

## **SRB consultation on its operational guidance for banks on resolvability testing**

Comments of the Austrian Banking Industry

**Question 1.** Is the template for communicating the multi-annual testing programme (Template A) adequate for banks to trigger a discussion with IRTs on the upcoming three-year testing priorities?

**Yes**, with 2 remarks: 1) The adequacy will depend on the details IRT will give in the template. 2) The template contains capabilities, which are purely relevant for the scope of the Consultation paper. When the other dimensions are added to the testing guidelines then it should be reviewed.

**Testing methods:** the Operational Guidance sets out different testing methods, including a description of what is expected of each test and when it should be used.

**Question 2.** Is the description sufficient for banks to understand each method used to perform the tests?

Differentiation between the different methods is not fully clear. It should be more clarified on the difference between the methods. Difference between a walkthrough and a desktop exercise is that the walkthrough includes a demonstration. Please clarify on this because you are also demonstrating the procedures in a desktop exercise as well. If it means to perform the procedures, then what is the difference between a Walkthrough and a dry run? In general, the choice of testing method should be risk-based and proportionate. If a Desktop Exercise or Walkthrough sufficiently demonstrates the resolvability readiness of a bank, there should be no need for a Dry Run.

The SRB includes a sub form of dry run, the **drill (Chapter 5.4.2.)**, performed with limited forewarning which can be as late as 24 hours before the testing. Testing with only 24 hours advance notice is operationally dangerous. Such short notice could disrupt critical banking operations. A meaningful Dry Run requires involvement of key staff across essential functions (e.g. financial department, treasury, IT). Expecting these employees to participate in a real-time, high-intensity test while neglecting their daily responsibilities is not feasible. Even though it states that the quarter of the testing will be known, without it being a real-life crisis, it seems unfeasible to make sure all employees are available. It would be unrealistic for example, to make employees not take a vacation for a period of 3 months just make sure that they are available for testing. To be effective and compliant with labor laws, Dry Runs must be properly planned to avoid excessive operational strain. For these reasons, we propose deleting the "Drill", as real-time crisis simulation without adequate preparation is not a valid testing approach. Any Dry Run should be subject to a minimum of one-month advance notice and must avoid peak periods and consider staff availability to ensure both the integrity of the test and the continuity of business functions.

According to Chapter 5.4.3. Point 27 (Management Simulation), a dedicated dry run focuses on the role of senior management and directors. We question the added value of a simulation focused exclusively on senior management and the Board. Given some of these executives are already integral to the resolution process through existing playbooks and governance structures, it remains unclear what additional insight such a narrowly scoped dry run would offer. The limited focus appears insufficient to justify the resource demands of a real-time simulation.

**Test environments:** banks are expected to develop test environments, as part of their Management Information Systems (MIS), to conduct certain types of tests.

**Question 3.** In this context, do you see the need for further guidance for setting up test environments?

YES

**Question 4.** Only if yes, please explain.

Where does the IRT see a need for a testing environment to be implemented (except for Bail-in exercise)? Further clarification would be needed on what is meant by high quality simulation (what is the criteria of high quality)?

While we acknowledge the aim to strengthen the reliability of MIS and resolution execution through dedicated test environments, we believe the requirement to develop production-like test environments introduces significant cost and operational complexity, which may not be proportionate to the added value. In our experience, existing partial test environments - though not fully interconnected - have proven effective in bail-in dry runs, without compromising accuracy or execution. We do not see a need to establish a unified test environment.

SRB should allow for existing environments by adapting the wording, e.g. *“Banks are encouraged to leverage existing test environments as part of their MIS. The development of test environments should be proportionate to the complexity of the institution and existing capabilities”*.

**Question 5:** Do you see any challenges in meeting the deadline of December 2026 to develop test environments?

The deadline for setting up testing environments seems unreasonable seeing that the new MBDT and Valuation data sets are required by YE2025, with potential follow up in 2026.

Some of the dimensions are not fully resolvable, and have not been tested yet at all, so having a test environment without doing some pretesting to find out what a reasonable testing environment would be seems not reasonable. It should first be established whether or not a test environment is feasible, meaningful and realisable with optimum cost and benefits.

**Question 6: Do you have any other observations related to test environments?**

In general, we do not agree that every simple data extraction/calculation needs a dedicated test environment. For accounting purposes in a bail-in dry-run, a SAP test environment is reasonable.

**Testing exercise template:** when preparing a test, the bank is expected to provide a breakdown of the test to the IRT in advance, explaining how it will be organised.

**Question 7: Do you have any comments to raise as regards the testing exercise template (Template B)?**

Is it planned that the testing exercise is filled for each, and every test planned separate, or is one template to be filled in for all tests?

In the testing exercise template, there are fields relevant for Bail-in and FMI access testing. Is this explanatory only, or why is it only covering bail-in and FMI access?

