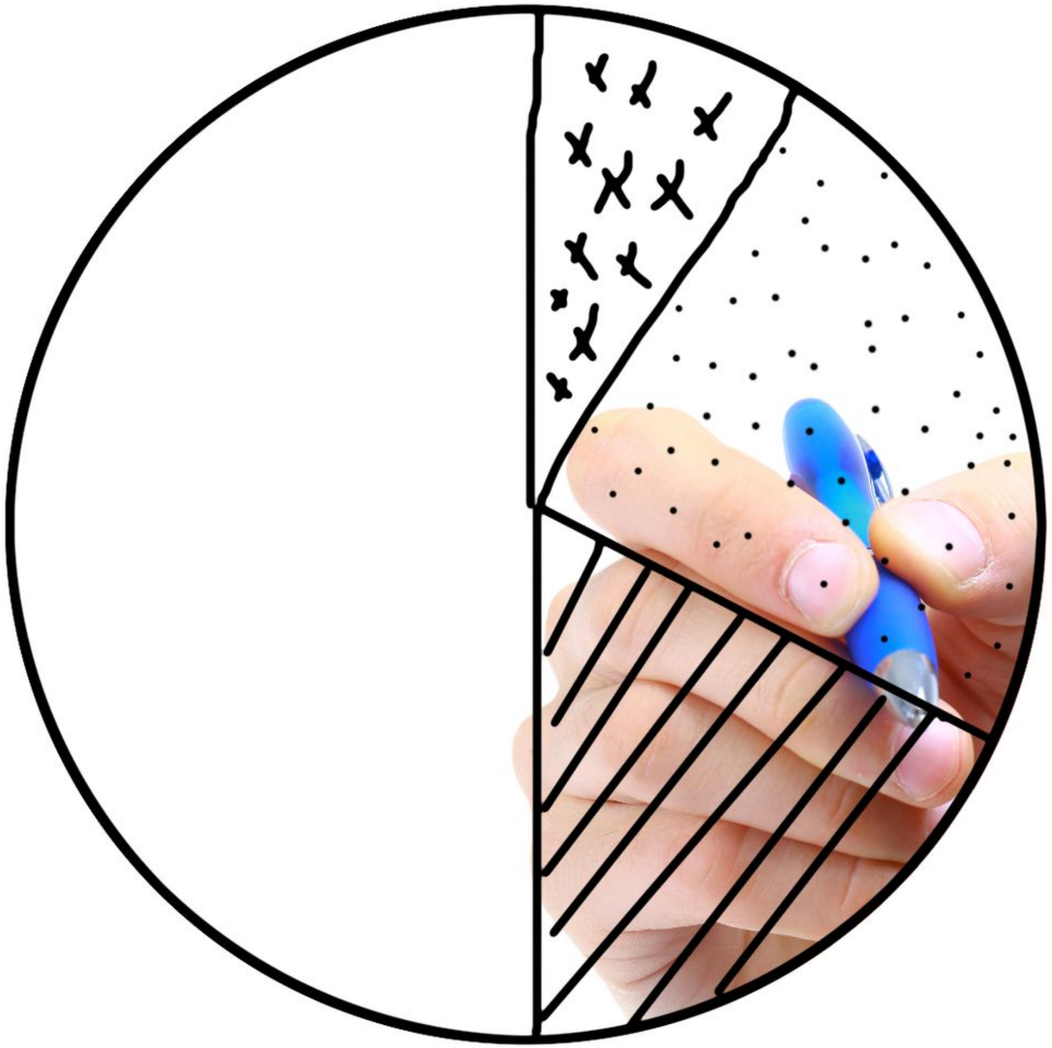

Bank Recovery and Resolution Directive

Bank Recovery and Resolution Directive (BRRD)

Introduction to BRRD

Quick facts

1. The institutions shall update their recovery plans at least annually or after a change to the legal or organizational structure of the institution, its business or its financial situation, which could have a material effect on, or necessitates a change to, the recovery plan.
2. Banks and creditors may need to renegotiate tools and instruments, consequences may occur in increased compliance costs and possibly impact costs of funding.
3. The BRRD articulates 28 factors that resolution authorities should consider with respect to resolvability, including governance structures, liability structures, data capabilities, and more.

