

EBA consultation on ORC

High-level position paper – Executive summary

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The European Savings and Retail Banking Group (ESBG) submitted its response to the consultation launched by the European Banking Authority (EBA) in December 2023 on its draft guidelines which aim to harmonise the observed practices on the overall recovery capacity (ORC) determination and assessment, so as to improve the usability of recovery plans and make crisis preparedness more effective. The objective of the ORC is to provide a summary of the overall capability of the institution to restore its financial position after a significant deterioration by implementing suitable recovery options.

The definition of the near-default point should be clarified.

In its response, ESBG wanted the EBA to specify the requirements regarding the impact assessment of the recovery options and also to clarify the scenario severity. Scenarios are considered severe if they would lead institutions to the ‘near-default point’ in case no recovery options are implemented. Does this ‘near-default point’ refer to TSCR and TSLRR or alternatively either TSCR or TSLRR? ESBG also wanted to know whether breaching the near-default point corresponds to the Failing or Likely To Fail (FOLTF) point declared by the supervisor and the National Resolution Authorities (NRA) leading to resolution proceedings.

ESBG warns against the lack of level playing field for the determination of the ORC.

ESBG underpinned a lack of a level playing field for the determination of the ORC, although setting a harmonized FOLTF point may appear fair. High reported capital/liquidity ratios of banks increase the starting point for the scenario calculation. Hence, the necessity to decrease from a high capital/liquidity starting point to an FOLTF point assumes a stronger degradation of the general economic conditions which leads to more severe haircuts on recovery options and a lower ORC. Therefore, this is a clear disadvantage for banks with high or increasing capital/liquidity ratios. Furthermore, the timeframe (6 months) given to the institution to show their recovery capacity regarding the quantitative impact of the selected option on the liquidity position is too short, as the NSRF is a long-term liquidity metric.

The ORC score should be more realistic.

Finally, regarding the ORC score assessed by the competent authorities, ESBG believes that it is not realistic to fulfil all the buffers included into the recovery indicator levels in such a short period after such a severe crisis.