



BANKING SUPERVISION

BANKING RULES

*RECOVERY PLANS FOR CREDIT INSTITUTIONS
AUTHORISED UNDER THE BANKING ACT
(CAP. 371)*

RECOVERY PLANS FOR CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994

INTRODUCTION

1. In terms of article 4 of the Banking Act (Cap. 371 of the Laws of Malta) (hereinafter referred to as ‘the Act’) the Malta Financial Services Authority (‘the authority’ or ‘competent authority’) as defined in article 2 of the Malta Financial Services Act (Cap. 330 of the Laws of Malta) is empowered to make Banking Rules as may be required for carrying into effect any of the provisions of the Act. The authority may also amend or revoke such Banking Rules and any amendment or revocation thereof shall be officially communicated to credit institutions and the authority shall make copies thereof available to the public.
2. In accordance with article 4(7) of the Act, the authority may make, amend or revoke Banking Rules as may be required for the purpose of implementing any guidelines, recommendations and individual decisions issued by the European Banking Authority (hereinafter referred to as the ‘EBA’), as defined in article 2(1) of the Act, under Articles 16, 17(3) and 18(3) of Regulation (EU) No. 1093/2010 establishing a European Supervisory Authority (in such case the European Banking Authority).
3. This Rule is also being made pursuant to article 17B of the Act.

SCOPE AND APPLICATION

4. This Rule applies to all credit institutions in terms of the Recovery and Resolution Regulations (Subsidiary Legislation 330.09 and hereafter referred to as the ‘Regulations’) issued under the Malta Financial Services Authority Act (Chapter 330 of Laws of Malta) unless specified otherwise in this Rule.
5. This Rule shall not substitute any other law, unless otherwise specified, by which credit institutions subject to this Rule shall abide more specifically the applicable provisions in the Act, any other European and national legislation and the Regulations;
6. This Rule shall be read in conjunction with the *Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and*

conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges.

7. This Rule adopts and implements the requirements specified in the EBA *Guidelines on the range of scenarios to be used in recovery plans (EBA/GL/2014/06)* and the EBA *Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA/GL/2015/02)*, whilst also taking into considerations the EBA *Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02)*.

DEFINITIONS

8. For the purposes of the Rule, the term ‘credit institutions’ or ‘institutions’ shall be understood as referring to the credit institutions falling within the scope of this Rule in terms of paragraph 4 above.
9. Unless otherwise specified in this Rule, the terms and expressions used in this Rule which are used in the Act and in the Regulations and which are not defined herein, shall have the same meaning assigned to them in the Act and in the Regulations.

PART I:

RANGE OF SCENARIOS TO BE USED IN RECOVERY PLANS

10. Institutions are required, in terms of regulation 5(1) of the Regulations, to draw up and maintain a recovery plan providing for measures to be taken by the institution in order to restore its financial position following a significant deterioration of its financial situation. Recovery plans are considered to be a governance arrangement within the meaning of article 17B of the Act for credit institutions.
11. The drafting of a recovery plan shall be undertaken prior to a crisis in order to assess the potential options that an institution or a group could itself implement in order to restore financial strength and viability should the institution come under severe stress.
12. This Part of the Rule, specifies the range of scenarios of severe macroeconomic and financial distress which shall be considered by credit institutions to test the effectiveness of recovery options and the adequacy of the indicators contained in their recovery plans in terms of regulations 5(7) and 7(6) of the Regulations.
13. This Part of the Rule is subject to determinations made regarding the extent to which details of recovery plans apply in accordance with regulation 4 of the Regulations.

Design of Scenarios

14. In the range of scenarios, there shall be included at least three (3) scenarios to ensure coverage of a system-wide event, an idiosyncratic event and a combination of system-wide and idiosyncratic events.
15. Each scenario shall be designed to meet each of the following requirements:
 - a. the scenario shall be based on events that are most relevant to the credit institution or group concerned, taking into account, among other relevant factors, its business and funding model, its activities and structure, its size or its interconnectedness to other institutions or to the financial system in general, and, in particular, any identified vulnerabilities or weaknesses of the institution or group;
 - b. the events foreseen in the scenario would threaten to cause the failure of the credit institution or group, unless recovery measures were implemented in a timely manner; and
 - c. the scenario shall be based on events that are exceptional but plausible.
16. Each scenario shall include, where relevant, at least an assessment of the impact of the events on each of the following aspects of the credit institution or group:
 - a. available capital;
 - b. available liquidity;
 - c. risk profile;
 - d. profitability;
 - e. operations, including payment and settlement operations; and
 - f. reputation.
17. Reverse stress testing shall be considered as a starting point for developing scenarios that shall be only 'near-default'; i.e. they would lead to a credit institution's business model becoming non-viable unless the recovery actions were successfully implemented.

