

## PRA Consultation Paper CP9/17: Recovery planning

<http://www.bankofengland.co.uk/pr/Pages/publications/cp/2017/cp917.aspx>

*“Firms should own and expect to use their recovery plans. They should not treat recovery planning as a theoretical regulatory compliance exercise...The PRA’s experience has shown that the quality of some firms’ plans significantly lags behind others”*

***Governance,  
Risk,  
Compliance &  
Assurance  
Solutions***

A KnowCo regulatory digest: relevant to all PRA-regulated firms.

Paul Ashton, Director: Consulting

September 2017

- Policy Statement in 2H2017: effective date 1/1/2018?
- A nod to proportionality - small, simple, non-dynamic firms can 'roll-over' their plans
  - Note there is no definition of 'small, simple'
- Stress-testing must be consistent with ICAAP/ILAAP
  - ...and graduated, identifying key stages and the effect of management actions
- 'Recovery' means regaining viability
- All firms' plans must be tested via 'fire drills' (including accessing central bank facilities)
  - And if your plans are complex you will need a 'playbook'
- Wind-down planning for the banking book, where recovery options are limited
- Emphasis on forward-looking indicators as early warning signals, consistent with those used in BAU
- 3 new Excel templates: Options, Disposals & Indicators
- If you're a sub. of a non-EU parent the PRA 'places high importance' on having sight of the group recovery plan...

- While the PRA expects all firms to meet these expectations, the degree of detail and analysis in a recovery plan should reflect the complexity and size of the firm. Firms should follow this principle of proportionality in relation to all aspects of this Supervisory Statement
  
- For firms with simple business models, the PRA recognises that recovery options may be limited in number, but nevertheless expects firms to give careful thought to identifying possible options, including a sale of the whole business
  - For small firms with very simple business models, whose key prudential metrics have not changed materially year on year, the firm's governing body may decide at its annual review that the information, plans, and triggers from the previous year continue to be appropriate

- In general, firms should not limit the coverage of their recovery plan to make it applicable to only extreme stresses
  - Including only the recovery options that would likely be implemented at a late stage in a firm's deterioration provides only a partial view to the firm's senior management - and to the PRA - of the range of options available to the firm
  - ....firms should also identify any preparatory measures that could be taken to improve the credibility and effectiveness of individual recovery options and detail a plan to execute these

- Firms' approach to scenario testing should be consistent with their existing stress testing capabilities, such as those used for the ICAAP and ILAAP
  - Where the scenario testing identifies deficiencies in the plan, these should be corrected before submission to the PRA. Firms should document this process in an appendix to the plan
  - The quantitative impact of the stress on relevant indicators should be detailed for each scenario, showing how the indicator metrics change over the course of the stress
  - Firms should model capital and liquidity profiles (over time) under each stress scenario, showing these both in the absence of and with the recovery options deployed in the scenario [and] the point at which early warning and recovery indicators would be triggered and the benefits of each selected recovery option over time...to demonstrate that sufficient benefits can be realised in time to recover
  - Firms should also include an estimate of the impact of each scenario on their profitability, business model, franchise, core business lines and critical economic functions

- <https://www.eba.europa.eu/documents/10180/760136/EBA-GL-2014-06+Guidelines+on+Recovery+Plan+Scenarios.pdf/05cc62a3-661c-4eee-ad07-d051f3eeda07>

- The options should support the recovery of the firm without making the post-recovery business model unviable
  - Firms should provide evidence that they have considered the impact of the option on the firm and, if applicable, the wider group
  
- Asset sale and disposal options should detail potential purchasers (as a minimum by type) and the realistic discount required to achieve a sale, taking into account different market conditions
  - The PRA expects firms to assess the availability of investors and buyers, and to set out why they might be interested

- When planning the use of central bank liquidity facilities as recovery options, firms should:
  - familiarise themselves with the purpose of those facilities
  - consider the circumstances in which they would need to access those facilities and discuss options with the Bank of England...
  - test the operational aspects of their plan for accessing these facilities...
  - raise cash from a representative portfolio of the assets
  - undertake an analysis of eligible assets and the drawing capacity against these and
  - ensure that an appropriate amount of assets are pre-positioned

