

SRB PUBLIC CONSULTATION ON THE OPERATIONAL GUIDANCE FOR BANKS ON RESOLVABILITY TESTING

GENERAL REMARKS

BNPP welcomes the consultation on the resolvability testing and would like first to draw the SRB's attention on six important points developed below:

- **We advocate for a more balanced approach from the SRB**, which ought to be risk-based, with much more consideration for the need to avoid endangering the day-to-day operations and for a proper cost/benefit analysis of its requirements,
- **We request the SRB to allow more time to benefit from a pragmatic learning curve on testing** for all parties, while limiting Expectations for Banks (EfBs) redesign as the more significant the changes will be the more delayed appropriate testing must be. Please consider that it is way too early for the SRB to design and implement a quite extensive, potentially extremely costly, and hardly feasible testing environment by end 2026, without prior practical experience of testing built together.
- **The SRB should focus on the 'what', specifying reasonably what is expected, leaving banks manage the 'how' and the 'when'** to best manage risks on our operations and critical resources. Granularity expected in tests results should only come with very targeted testing on areas where SRB EfBs are mature and stabilised,
- **We propose more anticipation to allow us to better prepare for tests while limiting tests and coordinating them with other regulators**,
- **The management intervention should be relevant and fit for purpose**, for instance, the Board of Directors involvement in almost every area of testing for G-SIIs and large institution in general is not appropriate in our view given its supervisory role,
- **The independent observer role and internal audit involvement should be contained**, respecting the role of audit as third line of defense.

We advocate for a more balanced approach from the SRB

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, i.e. testing use cases of a very remote situation should only impact the day-to-day business of the bank reasonably and in a balanced way. 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 capabilities.

We are very concerned about what the SRB is asking for in this consultation, particularly in terms of setting up testing environments. Indeed, we 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 huge costs disconnected with gains in terms of resolvability. Additional costs if banks have to expand testing environments 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 greater pragmatism and balance to its demands. Remaining requests after such review should be subject to a cost/benefit analysis by the SRB communicated to banks.

Furthermore, it doesn't seem to us that what the SRB is proposing is a risk-based approach, even though that's what it's promoting. For us, a risk-based approach would be to develop more sophisticated tests only gradually if and when risks increase.

We request the SRB to allow more time to benefit from a learning curve on testing

To date, we are very concerned by quite profound changes in SRB's expectations announced and /or under consultation on numerous aspects of Resolvability planning:

- Revised bail-in and valuation data sets,
- Revised EBA reporting ITS, under SRB drive,
- New Resolvability Self-Assessment, introducing numerous new expectations,
- New (draft) Testing guidelines,
- Communication and Separability guidelines expected in the course of 2025 for consultation and rapidly ensuing implementation.

We see these as a significant redesign of EfBs, in a more detailed and granular format, which will be detrimental to the testing focus put upfront by the SRB from 2025 onwards. Obviously, we had expected to test essentially what has been developed and prepared since 2020. If banks must deal with all these changes, we barely see how they could adapt their resolvability capabilities and test them at the same time. This is not practically feasible, will cause serious delays, and generate data quality as operational risks and costs while distracting resources from resolvability testing.

We kindly ask the SRB to consider first to allow a learning curve on testing from 2025 onwards before prescribing any significant changes and investments on testing platforms, starting by what is already 'on the shelf' and limiting the EfBs revision for the sake of actual and useful testing. Once we will have the first multi-annual testing cycle of three years behind us, it will be easier to assess potential additional needs in terms of testing platform and EFBS adjustments. By anticipating too much with little acquired experience yet, the SRB would take the risk of a too theoretical approach and of very costly investments at SRB and banks level that may be not appropriate.

The SRB should focus on the 'what', leaving banks manage the 'how' and the 'when'

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. The more granularity expected by the SRB in testing results, the more targeted the testing should be: testing in detail of a full bail-in is simply not realistic, especially where we are still gaining maturity on certain aspects. The SRB often expects a high level of granularity, we kindly warn that there is a high risk here to get 'lost in the details' while missing the global view. Too granular results in testing would not solve uncertainty regarding potential resolution situations and could give a sense of improperly reassuring realism and control.

We consider that what should banks do is in the SRB's remit, in the frame of clear and proportionate objectives; however, how banks do it (notably with what kind of testing environment, with what stakeholders) and when in a given year, notably taking in account business constraints and possibly other tests, is to remain in banks' hand.