Range of Scenarios of Financial Distress

18. Taking into account the principle of proportionality, the number of scenarios shall be commensurate, in particular, with the nature of the business of the institution or group, its size, its interconnectedness to other institutions and to the financial system in general and its funding models.

At least one scenario shall be included for each of the following types of events:

- a. 'system-wide event', which means an event that risks having serious negative consequences for the financial system or the real economy;
- b. an 'idiosyncratic event', which means an event that risks having serious negative consequences for a single institution, a single group or an institution within a group; and
- c. a combination of system-wide and idiosyncratic events which occur simultaneously and interactively.

Institutions designated as *Other Systemically Important Institutions* (O-SIIs) under *the methodology for the identification of other systemically important institutions and the related capital buffer calibration* dated December 2015 shall include more than three (3) scenarios.

19. The range of scenarios shall include slow-moving and fast-moving adverse events.
20. The system-wide and idiosyncratic events shall relate to events that are the most relevant to the institution or group as described in paragraph 15(a) above. The scenarios shall therefore be based on different events to those specified in paragraphs 21 and 22 below where the latter are less relevant for the institution or group as indicated in paragraph 15(a) above.

System wide events

21. In designing scenarios based on system-wide events the relevance of at least the following system-wide events shall be taken into account:
 - a. the failure of significant counterparties affecting financial stability;
 - b. a decrease in liquidity available in the inter-bank lending market;
 - c. increased country risk and generalised capital outflow from a significant country of operation of the institution or the group;
 - d. adverse movements in the price of assets in one or several markets; and;
 - e. macroeconomic downturn.

Idiosyncratic events

22. In designing scenarios based on idiosyncratic events the relevance of at least the following idiosyncratic events shall be taken into account:
 - a. the failure of significant counterparties;
 - b. damage to the institution's or group's reputation;
 - c. a severe outflow of liquidity;
 - d. adverse movements in the prices of assets to which the institution or group is predominantly exposed;
 - e. a severe credit losses; and
 - f. a severe operational risk loss.

PART II:

MINIMUM LIST OF QUALITATIVE AND QUANTITATIVE RECOVERY PLAN INDICATORS

23. This Part of the Rule provides credit institutions with a set of indicators to identify circumstances which may lead to a significant deterioration in their financial position in pursuance of regulation 9 of the Regulations.
24. Credit institutions shall ensure that recovery plans include a minimum common framework of indicators to identify the points at which appropriate actions referred to in the plan may be taken. With this aim, this Part specifies the criteria that shall be fulfilled by the credit institutions when developing the list of quantitative and qualitative recovery plan indicators.
25. In this Part of this Rule Annex I includes a list of categories of recovery plan indicators. Annex II specifies the minimum list of recovery plan indicators that should be included under the rebuttable presumption. While Annex III includes an additional, non-exhaustive list of recovery plan indicators provided for illustration purposes only.

Framework of Indicators

26. The framework of recovery plan indicators shall be established by the credit institution and as shall be assessed by the authority taking into consideration the criteria laid down in the following paragraphs.
27. Credit institutions shall include recovery plan indicators of both a quantitative and qualitative nature.

28. Credit institutions shall include in the recovery plan at least the following mandatory categories of recovery plan indicators which are explained further in this Rule:
 - a. capital indicators;
 - b. liquidity indicators;
 - c. profitability indicators; and
 - d. asset quality indicators.

29. Credit institutions shall include in the recovery plan the two (2) following categories of recovery plan indicators which are explained further in this Rule, unless they provide satisfactory justifications to the authority that such categories are not relevant to the legal structure, risk profile, size and/or complexity of the institution (*rebuttable presumption*):
 - a. market-based indicators; and
 - b. macroeconomic indicators.

