EUROPEAN CENTRAL BANK

BANKING SUPERVISION

**ECB-RESTRICTED**

**FINAL**

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Chief Financial Officer
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(herinafter the 'Supervised Entity' or 'MPS')

ITMPS- E86167-6211

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**Assessment of the revised submission of the Supervised Entity's 2017 Recovery Plan relating to Material Entities, Escalation Procedures and Indicator Framework**

Dear Mr. Rovellini,

Following on from the Decision on the assessment of the Supervised Entity's' recovery plan, dated 23 February 2018, and Banca Monte dei Paschi di Siena's (MPS) subsequent resubmission on 1 June 2018 and again on 6 September 2018, following further feedback from the Joint Supervisory Team (JST), we wish to inform you on our assessment of the progress to date in closing the Material Deficiencies relating to the sections on Material Entities, Escalation Procedures and Indicator Framework and on the further remediation work to be undertaken in relation to these specific areas. You are requested to incorporate your revisions in the next regular submission of the Group Recovery Plan, while taking into account any further comments that will follow on your December submission.

**Material Legal Entities (MLEs):**

In the revised recovery plan submission, MPS has specified the MLEs and the rationale for their selection. The updated selection criteria for the identification of the MLEs are a significant improvement towards compliance with the legal requirements and are therefore no longer considered a material deficiency. Nonetheless, further improvements on the description of entities covered by the recovery plan are still desirable, also taking into account the EBA recommendation on the coverage of entities in a group recovery plan:

- MPS should review the newly adopted MLE identification process to ensure that the criteria by which MLEs are identified, do not exclude some entities that could actually be material. Currently, the identification process only identifies an entity as material if it meets criteria A (i.e. a substantial contribution to the group's profitability or to its funding, or hold an important share of group consolidated assets or consolidated equity) or at least two out of the three criteria, B (involvement in key commercial activities), C (centrally perform operational, administrative and risk key activities/functions) or D (the entity cannot be disposed or liquidated without likely triggering a major risk for MPS group). The EBA recommendation on the coverage of entities in a group recovery plan, however, clearly states that any entity that meets one or more of the conditions of Article 7 (2) (a-e) of Commission Delegated Regulation (EU) 2016/1075 or on accounts of critical functions, which it performs as per the mapping referred to in Article 7 (1) (b) of Commission Delegated Regulation (EU) No 2016/1075, should be designated as relevant. With this in mind, MPS should reconsider the classification of Monte dei Paschi di Siena Leasing & Factoring S.p.A. and Wise Dialog Bank S.p.A. (Widiba), which meet criteria B (and Monte dei Paschi di Siena Leasing & Factoring S.p.A. almost meeting A as well), Consorzio Operativo di Gruppo, which meets criteria C, and any other relevant legal entity. Currently they are not identified as MLEs.
- MPS should consider adding recovery indicators at the level of the MLEs, as recommended by the EBA, which adequately capture the risks which the MLE is exposed to.
- The revised recovery plan, in the recovery options section, currently details the impact of only two recovery options on the identified material entities. If other recovery options also have a material impact on any identified material entities, this should be outlined going forward.
- It should also be kept in mind that there were some non-material deficiencies in the description of the entity or entities covered by the recovery plan, which need to be remediated by the next iteration.

**Escalation Procedures**

MPS has provided sufficient detail about the description of the escalation processes in order to ensure that the Board of Directors is informed within 24 hours from the breach detection and it has been determined that MPS has remediated the material deficiency.

**Indicator Framework:**

MPS has improved the section on "Calibration of recovery indicators" by providing in most cases further qualitative and quantitative details regarding the calibration process of Recovery Indicators and Early Warning Indicators (EWIs). However for some indicators (e.g. NSFR) the explanation of their calibration is insufficient (referring merely to regulatory minima). MPS is reminded that recovery threshold levels for all

Recovery Indicators must be set 'in a sufficient distance' above regulatory requirements. In terms, of the additional EWIs included (e.g. for profitability, market and macroeconomic indicators), MPS should reassess whether these indicators should be better included as recovery indicators rather than EWIs, given that MPS itself uses the justification that the ROE is not sufficiently granular for including additional EWIs for profitability. The preference would be for MPS to incorporate some additional P&L indicators (such as 'Total Revenues') and funding indicators (such as the 'Gap 3 ratio') into the Recovery indicators. It is noted, that MPS has stated that it will provide further details regarding the explanation of inclusion and calibration in the next periodic update (December 2018) and that it will strengthen the processes aimed at controlling this risk factor within a review of risk management framework set of indicators and limits (RAS and Recovery). As previously discussed, both the Recovery Indicator framework and the Risk Appetite framework must be aligned.

We take this opportunity to remind you that the other deficiencies outlined in the Decision on the assessment of the Supervised Entity's Recovery Plan, dated 23 February 2018 are still to be remediated as per the deadlines set down in the aforementioned Decision.

Yours sincerely,

Winfried Liedtke

JST Coordinator