



Bank Recovery & Resolution Planning Status & Perspectives

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1. Why do we need Recovery and Resolution Planning?



The global financial crisis of 2008 showed the fragility of the financial system to the failure of major banks.



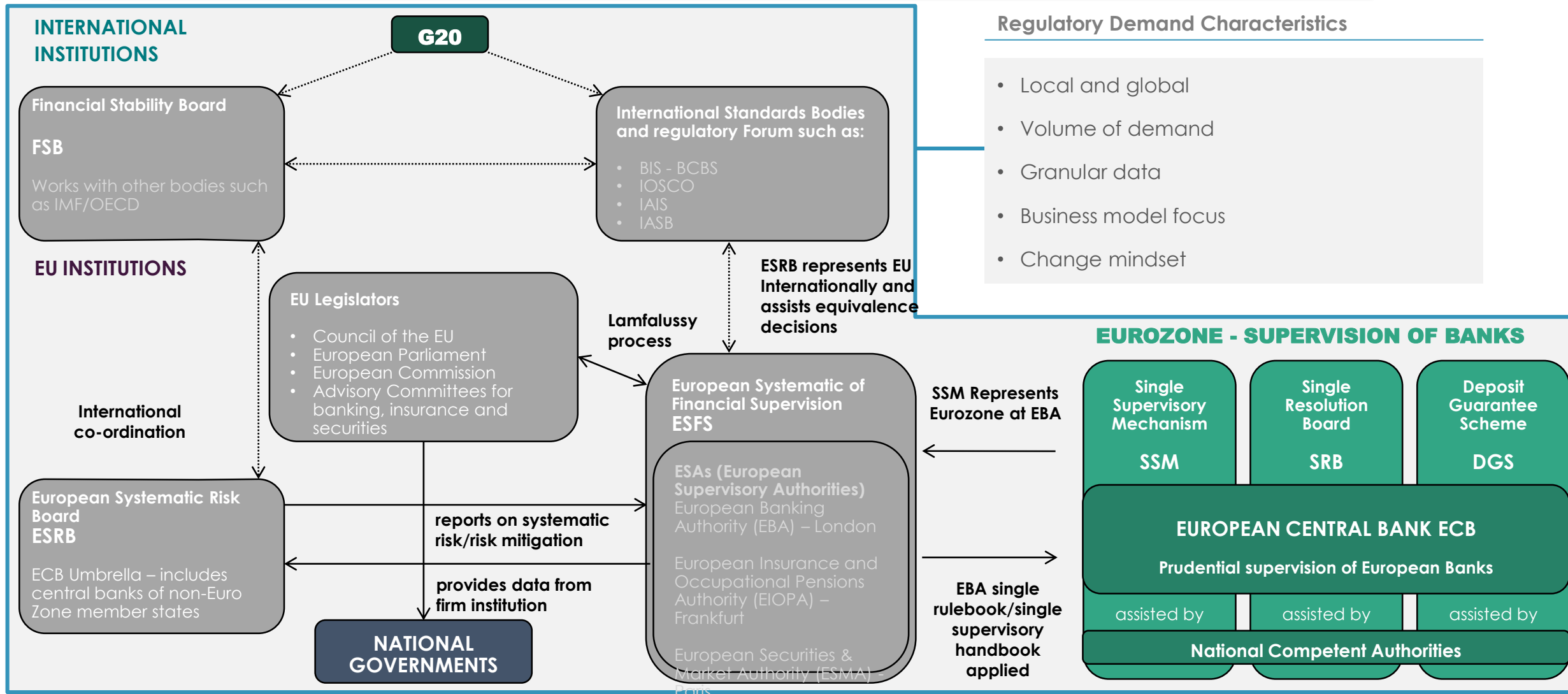
The Irish government injected €64.1 billion of public funds to save 6 financial institutions.



The BRRD was established to:

- maintain financial stability and confidence in the banking sector
- minimise the loss to society from banking crises - reduce the moral hazard
- strengthen the EU internal market.