- A wind down of parts of the banking book (or of the whole firm) may...be a consideration for some firms, *including those with limited recovery options*
  - Firms may contact their supervisors to clarify whether this analysis is required and to obtain further guidance
  - For firms that have done such analysis, they should consider including the wind-down of certain portfolios as recovery options



- Firms should monitor the same set of metrics as part of the contingency planning framework and the recovery planning framework [and] not treat the indicator framework for recovery planning as a separate construct, or monitor these metrics outside the normal management information practices.
  - Firms should include a broader range of indicators than regulatory capital and liquidity ratios and include internal quantitative and qualitative metrics from the firm's overall risk management framework...The calibration of indicators should be sufficiently sensitive to alert the firm to stress and sufficiently forward looking to allow time for recovery options to be taken
  - As well as capturing group level performance, indicators should reflect significant legal entities, key business lines and specific geographies in which the firm operates
  - Firms are expected to consider and include all qualitative and quantitative indicators set out in the EBA minimum requirements, or to explain the decision not to include any of these indicators
  - <https://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/guidelines-on-recovery-plans-indicators>

## Recovery Options:

Numbers in row 8 correspond to information in the INSTRUCTIONS tab  
Please add rows as necessary

OPTIONS							TOTAL ANTICIPATED FINANCIAL IMPACT (END-POINT MEASURE)							TIMELINES					
All options deemed suitable for scenario							Scenario Testing	Dependencies/ Mutual exclusivity of options		Capital Impact		Liquidity Impact		Risk Weighted Assets	Leverage ratio	Leverage ratio exposure	Franchise impact	Timelines	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
Scenario name	Type of Scenario	Option category (select from dropdown list)	Option Title	Option ID	Recovery option description	Option deployed in scenario in plan?	Mutually exclusive	Dependent	CET1 (£mn)	CET1 (basis points)	LCR (£mn)	LCR (basis points)	RWAs (£mn)	LR (basis points)	LRE (£mn)	Impact - High, Med, Low	Time to implement (months)	Time to realise benefits (months)	
Scenario 1	Market-wide	Asset sale	Sale of £100m commercial real estate (CRE) assets	1		Yes													
Scenario 1	Market-wide																		
Scenario 1	Market-wide																		
Scenario 1	Market-wide																		
Scenario 1	Market-wide																		
Scenario 1	Market-wide																		
Scenario 2	Idiosyncratic	Asset sale	Sale of £100m CRE assets	1		No													

## Asset Sales & Disposals:

Numbers in row 8 correspond to information in the INSTRUCTIONS tab  
Please add rows as necessary

OPTIONS							TOTAL ANTICIPATED FINANCIAL IMPACT (END-POINT MEASURE)							TIMELINES		ASSET SALES AND DISPOSALS: VALUATION ANALYSIS							
All options deemed suitable for scenario							Scenario Testing	Dependencies/ Mutual exclusivity of options		Capital Impact		Liquidity Impact		Risk Weighted Assets	Leverage ratio	Leverage ratio exposure	Franchise impact	Timelines		Valuation methodology and results			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
Scenario name	Type of Scenario	Option category (select from dropdown list)	Option Title	Option ID	Recovery option description	Option deployed in scenario in plan?	Mutually exclusive	Dependent	CET1 (£mn)	CET1 (basis points)	LCR (£mn)	LCR (basis points)	RWAs (£mn)	LR (basis points)	LRE (£mn)	Impact - High, Med, Low	Time to implement (months)	Time to realise benefits (months)	Explanation of valuation method	Haircuts (bps) in valuation	Asset/ Disposal sale value (valuation) (£mn)	Key valuation assumption s and page references	
Scenario 1	Market-wide	Asset sale	Sale of £100m CRE assets	1		Yes													e.g. Multiples, % book value		0	120 eg discount rate x%, see p70 of recovery plan	
Scenario 1	Market-wide	Disposal	Disposal of entity x																				
Scenario 2	Idiosyncratic	Asset sale	Sale of £100m CRE assets	1		No																	

## Indicators:

Numbers in row 5 correspond to information in the INSTRUCTIONS tab  
Please add rows as necessary

