

FINAL FBF RESPONSE TO THE SRB PUBLIC CONSULTATION ON THE OPERATIONAL GUIDANCE FOR BANKS ON RESOLVABILITY TESTING

General comments

- Overall, the implied requirements for the banks appear quite disproportionate from a feasibility and cost=benefit angle. It should be reminded that resolution is made for banks, when in deep trouble, but that banks are not made for resolution. The need for testing what can be reasonably tested in going concern is well understood. However, banks cannot be expected to distract a significant part of their resources, from the top management to the operational levels and to make huge investments in time and money to test for resolution, while their primary role remains to finance the economy.
- It must also be reminded that banks can be expected to demonstrate their capabilities and not to actually execute resolution actions, be it in test environments. Furthermore, actual experience of banks should be recognized as valid demonstration of their capabilities.
- The banks are very concerned about what the SRB is asking for in this consultation, particularly in terms of setting up testing environments. Indeed, banks consider that this will add a great deal of complexity, whereas one of the major current concerns of the European authorities is to simplify regulations and requirements. It will also generate costs disproportionate to the gains in terms of resolvability. Additional costs if banks have to duplicate their IT systems to carry out these tests will be all the more problematic as it will pose a level playing field issue at international level. This is why we are asking the SRB to review its guidance in depth, and to bring much more balance to its demands. We ask the SRB to let banks leverage on their existing IT environment without asking for complexification through integration of scenarios or matching with golden sources for instance. We ask to limit the number of capabilities involving test environment in consistency with preferred resolution scenario and to allow a learning curve on testing from 2025 onwards before prescribing any significant changes and investments on testing platforms.
- We would like to remind that all capabilities are not at the same level of maturity given the highly evolving environment (new guidance, upgraded reportings), we thus ask testing to focus on mature capabilities and let banks work on building on less mature capabilities.
- Furthermore, it doesn't seem to us that what the SRB is proposing is a risk-based approach, even though that's what it is promoting. For us, a risk-based approach would be to develop more sophisticated tests only if risks become higher. Such approach should be based on pre-existing risk indicators. A balanced and feasible approach should focus on preferred resolution scenario rather than testing remote capabilities such as BRP.
- The SRB must also be clear about the objectives of testing exercises, specifying what is expected. It must also ensure positive impacts on resolvability, which must remain the primary objective. We also consider that what banks should do is in the SRB's remit, in the frame of

clear and reasonable objectives; however, how banks do it (notably with what kind of testing environment, with what stakeholders) and when in a given year is to remain in banks hand.

- We are concerned by the will expressed in technical meeting by the SRB to test more the largest banks. This can only feed the unlevel playing field between large and small banks.

- Finally, given the sensitivity of the information and data that will be manipulated during these exercises, they must remain totally confidential, and no information must be communicated outside the scope of the test.

Calendar

- The banks consider that the SRB's proposal to provide testing plans in Q3-Q4 (very vague timing) in year Y is too late for the tests to be organized in year Y+1 and integrated into the bank's budget. To be able to cost them and integrate them into the budget and planning for the following year, they recommend having the first elements early Q2 and a final version of the testing plan at the beginning of September. In any case, it is important to have this information before the SRB priority letter. This is all the more true for the testing exercises to be conducted in 2026.

- In addition, banks recommend that discussions take place in the spring between banks and the IRTs, so that banks can give their input and organize themselves as effectively as possible.

- Similarly, the banks are asking for maximum flexibility in defining the testing schedule, so as to organize their teams' work as efficiently as possible. The drill appears to be very complicated in this respect, as it is very difficult to stop the work of teams who are in production processes or who have to answer questions from the authorities (SRB or ECB). In the multiannual testing program presented in the template A, the month of the test will be mentioned. The banks consider that the timing of the test should be in their hand as it will be subject to discussion with the concerned internal teams depending on their own BAU work program. It cannot be imposed by the IRT and the banks won't be able necessarily to confirm which period is the best for the concerned teams before the drafting of the multiannual testing plan. The best is to let the banks decide on the timing of the testing once they are able to do it.

- To limit the teams' workload and the very high costs this will generate, we urge the SRB to limit the number of tests to three per year.