2. Overview of the Regulatory Environment for a Bank

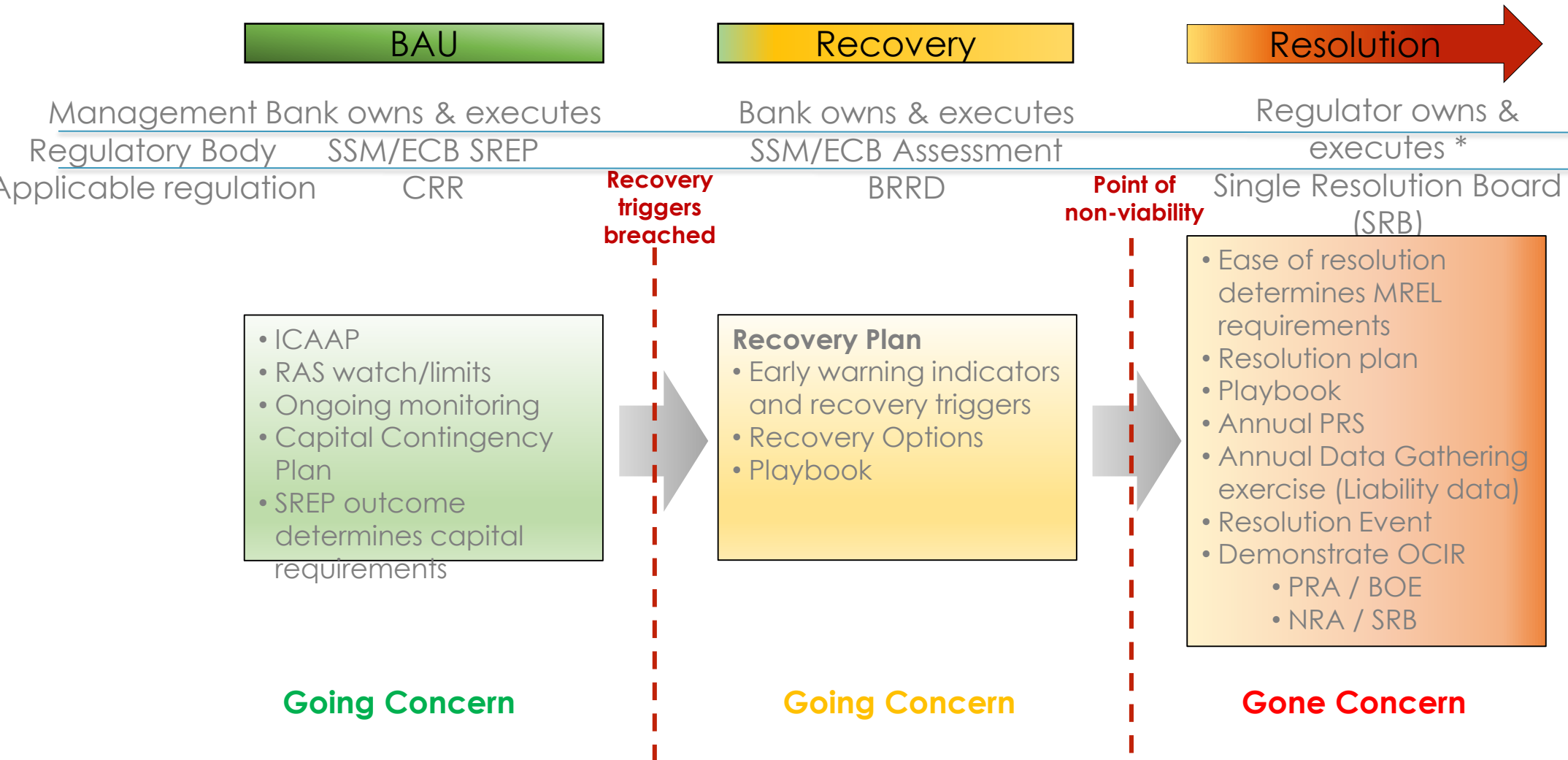


3. Status of development/implementation of BRRD 1

Key Principles and Contents

- Transposed in all jurisdictions - new requirements coming with BRRD 2.
- Recovery Planning has reached a stage of maturity but there is a journey to travel
- Resolution – Single Resolution Board has Preferred Resolution Strategy for all major financial institutions
- Service delivery model – support business as usual and operational continuity in resolution
- Operational Continuity In Resolution is at a different stage of maturity across Banks and National Resolution Authorities
- SRB policy / guidance framework - status compared to the Bank of England
- Key focus is on a bank's ability to demonstrate
 - OCIR – key elements – Critical Functions, Core Business Lines, Critical Shared Services, Resolution proofing of 3rd party contracts, operational resilience, financial resilience
 - Valuation
 - BOE/PRA 1 January 2019 requirement compared to SRB
 - FSB perspective
- Looking forward to BRRD 2 (an integral part of the 'Banking Package')