Similarly, we are asking for maximum flexibility in defining the testing schedule, so as to organize our teams' work as efficiently as possible. The drill appears to be very complicated in this respect, as it is very difficult and may be risky to stop the work of teams who are in production processes. In the multiannual testing program presented in template A, the month of the test is mentioned. We consider that the timing of the test should be in our 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 SRB and we 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 us decide on the timing of the testing, once we are able to do it.

We propose more anticipation while limiting tests and coordinating them with other regulators

We consider that the SRB's proposal to provide testing plans in Q3-Q4 is too late for the tests to be organized the next year 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, we 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, we 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.

Additionally, to limit the teams' workload and the very high costs this will generate, we urge the SRB to limit the number of tests per year. As already required in previous consultations, we urge as well for good coordination between authorities, among which the SSM, the SRB and the EBA, to avoid conflicting requirements and overburdening of involved teams whose main tasks remain to run the bank. Notably, we suggest the SRB coordinates with the ECB, when possible, to agree on testing exercises that could also serve Recovery Planning purposes (e.g., for tests of Separability and Transfer capabilities). Moreover, many tests are already requested on fields such as operational resilience, we strongly encourage authorities to simplify banks life by promoting common exercises.

The management intervention should be relevant and fit for purpose

For G-SIIs, OSIIs and top tier banks, the SRB's request for management and board intervention is not appropriate 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 reasonable, risk-based and aligned with the overall governance of the bank. Management and board intervention should only be requested if and when really necessary and it would be more

efficient to let banks manage that according to their governance and internal split of responsibilities.

The independent observer role and internal audit involvement should be contained

The independent observer may be relevant for some tests, but not for all, especially IT tests where it would be useless. This role should be limited to certain critical subjects, especially as it will be complicated to source.

We are particularly concerned about the role and availability of internal audit. Indeed, internal audit applies a risk-based approach and the audit of resolution planning activities should follow this approach and remain proportionate in relation to the audit of other risk areas of the bank. In this respect, we 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 silently observe testing exercises, in a risk-based approach and with no prescriptive request (in terms of frequency or areas) set by the SRB.

In any case, Internal audit may not be available more than once a year for an independent silent observer role and once every three years for a resolvability audit, including testing matters.

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 the right expertise to make relevant observations, they may be conflicted about selling projects later on, and multiplying the number of intervening firms can only complicate processes. Banks will therefore undoubtedly favor in-house resources to ensure the relevance of analyses and cost control.

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.

QUESTIONS LISTED IN THE SRB CONSULTATION PAPER

Multi-annual work programme: IRTs will engage with banks on the development of the multi-annual testing programme.

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?

We advocate to limit the number of tests per year for a given bank, capitalising on a global articulation of tests requested by regulators around different themes (ECB, EBA, national authorities,...). Use of a given test for several regulators should be encouraged to limit the impact on BAU.

Regarding the indication of the month of test in the template, we consider that it is in the banks remit to decide on the 'when', taking in account business activity (that is and remains the first

priority of most involved teams) and best use of available internal resources. If maintained, the timing of the test should be discussed and agreed upon beforehand with the bank.

In the same vein, the indication of the testing method should not be only in the SRB's remit. The SRB should rather state the rationale and reasonable objectives of the test and let the bank propose the best set-up to achieve the objective, knowing better that the SRB what resources may be available. If the testing method proposed by the bank would not satisfy the objectives, then SRB would have grounds for comments and improvements of requests.

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?**

Yes, but dry-runs and above all drills raise a lot of concern and seem hardly feasible: please refer to introductory general comments and comments on test environments (answer to question 6). We would urge the SRB to limit the request of drill test as much as possible given the potential for intervening with the normal running of the bank.

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

Question 3: Do you see the need for further guidance for setting up test environments?

If "Yes" is selected as option, a new text box will open where you are invited to elaborate.

Answer: No

Answer: Yes (please elaborate)

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

Yes, considering that expectations of the SRB regarding testing environment should only come from a due assessment, shared with banks, on previous testing, with the benefit of a pragmatic learning curve. Please refer to question 6 developments.

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

We are 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 carry out tests with the possibility of integrating different scenarios and reconciling results with production data. Most of the information system used for the management of 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 scale of the developments that would be required to run these

simulations. Just as it is not possible to perform all accounting closing steps downstream in a test environment to measure the impacts of a scenario or a resolution tool on the distortion of the P&L and balance sheet and/or the evolution of accounting or prudential own funds, this again can only be simulated on a pro-forma basis and remain at a reasonable level of aggregation (excel based).

What SRB is demanding 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. We recommend 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 pro-forma 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 bail-in weekend).

Besides this, these test environments cannot be maintained permanently. They are generally complex to set up and require the assistance of numerous IT and business resources.