30. Credit institutions shall include specific recovery plan indicators included in the list per category provided in Annex II to this Rule, unless they provide satisfactory justifications to the authority that such specific indicators are not relevant to the legal structure, risk profile, size and/or complexity of the institution (*rebuttable presumption*). In any case, credit institutions shall include in their recovery plans at least one indicator from each of the mandatory categories which are specified in paragraph 28.

31. Credit institutions shall not limit their set of indicators to the minimum list set out in Annex II, and shall give consideration to the inclusion of other indicators following the principles laid down in this Rule and in line with the description of the categories laid down in the following paragraphs of this Rule. Annex III includes a non-exhaustive list with examples of additional recovery plan indicators broken down by categories.

32. The framework of the recovery plan indicators shall:
 - a. be adapted to the business model and strategy of the credit institution and be adequate to its risk profile. It shall identify the key vulnerabilities most likely to impact the institution's financial situation and lead to the point at which it has to decide whether to activate the recovery plan;
 - b. be adequate to the size and complexity of each credit institution. In particular, the number of indicators shall be sufficient to alert the institution of the deteriorating conditions in a variety of areas. At the same time, this number of indicators shall be adequately targeted and manageable by the credit institution;

- c. be capable of defining the point at which the credit institution has to decide whether to take an action referred to in the recovery plan or to refrain from taking such an action;
 - d. be aligned with the overall risk management framework and with the existing liquidity or capital contingency plan indicators, and business continuity plan indicators;
 - e. be integrated into the credit institution's governance and within the escalation and decision-making procedures; and
 - f. include forward-looking indicators.
33. While setting the quantitative recovery plan indicators, a credit institution shall consider using progressive metrics ('traffic light approach') in order to inform the credit institution's management that such indicators could potentially be reached.
 34. A credit institution shall recalibrate the recovery plan indicators when necessary and at least annually.
 35. A credit institution shall be able to provide the authority with an explanation of how the calibrations of the recovery plan indicators have been determined and to demonstrate that the thresholds would be breached early enough to be effective. In this context, the magnitude and speed of the breach of the threshold shall be taken into account.
 36. The management information systems of the credit institution shall ensure an easy and frequent monitoring of the indicators by the credit institution and allow for the timely submission of the indicators to the authority upon request.
 37. The monitoring of recovery plan indicators shall be undertaken on a continuous basis to ensure the credit institution can take appropriate measures in a timely manner to restore its financial position following a significant deterioration.

Capital Indicators

38. Capital indicators shall identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern, including increasing level of leverage.
39. While selecting capital indicators, credit institutions shall consider ways to address the issues stemming from the fact that the capacity of such indicators to allow for a timely reaction can be lower than for other types of indicators, and certain measures to restore an institution's capital position can be subject to longer execution periods or greater sensitivity to market and other conditions. In particular this can be achieved by means of

establishing forward-looking projections, which shall consider material contractual maturities relating to capital instruments.

40. The capital indicators shall also be integrated into the credit institution's Internal Capital Adequacy Assessment Process (ICAAP) pursuant to Article 73 of *Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC* ('Directive 2013/36/EU') as transposed in article 17C of the Act, and its existing risk management framework.
41. The thresholds shall:
 - a. be calibrated based on the credit institution's risk profile and on the time needed to activate the recovery measures;
 - b. consider the recovery capacity resulting from those measures; and
 - c. take into account how quickly the capital situation may change, given the institution's individual circumstances.
42. The thresholds for indicators based on regulatory capital requirements shall be calibrated by the credit institution at adequate levels in order to ensure a sufficient distance from a breach of the capital requirements applicable to the institution (including minimum own funds requirements as specified in Article 92 of Regulation (EU) 575/2013 and additional own funds requirements applied pursuant to regulation 9(1)(a) of the Banking Act (Supervisory Review) Regulations, S.L. 371.16 but without taking into account any buffer requirements set out in Chapter 4 of Title VII of Directive 2013/36/EU, as transposed into national law.

Liquidity Indicators

43. Liquidity indicators shall be able to inform a credit institution of the potential for, or an actual deterioration of the capacity of the institution to meet its current and foreseen liquidity and funding needs.
44. The credit institution's liquidity indicators shall refer to both the short-term and long-term liquidity and funding needs of the institution and capture the institution's dependence on wholesale markets and retail deposits, distinguishing among key currencies where relevant.
45. The liquidity indicators shall be integrated with the strategies, policies, processes and systems developed by each credit institution pursuant to Article 86 of Directive 2013/36/EU as transposed into national law and its existing risk management framework.