4. Regulatory and Operational Continuum



SSM priorities for 2019

HIGH LEVEL PRIORITIES

SUPERVISORY ACTIVITIES FOR 2019

Multiple Risk Dimensions

Recovery Plans

Brexit preparations – monitoring plan implementation

FRTB – preparedness, trading and market risk

Follow-up on NPL Guidance – Stock reduction & consistent coverage levels

Credit Underwriting Criteria & Exposure Quality (focus on new lending)

IFRS 9 implementation

Liquidity Stress Test

TRIM – Credit risk, market risk and counterparty credit risk models

Improvement of banks ICAAP and ILAAP & SREP integration

IT & Cyber Risk

Credit risk focus on NPLs and concentrations

Risk Management

SRB PRIORITIES FOR 2018 / 19

SRB PRIORITIES – minimum expectations of banks

Legal & Funding Structure that facilitates implementation of the PRS

Technological & Operational capability to support data reporting – e.g. – CF, Liability Data, FMI & Valuations.
Operational & Procedural capability to implement PRS

Ensure Operational Continuity in Resolution – CSS – CF – CBL mapping SLA repositories
Resolution proofing of internal and external CS providers
Transferability of contract to support implementation of PRS

Financial Market Infrastructure (FMI) access (direct and through intermediaries) – supportive of CF

Liquidity in Resolution – building out from liquidity measures in Recovery plans demonstrate capacity to manage liquidity in Resolution

Communication plans – banks to develop comprehensive communication plans for resolution event

6. Playbooks

Why use a playbook

Recovery plans exceed 1,000 pages according to the ECB, sample recovery plan contents

- a) Executive Summary
- b) Background
- c) Group Structure
- d) Governance of plan
- e) Recovery Triggers, Early Warning Indicators & Escalation process
- f) Recovery Options
 - *Overview of impact*
 - *Indicative pricing with supporting analysis*
 - *Financial impact*
 - *Strategic & operational impact*
 - *Communication plan*
 - *Risks or impediments to implementation*
 - *Implementation of the option*
 - *Preparatory measures*
- g) Recovery Options in stress scenarios
 - Consider idiosyncratic & systemic stress separately
- h) Communications plan
- i) Preparatory measures

What is a playbook

ECB – complexity & length of recovery plan inhibits ability to action recovery plans quickly

ECB – Best practice to develop “playbooks” and perform “dry-runs” of “fire-drills” to ensure right decisions made in crisis situation.

Playbook

Short actionable document forming part of the overall recovery plan package.

Key aspects that the Bank’s management need to be aware of to trigger their Recovery plans during a crisis situation. Playbook includes:

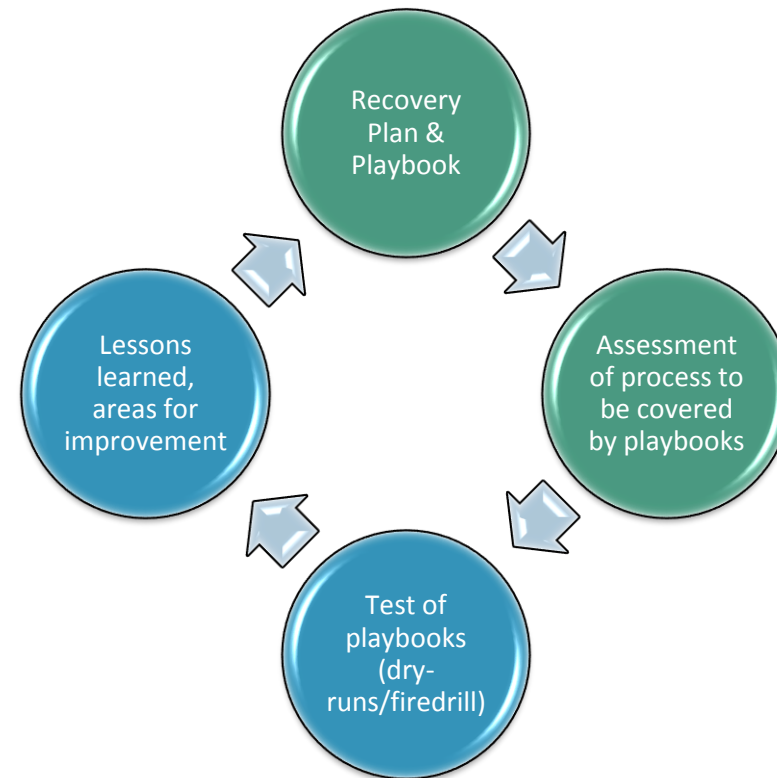
- escalation process;
- decision making process;
- available recovery options & summary impacts;
- appropriate communication plans & contacts.

