

EBA/Rec/2017/02

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Final Report on

Recommendation on the coverage of entities in a group recovery plan

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Executive summary

Article 7 (1) of Directive 2014/59/EU¹ (Bank Recovery and resolution Directive, BRRD) provides that the group recovery plan shall consist of a recovery plan for the group headed by the Union parent undertaking as a whole and that the plan shall identify measures which may be required to be implemented at the level of the Union parent undertaking and each individual subsidiary. The review and assessment of that plan as well as the decision on whether or not individual recovery plans are required for any group entities should be jointly made by the consolidating supervisor and the relevant competent authorities in accordance with the process set out in Article 8 of the BRRD.

Appropriate coverage of all group entities is, in general, a key element for the completeness of the group recovery plans. Nonetheless, the assessment of group recovery plans in the past few years has highlighted that many recovery plans are often drafted from the perspective of the Union parent undertaking, regardless of the level of (de)centralisation of the group; thus, group recovery plans do not always contain adequate information at the level of the group entities. This shortcoming has an impact on the credibility and effectiveness of the proposed recovery measures and the overall recoverability of the group. Moreover, insufficient elaboration of recovery planning at the level of the various group entities has often left competent authorities without adequate information on recovery planning for the entities within their supervisory competence.

When the group recovery plan is drawn up in accordance with this recommendation, individual plans should not be requested in the context of the joint decision process for the assessment of the group recovery plan. Accordingly, any deficiency of adequate coverage of entities in the group recovery plan should not be addressed by resorting to requests of individual plans but should, as a general rule, be addressed in the context of the group recovery plan. Requesting individual plans in the context of the joint decision process for reasons other than the adequate coverage of entities in the group recovery plan is not affected by this recommendation.

Moreover, adopting a pragmatic approach, this recommendation also provides for an adjustment phase to ensure the smooth migration to the group level of recovery planning information currently available at the local level.

This recommendation aims precisely to ensure that the level of coverage of each legal entity and branch in the group recovery plan is adequate; in turn, this will avoid a fragmented approach to collecting information on groups, by setting out a common framework for achieving the necessary level of information on all group entities in the group recovery plan.

To that end, specific guidance is provided on how the Union parent undertaking should identify all relevant group entities in its group recovery plan.

¹ OJ L 173/90

Once all entities have been identified, the Union parent undertaking should apply a proportionate approach in order to distinguish among the following categories of entities: (a) entities that are material because they are relevant for the group; (b) entities that are material because they are relevant for the economy, including for the financial system, in one or more Member States; and (c) entities that are not material because they are relevant neither for the group nor for the economy, including for the financial system, of any Member States.

An entity that is material because it is relevant for the group would need to be covered in an extensive manner, in all the sections of the group recovery plan. Such an entity may or may not also be relevant for the economy, including for the financial system of one or more Member States. An entity that is material because it is relevant for the economy, including for the financial system, of one or more Member States should be addressed in the group recovery plan, primarily by focusing on how this entity's critical functions will be preserved in case of distress. For an entity that is not material because it is relevant neither for the group nor for the economy, including for the financial system, of any Member State, coverage should be less extensive, pertaining mainly to a general description of the entity within the overall structure of the group.

Moreover, branches that are material because they are relevant either for the group or for the economy, including for the financial system, of one or more Member States, should be covered in the group recovery plan in a proportionate but adequate manner that ensures that all necessary branch-specific information relating to recovery planning is reflected. Material branches should be covered, even when the legal entity to which they belong would not be deemed relevant without that branch. The identification and coverage of material branches should be made in accordance with Section 6, either as part of the legal entity to which they belong or independently. The Union parent undertaking should in both cases ensure that any branch-specific information necessary as per Section 6 has been effectively included in the group recovery plan. Branches, deemed as significant+ in accordance with EBA-GL-2017-14 should also be considered material for the purposes of the group recovery plan in accordance with this recommendation.

Institutions, notably Union parent undertakings, should have regard to this recommendation when drawing up and submitting the group recovery plan. The consolidating supervisors and the competent authorities should have regard to these recommendations, when assessing the group recovery plans within the context of the joint decision process.

Next steps

The recommendation will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether or not they comply with the recommendation will be two months after the publication of the translations. The recommendations will apply from 1 January 2018.

Background and rationale

1. From the EBA's thematic reviews of recovery plans² and its regular attendance of several colleges of supervisors, it was identified that several group recovery plans are, currently, written predominantly from the Union parent undertaking's perspective, with little emphasis on the other entities in the group.
2. This approach clearly limits the credibility and the effectiveness of the plan, undermining both the idea that the group recovery plan be capable of offering credible recovery solutions for the whole group and compliance with the legal requirements pursuant to which the group recovery plan shall identify measures that may be required to be implemented at the level of the parent entity and each individual subsidiary³.
3. Another issue to be taken into account is that some competent authorities have, in the past, requested individual plans from the legal entities established in their respective jurisdictions, and therefore had, in many cases, detailed information on recovery arrangements envisaged for these entities. Following the BRRD implementation, there is now a need to ensure that data and information required for the elaboration of an effective and efficient group recovery plan are fully shared between all competent authorities concerned and smoothly transferred into the group recovery plan.
4. This information misalignment has contributed to difficulties in reaching joint decisions on group recovery plans, has led to frequent disagreements among competent authorities and in several cases has resulted in individual decisions being made in the absence of joint decisions.
5. To encourage supervisors to reach a joint decision for a comprehensive and exhaustive group recovery plan that also presents enough information on the individual entities, and to ensure that information on recovery planning is not lost, the recommendations also provide for an adjustment phase for the next recovery planning cycle. During this phase within the joint decision process, home and host competent authorities may decide that gaps in the coverage of material entities and branches in the group recovery plan can be addressed through existing individual plans, drawn up in full consistency with the group plan, until such gaps are fully rectified by the Union parent undertaking within the group plan and all the important information on relevant entities and branches is migrated to the group recovery plan.
6. After this adjustment period the consolidating supervisor and the competent authorities involved in the joint decision process referred to in Article 8 of Directive 2014/59/EU should not request the

²See [Comparative report on the approach to determining critical functions and core business lines in recovery plans \(March 2015\)](#), [Comparative report on the approach taken on recovery plan scenarios \(December 2015\)](#) and [Comparative report on governance arrangements and recovery indicators \(July 2016\)](#)

³ See Art. 7(1) of BRRD

submission of individual plans only to address the lack of coverage of entities in the group recovery plan.

7. The recommendations aim, therefore, to achieve harmonisation with regard to the group entities that should be covered in the group recovery plan as well as to the extent of their appropriate coverage. In that regard, the recommendations aim to significantly increase the quality, credibility and efficiency of the group recovery plans and consequently, to limit the need for individual plans for entities belonging to groups and further facilitate the joint decision-making process referred to in Article 8 of Directive 2014/59/EU.
8. Finally, the recommendations also clarify how material branches should be covered in the group recovery plan. Material branches that are relevant for the group or for the economy including for the financial system of one or more Member States, should be identified and covered in the plan, either as part of the legal entity to which they belong, or independently where this is deemed appropriate on the basis of the structure of the group, also having regard to its monitoring, escalation and decision-making procedures as well as the implementation of the recovery options. In the former case the coverage of that legal entity should also include, where appropriate, specific information related to the branch. In accordance with EBA-GL-2017-14, significant+ branches are those that have been deemed significant in accordance with Article 51 of Directive 2013/36/EU and are to be considered as relevant, either for the group or for the local economy, and hence material. In accordance with EBA-GL-2017-14, it is communicated to the Union parent undertaking when a branch is considered significant+. Therefore, it is expected that these branches should also be regarded as group- or locally relevant branches, and hence material, for the purposes of this recommendation.

Recommendation

EBA/Rec/2017/02

Recommendation on the coverage of entities in the group recovery plan

1. Compliance and reporting obligations

Status of this recommendation

1. This document contains recommendations issued pursuant to Article 16 of Regulation (EU) No 1093/2010⁴. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the recommendations.
2. Recommendations set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom recommendations apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where recommendations are directed primarily at institutions.

Reporting requirements

3. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA that they comply or intend to comply with these recommendations, or otherwise give reasons for non-compliance, by ([dd.mm.yyyy]). In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference 'EBA/REC/2017/02'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to the EBA.
4. Notifications will be published on the EBA website, in line with Article 16(3).

⁴ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

2. Subject matter, scope and definitions

Subject matter

5. This recommendation specifies how legal entities and branches (entities or group entities) should be covered in the group recovery plan, drawn up and submitted in accordance with Articles 5 to 9 of Directive 2014/59/EU⁵, Articles 3 to 21 of Commission Delegated Regulation (EU) No 2016/1075⁶, EBA/GL/2015/02 on recovery plan indicators⁷ and EBA/GL/2014/06 on the range of recovery plan scenarios⁸.