INDICATORS											
Type	Description	Measure - Quantitative or Qualitative?	Measure - Actuals or Projections?	If projections, time horizon used (months)	Indicator Trigger 1 1st early warning signal (if applicable)	Indicator Trigger 2 2nd early warning signal (if applicable)	Indicator Trigger 3 3rd early warning signal (if applicable)	Indicator Trigger 4 4th early warning signal (if applicable)	Recovery Indicator (the final metric in the progressive series)	Risk Appetite	Risk Tolerance
Capital	eg CET1 ratio	Quantitative	Actuals								
Capital	eg CET1 ratio 12 month forecast	Quantitative	Projections	12							

■ [www.bankofengland.co.uk/prd/Documents/publications/cp/2017/cp917app1app.xlsx](http://www.bankofengland.co.uk/prd/Documents/publications/cp/2017/cp917app1app.xlsx)

- The PRA expects firms to carry out fire drill exercises on their recovery plans.
- For smaller, less complex organisations with simpler recovery plans it may be appropriate to test a significant proportion of the plan in an annual or biennial exercise.
- Such exercises may evolve over time...but each exercise could include one or more of the following examples:
  - Testing the governance arrangements...assembling the right people at short notice...understanding if they can use the recovery plan
  - Examination of the operational aspects of implementing specific recovery options and the firm's resources for executing more than one option at the same time
  - Testing the communication plans and interaction with different stakeholders, including regulators
  - Testing the management information capabilities of the firm and whether adequate information can be produced to support the decisions associated with the indicator framework and for invoking the recovery plan
- Firms should use the findings of these exercises to improve their plans and incorporate a self-assessment of their fire drill exercise into the next update of their recovery plan.

- The PRA expects recovery plans to be structured so that they are readily usable both by boards and the specific business areas of firms that would need to use them
- Firms whose recovery plan is not sufficiently succinct and easy to navigate to be useful in a stress should produce a concise implementation guide or 'playbook' for implementing their plan.
  - If in doubt, firms may contact their supervisor to discuss whether they should produce a playbook
- A firm's recovery plan should clearly state at what point the PRA would be informed of the firm's situation and the engagement that the firm would expect to have with its supervisor(s).

## Recovery planning for UK subsidiaries of non-EU parents

- ...the PRA places high importance on having sight of...group recovery plans providing details on group structure, CEFs and group recovery
  - The recovery plan for a UK subsidiary of a non-EU parent entity should be consistent with any group recovery plan...
- Where the PRA is in receipt of the global recovery plan, the PRA does not expect a [separate] description of the group or details on the group strategy and footprint.
  - For smaller firms where the PRA is not in receipt of a group plan, the PRA would expect to see a high-level description of the group strategy and global footprint
- ...parental support may be the most credible recovery option. However, the PRA expects firms to consider what additional options are available at the level of the UK subsidiary
  - ...the PRA expects firms to set out when decisions would be escalated to group level
- UK subsidiaries of non-EU parents should also consider the guidance on fire drills and playbooks...

KnowCo is a specialist bank support resource for:

- ICAAP, ILAAP and RRP
- Risk Appetite Statement development and enhancement
- Regulatory Disclosure
- Business Planning and Modelling and
- Governance Policies, Processes and Assurance

Our intuitive and transparent stress-testing and business modelling software facilitates compliance with regulatory requirements for:

- Credit risk capital stress-testing and management (Pillars 1 and 2A)
- IRRBB stress-testing and management
- Liquidity risk stress-testing and management
- Funds Transfer Pricing
- Strategic business modelling
- Regulatory Metrics such as LCR, HHI and ALMM

***Governance,  
Risk,  
Compliance &  
Assurance  
Solutions***

**K-IFRS9 is our **new** IFRS 9 Technical & Reporting Solution – see our Home page**

Please contact

- Paul Ashton at [paul.ashton@knowco.co.uk](mailto:paul.ashton@knowco.co.uk), or
- Dr. Lise Land at [lise.land@knowco.co.uk](mailto:lise.land@knowco.co.uk), or
- visit [www.knowco.co.uk](http://www.knowco.co.uk) or call +44 (0)7799 113535