7. Playbooks : Key Principles and Contents

Key Principles and Contents

- Recovery playbook should be addressed to the Bank's Board.
- Overview of the viable recovery options during a crisis scenario.
- Allows bank management to implement recovery options quickly and therefore manage a potential crisis effectively.
- Clear & concise to assist in decision making in a crisis scenario.
- Designed to be readily usable according to Art. 5 BRRD (effectiveness of the recovery plan).

Recovery plan control cycle – iterative loop



8. Fire drill / Dry Run

What is a Fire Drill

- Not a requirement but ECB view it as best practice!
- To test parts of the recovery plan in a live crisis, test different items periodically.
- Crisis simulation through use of scenario testing is a powerful way of determining feasibility of existing plans.
- Executive Committees and Boards approve

recovery plans However, dry runs really provide opportunity and context to consider if crisis planning is credible and executable.

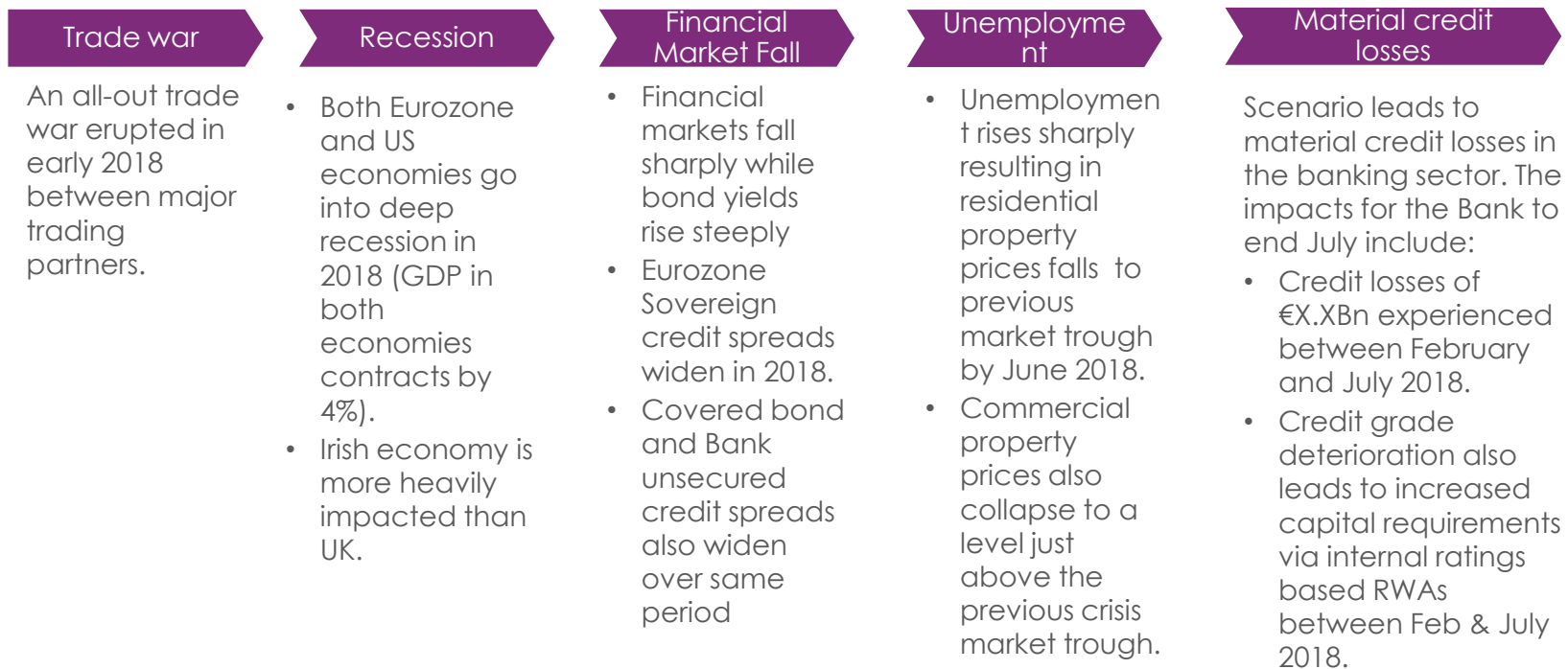
Outcome

- A guide to support a bank during time-critical stress situations.
- Demonstrate whether the tested parts of the recovery plan could be implemented promptly and effectively in a crisis. E.g. testing governance/escalation process, recovery options, communication.
 - Ensure adequate and appropriate staffing resources to execute plan.
 - Identify areas for improvement, incorporating lessons learnt into future recovery planning



9. Fire drill Overview - Setting the scene

A global, extreme macro-economic shock struck sharply in early 2018 and was accompanied by a financial market shock. This following events occurred:



2019 and 2020 Outlook

There is considerable uncertainty around outlook in 2019/20 but material additional credit losses for the bank are expected due to the credit quality deterioration caused by the extreme nature of the downturn.

