

Abstract

The client was faced with having to implement a Recovery Plan for the first time, within a short deadline.

Avantage Reply was engaged to assist the client on this project.

This was achieved by macro planning, identifying potential recovery options and collecting existing internal stress analysis documentation.

The title 'Recovery Plan' is written in a bold, purple, sans-serif font. It is positioned over a background image of several overlapping rulers and scales, creating a technical and financial aesthetic. The rulers are in various orientations and colors, including white, grey, and purple.

Recovery Plan

THE CLIENT

The Bank and its subsidiaries form part of a multinational Financial Institution listed on the New York Stock Exchange.

In Luxembourg, the Bank's core services are to provide fund administration, depositary, custodial and transfer agency services to institutional clients and high net worth individuals across the EMEA region. The Bank services a wide range of investment fund structures and management accounts. The Bank maintains a large book of business, including Luxembourg UCITS and Collective Investment Undertakings ('CIUs'). A number of these are complex fund structures. The Bank is also provides a growing range of ancillary services to its clients: money market trading, shareholder tax services and key investor documents ('KIIDs'), etc.

The client had been designated as an in-scope bank, required to deliver a first draft Recovery Plan according to the new Banking Recovery and Resolution Directive by 31st December 2014.

THE CHALLENGE

On the 15th May 2014 the European Parliament and the Council published a directive establishing a framework for the recovery and resolution of credit institutions (BRRD). This new framework for crisis prevention, crisis management and resolution requires credit institutions and investment firms to plan in advance what their actions under severe stress would be. This is to ensure their swift return to financial health (not to be confused with the resolution element of the regulation).

After the publication of the first EBA Technical Standard on the Recovery Plan (EBA RTS, July 2014), the local supervisory authority, the CSSF, asked to the bank to establish its own Recovery Plan on a consolidated basis for the end of the year 2014.

As prescribed by the BRRD and the EBA RTS, the Recovery Plan must include:

- A summary of the plan;
- A description of the governance framework;
- Strategic analysis with a list of recovery options and a set of stress scenarios;
- A communication plan ;
- A list of the preparatory measures.

The strategic analysis is the core section of the plan. This involves the identification of Critical Functions, making a list of internal and external dependencies (such as shared services) and the evaluation of potential recovery options under different stress scenarios.

Avantage Reply was engaged to assist the bank to write its first recovery plan and to submit it on time.

APPROACH AND SOLUTION

Based on the EBA RTS, Avantage Reply first implemented a plan, with the following milestones:

1. Definition of the governance framework and approval process;
2. Identification of Critical Functions and Interconnectedness;
3. Definition of Recovery Indicators and the Recovery Threshold;
4. Identification of potential recovery options, impediments to these options and their impact on the recovery indicators;
5. Stress Test analysis where the recovery options are assessed under severe market conditions.

For efficiency, speed and consistency in delivering these milestones, Avantage Reply leveraged, where possible, existing documentation such as the ICAAP, Contingency Funding Plan, Business Continuity Plans, the Long Form report, Stress Scenario analysis and recovery plans written for other subsidiaries.

RESULTS AND BENEFITS

With the assistance of Avantage Reply, the client was able to set up a governance framework and to identify the critical path to fulfilling their regulatory obligation to have a robust, realistic recovery plan, within the deadline. Leveraging regulatory expertise and a deep understanding of custodial bank structures, Avantage Reply helped the client to define a set of recovery options and to calibrate the recovery thresholds.

As a consequence, the client was able to deliver its first recovery plan on time, achieving compliance with the EBA RTS.

Avantage Reply, part of the Reply Group, is specialised in Financial Services with a focus on Compliance, Risk, Treasury and Capital and Financial Performance Management. With offices in Amsterdam, Brussels, Frankfurt, Hamburg, London (head office), Luxembourg, Paris, Milan, Munich and Rome, Avantage Reply counts some of the world's most significant financial groups among its clients, including well-known and respected organisations in the Banking, Insurance, Investment Management and Services, and Post Trading Services sectors. The firm's delivery capabilities cover advisory services (Compliance/Risk/Finance/Treasury Subject Matter Expertise), Program and Project Management, Business, Functional, and Data Analysis.

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