46. The liquidity indicators shall also cover other potential liquidity and funding needs, such as the intra-group funding exposures and those stemming from off-balance structures.
47. The thresholds identified by the credit institution shall be calibrated on the basis of the credit institution's risk profile and shall take into account how quickly the liquidity situation may change, given the credit institution's individual circumstances.
48. The thresholds shall be calibrated on the basis of the credit institution's risk profile and on the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures. When referring to minimum regulatory requirements applicable to the institution (including additional liquidity requirements pursuant to regulation 10 of the Banking Act (Supervisory Review) Regulations, Secondary Legislation 371.16 if applicable) – the indicators shall be calibrated by the credit institution at adequate levels in order to be able to inform the institution of potential and/or actual risks of not complying with those minimum requirements.

Profitability Indicators

49. Profitability indicators shall capture any credit institution's income-related aspect that could lead to a rapid deterioration in the credit institution's financial position through lowered retained earnings (or losses) impacting on the own funds of the credit institution. This category shall include recovery plan indicators referring to operational risk-related losses which may have a significant impact on the profit and loss statement, including but not limited to, conduct-related issues, external and internal fraud and/or other events.

Asset Quality Indicators

50. Asset quality indicators shall measure and monitor the asset quality evolution of the credit institution. More specifically, they shall indicate when asset quality deterioration could lead to the point at which the credit institution shall consider taking an action described in the recovery plan.
51. The asset quality indicators shall include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.
52. The asset quality indicators shall cover aspects such as off-balance sheet exposures and the impact of non-performing loans on the asset quality.

Market – Based Indicators

53. The framework of qualitative and quantitative indicators shall refer to the following types of indicators:
- a. equity-based indicators which capture variations in the share price of listed companies, or ratios that measure the relationship between the book and market value of equity;
 - b. debt-based indicators, capturing expectations from wholesale funding providers such as credit default swaps or debt spreads;
 - c. portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each credit institution (e.g. real estate); and
 - d. rating downgrades (long term and/or short term) as they reflect expectations of the rating agencies that can lead to rapid changes in the expectations from market participants of the credit institution’s financial position.

Macroeconomic Indicators

54. Macroeconomic indicators aim to capture signals of deterioration in the economic conditions where the credit institution operates, or of concentrations of exposures or funding.
55. The macroeconomic indicators shall be based on metrics that influence the performance of the credit institution in specific geographical areas or business sectors that are relevant for the institution.
56. The macroeconomic indicators shall include the following typologies:
- a. geographical macroeconomic indicators, relating to various jurisdictions to which the credit institution is exposed, giving also consideration to risks stemming from potential legal barriers; and
 - b. sectoral macroeconomic indicators, relating to major specific sectors of economic activity to which the credit institution is exposed (e.g. shipping, real estate).

PART III:

COVERAGE OF ENTITIES IN A GROUP RECOVERY PLAN

57. Regulation 7 of the Regulations provides specific requirements for group recovery plans. In terms of the said regulation, a 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.

58. This Part specifies how legal entities and branches (entities or group entities) shall be covered in the group recovery plan, drawn up and submitted in accordance with Articles 5 to 9 of Directive 2014/59/EU as transposed into national law in articles 5 to 9 of the Regulations, Articles 3 to 21 of Commission Delegated Regulation (EU) No 2016/1075 referred to above and Parts I and II of this Rule.
59. Furthermore, this Part of the Rule is 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 in particular to the Union parent undertakings and to the relevant group entities within the scope of prudential consolidation.
60. Only as far as the first initial recovery plan submission is concerned, the consolidating supervisor and the competent authority, involved in the joint decision process referred to in Article 8 of Directive 2014/59/EU as transposed in regulation 8 of the Regulations, shall not request the submission of individual plans 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.

Identification and Classification

61. For the purposes of the group recovery plan, the Union parent undertaking shall 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 shall also take into account, as appropriate, the applicable regime for recovery planning in the country of their establishment.
62. Credit institutions shall 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 as specified further below in this Rule, 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 shall 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 shall in both cases ensure that any branch-specific information necessary, as specified below, is effectively included in the group recovery plan.

