of the recovery options, such as mutual exclusion, interdependencies, operational capacity to implement multiple options simultaneously or the combined impact on the institution's business model or reputation. Any other material impact on the institution or the financial system should also be included. Furthermore, an estimate of the feasibility of the recovery options should be provided and factors that would facilitate or complicate the implementation of the option in the relevant scenario should be mentioned.

88. The quantitative elements of this assessment should also be included in the "Recovery Capacity" table in the attached Excel file, including for each scenario the combined impact of the simultaneous implementation of all feasible options, i.e. the so-called scenario-specific overall recovery capacity (ORC). Recovery options with limited probability of success should not be included by the institution when calculating its scenario-specific recovery capacities.

89. In addition, we request 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

[17] Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011.

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.

6. <u>Communication and disclosure plan</u>

90. 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. The institution should specify at what stage and by what means all relevant parties will be informed;

(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. The institution should specify at what stage and by what means all relevant parties will be informed. In addition, the plan should explain how any negative market reaction would be managed.

91. 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.

7. <u>Preparatory measures</u>

92. 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