



**EBA Consultation on Draft Regulatory Technical Standards
specifying the range of scenarios
to be used in recovery plans under the draft directive
establishing a framework for the recovery and resolution
of credit institutions and investment firms
(EBA/CP/2013/09)**

BNP PARIBAS CONTRIBUTION

Response sent by 20th August to: EBA
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BNP Paribas welcomes the opportunity to comment on the EBA Consultation on Draft Regulatory Technical Standards specifying the range of scenarios to be used in recovery plans under the draft directive establishing a framework for the recovery and resolution of credit institutions and investment firms, published on May 20, 2013.

GENERAL REMARKS

BNP Paribas recognizes that it can be useful for recovery options to be assessed against a number of different types of crisis scenario identified by the institution, and agrees that the recovery plan should include a summary table of the various recovery actions envisaged, showing their different impacts and suitability to the possible stress scenarios examined.

However, we believe that this RTS translates, in the detail of the requirements it contains, an over-reliance on scenarios as a yard-stick for the assessment of recovery plans. The rationale presented states (page 6) that *'the objective of the recovery plan is not to forecast the factors that could prompt a crisis'*, and yet the content of the RTS seems to be seeking to achieve precisely that objective.

The danger that is created by over-engineered scenarios is that there will be a temptation to create a ranking or hierarchy of recovery options for each particular scenario. We believe that this will give authorities a spurious sense of security. In reality, events will differ from any imagined scenario, and the identification of recovery options available to a G-SIFI in stress situations should be carried out independently of any predetermined plan of action, in the light of circumstances prevailing at the time.



We also note that the RTS applies both to solo and group level plans. We believe strongly, as already stated in other responses to EBA consultations, that solo or entity level recovery plans are an irrelevance for a large banking group. The essence of a large banking group is to have a diversified range of geographies and business lines, which give such groups considerably increased resilience and ability to divert resources to cope with stresses wherever they arise in the group. Local recovery plans to be implemented by local management can only make use of local resources over which such local management has control. Such plans are by definition less robust and of less comfort to local authorities than a group plan, which can call on group resources.

These general remarks are in many instances more fully developed in our detailed responses on the following pages.

A handwritten signature in blue ink, appearing to read 'Jean-Jacques Santini'.

Jean-Jacques Santini
BNP Paribas SA
Head of Group Public Affairs



DETAILED RESPONSES

Questions related to the draft RTS:

Q.01: Have you already drafted financial distress scenarios for the purpose of testing a recovery plan or are you in the process of doing so? If so, are these financial distress scenarios in line with the contents of the draft RTS?

Yes, BNP Paribas has been working on RRP since 2011 and has recently delivered a third version of its RRP to its home authority, the ACP.

The heart of our Recovery Plan is a wide range of recovery options which are in many cases extraordinary in nature and which would not generally be taken in the course of the institution's normal business, although they could constitute strategic options to remodel the group. These options are then assessed against generic scenarios incorporating both idiosyncratic and market wide stress. These scenarios take into account the potential impact of cross-border contagion in crisis situations and address capital shortfalls and liquidity pressures. They are not intended to be more probable or realistic than other scenarios, but to provide a back-drop against which the qualification of Recovery actions can be carried out. As they are considered to reach a severity that would bring BNP Paribas into a Recovery situation, they are clearly more extreme in their extent and in their consequences than those considered for enterprise and regulatory stress tests to date. However, they have not been run as precisely quantified stress test exercises, as we feel that would serve no useful purpose.

The feasibility and suitability of each recovery option is qualified according to each scenario. In addition, the specific impacts of each recovery option are tested under both benign and adverse circumstances, the latter taking in the hypothesis that the option might be executed at reduced price due to either idiosyncratic or market-wide distress.

However, we believe that the question as asked does not reflect the reality of recovery planning as practised by BNP Paribas. Recovery planning consists in identifying a wide range of potential options that can be assembled in varying ways (although, given their importance, it is inconceivable that all could be implemented at the same time) to respond to the circumstances prevailing at the time of entry into recovery. There is thus not a single plan to be tested against financial distress scenarios, but a range of options that can be assessed as being each more or less suited to one or more generic scenarios.

Q.02: Have you developed group or solo specific scenarios to test the adequacy of the recovery plan?

BNP Paribas has developed a Group Recovery Plan that includes Group-wide scenarios, as it strongly believes that recovery plans should be produced at the group level for large international institutions. The reasons for this are that we believe that even local shocks are better absorbed at central level where more diversified recovery options are available. Furthermore, the most far-reaching recovery actions may involve modification of the group's franchise, and therefore require a centralised approach.