10. Funding – Market sentiment

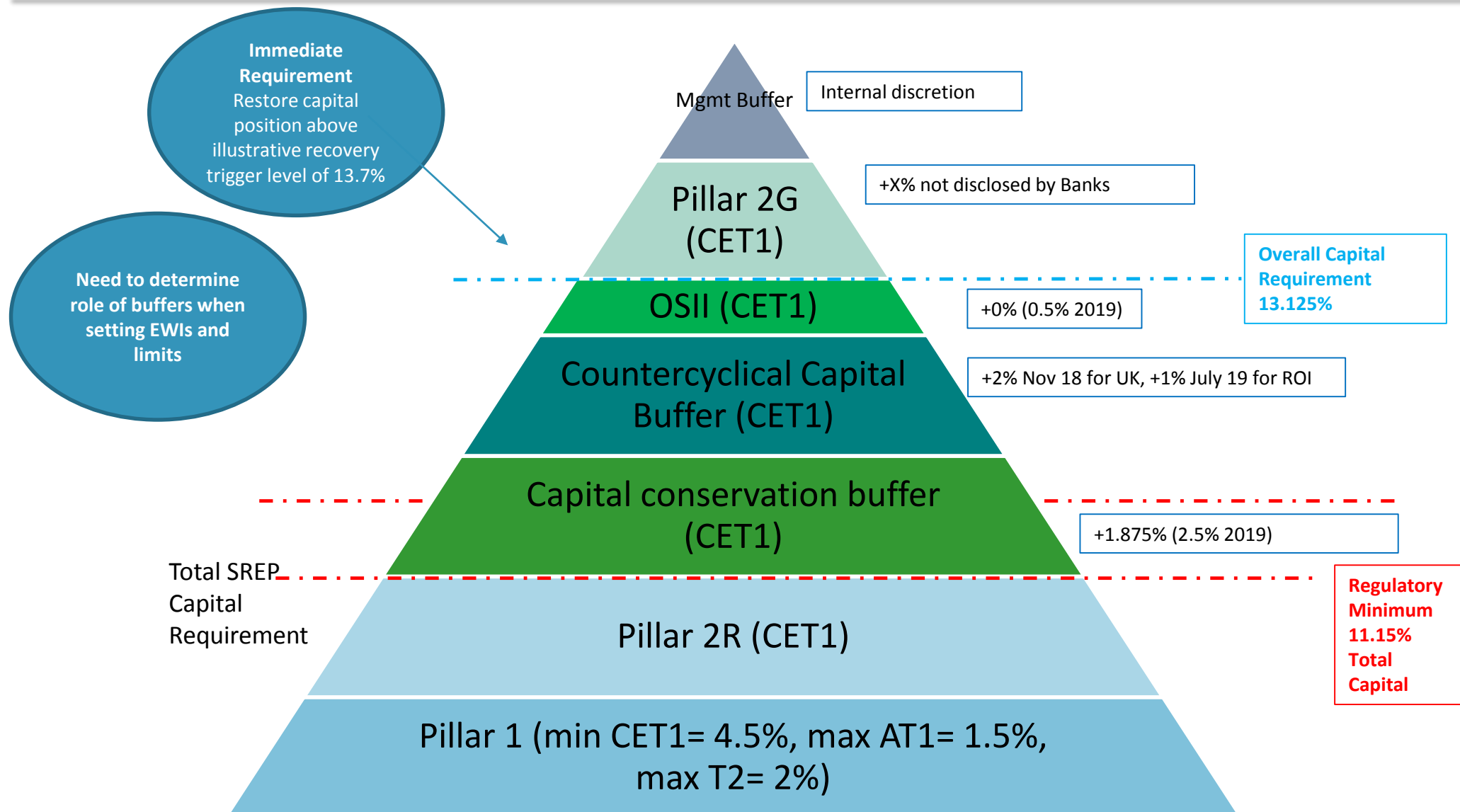
Summary Overview

- Market reference interest rates and interest rate swaps at an all time low – ECB @ 0%
- Spreads have blown out – Bond Yields on existing 5 year MREL at 3.5% and 4% on existing 7 year MREL
- Equity Markets are weak – no execution in terms of Banks raising equity, Bank share price currently at €XX
- Tier 2 Issuance - A Spanish bond recently issued at 7.25% but with poor coverage. Bank Tier 2 currently trading at X.X% with syndicate support at X.X% - X% implying a X% new issuance premium
- Irish Sovereign maturities 2018 / 2019.