- As already required in previous consultations, we urge as well for good coordination between authorities, namely the SSM, the SRB and the EBA, to avoid conflicting requirements and overburdening of involved teams whose main tasks remain to run the bank. In particular, banks suggest the SRB to coordinate with the ECB, when possible, to agree on testing exercises that could also serve Recovery Planning purposes (notably when it will come to test Separability and Transfer capabilities).

Test environments

- The industry is very concerned by SRB's demands in terms of setting up test environments. Indeed, the SRB seems to be asking banks to duplicate their IT systems to be able to carry out tests with the possibility of integrating different scenarios and reconciling with production data. Most of the information system used for the management of bank's day to day operations is not designed to allow for the introduction of scenarios that can only be simulated and not effectively implemented in the MIS or in a test environment. Developing such functionality

upstream would be highly excessive, both in terms of the implementation timetable and of scale of developments that would be required to run these simulations. Just as it is not possible downstream to perform in a test environment all accounting closing steps to measure the impacts of a scenario or a resolution tool on the distortion of the balance sheet and/or the evolution of accounting or prudential own funds, this again can only be simulated (excel based). What the SRB is demanding therefore is not realistic. For example, banks cannot replicate their entire IT system, from the front office to the accounting, for testing a crisis event and a bail-in. The SRB cannot expect banks to go that far, as this would mean that they would have to implement even more sophisticated systems than those already in production. The industry recommends that dry runs should only involve the reasonable testing of already operational and strictly resolution-related capabilities. We would also like the SRB to confirm the notion of proforma as excel based simulations for the balance sheet, the P/L and the own funds updates. A testing environment is even less necessary or relevant if the output deliverable is an excel sheet (which is the expected format given the potential short timeframe during the resolution weekend).

- The expected granularity of the updated financial data to be produced, namely the specific templates from FINREP and COREP statements within 24h and with a D-1 reference date, is completely unrealistic.

- We do not understand the rationale for an environment test on OCIR, SWD and FMI. Given the complexity of large banks' structures one may not expect the existence of a single unified IT system on such capabilities and thus the development of a test environment seems unreasonable.

- Besides this, these test environments cannot be maintained permanently. When they are used, they have to be opened specifically under particular conditions and closed again after the test, so as not to hinder or endanger the production process. They are generally complex to set up and require the assistance of numerous IT and business resources.

- Finally, banks point out that some CSDs, such as Euroclear bank for external bail-in testing, have no test environment of their own.

Scope of testing

- For the industry, not all dimensions are suitable for testing, such as the BRP. Testing the BRP is questionable, given the remote and speculative nature of the exercise. Furthermore, there's no point in testing the update of the BRP analysis report if it's up to date. Similarly, there is no point in testing the update of liquidity drivers, which should be rather stable over time, or collateral valuation parameters whose methodology applies at all times.

Consequently, banks suggest excluding from the scope of the testing guidance to be reviewed for:

- Principle 7.3.1 BRP, for which no operational guidance and no consultation have taken place yet, and
- Principle 3.1 Liquidity needs in Resolution, where banks expect the SRB guidance issued in April 2021.

- The possibility for the IRT to change test assumptions at the last minute also seems excessive. It will be very difficult for banks to adapt, and for them to change their resources, if this is

communicated too late. As already mentioned, the proposed test should be relevant in terms of resolvability and should be consistent with what has been planned by the banks. What is the point of asking for simulating a different scenario from the one planned by the Bank? It is not feasible to test all the possible scenarios, it is important to stick to what seems realistic to the bank in accordance with the authorities. The banks recommend that the IRT should initially test what already exists, and that the sophistication of the tests and the changes in assumptions should only be introduced progressively, in proportion to the associated risks.

- Requesting a daily summary of actions when the IRT cannot wait for the outcome report is not feasible when the teams are already busy with the test itself.

- For the industry, it also seems unnecessary and excessive for the IRT to propose tests for entities in liquidation. Again, it is important that the SRB makes a cost/benefit analysis before drafting the multiannual testing plan. We fail to understand how relevant it could be to involve dedicated teams to work on liquidation processes.

- MBDT: according to §76, the IRT could require multiple submissions of the MBDT. We fail to understand how useful it can be. If the MBDT can be retrieved once, there is no reason that it could not be retrieved a second time. It is exactly the same process. Moreover, in any case, we will need to be informed in advance of the timing of any testing on MBDT to alert the staff of potential constraints (to be available potentially late at night if need be in particular).