Addressees

6. These recommendations are addressed to competent authorities as defined in Article 4(2) (i) of Regulation (EU) No 1093/2010 and in particular to the consolidating supervisor and the competent authorities referred to in Articles 5 to 9 of Directive 2014/59/EU for the purposes of the group recovery planning.
7. These recommendations are addressed to credit institutions as defined in Article 4(1) (1) of Regulation (EU) No 575/2010; mixed financial holding companies as defined in Article 4(21) of Regulation (EU) No 575/2013; and investment firms as defined in Article 4(1)(1) of Directive 2014/65/EU, and in particular to the Union parent undertakings and to the relevant group entities within the scope of prudential consolidation.

Scope of application

8. These recommendations apply to group recovery plans of groups under a parent undertaking established in the EU.
9. Competent authorities should ensure that credit institutions, mixed financial holding companies and investment firms, as referred to in paragraph 7, as well as financial holding companies, as defined in Article 4(20) of Regulation (EU) No 575/2013, comply with this recommendation.

⁵ OJ L 173/190

⁶ OJ L 184/1

⁷ Available at https://www.eba.europa.eu/documents/10180/1147256/EBA-GL-2015-02_EN+Guidelines+on+recovery+plan+indicators.pdf/485181d4-f8f1-4604-9a78-17a12164e793

⁸ Available at <https://www.eba.europa.eu/documents/10180/760136/EBA-GL-2014-06+Guidelines+on+Recovery+Plan+Scenarios.pdf>

Definitions

10. Unless otherwise specified, terms used and defined in Directives 2014/59/EU and 2013/36/EU and in the acts referred to in paragraph 5, have the same meaning in these recommendations.

3. Implementation

Date of application

11. These recommendations apply from 1 January 2018.

12. Only as far as the first initial recovery plan submission after the date of application of this recommendation is concerned, the consolidating supervisor and the competent authorities involved in the joint decision process referred to in Article 8 of Directive 2014/59/EU may decide not to apply paragraph 58 of this recommendation, where the following conditions are satisfied:

- (a) individual plans are deemed necessary to ensure a smooth migration to the group recovery plan of the recovery planning information currently available at the local level; and
- (b) these individual plans are communicated to the consolidating supervisor and are fully consistent with the group recovery plan.

4. Identification of group entities

13. For the purposes of the group recovery plan, the Union parent undertaking should identify all group entities, falling within the scope of prudential consolidation, including their branches. For group entities established in a third country, their coverage in the group recovery plan should also take into account, as appropriate, the applicable regime for recovery planning in the country of their establishment.

14. Institutions should identify branches that are relevant for the group or for the economy including for the financial system of one or more Member States, and subsequently cover them in accordance with Section 6, either as part of the legal entity that they belong to, or independently, where that is deemed appropriate on the basis of the structure of the group. This should take into account monitoring, escalation and decision-making procedures as well as the implementation of the recovery options. In the former case the coverage of that legal entity

also needs to include, where appropriate, the specific information related to the branch. The Union parent undertaking should in both cases ensure that any branch-specific information necessary as per Section 6 is effectively included in the group recovery plan.

15. Branches that have been identified as significant – plus in accordance with the EBA-GL-2017-14 should be covered in the group recovery plan as a material entity, being relevant either for the group or for the local economy.
16. Branches which are not material because they are not relevant for the group nor for the economy of any Member State need not be identified in the group recovery plan separately from the legal entity to which they belong.
17. Similarly, entities that are designated as O-SII (Other-Systemically Important Institutions), should also be individually and specifically covered in the group recovery plan being either group relevant entities or locally relevant entities.
18. The Recommendation addresses the coverage of entities within a group recovery plan for groups under a Union parent undertaking. Given this, branches of institutions that have their head office in a third country, are outside the scope of application of this recommendation. However, within the regular supervisory cooperation among competent authorities, EU authorities can collaborate with non-EU authorities in order to ensure that appropriate procedures are in place to deal with potential financial distress of non-EEA branches, especially if this can have a significant impact on the financial stability of a Member State or the EU as a whole.

5. Classifying entities and branches

19. On the basis of the strategic analysis performed in accordance with Article 7 of Commission Delegated Regulation (EU) No 2016/1075, and in particular on the basis of the mapping of the core business lines and critical functions⁹ to the legal entities and branches of the group in accordance with paragraph 1 (b) of that article, the Union parent undertaking should ensure that the group entities identified as per this section are classified into the following categories:

- (a) entities that are relevant for the group ('group-relevant entities');
- (b) entities that are relevant for the economy, including for the financial system, of one or more Member States ('locally relevant entities'); and
- (c) entities that are not relevant for the group or for the economy of any Member State.

⁹ See also COM DR 1075/2016 on definition of Critical Functions and Core Business Lines

20. The Union parent undertaking should designate as relevant for the group any entity that meets one or more of the conditions of Article 7 (2) (a-e) of Commission Delegated Regulation (EU) 2016/1075, regardless of the relevance of this entity for the economy, including for the financial system, of any Member State.
21. The Union parent undertaking should designate as relevant for the economy, including for the financial system, of one or more Member States any entity that, without being -relevant for the group in the meaning of the previous paragraph, is nevertheless, on account of the critical functions which it performs as per the mapping referred to in Article 7 (1) (b) of Commission Delegated Regulation (EU) No 2016/1075, important for the economy, including for the financial system, of one or more Member States¹⁰.
22. The Union parent undertaking should designate as relevant neither for the group nor for the economy of any Member State, any group entity falling outside the categories referred to in the previous two paragraphs.
23. The Union parent undertaking should ensure that the coverage of group entities in the group recovery plan is carried out in a way that results in a single, complete, integrated and fully consistent recovery plan for the group as a whole.
24. The Union parent undertaking should involve the management of those group entities that have been designated as material being group or locally relevant, both in the preparation and in the approval phase of the group recovery plan. The Union parent undertaking should ensure that the relevant management is well aware of the group recovery plan, has provided relevant input and is committed to its implementation.

¹⁰ The analysis of Critical Shared Services (CSS) can be useful to define critical functions. For an extensive review and guidance, see the EBA Technical advice on the identification of critical functions and core business lines

6. Coverage of entities in the group recovery plan

6.1 Group-relevant entities

25. The Union parent undertaking should ensure that all group relevant entities are adequately addressed in an extensive and detailed manner, in all sections of the group recovery plan, and in accordance with the following paragraphs.

a. GOVERNANCE

26. Governance arrangements and escalation procedures should be elaborated in such a way as to describe the decision-making process across the group. This should be ensured in a way that enables competent authorities to see the flow of decision-making and decision-execution processes and the input that is to be provided for informing the decisions, both with respect to the flow of information from the parent undertaking to the entities and vice versa.

27. The group recovery plan should provide clarity on its development, adoption, review and update, including the involvement of functions at the level of the subsidiaries and the coordination with the corresponding functions of the Union parent undertaking. Furthermore, it should be ensured that the management of the entity is adequately involved in the decision on the group plan, at least concerning the parts relevant for that particular entity.

28. The group recovery plan should also clarify how the conditions and procedures necessary to ensure the timely implementation of recovery options at the level of relevant entities are coordinated with those at the Union parent undertaking level. It should be ensured, to the extent possible in accordance with local regulations, that both the parent undertaking and the relevant entities operate in line with the group recovery plan, to avoid misaligned and inconsistent actions.

29. While assessing the group recovery plan, competent authorities should be able to quickly identify the consistency of internal escalation and decision-making processes that apply when recovery indicators have been met. Thus, governance arrangements and escalation procedures should be adequately specified for all entities for which the recovery plan contains (entity-level) recovery indicators. In particular, the recovery plan should describe how timely and adequate notification of the consolidating supervisor and the competent authorities of subsidiaries and branches will be ensured.

30. Finally, adequate information should be provided on the level of interconnectedness of these entities with the rest of the group, the economy and the financial system of their respective Member States.

b. INDICATORS

31. For group-relevant entities, recovery indicators should be considered at entity-specific level, e.g. depending on the business and governance model of the group. If such entity-specific indicators are considered relevant, they should be included in the group recovery plan, in addition to those specified at the group level to which the EBA Guidelines on recovery indicators apply¹¹. Such indicators should be appropriately chosen and calibrated to reflect the specificities of the entities and should be accompanied by appropriate escalation procedures.

32. In addition, the group recovery plan should consider relevant entity-specific recovery plan indicators for entities that support core business lines and critical functions.

c. OPTIONS

33. The group recovery plan should include a sufficient number of credible options that could restore the group and its entities to viability following a stress situation. This may include, where appropriate, the orderly divestment of an entity identified as group relevant or locally relevant. Where an entity carries out critical functions, the Union parent undertaking should clarify how any critical functions provided by that entity will be preserved during the divestment process.