We believe that local plans can only logically include actions that can be implemented by local



management using local resources. In most circumstances, a purely local crisis is perfectly capable of being managed by local and group management without there being any necessity for the group to enter into recovery. Were the local crisis to be of such severity that it could call into question the survival of a group, then the group recovery plan would need to be activated. The writing of local recovery plans therefore seems to BNP Paribas to be an irrelevance, and the creation of solo scenarios even more so.

Q.03: Do you believe that the draft RTS on the range of scenarios for recovery plans is adequate to ensure that firms test their recovery plans against a range of scenarios of financial distress?

The elements contained within Article 4 paragraphs 1, 2 and 3 seem to us to reflect the main elements that should be taken into account in design scenarios against which to assess the suitability of individual recovery options.

See also our response to question 1, we do not believe that it is recovery plans that should be assessed against scenarios, but individual recovery options.

Q.04: How many scenarios have you been required to develop to test the adequacy of the recovery plan? Have you included slow or fast moving events?

BNP Paribas' Recovery Plan uses three broad generic crisis scenarios, of which two are system-wide and one is idiosyncratic.

Although it would be possible to create a multitude of theoretical scenarios made up of successions of discrete events that could imaginably, by their compounding effect, bring BNP Paribas to the point of entry into Recovery, it was felt that such scenarios could be too directive in their description and would therefore have the draw-back of making the analysis of Recovery too prescriptive. It was felt preferable to use a small number of possible scenarios, described in general terms but nevertheless reflective of potential BNP Paribas risks and vulnerabilities, against which to assess the suitability of Recovery options.

We would point to Article 4.6, which links the number of scenarios to be used to the size and interconnectedness of an institution, as translating a misconception of the utility of scenarios. Why would a large institution, with diversified geographies and products that would give it resilience in a variety of scenarios, be required to test against a wider range of scenarios than a smaller and more specialised institution whose concentration may well make it vulnerable to multiple scenarios ?

Our belief is that the number, extent and credibility of recovery options is the key indicator of the adequacy of recovery plans, not the number of theoretical stress scenarios against which they may or may not have been tested. We certainly see no reason to link the number of scenarios to the size of institutions.



Q.05: Have you used reverse stress testing as a starting point for developing financial distress scenarios?

No, BNP Paribas has not run the above-mentioned three scenarios as stress testing exercises, as it is not believed that this would provide useful information for management or supervisory purposes. Such exercises are entirely dependent upon the severity of the assumptions made, and are unlikely to bear anything other than a passing resemblance to the circumstances of a real crisis situation that would lead to a recovery situation for BNP Paribas.

For the same reasons reverse stress-testing is not deemed useful. It is always possible to imagine scenarios that could bring an institution to the brink of recovery, but what matters is not whether such scenarios can be imagined, it is whether once in recovery, the institution has at its disposal a sufficiently wide range of options for it, and its supervisory authorities, to be reasonably confident that a recovery could be successful, whatever the circumstances that led to the entry into recovery.

Q.06: What are the additional costs to develop financial distress scenarios in respect to the current practices of reverse stress testing?

Not applicable: we do not believe in reverse stress testing as a useful complement to the identification of a wide range of recovery options, and we do not believe that distress scenarios should be developed in such detail as to generate any significant additional costs. This would be wasted effort and would provide false comfort, as reality will undoubtedly prove to be very different from scenarios imagined ex-ante.

Q.07: Do you believe that the events that institutions or groups need to consider and include where relevant are most suitable? If not, what other events ought to be taken into account?

BNP Paribas believes that the proposed draft RTS contain all relevant requirements and does not think that any significant elements are missing.

Q.08: Do you have any general or specific comments on the draft RTS?

No.

Q.09: Are the definitions and terminology used in the draft RTS clear?

Yes, subject to our point above on distinguishing between recovery options and recovery plans, which should be considered as different subsets of recovery options chosen to be the most appropriate to the circumstances of the entry into recovery.



Questions related to the impact assessment

Q.10: Do you agree that, for an institution, the costs of developing financial distress scenarios to test a recovery plan are likely to be proportional to the size/complexity of the firm and so of the costs its failure may create? If not, could you explain why?

No, we do not believe that scenarios should be developed in such detail that they would have significant additional costs, whatever the size of the institution

Q.11: Do you agree with our analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

We have no comment on the impact analysis.