Given the magnitude of a potential resolution, our advice regarding testing environment would be the following:

- Do not expect granular accounting or reporting results, which would be misleading given the uncertainty of the crisis and too difficult to manage: the SRB should rather expect high-level projections allowing to assess the situation of the bank after a given bail-in and restructuration situation. A full and granular simulation of resolution is simply impossible, meaning that expected results should be targeted.
- Allow us to capitalise on existing capabilities before prescribing investments on IT.

Testing scope

For the industry, not all dimensions are relevant for testing, e.g., the BRP. Testing the BRP is questionable, given the remote and speculative nature of the exercise. Furthermore, there's no point in testing an update of the BRP analysis report since the BRP production process has been described and tested already in the frame of the budget and other stress tests. 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.

The possibility for the IRT to change test assumptions at the last minute also seems excessive and misguided. It would be very difficult and risky for the day-to-day business to adapt and change critical resources' allocation (as reminder, the priority of most involved teams is and remains the business activity), 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 focus on what seems realistic by the bank in accordance with the authorities. We recommend to test what already exists and that the sophistication of the tests and the changes in assumptions to be introduced progressively and selectively only, in proportion to the associated risks.

It also seems unnecessary and excessive 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 would be to involve dedicated teams to work on liquidation matters.

The data on which tests will be performed may only be the operationally available ones. 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 can not 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 either. The mere observation of the current delay to close accounts in a business-as-usual situation, where everything is simpler than in resolution and the reference date is the end of a quarter, shows that several weeks are needed.

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 launch a dedicated consultation when these subjects come within the scope, or that a testing section be included in the forthcoming consultations on corresponding guidelines.

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)?

The role and use of template B should be clarified as it should be filled by the bank in advance but elements are referring to parts of the test as if made in the past (e.g., for Output ‘which documents were prepared’). We understand that what the bank did in the test is the focus of the Outcome report. The added value of template B should be clarified and the wording in the template revised accordingly. As is, it looks very administrative and, in any case, it should be simplified.

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)?

Again, it looks very administrative, granular and unnecessarily burdensome. Already 8 pages of questions only, how many pages is the SRB expecting as a result, fully filled out? We suggest simplifying it a lot and be more focussed on the objective of the test and how the results satisfy it or not and why.

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?

Producing a daily summary of actions can hardly be achieved when the teams are already busy with the test itself. We consider such request as very burdensome and should remain exceptional if maintained. The SRB should let banks handle tests and deliver the outcome through a simplified and straightforward outcome report. If absolutely necessary, calls can be organised in the course of a test to verbally update the IRT.

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

If "Yes" is selected as option, a new text box will open where you are invited to elaborate.

Answer: No

Answer: Yes (please elaborate)

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

No

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

Question 13: Do you see a need for further guidance as regards circumstances when the external consultants could or could not be engaged for testing purposes?

If "Yes" is selected as option, a new text box will open where you are invited to elaborate.

Answer: No

Answer: Yes (please elaborate)

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

No

Governance expectations

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

If "Yes" is selected as option, a new text box will open where you are invited to elaborate.

Answer: No

Answer: Yes (please elaborate)

Specific testing areas

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

If "Yes" is selected as option, a new text box will open where you are invited to elaborate.

Answer: No

Answer: Yes (please elaborate)

GENERAL REMARKS ON PART II – Specific testing area

Bail-in

The expected granularity of the updated financial data to be produced, among other the specific templates from FINREP and COREP statements within 24 hours and with a D-1 reference date, is unrealistic. Moreover, it is essential to bear in mind that the feasibility of preparing any pro-forma financial statement is also highly dependent on the expected scenario and on the granularity of inputs that the authorities will provide us with.

Additionally, the notion of pro forma is vague: we do not understand why a testing environment would be necessary if the output is proforma financial statements under excel (as it should be anyway given the tight time window of the resolution weekend or the bail-in phase). We would appreciate confirmation that these pro-forma financial statements won't need to be extracted from the systems and that they shall be computed on excel sheets.

Please note also that external parties, notably some CSDs such as Euroclear bank have no test environment of their own for external bail-in tests.

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 would 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).

Business Reorganisation Plan

We consider that the Business Reorganisation Plan ('BRP' hereafter) is not an area to be prioritized in terms of testing. As of today, no guidance has been published by the SRB as regards Reorganisation. As already voiced in the previous consultation on the resolvability self - assessment, some concepts related to this area have no regulatory references and would require clarifications before being subject to testing, if at all relevant. Furthermore, we fail to see the use of producing a BRP that would most likely never be implemented when the capacity to do so can be assessed and tested based on budget and forecast processes regularly used by banks.