34. The choice of appropriate recovery options among group-wide or entity-specific actions should be consistent with how the group is organised both in terms of its business model, internal governance and, where relevant, local regulatory requirements. To that end, the group recovery plan should include an estimate of the possible impact that the implementation of each recovery option is expected to have, not just on the entity where the option is activated, but on all potentially affected group-relevant entities. It should have a particular focus on the implications for the continuity of the critical functions and other group interdependencies.

35. This includes an analysis of any internal and/or external communication needs, resulting in a communication plan as part of the implementation of each option where appropriate.

d. SCENARIOS

36. While the need to design separate and specific scenarios for these entities should proportionately depend on the business model of the group, the impact of group-wide or local scenarios on group-relevant entities should be clearly set out in the group recovery plan.

37. Where the business model of a group-relevant entity is unique and there is little interaction between entities, so that a group-wide scenario would not capture all risks involved, then entity-specific scenarios might be included as far as appropriate in the group recovery plan. Where core business lines and critical functions performed by such entities are already covered by group scenarios, it is not necessary to design separate scenarios for those group-relevant entities.

¹¹ See [EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators](#)

38. When appropriate, the group recovery plan might also include one scenario where economic or financial distress is generated at the level of the Member State of the individual entity, but then spreads to the group, and might prevent the Union parent undertaking from supporting the individual entity.

6.2 Locally relevant entities

39. For locally relevant group entities, the group recovery plan should focus on restoring the financial position and ensuring operational continuity, thereby ensuring that critical functions are preserved in the event of distress. To that end, all critical functions of these entities should be identified in the group recovery plan.

a. GOVERNANCE

40. The focus for the locally relevant entities in the group recovery plan should be on the escalation procedures, differentiating between instances when it is necessary to move the decision-making process from the entity to the Union parent undertaking and when the parent is informed of but not involved in the decisions. Governance arrangements and escalation procedures should be described for all the entities for which recovery plan indicators at entity level are considered necessary. Specifying governance arrangements (as per Article 5(1)(a) of Commission Delegated Regulation (EU) No 2016/1075) for the development and maintenance of the plan in respect of the individual entity should not be considered necessary¹², except where a different assessment is made in the context of the joint decision process referred to in Article 8 of Directive 2014/59/EU.

41. The group recovery plan should include enough information on internal escalation and decision-making procedures and on the consistency between governance arrangements, allowing the possibility for the recovery plan to be activated, both at level of the group entity and at the level of the Union parent undertaking. Where, in accordance with the plan, activation can also take place at the level of the group entities, the local management of these entities should also be involved in the decision-making process, and such evidence should be included in the plan¹³.

42. The group recovery plan should also provide clarity on the ability of the group to effectively implement recovery options at the local level where necessary, as well as on those options that are implemented at the group level but have an impact on local critical functions. The recovery plan should give information on the conditions under which the group management can effectively implement recovery options at the local level and, where relevant, how local management and local competent authorities are involved. Furthermore, it should be ensured that the management of the entity is adequately involved in drafting the group plan, at least concerning the parts relevant to the specific entity.

¹² The fact that governance arrangements for maintenance and update of the recovery plan may not be deemed necessary does not absolve the institution from submitting the recovery plan according to the provisions set out in Articles 5-8 of the BRRD

¹³ Involvement of local management can take different forms, e.g. local approval of the group recovery plan, non-binding opinions, etc

b. INDICATORS

43. For the purposes of the group recovery plan, the inclusion of indicators for entities to which critical functions are mapped should be considered.
44. Where the inclusion of entity-specific indicators, as referred to in the previous paragraph, has been considered necessary, such indicators should be appropriately calibrated to reflect the specificities of the entities as well as any residual entity-specific risks, and be accompanied by appropriate escalation procedures.

c. OPTIONS

45. The group plan should include a sufficient amount of credible options that could restore the group and its entities to viability following a stress situation. This may include where appropriate, the orderly divestment of an entity identified as locally relevant. Where an entity carries out critical functions the Union parent undertaking should clarify how any critical functions provided by that entity will be preserved during the divestment process.
46. The choice of appropriate recovery options among group-wide or entity-specific actions should be consistent with the objective to preserve critical functions provided by the entity taking into account how the group is organised in terms both of its business model and internal governance and, where relevant, local regulatory requirements. To that end, the group recovery plan should include an assessment of key recovery options with a particular focus on the implications for the continuity of the critical functions, taking into account all relevant group interdependencies.

d. SCENARIOS

47. Specific scenarios relating to the locally relevant entity should not be considered as necessary, as long as the impact of group-wide scenarios is also deemed significant for these entities.
48. If relevant, the group recovery plan might also include one scenario where economic distress is generated at the level of the Member State of the individual entity, but then spreads to the group, and might prevent the Union parent undertaking from supporting the individual entity.
49. It should be ensured that the group-wide scenarios allow the Union parent undertaking, the locally relevant entity and the competent authorities to assess the impact of distress in their jurisdictions, to the extent relevant.

6.3 Entities not relevant for the group or the economy of a Member State

50. Coverage of those entities in the group recovery plan should be concise, for example by means of a chart or table, and should focus on information necessary to identify those entities and briefly describe their position in the group's overall strategy. To this end, the plan should, where appropriate and in a general manner, ensure that governance arrangements allow information

on a distress situation at the local level to be swiftly transmitted upwards to the parent undertaking and the relevant competent authority and vice versa. Any significant impacts of recovery options on these entities should generally be noted in the group recovery plan, where appropriate, taking into account the group structure.

7. Monitoring coverage of group entities

51. When reviewing (assessing) the group recovery plan in accordance with the joint decision process referred to in Article 8 of Directive 2014/59/EU, the consolidating supervisor should ensure that group entities are identified and covered in the group recovery plan in accordance with this recommendation.
52. Where the set of entities identified in the group recovery plan differ from the information that the consolidating supervisor has on the basis of the mapping conducted and updated in accordance with Article 2 of Commission Delegated Regulation (EU) No 2016/98¹⁴ and Article 2 of Commission Implementing Regulation (EU) No 2016/99¹⁵, the consolidating supervisor should ask the Union parent undertaking to clarify and, where appropriate, to remedy the inconsistency.
53. When assessing how the information about the different entities of a group is actually organized and presented within the group recovery plan, the consolidating supervisor and the competent authorities involved in the joint decision should take into account the particular business model of the group and the consequent resolution strategy (i.e. SPE, Single Point of Entry or MPE, Multiple Point of Entry). While the degree of integration of information on individual entities with the rest of the plan might differ, institutions should always ensure that the information provided is consistent throughout the plan.
54. Where the coverage of entities in the group recovery plan is not in accordance with these recommendations, the consolidating supervisor and the competent authorities involved in the joint decision process referred to in Article 8 of Directive 2014/59/EU should seek to ensure that this lack of information is duly noted in the joint decision document together with the agreed timeline for that shortfall to be rectified by the Union parent undertaking.
55. The consolidating supervisor should take into consideration the views of the competent authorities involved in the joint decision process for the assessment of the group recovery plan in order to reflect their concerns regarding the adequate coverage of certain entities. In

¹⁴ OJ L 21/2

¹⁵ OJ L 21/2

particular, the consolidating supervisor should duly take into account the opinion of the competent authority of the Member State in which a group or locally relevant entity is established, on the lack of coverage of entities in the group recovery plan.

56. The findings on a lack of coverage included in the joint decision document should be communicated by the consolidating supervisor to the Union parent undertaking together with all the necessary steps and the relative timeline that the Union parent undertaking should take in order to rectify that deficiency in subsequent updates of the group recovery plan. The feedback received from the Union parent undertaking should be communicated to the competent authorities involved in the joint decision process.
57. In severe cases, the consolidating supervisor and the competent authorities should endeavour to assess whether or not the lack of coverage referred to in paragraph 54 should be considered as a material deficiency of the group recovery plan: in such an occurrence, the process outlined in Article 6(5) and 6(6) of the BRRD should be followed.
58. Without prejudice to paragraph 12, the consolidating supervisor and the competent authorities involved in the joint decision process referred to in Article 8 of the BRRD should not request the submission of individual plans for the sole purpose of addressing insufficient coverage of entities in the group recovery plan as referred to in the previous paragraphs.
59. The EBA should monitor the implementation of this recommendation, to assess the improvement in achieving consistent and efficient recovery planning arrangements for EU institutions. To this extent, competent authorities should provide the EBA with the relevant information needed for this monitoring.

8. Accompanying documents

8.1 Draft cost-benefit analysis / impact assessment

60. Articles 7 and 8 of the BRRD outline the tasks and powers of consolidating supervisors and competent authorities of relevant subsidiaries and branches in the assessment of group recovery plans.