The templates are created for transparency and that the content and quality is the same across banks. Therefore, the templates should already include all the additional fields needed from the Part 2 of the consultation for each of the dimensions. The banks should not do it individually.

**Outcome report template:** Banks are expected to prepare an outcome report at the end of each test, where key findings are outlined, as well as action plans to address those findings.

**Question 8: Do you have any comments with regard to the outcome report template (Template C)?**

The template contains capabilities, which are purely relevant for bail-in and/or FMI tests, but not for other dimensions like OCIR or BRP (e.g. Scope of bail-inable Instruments; Scope of liabilities subject to WDC powers; FMIs covered by the test).

**Daily summary:** IRTs may request a daily summary of actions performed during a given day, when the IRT needs an understanding for the resolution plan of what testing was performed, but cannot wait for the outcome report, or when it considers that intervention may be needed in the middle of the test to alter the conditions of the test.

**Question 9:** Do you have any comments to raise as regards the daily summary?

In which situations is it foreseen that the IRT cannot wait for the outcome report? What is the expected delivery time for the daily summary. Could the SRB provide examples? If the IRT requests it later during the day, is the assumption that they expect it next day?

In chapter 10. Daily Summary, point 49 it is stated: „They may also request this summary if intervention is required during testing to modify its conditions.” What is meant by intervention and by which party?

Given the significant time and resource commitment required for Dry Runs and testing, it is unrealistic to expect daily reporting to the IRT. While a final ex-post report to the IRT might be crucial for identifying gaps and ensuring compliance, daily updates provide no added value and instead create an unnecessary administrative burden.

**Independent observer:** an independent observer, such as an internal auditor, is encouraged to attend some of the more complex tests and produce a separate independent observer report.

**Question 10.** In this context, is there any need to elaborate further on the role of the independent observer?

NO

**Question 11.** If "Yes" is selected in the previous question, please elaborate.

**Question 12.** Do you have any comments to raise as regards the independent observer report template (Template D)?

We do not agree with the statement: “If the independent observer is internal Audit, please include an overall assessment of the outcome report“, because internal audit acts as an independent observer not as an Internal auditor, therefore they should not assess the outcome report in a role of an internal auditor.

**External consultants:** banks may rely on an external consultant to assist with resolvability testing.

**Question 13.** In this context, do you see a need for further guidance as regards circumstances when the external consultants could or could not be engaged for testing purposes?

NO

**Question 14.** If "Yes" is selected in the previous question, please elaborate.

**Question 15.** Do you see any other tasks that could be appropriately undertaken by an external consultant?

**Question 16. Governance expectations:** do you see the need for further guidance on governance expectations related to testing?

YES

**Question 17.** If "Yes" is selected in the previous question, please elaborate.

1. Chapter 6.1 point 28a) states „an internal policy on resolvability testing, clearly outlining responsibilities and reporting lines and procedures in this regard, including the approval of an internal testing framework.” When this is already defined in the playbooks of the respective dimensions, would this still be a requirement as it would be duplication?
2. Chapter 6.1 point 28b) states that the „Internal resolvability testing plan should be approved by Board of directors.” In our view it should be possible to delegate the approval authority to a subcommittee where at least one board member is appointed as member.
3. Chapter 6.1 point 28c) states that each testing should proceed with a briefing to the Board. Should it be directly briefed to the Board of directors. In our view it should be possible to brief only the board member responsible for resolution topics. Furthermore, what is the timeline by when it has to be briefed to the board member(s)?
4. While we fully acknowledge the importance of board awareness and oversight in resolution testing, the requirement for a member to directly supervise testing and report at every board meeting is inefficient and impractical as board members have strategic responsibilities and limited availability. Oversight of resolution testing should be left to a Senior Expert with the necessary expertise. The board of directors should be regularly informed, but reporting should follow a risk-based approach rather than being required at every board meeting.

**Question 18. Specific testing areas:** do you see the need for further guidance on any of the specific testing areas (Part 2 of Operational Guidance)?

