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

Communication

Brussels, 26 March 2024

Reference: NBB_2024_07

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

Guidelines on simplified obligations for recovery plans

Scope

Belgian credit institutions and stockbroking firms (hereinafter collectively referred to as "institutions") that are subject to simplified obligations.[1]

Summary/Objectives

The purpose of this communication is to provide a set of guidelines for drafting a simplified recovery plan. This communication replaces Communication NBB_2022_10, which was modified to incorporate the recently published EBA Guidelines on overall recovery capacity in recovery planning[2] *and to extend its scope to stockbroking firms.*

The simplified recovery plan and the associated tables must be submitted through OneGate by 15 December of the year in which a recovery plan is due.

Structure

1. General overview and motivation
2. Summary of the recovery plan
3. Identification of key vulnerabilities and stress scenarios
4. Recovery options
5. Activation of the recovery plan
6. Checklist of information to be included in a simplified recovery plan

1 For institutions falling 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.

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

Dear Sir or Madam,

This communication sets out the requirements for the recovery plans to be drafted by credit institutions and stockbroking firms that qualify for simplified recovery plan obligations[3]. While the guidelines provided in this communication offer a set of general principles that should be followed in developing a simplified recovery plan, the NBB reserves the right to adapt these requirements to the circumstances of individual institutions.

1. General overview and motivation

1. Recovery planning is a management strategy aimed at preventing an institution from failing when faced with severe stress. The objective of a recovery plan is not so much to forecast the factors that could prompt a crisis, but rather to identify the options that might be available in responding to a crisis and to assess whether these options are sufficiently robust. Recovery plans should thus aid institutions in preparing their responses to potential crises, although it is understood that in an actual crisis, specific decisions should be taken depending on the particular features of the crisis. Recovery plans must exclude from consideration any extraordinary form of government support.
2. Institutions that qualify for simplified recovery plan obligations are expected to develop a recovery plan that is appropriate for their size, business model, complexity, and shareholding structure. Simplified recovery plans should include the following components, which are described further below:
   (a) a brief summary of the plan and of the institution's own assessment of its overall recovery capacity in each of the scenarios considered;
   (b) a description of the institution's key vulnerabilities and of relevant scenarios that could severely impact the institution;
   (c) a description of recovery options that could be used to address an extreme solvency or liquidity shock;
   (d) information regarding activation of the recovery plan, including a monitoring framework with indicators that can detect stress at a sufficiently early stage.
3. Recovery planning requires institutions to identify scenarios that are severe enough to threaten their survival, unless recovery measures are successfully and timely implemented. The scenarios should be identified taking into account the institution's business model, risks, and vulnerabilities. As recovery plans require institutions' management to consider how the institution would react in a crisis situation, the severity of the scenarios considered in the recovery plan must exceed that of the scenarios considered in any other regulatory exercises, e.g. stress tests or ICAAP (Internal Capital Adequacy Assessment Process).
4. Each component of the recovery plan is described in more detail below. Section 6 contains a checklist of information to be provided for each component of the plan.
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. Summary of the recovery plan

6. The institution should provide a brief summary of the recovery plan which describes the process of preparing the plan and the procedures for approving and validating it. The summary should also outline the main conclusions from the analysis of the institution's vulnerabilities and recovery options, as well as the institution's assessment of its overall recovery capacity in each scenario considered. The institution should also specify any preparatory measures it has taken or plans to take in order to

[3] Article 113 §4 of the Banking Act and Article 116 §1 of the Act of 20 July 2022 on the legal status and supervision of stockbroking firms.

facilitate the implementation of the recovery plan or to improve its potential effectiveness, for example by reducing impediments to the implementation of certain recovery options.

3. Identification of key vulnerabilities and stress scenarios

7. The institution should describe its business model and identify its core business lines, major risk drivers, and key vulnerabilities. Where the institution has already provided similar information in other regulatory reports, it may copy/paste the text from those reports. The institution's vulnerabilities will likely be directly related to its core business lines and/or its major sources of funding. Vulnerabilities may also be linked to concentrations of certain security holdings.

8. The institution should describe relevant scenarios which, in light of the identified vulnerabilities, would trigger a crisis for the institution. The shocks considered in the scenarios should be severe enough to threaten the institution's viability in the absence of any response on its part. 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. Institutions that have not yet gone through a SREP assessment should incorporate shocks that are so severe that they would bring the institution close to the point where it considers itself unviable, 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.

9. 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.

4. Recovery options

10. The institution should provide a list of the options it could activate to recover from a solvency or liquidity crisis. These options could include measures such as a capital increase or the sale of certain portfolios. 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 any 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) Measures to improve the institution's capital position through external recapitalisations or internal measures.

    (b) Measures to ensure that the institution has adequate access to contingency funding sources, including potential liquidity sources.

    (c) Measures to reduce risk and leverage or to restructure business lines including, where appropriate, possible divestments of assets, legal entities or business lines.

    (d) Measures to achieve a voluntary restructuring of liabilities, without triggering an event of default or termination or a similar event.

    (e) Where the institution deems it necessary, any other management actions or strategies aimed at restoring the financial soundness of the institution or group.[4]

[4] 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.

11. For each recovery option, institutions should provide the following:

    (a) *A brief description of the recovery option.*

    (b) *A description of the internal decision-making process for activating the option***,** including the steps to be followed, the required timing and the parties involved in the decision.