61. Group recovery plans, according to these articles, shall be prepared at the group level and identify measures that may be required to be implemented at the level of the Union parent undertaking and each individual subsidiary. Article 8 of the BRRD also gives the EBA the mandate to assist competent authorities, under potential disagreements, to reach a joint decision and an agreement in relation to the assessment of the recovery plans. Within this framework, the current recommendations are the EBA's own initiative under the scope of Articles 7 and 8 in order to complement the Level 1 text of the BRRD.

62. Article 16(2) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council) provides that the EBA should carry out an analysis (Impact Assessment, IA) of the potential related costs and benefits of any guideline or recommendation it develops. This analysis shall provide the reader with an overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impact of these options..

63. This section presents the Impact Assessment with cost-benefit analysis of the policy options included in the recommendations described in this Consultation Paper. Given the nature of the study, the IA is high-level and qualitative in nature.

A. Problem identification

64. The preparation of group recovery plans has often been dominated by the parent institution, with little emphasis on further legal entities in the group. Clearly, lack of information for recovery arrangements at the subsidiary level creates a criticality for competent authorities in terms of their knowledge and understanding of recovery arrangements of the entities they supervise, as the group plans might dismiss important information that is also crucial for the recovery process at the subsidiary level. Furthermore, lack of adequate information on relevant subsidiaries might adversely affect the joint decision process between the consolidating supervisors and the competent authorities.

65. Group level recovery plans that ignore adequate and proportionate analysis of subsidiaries and branches may lead to further problems, such as:

- asymmetric information within the supervisory colleges when dealing with cross-border cases,

- lack of efficiency and effectiveness in the assessment and review of the recovery plans, and
- lack of credibility of the proposed recovery measures

66. Articles 7 and 8 of the BRRD do not specify the conditions under which entities and branches are treated within the supervisory colleges in relation to the assessment and review of the recovery plans. On the other hand, it would not be reasonable to expect the same level of detail regardless of the relevance of the entities for the group or for the local economy or financial stability.

67. The lack of further specification in the preparation and assessment of the recovery plans may lead to different treatment of cross-border groups across EU Member states, thus endangering the level playing field

B. Policy objectives

68. The main objective of the current draft recommendation is to avoid a fragmented approach to obtaining information on groups and relevant subsidiaries and encourage a smooth and effective joint decision process within supervisory colleges during the assessment and review of the recovery plans. In order to achieve this, the current draft recommendation provides a classification of entities belonging to a group into three categories according to their relevance and establishes a framework for group recovery plans that include different level of details according to such relevance.

69. By establishing a common framework for the supervisory authorities, these recommendations are further expected to reinforce cooperation within supervisory colleges, facilitate joint-decision making and harmonise different practices across EU Member States.

70. As a result, the specific objective of the recommendation is to:

- provide an EU-common framework for the adequate coverage of entities in group recovery plans according to their relevance, i.e. whether the entity is relevant for the group and/or for the local economy or less relevant.

71. The general objectives of the recommendations are to:

- support effective and efficient recovery planning;
- facilitate the assessment and review of recovery plans.
- provide prudent and risk-based supervision of the relevant entities to avoid potential adverse impact of financial dysfunctions.

C. Baseline scenario

72. After the introduction of the BRRD, all institutions must prepare and submit recovery plans within their jurisdictions. Most of these institutions are expected to fall under the scope of the current recommendations.¹⁶ In the case of groups, the recovery plan should provide information on measures to be implemented both at group level and at the level of each individual subsidiary; further efforts to comply with the provisions of the current draft recommendation are expected to be a lesser burden for these institutions than to the previous situation.

D. Options considered

73. The major decision during the preparation of the current draft recommendations was the coverage of entities according to their relevance. The following options have been considered:

- Option 1: an exhaustive list of criteria for the identification of the relevance of the entity
- Option 2: a non-exhaustive list of criteria for the identification of the relevance of the entity

E. Assessment of the options and the preferred option(s)

74. Option 1 suggests that the supervisors should consider the relevance assessment of the entity under a fixed set of criteria. This would require the introduction of a specific and detailed set of criteria both to incorporate the differences between group relevance and local economy relevance and under each of these criteria, since the level of relevance may differ by entity within the group under a specific criterion. An introduction of an exhaustive list of criteria for the assessment would lack flexibility and room for the institutions and the supervisors to address potential idiosyncratic challenges. The potential cost of compliance with a specific and detailed set of exhaustive criteria is expected to be high for the institutions and the supervisors

75. Option 2 suggests that the supervisors should consider the relevance assessment of the entity under a minimum set of criteria. In practice this gives both institutions and supervisors flexibility to add institution-specific elements or criteria that are specific to the local economy. It is therefore expected that option 2 would address the problems of the current framework related to potential fragmentation and exclusion of local information (as presented under the section on problem identification) in the most cost-effective way. Under option 2 the regulatory framework sets out the minimum criteria without being too prescriptive and would accommodate institutions-specific characteristics at lowest cost. Option 2 is therefore chosen as the preferred option.

¹⁶ Note that, on account of the current stage of the implementation of the BRRD and the recovery plans it is difficult, to estimate the exact number of institutions that would fall within the scope of the current draft recommendations.

8.2 Overview of questions for consultation

1. Do respondents agree with the level and width of coverage for entities identified as group relevant?
2. Do respondents agree with the level and width of coverage for entities identified as locally relevant?
3. Do respondents agree with the level and width of coverage for entities identified as not relevant for the group and not relevant for the local economy/local financial system?
4. Do respondents agree with the monitoring process envisaged in section 7 and with the transitional phase envisaged in paragraph 12?

8.3 Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper. The consultation period lasted three months from 3 March to 3 June 2017. Altogether, the EBA received nine responses to the consultation with seven responses published on the EBA website and two responses that were requested to be treated as confidential. The EBA Banking Stakeholders Group did not provide its opinion.

This section presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

In many cases, several industry bodies made similar comments. In such cases, the comments, and the EBA's analysis, are included in the section of this paper where the EBA considers them most appropriate.

Changes to the recommendation have been incorporated as a result of the responses received during the public consultation

Summary of key issues and the EBA's response

Overall, respondents welcomed the draft recommendation noting that the proposed approach, which allows the achievement of greater consistency and completeness in the level of information provided by entities in their group recovery plans, enhances credibility and effectiveness of recovery planning arrangements. Moreover, it was also acknowledged that greater clarity on the appropriate coverage of recovery plans should provide improved efficiency and greater consistency across jurisdictions.

However, a number of respondents argued that the recommendation should take into account the existence of different business models (decentralised versus centralised), and acknowledge the existence of different resolution strategies, Multiple Point of Entry (MPE) and Single Point of Entry (SPE). To this extent, it was noted that idiosyncratic organisational structure and resolution strategy might lead to different practices when developing and presenting group recovery plans. It was therefore asked that the final wording should be sufficiently flexible to accommodate for the idiosyncratic nature of decentralized groups.

A few respondents opposed the approach of aiming at a single, complete and integrated recovery plan, as the BRRD explicitly provides for the possibility of a recovery plan on an individual basis for institutions that are part of a group.

A number of comments focused on whether or not a branch from a third country but operating in the EU should develop a specific recovery plan and whether or not, in the case of a group headquartered in the EU, the group recovery plan should also cover entities domiciled in third countries.

The scope of application of this recommendation (and, more generally, of the recovery plan) also attracted some attention: on the one hand, some respondents argued that the level of coverage should be dependent on whether or not a group entity holds a banking licence. On the other hand, a few respondents argued that banks should not be required to list all their entities or to comment on entities deemed not relevant or material for the group, the local economy or the local financial system, and that the inclusion of non-relevant entities should be avoided since this would neither increase the quality of the plan nor help regulators to assess it.

It was also asked whether or not there should be a link or dependency between intra-group financial support and entity classification. In particular, respondents asked whether the group recovery plan should feature intragroup financial arrangements for all entities that are group relevant and to subordinate the need to have recovery measures available at entity level to the existence of intragroup financing agreements.

Finally, there were concerns that the introduction of an adjustment period to allow for the migration to the group recovery plan of the information currently available at individual level might introduce a parallel process that is not envisaged by primary legislation.

The EBA carefully examined all the comments received (see table below) and amended the text of the Recommendation accordingly, where necessary and deemed appropriate. In particular, it was clarified that supervisors should take into account the particular business model of the group and the consequent resolution strategy (i.e. SPE, Single Point of Entry or MPE, Multiple Point of Entry) when assessing how the information about the different entities is presented within the group recovery plan.

It was also clarified that the scope of application of this recommendation covers the whole perimeter of prudential consolidation, so that (within the proportionate approach envisaged in the recommendation) all the entities included in the scope of prudential consolidation should feature in the group recovery plan, including the ones domiciled in third countries, for which the requirements imposed by third country supervisors should also be taken into account. The recommendation does not deal with branches of third country credit institutions, given that its scope of application refers to groups in the EU. However, it is now recognised that within the cooperation among supervisors, EU competent authorities should co-operate with non-EU supervisors in order to ensure that appropriate procedures are in place to also deal with potential financial distress of non-EEA branches, especially if this can have relevant effects on the financial stability of a Member State or the EU as a whole.