NO

**Question 19.** If "Yes" is selected in the previous question, please elaborate.

## Question 20. Additional comments.

### Questions/Comments related to Part 1 - General Guidance

1. **Testing area proportionality: According to “Chapter 3. Testing areas, Point 12”** resolvability testing covers several testing areas, including “Business reorganisation plan” and “Solvent wind-down”, while “Separability” will be introduced at a later stage. As we are committed to robust resolvability, we acknowledge the importance of testing. However, we strongly advocate for a different approach to testing areas. On the one hand, the purpose of a Business Reorganisation Plan (BRP) is to restore long-term viability after resolution. Similarly, Separability ensures that critical functions can be carved out and transferred if necessary. These areas should only be tested if they constitute the preferred resolution strategy. If a resolution authority does not foresee a separability-based (i.e. transfer strategy) resolution or a need for post-resolution restructuring (i.e. need for a BRP), requiring testing is not necessary. On the other hand, Solvent Wind Down (SWD) of trading activities is a specific scenario applicable primarily to institutions with material trading books. If trading activities of banks are limited, requiring extensive SWD testing would be disproportionate. Requiring testing in the mentioned areas regardless of relevance would lead to inefficiencies, unnecessary resource allocation, and potential misalignment of resources, thus impeding resolvability.
2. Footnote 7 on page 9 states: *„For banks earmarked for liquidation, IRTs may prepare tests or testing programmes depending on the specificities of the bank“* We see a discrepancy regarding the possibility to impose tests to liquidation entities between the SRB Operational Guidance on Resolvability Testing and the EBA GLs on Improving Resolvability (EBA/GL/2023/05). According to Fn. 7 of the SRB Operational Guidance for banks earmarked for liquidation, IRTs may prepare tests or testing programmes depending on the specificities of the bank, while the EBA/GL/2023/05 specifies that the GLs do not apply to institutions whose resolution plan, or the resolution plan of the group to whom they belong, provides that they are to be wound up in an orderly manner in accordance with the applicable national law. According to our understanding the testing methodology laid down by the SRB Operational Guidance should be in line with the EBA/GL/2023/05 which lays down the testing framework for institutions and resolution authorities. Therefore, we recommend deleting Footnote 7 from the SRB Operational Guidance.”
3. Is a „Management simulation“ foreseen to be executed in combination with an „Operational simulation“, as a lot of management procedure and roles are dependent on the operational tasks?
4. **Chapter 6.2. Point 29d. V)** states: *“Timeline for following up on each test: for the first year, the timeline estimated to follow up on each test, including relevant milestones.”* Setting the follow up timeline depends on the outcome of the testing. Major findings would get a priority and insignificant findings would probably be less prioritized. Therefore, it would make more sense to set follow up timelines only after the first year of testing when the first feedback has been received by the bank.
5. **“Chapter 7.2. Performance testing tools, Point 41”**, the requirement to have available dedicated performance testing tools raises several concerns. The purpose, scope, and expected outcomes of such tools remain unclear.



Moreover, developing and maintaining performance testing capabilities across systems would entail substantial programming and infrastructure costs.

6. **Chapter 8. Preparing for a test, point 44 states:** „However, the IRT may intervene during the test to change the scenario by changing its assumptions or to add new elements to the test (injects), if deemed relevant.“ Please clarify in what extent. If the new elements include employees/resources to be included which were not planned for in the planning of the testing it might be difficult to execute

#### Questions/Comments related to Part 2 - Specific testing areas:

7. In Part 2 - Specific testing areas under chapter 1.4. Specific deliverable - MBDT report, point 76b) it is stated that the IRT can request a preparatory MBDT report submission in weeks before the actual testing exercise. Usually, there are IT maintenance/deployments planned before the testing to make sure that the testing exercise runs smoothly, in addition employees take their vacations before the testing as well. In general, the testing exercise shows the ability to extract the MBDT report, there should be no need to pretest it. In addition, it states it would be done on a Friday, making it even harder as employees like to take shorter working days before testing.
8. A testing exercise should not be comparable with a real-life event in the sense that in changing markets and turmoil the bank has indicators showing way ahead that there might be some trouble in the near future and employees are available in case a crisis should emerge. However, for a testing exercise especially a one without forewarning employees should not be expected to plan for them as well, at least not in such an extent. It seems unreasonable to expect employees to be on edge for undefined periods of time. In a crisis event the employees would be called in if they were on a vacation, but the contractual obligations for employees does not state that they should be obliged to do the same in case an IRT ad-hoc testing exercise or change of assumptions that would require additional employees that were not foreseen for the testing exercise. Testing is not covered in a succession and retention plan.
9. **Chapter 1.7. Points 85-86** require preparing a report about the estimated tax impact and how this was reflected. We consider a separate report on the estimated tax impact of bail-in and ILTRM activation to be of limited added value. Tax implications are already inherently captured in the accounting records, including the balance sheet and profit and loss statement - duplicating existing information would create unnecessary administrative burden. Considering this, we propose to delete these points.
10. According to “**3.4. FMI involvement in tests, Points 97-98**”, involvement of FMIs in subsequent testing exercises is considered as best practice. Direct involvement of FMIs in testing, has, in our experience, led to unintended uncertainties and operational challenges. In previous FMI Dry Runs, we have agreed with the IRT on a fictional approach, where FMIs were not contacted directly but instead simulated. This method has proven effective in avoiding market disruptions while still achieving the testing objectives. Not directly involving FMIs in resolution testing and instead testing in a simulated environment should be explicitly recognized in chapter 3.4.