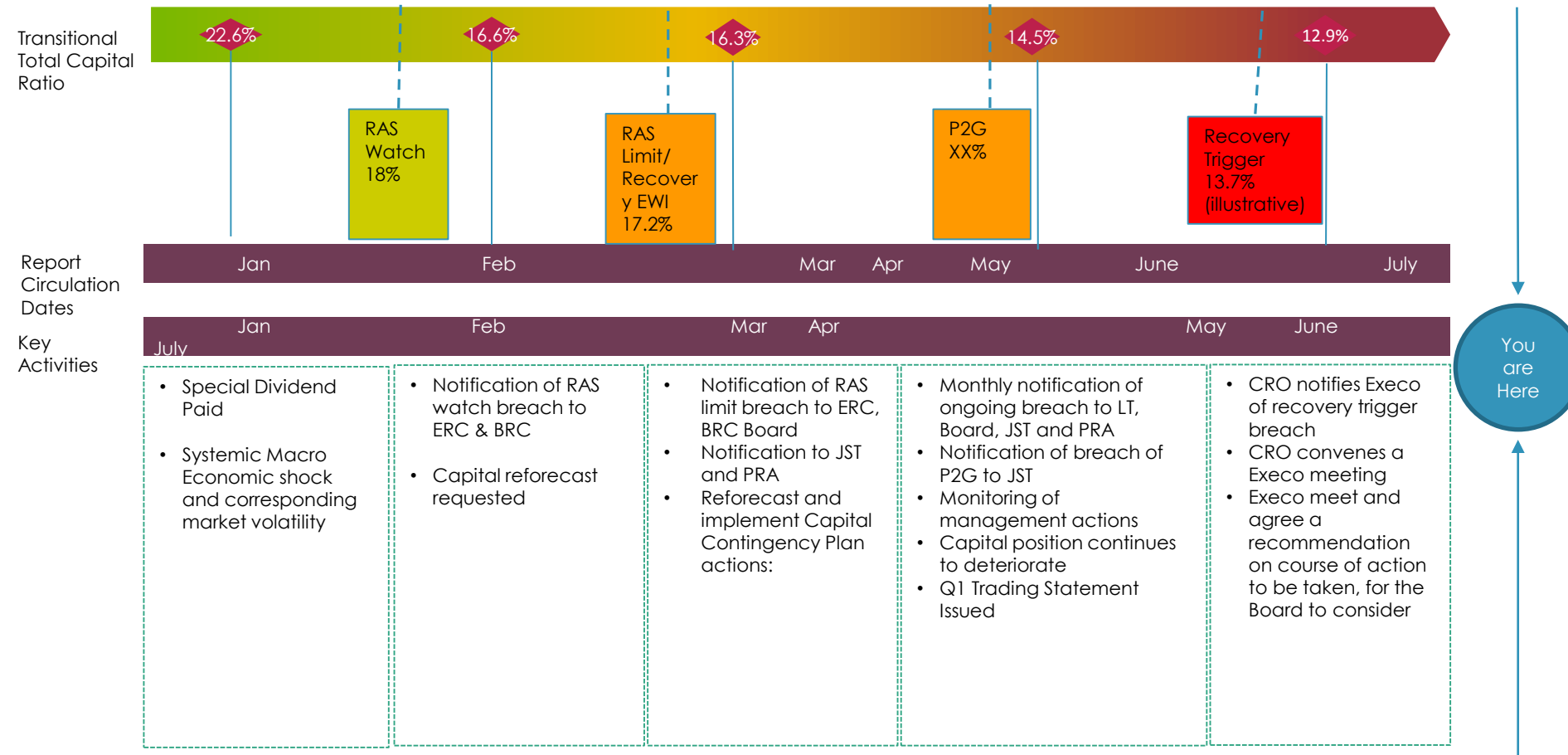
Name ⁽¹⁾	ISIN	Ticker	Coupon	Maturity	Maturity Type	Country	Currency	Issued Amount	Issue Date
Ireland Government Bond	IE00B28HXX02	IRISH	4.5	18/10/2018	AT MATURITY	IE	EUR	9,255,580,000	23/10/2007
Ireland Government Bond	IE00B2QTFG59	IRISH	4.4	18/06/2019	AT MATURITY	IE	EUR	7,700,060,000	15/04/2008
Ireland Government Bond	IE00B6089D15	IRISH	5.9	18/10/2019	AT MATURITY	IE	EUR	6,666,580,000	30/06/2009

- EMTN Redemptions - €500m April 2019, €500m March 2020
- H2 Planned issuance - €600m (\$750m), HoldCo EMTN
- Pressure on Fixed and Notice deposits – while interest rates are low, credit spreads are up and this is driving up deposit rates.