With regard to the process, it is now made explicit that the way in which any material deficiencies in a recovery plan should be treated is already provided for in Article 6 of the BRRD. Thus, if a plan is deemed to be deficient (for lack of coverage or any other reasons), this should be notified to the parent company and properly addressed in a resubmission (material deficiency) or in the next recovery cycle (non-material deficiency). The wording about the possibility not to apply this recommendation during an adjustment phase has also been changed in order to avoid any potential misunderstandings about the possibility of introducing a parallel process.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
General	<p>A number of respondents argued that the recommendation should take into account the existence of different business models (decentralised versus centralised), and acknowledge the existence of different resolution strategies, Multiple Point of Entry (MPE) and Single Point of Entry (SPE). It was argued that the text of the recommendation should respect each banking group's organisational structure which leads to different practices in developing and presenting group recovery plans. To this end, it was argued that the final wording should be sufficiently flexible to accommodate the idiosyncratic nature of decentralised banking groups.</p> <p>In this regard, a couple of respondents suggested that either (a) the requirements on governance, indicators and options regarding coverage of entities identified as group relevant should either be waived for decentralised entities, so that the recommendation applies only to SPE models; or (b) the group recovery plan should merely represent the aggregation of the recovery plan for the parent entity and the corresponding recovery plans of each of the subsidiaries that could be included in an annex.</p>	<p>The EBA recognises that the way a cross-border group is organised also has a significant impact on how the relevant information is presented within a group recovery plan. The EBA strongly agrees that there is no one-size-fits all rule here, and that the institution submitting the group recovery plan has the possibility of adapting the information to the organisational structure of the group. For this reason, a dedicated paragraph has been included to consider different ways of presenting the information.</p> <p>However, the EBA notes that 'individual plans' are recovery plans stemming from the joint decision process as per Article 8 of the BRRD, either because supervisors agree on their need, for them or because they do not agree and one or more supervisors decide to ask for an individual plan. When information about the single entity is included in the annex of a group plan, these are not individual plans (and even the definition of 'local plans' might be misleading), rather separated and independent sections of the group recovery plan on local entities.</p>	<p>A dedicated paragraph (53) has been added, recognising that the way information is organised in the group recovery plan also depends on how the group is organised, including the consequent resolution strategy (MPE versus SPE)</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals	
General	One respondent argued that the recommendation is not warranted by the recovery planning provisions in the BRRD or by the policy objectives of effective group recovery planning.	<p>The BRRD (Article 7) provides that the group recovery plan shall consist of a recovery plan for the group headed by the Union parent undertaking as a whole and that the plan identifies measures that may be required to be implemented at the level of the Union parent undertaking and each individual subsidiary.</p> <p>Therefore, the EBA believes that effective recovery planning at group level would then require an appropriate coverage of all group entities. This approach was not always followed in the past, leaving competent authorities without adequate information on recovery planning for the entities under their supervisory competence. The recommendation aims precisely to solve this issue and is absolutely warranted and appropriate.</p>	No changes needed	
Possibility of individual plans	having	<p>A couple of respondents argued that the approach of aiming at a single, complete and integrated recovery plan for the group taken in the recommendation may conflict with primary legislation, as the BRRD explicitly envisages the possibility of a recovery plan on an individual basis for institutions that are part of a group. It is argued that the possibility of an individual recovery plan is not acknowledged. However, where an individual recovery plan exists (e.g. following a request by the local competent authority), the most efficient way to achieve proper coverage is by having such a local recovery plan annexed to a group plan.</p>	<p>The present recommendation does not prevent the possibility to have individual plans, as per Article 7.2 of the BRRD. It is indeed specified in the executive summary that <i>Requesting individual plans in the context of the joint decision process for reasons other than the adequate coverage of entities in the group recovery plan is not affected by these recommendations.</i></p> <p>However, the EBA agrees that when individual plans exist, they should be consistent and aligned with the group recovery plan.</p>	No changes needed

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Criteria to request individual plans	Two respondents argued that the recommendation does not provide guidance on the criteria for requesting individual plans, and would welcome a transparent set of criteria for the college of supervisors to decide which level of recovery plan (i.e. group only or also local) is most suitable	The recommendation focuses only on the content that should be included in group recovery plans with respect to individual entities, and does not cover the definition of criteria for the request of individual plans.	No changes needed
Classification of entities	One respondent asked for a link to be introduced between the analysis of critical functions and the classification of the entity as 'O-SII' or 'Significant +' branch, so that these entities would automatically fall into the category of 'locally relevant entities'	The EBA believes that information on individual entities should be adequate and proportional. To this extent, the text already clarifies that branches that are classified as 'significant +' should be covered either as group- or locally relevant entities; it will be clarified that O-SII entities should also be treated as group or locally relevant entities for recovery planning purposes.	Paragraph 17 has been amended to include reference to O-SII entities
Identification of group entities	One respondent suggested considering the existence of CSS (Critical Shared Services). In particular, it was asked whether entities providing the CSS should be considered for the purpose of this draft recommendation as 'locally relevant' 'group relevant' or whether an ad hoc category should be introduced.	The EBA Technical Advice on Critical Functions and Core Business Lines (EBA Op/2015/05) already clarifies that the designation of critical services should follow the identification of the critical functions for the real economy and financial markets, and clarifies the distinction between dedicated and shared services, in line with the concept developed earlier by the FSB. Therefore, entities providing CSS can belong to any of the three categories identified in the recommendation, according to the degree of criticality for the group or for the local economy.	No changes in the text needed, but footnote 10 has been added to provide adequate reference to CSS
Degree of involvement of management	One respondent asked to for clarification of the meaning of the sentence " <i>the union parent undertaking should involve the management</i> " in	The EBA believes that the group recovery plan should be owned by the senior management of the group, including the key decision makers at the level of individual entities. While there is no fixed prescription,	The sentence in paragraph 24 has been changed to specify that this also includes the

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	paragraph. 24, to understand whether the local approval of the recovery plan is mandatory	any arrangement that creates awareness within the management would be advisable.	preparation and the approval phase.
Treatment of foreign branches operating in the EU	A couple of respondents asked whether a branch from a third country (i.e. non-EU) but operating in the EU should develop a specific recovery plan, especially when the non-EU country of the parent has not (yet) adopted a recovery and resolution regime, so that the holding company has no group recovery plan in place	The recommendation addresses the coverage of entities within a group recovery plan for EU groups. Given this, non-EU branches are outside the scope of application of this recommendation. However, within a framework of good cooperation among supervisors, EU competent authorities should collaborate with non-EU supervisors in order to ensure that appropriate procedures are in place to deal with potential financial distress of third-country branches, especially if this can have relevant effect on the financial stability of a Member State or the EU as a whole.	This has been clarified with the addition of paragraph 18
Treatment of EU subsidiaries and branches located in third countries	A few respondents wondered if, in the case of an MPE bank headquartered in the EU, the group recovery plan should include indicators and measures regarding subsidiaries in the EU of a resolution entity based in a third country where the relevant recovery and resolution planning regimes may be different.	The group recovery plan should also cover entities based in third countries, as they are part of the same scope of prudential consolidation and are subject to consolidating supervision in accordance with the CRR. However, institutions should be aware of the potential requirements deriving from non EU supervisors regarding third country branches and subsidiaries.	Paragraph 7 clarifies that the recommendation is addressed to the Union parent undertakings and the group entities within the scope of prudential consolidation
Scope of application	One respondent argued that it is not realistic and practical to require banks to include all group and locally relevant entities into the group plans, as it will endanger the usability of the plan, adding little to its credibility. Thus, an open dialogue with the consolidating supervisor, which balances usability	Article 7(1) of the BRRD requires all entities to be covered in the group recovery plan. While the EBA welcomes the opportunity for supervisors to have an open dialogue when assessing the group recovery plan, the experience so far has also shown that it was often difficult to find a common agreement on how	No changes needed