63. Furthermore, branches that have been identified as significant in accordance with the *EBA-GL-2017-14* shall be covered in the group recovery plan as a material entity, being relevant either for the local economy, the group or for the economy of any of the Member State.
64. 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. Similarly, entities that are designated as O-SII (Other-Systemically Important Institutions), shall also be individually and specifically covered in the group recovery plan being either group relevant entities or locally relevant entities.
65. This Part of the Rule 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 Part.

Classifying Entities and Branches

66. 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 functions to the legal entities and branches of the group in accordance with paragraph 1(b) of that Article, the Union parent undertaking shall 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.
67. The Union parent undertaking shall 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.
68. The Union parent undertaking shall 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 States.

69. The Union parent undertaking shall designate as not relevant 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.
70. The Union parent undertaking shall 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.
71. The Union parent undertaking shall 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 shall ensure that the relevant management is well aware of the group recovery plan, has provided relevant input and is committed to its implementation.

GROUP RELEVANT ENTITIES

72. The Union parent undertaking shall 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.

Governance

73. Governance arrangements and escalation procedures shall be elaborated in such a way as to describe the decision-making process across the group. This shall be ensured in a way that enables the authority 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.
74. The group recovery plan shall 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 shall 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.
75. The group recovery plan shall 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. Both the parent undertaking and the relevant entities shall operate in line with the group recovery plan, to avoid misaligned and inconsistent actions.
76. While assessing the group recovery plan, the authority shall be able to quickly identify the consistency of internal escalation and decision-making processes that apply when recovery indicators have been met.

77. Governance arrangements and escalation procedures shall be adequately specified for all entities for which the recovery plan contains (entity-level) recovery indicators. In particular, the recovery plan shall describe how timely and adequate notification of the consolidating supervisor and all the competent authorities of subsidiaries and branches will be ensured.
78. Adequate information shall also be provided in the recovery plan 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.

Indicators, Options and Scenarios

79. For group-relevant entities, recovery indicators shall 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 shall be included in the group recovery plan, in addition to those specified at the group level to which the provisions on recovery indicators in this Rule above apply. Such indicators shall be appropriately chosen and calibrated to reflect the specificities of the entities and shall be accompanied by appropriate escalation procedures.
80. The group recovery plan shall consider relevant entity-specific recovery plan indicators for entities that support core business lines and critical functions.
81. The group recovery plan shall also 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 function, the Union parent undertaking shall clarify how any critical functions provided by that entity will be preserved during the divestment process.
82. The choice of appropriate recovery options among group-wide or entity-specific actions shall be consistent with how the group is organised both in terms of its business model, internal governance and, where relevant, local regulatory requirements. The group recovery plan shall 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 shall have a particular focus on the implications for the continuity of the critical functions and other group interdependencies. 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.
83. The impact of group-wide or local scenarios on group-relevant entities shall be clearly set out in the group recovery plan even though the need to design separate and specific scenarios for these entities shall proportionately depend on the business model of the group.

84. 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 may 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 shall not be necessary to design separate scenarios for those group-relevant entities.
85. The group recovery plan shall 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.

LOCALLY RELEVANT ENTITIES

86. For locally relevant group entities, the group recovery plan shall 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 shall be identified in the group recovery plan.

Governance

87. The focus for the locally relevant entities in the group recovery plan shall 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.
88. Governance arrangements and escalation procedures shall 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 shall not be considered necessary, except where a different assessment is made in the context of the joint decision process referred to in regulation 8 of the Regulations. 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 in accordance with regulations 5 to 8 of the Regulations.
89. The group recovery plan shall 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 shall also be involved in the decision-making process, and such evidence shall be included in the plan.

90. The group recovery plan shall 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.
91. The recovery plan shall give information on the conditions under which the group management can effectively implement recovery options at the local level. Furthermore, it shall 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.

Indicators, Options and Scenarios

92. For the purposes of the group recovery plan, the inclusion of indicators for entities to which critical functions are mapped shall be considered.
93. Where the inclusion of entity-specific indicators, as referred to in the previous paragraph, has been considered necessary, such indicators shall 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.
94. The group plan shall 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 shall clarify how any critical functions provided by that entity will be preserved during the divestment process.
95. The choice of appropriate recovery options among group-wide or entity-specific actions shall 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 shall 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.
96. Specific scenarios relating to the locally relevant entity shall not be considered as necessary, as long as the impact of group-wide scenarios is also deemed significant for these entities.
97. 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.