Background

A bank resolution occurs when authorities determine that a failing bank cannot go through normal insolvency proceedings without harming public interest and causing financial instability.

To manage the bank's failure in an orderly manner, authorities use resolution tools that:

- Ensure continuity of the bank's critical functions
- Ensure early + flexible triggers
- Pass losses to owners and existing risk holders without formal liquidation
- Restore viability of key financial stability parts of the failing institution

Timeline

June 2014	Adopted
January 2015	National implementation deadline
December 2017	Proposals were published in the Official Journal.
Before the end of 2018	Proposals are being expected to be agreed
December 2018	Member States have time to transpose the Directive with new rules to apply from Jan 1, 2019.
By 2020	The Commission has proposed a 12 months transposition period, with most amended rules to apply from 6 months after that.

Scope

WHO

- EU banks and qualifying EU investment firms
- EU holding companies of EU banks and qualifying EU investment firms
- EU financial institution subsidiaries of the above
- EU branches of non-EU banks and investment firms

WHAT

- Prevention campaign for banks in difficulties
- Early intervention of banks that are in a difficult situation
- Restructuring (resolution) of failing banks

Purpose

Harmonize Member States' resolution frameworks for banks and investment firms.

Prevent institutions from excessively increasing lending when they do not have enough capital

Challenges for the banks

- **Methodology**: Updating recovery plans at least annually or after structure changes. Not implementing all resources or undermine data consistency. The administrative complexity of achieving compliance and the potential impact on depositors outside the EU. Require proper analyze of the entity and the various factors impacting resolution planning.
- **Implementation** How to lower costs of implementation? How to integrate BRRD into existing solutions?
- **Post implementation**: Requirements under the Directive are to be extended in the future. Methodological corrections from the side of European Commission and EBA.

Recovery planning

Main point of any recovery plan is the quality of the key elements

Key questions for banks

- What are **key success factors** for a Recovery Plan?
- Do subsidiaries of banking groups need an **individual plan** as well?
- Is recovery planning **integrated** with the strategic planning, risk management and stress testing?
- Do the triggers and the indicators provide **sufficient time** for the bank to act?
- How well prepared is the financial institution to **activate its recovery options**?

Objective

- Stabilize bank in crisis (by management)
- Identify and define triggers
- Identify recovery options
- Have board governance committee to oversee and approve the plan

Key elements of a recovery plan

- Governance
- Documentation and data
- Integration
- Scope
- Critical functions
- Scenarios
- Triggers
- Recovery options
- Updating of the impact and feasibility analysis of recovery options
- Tasks, responsibilities and decision competences

To be effective recovery plan should interlink several key elements. It is important to link potential crisis scenarios to a set of triggers/indicators impacting critical institution's functions, and then to a set of corresponding recovery options.

Scenarios

- **Individual:** fraud or litigation loss, portfolio shock, cyber attack, accounting/tax issue, reputational crisis
- **Market-wide:** disruption of domestic and global financial markets, significant changes in debt or equity valuations, currency rates, interest rates

Recovery plan indicators

- Capital & Liquidity indicators
- Profitability indicators
- Asset quality indicators
- Market-based indicators
- Macroeconomic indicators

Critical functions

- Retail deposit taking & lending
- Payments
- Custody
- Clearing and settlement
- Wholesale market activities

Recovery options

Categories of measures that a bank can undertake to restore its financial position in a crisis situation:

- Capital-raising options
- Asset sales
- Risk reduction
- Disposal options
- Liability management
- Access to standard central bank, etc.

How can Deloitte help you

Preparing a bank's recovery plan by taking a structured approach to collecting and analyzing information about the bank, and identifying gaps against the target state of a broad ranging and credible recovery plan.

Helping banks to integrate their recovery planning to their risk management framework, including its integration into a bank's existing management processes.

Identifying a range of recovery options to cover all scenarios, valuing recovery options under a range of scenarios.

Reviewing the quality of documentation required as part of the strategic business analysis, and **assessing banks' critical functions** to ensure operational continuity

Identifying both early **warning indicators** and **trigger points** for the activation of recovery options.

Updating and reviewing bank's Recovery plans and Resolution templates to assess completeness and quality of information.

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