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	and credibility and identifies areas where the group plan would benefit from information on individual entities is a better approach.	subsidiaries should be covered. The recommendation is therefore aimed at finding a common approach on how different types of entities should be covered.	
Scope of application and addressees	<p>Two respondents suggested to change the wording of paragraphs 6 and 7 with the aim of clarifying that the recommendation is addressed only to banking groups headquartered in the EU:</p> <p>6. This Recommendation applies to <i>EU parent</i> group recovery plans.</p> <p>7. This recommendation is addressed to competent authorities as defined in Article 4(2) (i) of Regulation (EU) No 1093/2010 and in particular to the consolidating supervisor and the competent authorities referred to in Articles 5 to 9 of the BRRD for the purposes of the <i>EU parent</i> group recovery planning.</p>	The comment makes sense and helps clarify the matter	Paragraph 8 has been amended to clarify that the recommendation is addressed to groups under a (Union) parent institution or (Union) parent undertaking established in the EU
Responses to questions in Consultation Paper EBA/CP/2017/03			
Question 1. Do respondents agree with the level and width of coverage for entities identified as group relevant?			
Type of entity (banking vs. non-banking)	Some respondents argued that the level of coverage should be dependent on whether or not a group entity holds a banking licence (especially with respect to Special Purpose Vehicles or entities operating in the fintech sector). It was argued that non-banking operating entities should be described only to understand their role within the group, but without detail on financial figures, options and indicators.	While the EBA is cognisant of the need of representing the entities within a group in the most efficient manner, according to Art. 7 BRRD, the group recovery plan “ <i>shall identify measures that may be required to be implemented at the level of the parent and each individual subsidiary</i> ”, where the latter is defined according to Article 1 and Article 2 of Directive 83 / 349 /EEC. This implies that all the undertakings within the perimeter of prudential consolidation should be included, regardless of the sector of activity. The	Paragraph 7 has been amended to specify that the recommendation covers entities within the prudential consolidation perimeter

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>More specifically, respondents also asked for differentiation between service entities that simply host non-banking operations from operating entities that take risks, arguing that service entities should be exempted from defining indicators, recovery measures and stress scenarios and other governance arrangements as they do not take risks and are therefore irrelevant from a group recovery perspective.</p>	<p>decision about the appropriate level of coverage will then be taken in accordance with the recommendation.</p> <p>Therefore, the sector where the entity operates is not relevant per se, but what really counts is the relevance in terms of impact on the group and/or the local economy. Articles 18(8) and 19(1) CRR provide that – beyond certain thresholds and - ancillary services undertakings shall, as a general rule, be included in the perimeter of prudential consolidation.</p> <p>However, paragraph 6.3 already clarifies that in the case of entities that are not relevant for the group, the information can be summarised in a chart or a table, in order to keep the document workable and readable.</p>	<p>No changes are needed to specify the sector of activity</p>
<p>Interconnection analysis and communication strategy</p>	<p>One respondent asked for guidance to be provided about the analysis of interconnections and the communication strategy required for group relevant entities</p>	<p>The EBA acknowledges that understanding the level of interconnectedness of an entity relevant for the group can be a significant part of sound recovery planning, which should be considered as part of the analysis of recovery options, as is already recognised in paragraph 32 (<i>“with a particular focus on the implications for the continuity of the critical functions and other group interdependencies”</i>). With regards to the communication strategy, the EBA believes that this should be considered when relevant for the scenarios.</p>	<p>Section 6.1 has been revised accordingly to accommodate the suggestion and provide a better clarification, adding paragraph 30 and paragraph 35</p>
<p>Intra-group financial support</p>	<p>Some respondents wondered whether or not there should be a link or dependency between intra-group financial support and entity classification. In particular it was asked whether:</p>	<p>The EBA acknowledges that the existence of an intragroup arrangement as per Article 19 BRRD would certainly help address the situation of financial distress. However, there is no need to require them a priori, for some entities of the Group. It is up to the institution to decide whether to include them or not as a recovery</p>	<p>No changes needed.</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<ul style="list-style-type: none"> the group recovery plan should feature intragroup financial arrangements for all entities that are group relevant in case group support arrangements are in place and that contribution from legal entities to the group recovery effort are quantified, it should be optional to provide recovery measures at legal entity level. It should be possible for the group recovery plan to explain in general terms how entities are supported and how the group support functions, rather than documenting escalation plans for each entity. 	<p>measure in the plan. For instance, there could be cases where there are many options available at local level and there is no need to have an intragroup arrangement.</p> <p>Moreover, while intragroup financing agreements are definitely important, they cannot be seen as a substitute for other recovery measures, as they might cover only a part of the capital/liquidity that is necessary to restore viability after distress. For this reason, the EBA preferred not to create an automatism for recovery options, thus avoiding being overly prescriptive in this respect.</p>	
Decision-making interaction between parent and subsidiary	<p>One respondent argued that decentralised banks are legally unable to include in their group recovery plan measures to be taken by the parent entity on behalf of their resolution entities/subsidiaries. Such decisions must be taken at the level of the subsidiary.</p> <p>Another respondent argued that if an entity is group-relevant and contributing to a group plan to such an extent that also its management has to be involved in the elaboration and approval, this is a clear indication that for this entity an ‘individual’ plan might be appropriate. It is however acknowledged that the stabilisation of the EU group level in case of distress might require measures subsequently executed by the parent</p>	<p>Parents companies’ powers of direction and coordination of the activities of the subsidiaries are clearly dependent on the corporate law framework of each Member State (and potentially of non EU countries). In any case, at least through the power of appointment of the board members and the influence that through voting rights in the general meeting or by other means every parent company has over its subsidiaries, the holding company is always able to indicate to its subsidiaries a course of action, especially in fundamental strategic decisions. If this influence is lacking, then the same concept of control is probably missing and a parent/subsidiary relationship does not seem to be in place.</p>	No changes needed.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	using its rights as an owner, so that the local management might be involved only in execution, but decision-making would reside at group level.	The EBA thinks that the decision to ask for individual plans should be left to the consolidating supervisor and the other competent authorities in the context of the joint decision on the group recovery plan. The involvement of local management is required, as it has to be aware of the recovery procedures of its entities.	No changes needed.
Level of coverage and systemic relevance	One respondent disagreed with the proposed coverage because the level of detail required in plans is not proportionate to the risk a legal entity or branch poses to the economy. To this extent, it was argued that the proposed wording implies that a bank will have to provide detailed information on some entities that are of no systemic importance.	The EBA believes that the approach taken in the recommendation is proportionate and strikes an appropriate balance between the need to have a usable plan and the need to include all the necessary information for institutions and supervisors in order to deal with a situation of distress. Some entities might not be systemically relevant (i.e. for the economy or the financial system of a Member State), but might be very relevant for the group, so their coverage should be appropriate.	No changes needed.
Criteria to define relevance	<p>A couple of respondent argued that the criteria in Article 7 of Commission Delegated Regulation (EU) No 2016/1075 are subjective and unlikely to be interpreted consistently by different firms, or by different competent authorities, leading to possible disagreement, and that more objective criteria should instead be followed.</p> <p>One of the respondents suggested that the overall framework will be more consistent if the definition of ‘group-relevant’ is based on whether or not an entity provides critical services that</p>	<p>The EBA believes that Article 7 of Commission Delegate Regulation (EU) No2016/1075 provides a detailed set of criteria to define the relevance of an entity. These criteria are not explicitly quantitative, and have been adopted to avoid being too prescriptive, leaving to the institution the task of identifying those entities that are relevant. Of course, this assessment can and will be challenged by the supervisors when they are assessing in the recovery plan.</p> <p>Finally, an entity providing critical services supporting critical functions might be classified not necessarily as</p>	No changes needed.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>support critical functions, as defined in EBA/Op/2015/05 (i.e. EBA technical advice to COM on CF and CBL). It was then suggested to change the criteria to identify the relevance of an entity so that an entity should be classified as relevant for the group if it provides a critical service to a group entity that provides a critical function to the economy of any Member State.</p>	<p>group relevant but only as locally relevant if those services/functions are critical only for the local economy, and not relevant for the group.</p>	
Treatment of relevant branches	<p>One respondent suggested that branch-specific regulatory requirements might be limited, and that consequently requirements of a recovery plan apply very differently to a branch and to a subsidiary with standalone management and under local supervision. It is suggested that the term “any branch-specific information necessary as per Section 6” might be read as covering all elements of Section 6 and should be qualified for example by adding ‘where they differ from the legal entity to which they belong to’.</p> <p>Another respondent recommended to the EBA, with respect to “significant +” branches, that it defines more precisely the criterion of the intensification test and establish precise thresholds in order to ensure a level playing field and the harmonisation of supervisory practices.</p>	<p>This is already done in paragraph 14, where it is said that branches <i>‘should be identified and subsequently covered in accordance with Section 6, either as part of the legal entity which they belong to, in which case the coverage of that legal entity needs to include, where appropriate, also the specifics needed in the context of the branch, or independently’</i></p> <p>This is not relevant in the context of this Recommendation, but would be more appropriate for the Guidelines on branches.</p>	No changes needed
Indicators	<p>One respondent argued that having all information in the recovery indicator system of a group plan might lose the focus on relevant information, and that, for entities supporting or</p>	<p>The EBA believes that the inclusion of local indicators in the group plan does not imply that the local management will not monitor them anymore. Rather, it aims to establish an internally consistent system.</p>	No changes needed