    (c) *A qualitative risk assessment of the option*, with a view to assess the feasibility of the option and to identify any potential implementation obstacles. The main assumptions relating to the option and its feasibility should be outlined, in particular the conditions to be satisfied in order for the option to be feasible. For example, it may be necessary for specific markets to be operating normally or for certain legal or operational requirements to be 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. Where possible, 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 the profiles of possible buyers for disposals of any activities or entities should also be provided where possible. Finally, any potential legal or regulatory obstacles should be mentioned, covering, if applicable, issues relating to shareholder rights and to competition, tax and social law.

    (d) *A quantitative impact assessment of each option in each scenario***.** For each scenario, an estimate should be provided of the impact of the recovery options proposed above, provided that they would be appropriate and feasible in that scenario. Specifically, the impact of each option on the capital position/solvency over an 18-month period and on the liquidiy position/funding over a 6-month period should be estimated, 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. Any other material impact, e.g. on the institution's profitability, should also be mentioned. This 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 measures simultaneously or the combined impact on the institution's business model or reputation. The quantitative elements of this assessment should 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). The institution may include recovery options with limited probability of success in the table, except in the calculation of its scenario-specific overall recovery capacity.

5. Activation of the recovery plan

12. The institution should provide information on the activation of the recovery 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. This framework could also be used to trigger the decision-making process in view of the potential activation of recovery options.

13. In addition to describing the indicators included in the monitoring framework, institutions should specify the relevant trigger values for the indicators, as well as the decision-making processes in place to activate the recovery plan. The indicators should be chosen in light of the institution's identified vulnerabilities and should include at least the institution's capital position, liquidity situation, profitability and asset quality.

14. Credit institutions should include at least the following 14 indicators, divided into four 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

   (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)

15. 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.

16. Stockbroking firms should include at least the following 9 indicators, divided into four 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)[5]

      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

[5] 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.

(d) Asset quality indicators

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

17. 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.

18. It is good practice to specify, where possible, two threshold values for each of the quantitative indicators included in the monitoring framework: (1) an early warning threshold; and (2) a "recovery plan threshold". Early warning threshold values should be set at such a level that they 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. Breaches of recovery plan thresholds should trigger the escalation process of decision making associated with a recovery plan, whereby a decision is taken as to whether to activate any recovery options and, if so, which ones.

19. For the calibration of the thresholds, 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.

20. Credit institutions should generally calibrate the thresholds for regulatory capital indicators above the combined capital buffer requirement[6]. 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. The thresholds for indicators based on regulatory liquidity requirements should be calibrated above the minimum requirements of 100 %.

21. 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 requirements that could adversely impact institutions' ability to continue supporting the real economy. Considering the temporary nature and the specific objective of such measures, their granting should not automatically result in the institutions recalibrating their recovery plan indicator thresholds.

22. 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.

23. Indicator threshold 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.

24. The institution should also describe the consistency of the recovery plan monitoring framework with the institution's regular risk management framework. For the recovery plan monitoring framework, the institution may use indicators already included in the risk management framework, but the trigger values should in principle be different in both frameworks. The institution should also outline when and how the competent authorities would be informed that the indicator trigger values have been exceeded.

[6] Defined in article 96 of the Banking Act: 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.

25. The institution is required to update the recovery plan at least every two years or more often if that is necessary following a change in its activities or financial position. Where circumstances require, the supervisor may also request that the recovery plan be updated more frequently[7].

6. Checklist of information to be included in a simplified recovery plan

1. Summary	- Description of the process of developing the plan. - Description of the procedure for approving and validating the plan. - Main conclusions from the analysis of vulnerabilities and recovery options. - Institution's assessment of its overall recovery capacity in each of the scenarios considered. - Description of any preparatory measures.
2. Vulnerabilities and scenarios	- Description of the institution's key vulnerabilities and links to its business model and risk drivers. - Description of scenarios, including their severity, as well as the types of shocks considered.
3. Recovery options	The below information should be provided for each recovery option:
Description of recovery options	- Description of the option.
Process	- Description of the internal decision-making process, including the timing and steps involved in the decision to implement the option.
Risk assessment	- Description of the main assumptions relating to the option's feasibility and impact. - Identification of the main impediments and risks associated with the option, making a distinction between financial, operational and reputation risks. - Identification of the potential types of buyers if the option is a disposal. - Identification of potential legal and regulatory constraints, such as shareholder/third-party approval, pre-emption rights, breach of contractual covenant, the stopping of a service line, obstacles relating to competition law, tax issues, pensions or HR issues.
Impact assessment	- Description of the expected impact of the recovery option on: capital/solvency; funding/liquidity; profitability; operations. - Description of any other material impact.
4. Activation of the plan	- List of indicators included in the monitoring framework, the monitoring frequency, and the early warning and recovery plan threshold values for each indicator. - Description of consistency of the monitoring framework with the regular risk management process. - Description of the internal decision-making process following a breach of an indicator threshold value, including the timing of the different steps. - Description of the procedure for informing the competent authorities of indicator threshold value breaches.

7 Article 111 of the Banking Act and Article 116 §1 of the Act of 20 July 2022 on the legal status and supervision of stockbroking firms.

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

Yours faithfully,

Pierre Wunsch
Governor