- The data on which test will be performed may only be the ones that are operationally available. The assumption of the guidance is that the reference date for data to be used on the fly is D-1. There are many data that are not maintained at this frequency and freshness. The assumption is not compatible with the way information systems operate. This requirement will never be met and must be removed from the guidance.

- A full update of accounts, both at consolidated and individual levels, is not possible within 24 hours. The mere observation of the current delay to issue consolidated accounts in a business-as-usual situation, where everything is simpler than in resolution and the reference date is the end of a quarter, show that several weeks are needed to issue accounts.

- For subjects outside the scope of the consultation at this stage, we propose that, to ensure a clear understanding of what will be required, either the SRB should launch a dedicated consultation when these subjects come within the scope, or that a testing section should be included in the forthcoming consultations on their guidelines.

The independent observer and internal audit involvement

- For banks, the independent observer might be relevant for some tests, but not for all, especially dataset extraction or reporting production tests where he/she would be useless. His/her role should be limited to certain critical subjects, especially as it will be complicated to source.

- The banks are particularly concerned about the role of internal audit. Indeed, from initial discussions within the banks, internal auditors have reminded that they apply a risk-based approach and that the audit of resolution planning activities should follow this approach and remain proportionate, especially in relation to the audit of other risk areas of the bank. In this respect, banks believe that i) there is no need for a dedicated audit plan on resolvability testing (which is intrinsically linked with other resolution planning activities), ii) the bank audit team department should be responsible for determining if and when there is a need to audit

resolvability testing activities and observe silently testing exercises, on a risk-based approach and with no prescriptive requirements (in terms of frequency or areas) set by the SRB. On the other hand, considering the role of silent observer, recruiting external consultants poses a number of problems: they represent a high cost for the bank, it won't be easy to find people with the right expertise and a critical eye to make relevant observations, they may be conflicted about selling projects later on, and multiplying the number of firms if the bank is already working with a firm on operationalization complicates processes. Banks will therefore undoubtedly favor in-house audit resources to ensure the relevance of analyses and cost control.

Management intervention

For G-SIIs, OSIs and top tier banks, the SRB's request for management and board intervention seems highly disproportionate considering the very operational nature of resolvability testing. The validation of the testing framework should remain the responsibility of the executive level (managerial function of the management body, or senior management, depending on the importance of the tested dimension for resolvability and the nature of the test). The frequency of reporting to the management or Board on testing outcomes, as well as the testing areas reported, should remain proportionate, risk-based and aligned with the overall governance of the bank. Their intervention should only be requested if and when really necessary and we consider it would be more efficient to let banks manage that according to their governance and internal split of responsibilities. We ask to leverage on the existing governance already implemented within banks as regards Resolution.

Specific topics

OCIR

"MIS for OCIR: In this regard, the banks must be able to generate in an automated manner the relevant data within a specific timeline agreed with the IRT, in principle not exceeding 4 hours". A 4 hour timeframe can very often not be achievable at all depending on the perimeter of the test and it is not aligned with timelines for other data requests including for bail-in data points with a 24hr timeline. We would suggest for such exercise to leverage on most recent resolution reportings (CFR and CIR).

The requirement to provide reconciliation tables for every test with the golden source systems is not feasible given that for large banks many entities exist with multiple systems and many services defined.

Solvent Wind Down

Concerning the capacity to update SWD plans (table of section 6.1), we would seek clarification about the valuation data expectations. This seems new to us.

Point 120 introduces the notion of a bespoke scenario, which needs to be clarified (type of the scenario: a systemic or idiosyncratic stress or both; severity of the scenario in terms of indices losses, closure of markets, duration, ...?) So far, the SWD plans have been based on a starting point in the nearest past and hence not necessarily based on a stressed environment, even though some idiosyncratic stress elements have been considered (passive wind-down period

during the first 6 months, additional stressed elements at hand of the bank such as denotchings, ...)

For the sake of clarity, point 121 acknowledges that the bank should provide the latest available data, with the reference date being the date before the test. Hence, we consider that the bank does not need to recompute all the data at the date before the test but can retrieve the latest available data, i.e. quarterly RWA data from the last quarter. Otherwise, producing any data anytime would require IT capacities going well beyond current IT capacities where datasets are produced with a predefined frequency in BAU (daily, weekly, monthly and quarterly).