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>performing CF/CBL, an individual recovery plan is perhaps more appropriate.</p> <p>It was asked whether or not the mapping of indicators to core business lines and critical functions should also be done for group level indicators</p> <p>Other respondents argued that defining recovery indicators at legal entity level should be optional depending on the business and operating model of the group.</p> <p>One respondent suggested that entity-specific indicators should not be included in group recovery plans where these do not identify risks at the group level, as EBA-GL-2015 on recovery plan indicators states that <i>'recovery plan indicators of a group recovery plan should be applied at group level'</i></p>	<p>The recommendation provides that the group recovery plan should consider relevant entity-specific indicators for entities that support core business lines and critical functions. To this extent, this is no 'mapping' as such, but it is guidance to understand when it makes sense to include entity-specific indicators.</p> <p>This provision is already included, where it is said that <i>'recovery indicators should be considered at entity-specific level (...) and if such entity-specific indicators are considered relevant, they should be included in the group plan'</i>.</p> <p>The EBA believes that entity-specific indicators should precisely help identify risks at the local level. However, the possibility to include them is left to the institution, as it is said that <i>'recovery indicators should be considered at entity -specific level, and, if such entity-specific indicators are considered relevant, they should be included in the group recovery plan, in addition to those specified at the group level'</i>.</p>	<p>No changes needed</p> <p>No changes needed</p> <p>No changes needed</p>
Options	<p>Two respondents argued that – while agreeing with the need to have a sufficient number of credible options - the group recovery plan should <i>not</i> include an estimate of the possible impact that the implementation of each recovery option is expected to have, neither on the entity where the option is exercised, nor on all possibly affected</p>	<p>The EBA believes that the quantification of impact within the entity where the option is exercised is necessary to understand the amount of recovery capacity at local level; quantification of impact on other entities that might be affected is also relevant to understand the impact (If any) on critical functions.</p>	<p>No changes needed.</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>group-relevant entities with a particular focus on the continuity of critical functions and other group interdependencies</p> <p>According to one respondent, there may be some options that are credible and effective at legal entity level, but they should not be included in the group recovery plan if they are entity specific and will not enhance the group's ability to recover from a severe but plausible stress.</p> <p>One respondent suggested that the option considering the sale of a group relevant entity should not be mandatory. The banking group must have the say to decide in which scenario such an option must be considered, conditional on the approval of the recovery plan by the competent authority</p>	<p>The EBA believes that there might be some options that are not relevant at group level, but might be helpful in recovering the individual entity, and thus should be appropriately considered in the group plan</p> <p>The inclusion of such an option is not mandatory ('including'); however, the EBA recognised that the language can be made more clear.</p>	<p>No changes needed</p> <p>The language in paragraph 33 has been changed</p>
Scenarios	<p>One respondent suggested that the assessment of impacts of stress scenarios on relevant entities should be proportionate and should not require the simulation of all indicators at the legal entity level as this would be similar to creating legal entities stress scenarios.</p>	<p>Within the need to have a proportionate approach, the EBA recognises that, while there is no explicit need to have entity-specific scenarios, the impact at entity level should be noted clearly</p>	<p>No changes needed</p>
Indicators and scenarios when the subsidiary is in the same Member State	<p>A couple of respondents argued that the recommendation should take into account the cases where the group and locally relevant entities are located in the same country as the parent undertaking, wondering if the inclusion of group and locally relevant entities' indicators and</p>	<p>The EBA believes that indicators are entity-specific, regardless whether or not the entity and the parent are located in the same Member State. In fact, the entity can be located in the same Member State, but might be subject to different risks and thus might need to be tested through different scenarios and indicators (e.g. a</p>	<p>No changes needed</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	scenarios should not be required in such a circumstance.	<p>specialised lender, concentrated in specific market segments).</p> <p>The EBA recognises that there might be situations where the same scenario or the same macro-market indicators apply to the group and to one of the entities in the same Member State, and that synergies might result. However, this should be considered on a case-by-case basis.</p>	
Interaction with depositor protection and financial stability	<p>One respondent argued that the recommendation does not give enough consideration to the necessity of protecting the stability of host countries' financial markets.</p> <p>Indeed, it is argued that subsidiaries and branches should not be treated in the same way; in the case of branches the responsibility for protection of depositors stays with the country of the parent entity, while in the case of subsidiaries responsibility is transferred to the local Deposit Guarantee Scheme (DGS). Thus, when subsidiaries are relevant for the local market, individual recovery plans should be in place, as the responsibility for deposit falls within the local competent authority. It follows that, in order for both the management of a parent and that of a subsidiary to be assessed as fit and proper, they should ensure that group and individual recovery plans consistent with, and complementary to each other are in place. A group recovery plan should describe all actions that the parent undertaking expects to undertake towards the subsidiary in</p>	<p>The EBA strongly agrees that sound recovery planning arrangements are a key component to achieving solidity of the local banking system, thus providing protection to a wide range of stakeholders, including depositors. When it comes to the use of central bank facilities, Article 5(4) of the BRRD says that <i>'Recovery plans shall include, where applicable, an analysis of how and when an institution may apply, in the conditions addressed by the plan, for the use of central bank facilities and identify those assets which would be expected to qualify as collateral'</i>. To this extent, nothing prevents the inclusion of this option in the group recovery plan, if this ensures the viability of the local entity.</p> <p>It is also recalled that, according to Article 7(1) of BRRD, <i>'The group recovery plan shall identify measures that may be required to be implemented at the level of the Union parent undertaking and each individual subsidiary'</i>, thus allowing for the inclusion of central bank facility, if appropriate.</p>	No changes needed

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	the event of problems at group level, whereas an individual recovery plan should fulfil all conditions stemming from Article 5 of the BRRD.		
Question 2. Do respondents agree with the level and width of coverage for entities identified as locally relevant?			
Governance	One respondent asked the EBA to clarify the meaning of 'confirmation', i.e. the involvement of local management in the recovery plan	The EBA believes that the request makes sense, as the confirmation can take different forms, and thus it has been accommodated in the text	Inclusion of footnote 13 to clarify the term 'confirmation'
Non-EU entities	It is argued that existing requirements for non-EU entities to elaborate recovery plans in accordance with their national law should be considered.	The recommendation is aimed at groups under a (Union) parent institution or a (Union) parent undertaking established in the EU. When these institutions have subsidiaries or branches outside the EU, they should be adequately covered in accordance with this recommendation. In such a case, the existence of recovery plan requirements for the non-EU entities should also be considered	Paragraphs 7 and 8 have been changed accordingly
Presentation of information	Some respondents expressed concerns about the fact that large banking groups may have many locally-relevant entities, leading to a large volume of information, and asked if this information can be disclosed in an annex.	The EBA believes that the organisation of relevant information in the recovery plan very much depends on the organisation of the group itself. If the group is very integrated, then it is likely that this is also reflected in the presentation of information, and thus placing all information about entities in the annex might not be the most efficient strategy. However, this might be an efficient option in the case of a large number of non-relevant entities if the group is very decentralised	No changes needed. However, this is addressed in the paragraph 53 added to consider the different organisational structures
Definition of "locally relevant"	One respondent argued that the term 'locally relevant' may be misunderstood, and that	The term 'locally relevant' is purely a definition; the text of the recommendation clearly explains that this refers	No changes needed

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	<p>'economically relevant in the EU' is clearer. To avoid different interpretations, it is suggested simplify the criterion for relevance to be <i>'a legal entity or branch which provides a critical function to the economy of any Member State'</i>.</p>	<p>to entities that are relevant to the Members State's economy or financial system.</p>	
<p>Inclusion of locally relevant entities in the group plan</p>	<p>One respondent argued that the inclusion of the locally relevant entities in the group plan is needed only to the extent that it supports the assessment of the group plan, e.g. by making the impact on critical functions in the local economy visible. This does not require detailed inclusion of the entity as such. It is therefore concluded that the criteria stated for the assessment of whether or not an entity is relevant for the (local) economy might be used as well for determining if an individual recovery plan is appropriate.</p>	<p>The BRRD text provides that the group recovery plan should include all the entities, and does not allow for a selection. Moreover, the recommendation is not aimed at defining criteria to request individual plans</p>	<p>No changes needed.</p>
<p>Aim of the group plan</p>	<p>One respondent argued that the aim of the group recovery plan should not be to restore the financial health of locally relevant entities as stated in the recommendations but should focus on the continuity of the critical functions</p>	<p>While continuity of critical functions is surely one of the main concerns for supervisors when dealing with potential situation of financial distress, Article 7(1) of the BRRD says that the group recovery plan shall aim at the identification of measures to be implemented at the level of the Union parent and each individual subsidiary of the group as a whole, while Article 7(4) says that the group recovery plan shall aim to achieve the stabilisation of the group as a whole</p>	<p>No changes needed.</p>
<p>Continuity of critical functions</p>	<p>It should be possible to demonstrate that the continuity of the critical functions is ensured by the application of group arrangements rather</p>	<p>The EBA believes that the two issues are not in contradiction, i.e. the group recovery plan might envisage that continuity of critical function can be ensured by the application of certain group</p>	<p>No changes needed.</p>