Testing of the following sub-areas: governance arrangements and operational steps

In terms of testing methodology for the principle # 7.3.1.1.1 (1), we consider that:

- Governance arrangements related to the BRP preparation and validation, as described in the BRP Analysis Report ('BRP AR' hereafter) consistently with the regulatory framework, could be tested through desktop exercises and walkthroughs. Testing governance arrangements via other methodologies presented in the consultation would not be relevant.
- The operational process related to the production of the BRP (including data gathering process, operation of MIS & production of financial projections) is tested on a regular basis in a BAU context in the frame of the budget process and other stress test exercises. In addition, we have all experienced periods of systemic or idiosyncratic stress situations, where adjustment of budget trajectories had to be handled within tight deadlines. Hence, we consider that our capabilities relating to this sub-area is already demonstrated and that it would be unnecessary to add such testing exercises.

Testing of the following sub-areas: simplified BRP

Paragraph 89 suggests to resort to dry-runs and even drills to test the banks' capabilities to provide a simplified Business Reorganisation Plan, which is expected to include financial projections.

In addition to what is stated hereabove:

- The preparation of a BRP, even a simplified one, is highly resource-intensive and would involve many teams over several weeks. Finance teams from , the involvement of which would be essential, have numerous calendar constraints all along the year, among which monthly and quarterly closings; hence, it is difficult to envisage a testing exercise without forewarning and it is very unlikely that those teams could be available for several successive weeks. If banks were entering into Resolution, managing the crisis and preparing such report would obviously be prioritized, with internal resources being reallocated to this task, which is not possible in normal course of business. Hence paragraph 89 shall be reconsidered; in particular, the timelines are absolutely unrealistic.
- Banks are requested to provide a BRP AR as part of the yearly deliverables submitted to the SRB. So, we fail to see the added-value of a testing of the preparation of the BRP as described in paragraph 91?
- We identified inconsistencies and would welcome further clarifications on the purpose of the simplified BRP testing: on one hand, this exercise would be meant to demonstrate the long-term viability of the defined Core-Bank (first formal reference in draft Operational Guidance on Resolvability Self- Assessment of Q1 2025, page 47), as a minimalist and theoretical view of the institution at the end of the Reorganisation Period, independently from any scenario. This definition is in line with the approach used for the BRP AR, which is also prepared absent any scenario. On the other hand, it is explained in the first sections of this draft Guidance that testing exercises shall be scenario-specific, which should lead an institution different from the Core-Bank as defined in the BRP AR at the end of Reorganisation Period to.

- (1) In which SRB document are the heatmap capabilities defined? It seems that they are defined in the draft Operational Guidance on Resolvability Self-Assessment, whereas these capabilities have been subject to numerous comments & questions in the frame of the consultation.

FMI access

- The need for a specific test environment for FMI access is being challenged.
- Some specific deliverables (3.6 & 3.7) are requested but are not part of the FMI testing requirements for 2025, and some requirements for the 2025 testing as detailed recently by the SRB are not mentioned in the consultation.

Liquidity

- Scenario for testing requirements managed are LCR- and Internal Liquidity Stress Test-based and, in our view, these are sufficient in terms of demonstrating the operational capabilities to produce liquidity reporting.
- To us, an intraday treatment is not relevant in reference to the two hours delay mentioned point 105. A daily exercise during the Covid period was deemed sufficient by the ECB.

OCIR

- The need for a specific test environment for OCIR access is being challenged.
- Specific disruption or incident testing exist regarding operational continuity and resolution itself does not change the nature of what must be tested in various fields already covered: we consider that existing testing, notably done for Banque de France and other regulators, should be an important basis for the SRB, before establishing specifics for resolution testing. For instance, resilience testing may answer SRB requirements.
- “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”: the 4 hour timeframe may very often hardly be achievable depending on the perimeter of the test.

Solvent Wind Down

- The need to generate data on a bespoke scenario mentioned in point 120 should be clarified, banks already produce a Solvent Wind Down plan with very granular data.
- Regarding the capacity to execute the wind-down, we consider that we already demonstrate the applicable governance. Testing the closure of a desk or a wind-down of several desks is not realistic in our view.
- Regarding point 122, have the data at any date is unrealistic. SWD plans are produced with a consistent set of data at a given date in the past (end of quarter data), not at any date. Flexibility in the date to test the capacity to execute should not be confused with the capacity to have SWD data refreshed at that same date.

Question 20: Additional comments

If you have any additional comments, please provide them here

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