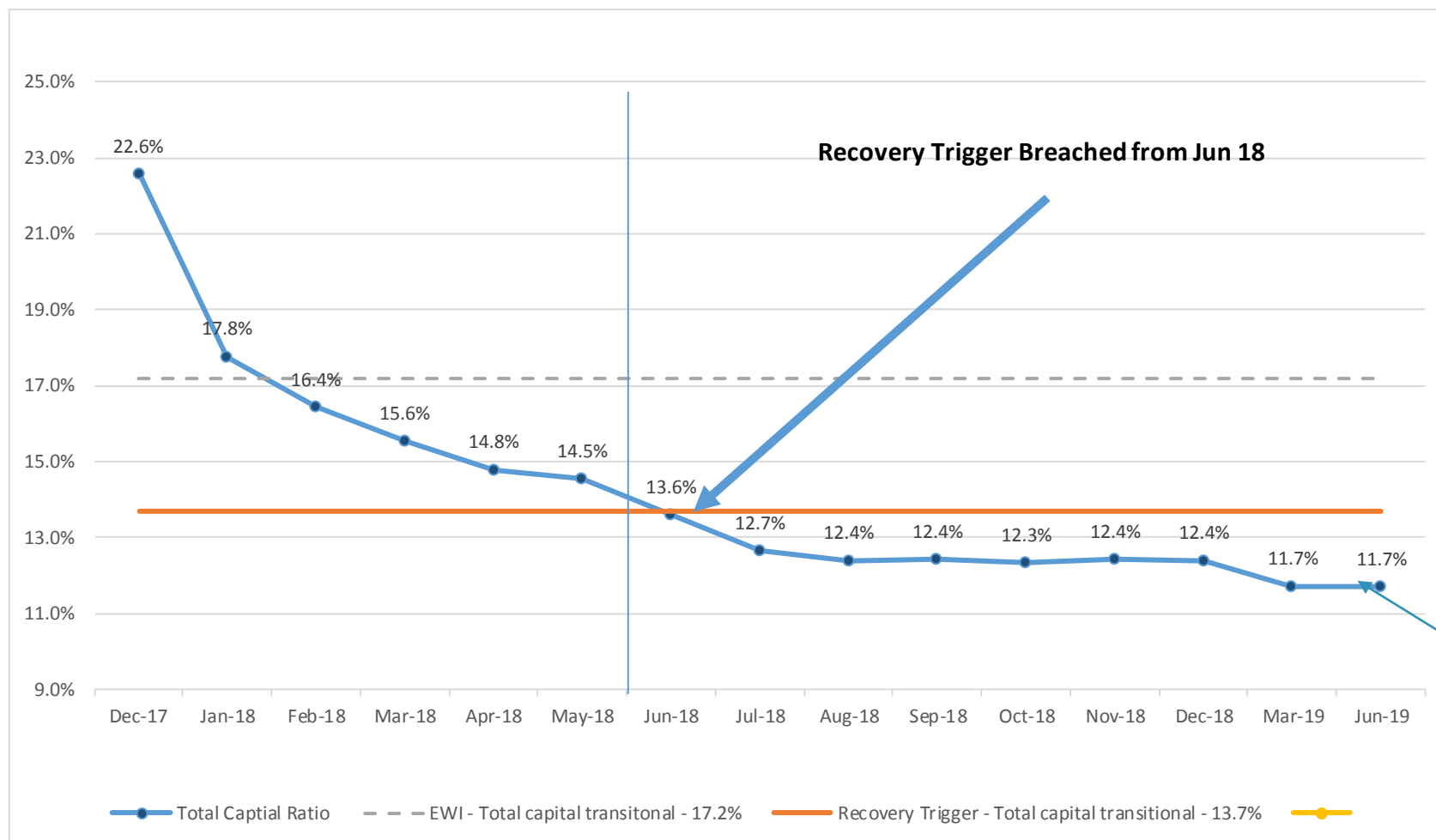
11. Regulatory Requirements: Capital



12. Timeline January to June 2018



13. CAPITAL TRAJECTORY



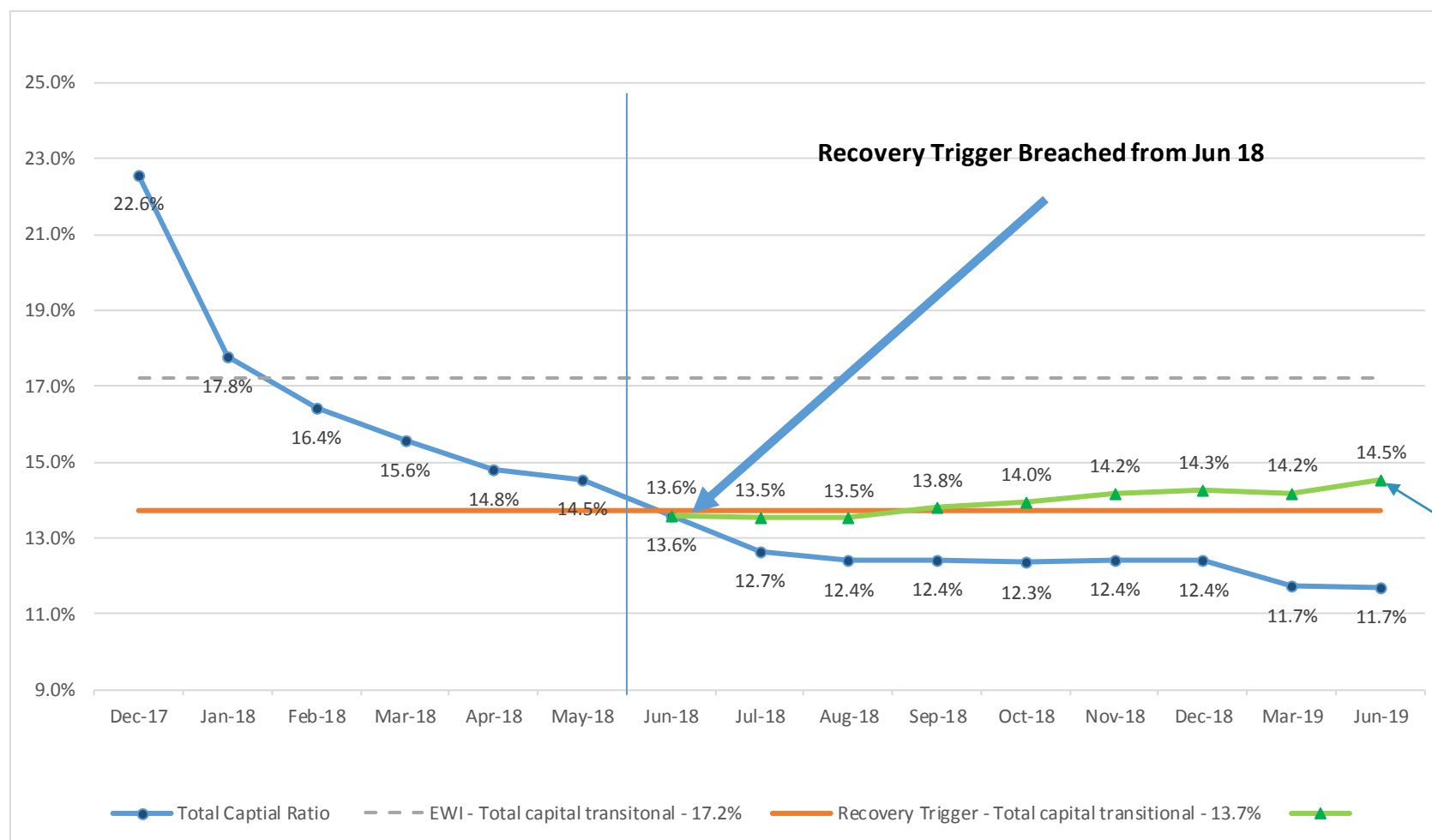
Example of Recovery Options

- Increasing Asset Pricing
- Cost Reduction
- Capital Raise
- Sale of Assets
 - Loan assets
 - Investments securities
 - Any subsidiaries? (If applicable)

Include impact analysis for each i.e. CET1%, Liquidity, profitability. Consideration of readiness, due diligence, teams, communications.

Note scenario not self healing

14. CAPITAL TRAJECTORY



After the Recovery options implemented