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	than requiring the systematic development of local recovery measures	arrangements, and/or by implementation of certain recovery measures.	
Definition of locally-relevant entities	<p>Some respondents argued that the criteria to determine which entities must be deemed locally relevant must be clarified. In particular, paragraph 18 remains ambiguous since it does not provide a clear definition of those entities that are locally important on account of critical functions without being relevant for the group.</p> <p>One respondent proposed a definition of local relevance as follows: <i>'where the substitutability of their activities, services or operations is not provided in the locality of 50km or within 45 minutes of individual transportation'</i>.</p>	<p>The criteria for the definition of group or local relevance are in line with Article 7(1) (b) of Commission Delegated Regulation (EU) no 2016/1075, which leaves to the institution the task of identifying the relevant entities. The reference to already existing legislation helps to avoid a one-size-fits-all approach that might result in being too prescriptive and rigid. Moreover, the EBA believes that the definition of fixed threshold based on physical distance might not be the most suitable tool to identify criticality of functions, on account of different arrangements for different institutions.</p>	No changes needed.
indicators	One respondent argued that there is no need for entity-specific indicators, as group processes may well be triggered before an event is visible at the legal entity level.	While the interaction between group and local governance arrangements should be assessed on a case-by-case basis, it should be considered that if the crisis originates at local level, the presence of entity-specific indicators can be helpful to acting swiftly.	No changes needed.
Question 3. Do respondents agree with the level and width of coverage for entities identified as non-relevant?			
Scope of entities to be included	A few respondents argued that banks should not be required to list all their entities or comment on entities deemed not relevant or material to the group, local economy or local financial system, and that the inclusion of non-relevant entities should be discarded since this would neither	The EBA is well aware of the possible burden on groups with hundreds of entities; this is why the recommendation aims to keep the information in this respect to a minimum. However, the BRRD states that <i>'The group recovery plan shall identify measures that</i>	No changes needed.

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	<p>increase the quality of the plan nor help regulators to assess it</p> <p>It was then admitted that the inclusion of non-relevant entities might make sense if an entity is related to, for example, a specific recovery option or a critical shared service</p>	<p><i>may be required to be implemented at the level of the parent undertaking and <u>each individual subsidiary</u>.</i></p> <p>In order to limit the burden for institutions compiling the group recovery plan, it is specified that entities that are not relevant at group and at local level can be included by means of a chart or a table, where essential information is included.</p>	
Level of information	<p>One respondent disagreed with the amount of information proposed for this category of entity, arguing that a minimal set of information should be ensured in the group recovery plan, including at least:</p> <ol style="list-style-type: none"> 1. identification of core business lines and critical functions performed by a given subsidiary, in particular, those in relation to the local market, as well as essential from the group's point of view; 2. list of services provided by the group to a local subsidiary (outsourcing). Description of procedures and measures that enable continuation of performance of operations provided by the group in favour of the local entity in the event of stress situation of service providers; 3. recovery indicators defined at the level of the local subsidiary at least in the areas of capital and liquidity adequacy, efficiency/profitability and asset quality; 4. recovery options available in the event of stress situation of the local subsidiary, aimed at defining 	<p>The EBA agrees that a group recovery plan should aim at the stabilisation of the group and each individual subsidiary. However, it is also recognised that there is a need to have workable and practical recovery plans that could be easily used as reference during times of distress.</p> <p>If an entity is not material because it is not relevant for the group and it is not relevant for the local economy or the local financial system, then a minimum set of information should be sufficient.</p>	No changes needed.

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	<p>mitigation actions taken by the group vis-à-vis the subsidiary. Detailed options should indicate the amount of funds that are available to be engaged and maximum timeframe to implement the recovery options both in the course of the normal business of the entity, and in stressed conditions, as well as impact of recovery options on key indicators in the area of capital adequacy, liquidity and profitability;</p> <p>5. internal communication plan, which should be circulated to the subsidiaries as well as external communication (including with competent supervisory authorities)</p>		
Question 4: Do respondents agree with the monitoring process envisaged in section 7 and with the transitional phase envisaged in paragraph 12?			
Transitional period	<p>One respondent argued that for decentralised banking models the elimination of local plans and thus a transitional phase it is not envisaged. It instead advocated for a transitional stage to incorporate the necessary local plans as an annex to the corporate plan in compliance with the scope of entities subject to the EBA recommendation.</p>	<p>The EBA believes that this issue can be addressed in when dealing with the most appropriate way to organise the information with respect to the organisational structure. It is the EBA's understanding that the 'local plans' mentioned are the sections on the individual entities covered in the annex, and not individual plans as per Article 8 of the BRRD, which do not need specific provisions.</p>	No changes needed.
Transitional period and request for individual plans	<p>Two respondents proposed deleting paragraph 58 and instead include a transparent and consistent set of criteria to determine whether or not individual recovery plans are appropriate.</p> <p>Consequently, paragraph 12 should also be deleted, since there can be instances where an</p>	<p>The present recommendation is meant not to determine criteria for drafting an individual plan, but rather to provide guidance on how individual entities should be covered in the group recovery plan.</p> <p>A paragraph has been added to recognise the possibility of organising the information in the most efficient way</p>	No changes needed.

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	<p>individual recovery plan is the most appropriate way to ensure entity-specific governance, indicators and options, which would be brought together in one document, owned and understood by the management of an entity identified as being relevant in the context of recovery planning.</p> <p>It was added that not all local authority concerns in relation to entity specific matters should be addressed through the group plan as adding local recovery planning information will likely compromise the usability of the group plan</p>	<p>with respect to the organisational structure (MPE versus SPE). Moreover, while the approach taken is aimed at limiting excessive burden that might prevent the usability of the plan, the BRRD provides that the group recovery plan should aim at the stabilization of the group as a whole.</p>	
Transitional period	<p>One respondent disagreed with the inclusion of the transitional phase, as this is not envisaged in the BRRD for the request of individual recovery plans for subsidiaries. Moreover, it needs to be highlighted that the process of addressing deficiencies in recovery plans is laid down in detail in Article 6 of the BRRD, and no parallel process should be introduced by means of a recommendation.</p>	<p>The EBA strongly supports the process laid down in Article 6 of the BRRD to deal with material deficiencies, and it is actually this process that should be followed when recovery plans are materially deficient (because of lack of coverage or for other reasons).</p> <p>On the other hand, the EBA agrees that no parallel process should be introduced with respect to the one envisaged in Article 6 of the BRRD, so that the wording in paragraphs 57 and 58 has been clarified accordingly.</p>	<p>Changes have been introduced to the Executive Summary and to paragraphs 12, 57, 58 to better qualify the phase following the date of application of the Recommendation, and the need of relying on the procedure set out in Article 6 of the BRRD.</p>

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Lack of coverage and individual plans	<p>It was argued that the requirement that coverage shortfalls might contradict with Article 8(3) of the BRRD allowing for individual plans, adding that if competent authorities decide not to apply paragraph 51, it may result in having to prepare three recovery plans for certain jurisdictions: the group plan, the local plan required by the local authority, and the adaptation of the local plan to the group plan.</p>	<p>According to Art. 7 and 8 BRRD, the group recovery plan is aimed at the stabilisation of the group as whole, identifying measures to deal with situation of distress in each individual subsidiary. This implies that (recital 33 of the BRRD) the general rule for the group recovery plan is to identify measures for the parent institution and for all individual subsidiaries. The recommendation provides that insufficient coverage should be dealt with within the procedure set out in Article 6, and should not be seen as the sole ground to have individual plans. It has been clarified that the request for individual plans for reasons other than the lack of coverage of entities is not affected by this recommendation.</p>	No changes needed.
Involvement of third country authorities	<p>It is unclear how third country authorities will be involved. In particular with regard to large banks with global operations primarily outside the EU, it will be challenging for the authority of the parent to assess the quality of local recovery plans subject to the regulations of different jurisdictions. In addition, the suitability of sharing non-EU entity specific information with EU regulators other than the competent authority of the parent undertaking, might be questioned by third country competent authorities.</p>	<p>The EBA agrees about the need to have a consistent set of information within the recovery plan, even when this refers to entities that are not established in the EU.</p> <p>The assessment of a group recovery plan of a group whose parent is headquartered in EU is a task for the consolidating supervisor and the competent authorities that are members of the college.</p> <p>As for information sharing, Article 116 (6) of the CRD provides that <i>'third countries supervisory authorities where appropriate and subject to the confidentiality requirements that are equivalent [to the EU ones] (...) may participate in the college of supervisors'</i>. The modality of information sharing within the college setting is defined in the Written Coordination and Cooperation Agreements as per Article 115 of CRD.</p>	No changes needed.