ENTITIES NOT RELEVANT FOR THE GROUP OR ECONOMY

98. Coverage of those entities in the group recovery plan shall be concise, for example by means of a chart or table, and shall focus on information necessary to identify those entities and briefly describe their position in the group's overall strategy. To this end, the plan shall, 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 authority and vice-versa.
99. Any significant impacts of recovery options on these entities shall generally be noted in the group recovery plan, where appropriate, taking account the group structure.

PART IV: INSTITUTIONS SUBJECT TO SIMPLIFIED OBLIGATIONS

100. As determined by the competent authority in terms of the *Commission Delegated Regulation (EU) 2019/348 of 25 October 2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions, the Final Report Draft regulatory technical standards on simplified obligations under Article 4(6) of Directive 2014/59/EU (EBA/RTS/2017/11), the EBA Guidelines on the application of simplified obligations under Article 4(5) of the Directive 2014/59/EU (EBA/GL/2015/16), the Recovery and Resolution Regulations (S.L. 330.09) and any other applicable criteria as determined by European institutions, simplified obligations may be applied by the competent authority to the contents and other requirements in relation to recovery plans in terms of this Rule by adjusting their scope and/or their level of granularity.*
101. In relation to the proportionality principle, the competent authority will take into consideration, *inter alia*, the size, complexity and interconnectedness of the institution subject to simplified obligations.
102. The eligibility review of institutions subject to simplified obligations for recovery planning, as duly communicated by the competent authority to the applicable institution, shall be assessed by the competent authority in terms of the *Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms* as transposed in the Recovery and Resolution Regulations (S.L. 330.09).

Annex I: Categories of Recovery Plan Indicators

Categories of recovery plan indicators: (the first four categories are mandatory, while the last two categories may be excluded if an institution justifies that they are not relevant for it)
<i>Mandatory categories</i>
1. Capital indicators
2. Liquidity indicators
3. Profitability indicators
4. Asset quality indicators
<i>Categories subject to rebuttable presumption</i>
5. Market-based indicators
6. Macroeconomic indicators

Annex II: Minimum list of Recovery Plan Indicators

Minimum list of recovery plan indicators: (each indicator is subject to the possibility for an institution to justify that it is not relevant for it, however in such a case it should be substituted with another indicator which is more relevant for this institution)
<i>1. Capital indicators</i>
a) Common Equity Tier 1 ratio
b) Total Capital ratio
c) Leverage ratio
<i>2. Liquidity indicators</i>
a) Liquidity Coverage Ratio
b) Net Stable Funding Ratio
c) Cost of wholesale funding
<i>3. Profitability indicators</i>
a) (Return on Assets) or (Return on Equity)
b) Significant operational losses
<i>4. Asset quality indicators</i>
a) Growth rate of gross non-performing loans
b) Coverage ratio [Provisions / (Total non-performing loans)]
<i>5. Market-based indicators</i>
a) Rating under negative review or rating downgrade
b) CDS spread
c) Stock price variation
<i>6. Macroeconomic indicators</i>
a) GDP variations
b) CDS of sovereigns

Annex III: Illustrative list of Additional Recovery Plan Indicators

Additional recovery plan indicators (non-exhaustive list provided for illustration purposes only)
<i>1. Capital indicators</i>
a) (Retained earnings and Reserves) / Total Equity
b) Adverse information on the financial position of significant counterparties
<i>2. Liquidity indicators</i>
a) Concentration of liquidity and funding sources
b) Cost of total funding (retail and wholesale funding)
c) Average tenure of wholesale funding
d) Contractual maturity mismatch
e) Available unencumbered assets
<i>3. Profitability indicators</i>
a) Cost-income ratio (Operating costs / Operating income)
b) Net interest margin
<i>4. Asset quality indicators</i>
a) Net non-performing loans / Equity
b) (Gross non-performing loans) / Total loans
c) Growth rate of impairments on financial assets
d) Non-performing loans by significant geographic or sector concentration
e) Forborne exposures/ Total exposures
<i>5. Market-based indicators</i>
a) Price to book ratio
b) Reputational threat to the institution or significant reputational damage
<i>6. Macroeconomic indicators</i>
a) Rating under negative review or rating downgrade of sovereigns
b) Unemployment rate