Central Bank of The Bahamas

PUBLIC CONSULTATION

on the draft

Recovery Planning Guidelines, 2021

I. INTRODUCTION

1.1 The Central Bank of The Bahamas ("Central Bank") released its first Consultation Paper in June 2018 (First Round Consultation) setting out its proposals for changes to the legislation relating to the resolution of problem banks. In October 2019, the Central Bank released a Second Round Public Consultation Paper that summarised the key additional changes, which the Bank was proposing to the then draft Bills and Bylaws issued in the First Round Public Consultation. The proposed enhancements are now enacted in the Central Bank of The Bahamas Act 2020, the Banks and Trust Companies Regulation Act 2020, and the Protection of Depositors (Amendment) Act, 2020. Collectively, the legislation brings about reforms that allow the Central Bank to use an administrative approach to resolve failing banks while improving the resilience and stability of the Bahamian banking sector.

1.2 This consultation paper summarises key elements, which the Central Bank expects SFIs to include in their recovery plans.

II. DETAILS OF THE PROPOSED GUIDELINES

2.1 The proposed Recovery Planning Guidelines will serve as a general guide to implementing a supervised financial institution's (SFI's) recovery plan and is another step in modernising the recovery and resolution framework for bank and credit unions in The Bahamas, in line with international best practices. These guidelines address the SFI's responsibility in developing and testing the institution's recovery plan, ensuring continued governance and accountability and the promotion of financial stability. This will be achieved by requiring:

2.2 SFIs to submit recovery plans periodically to the Central Bank, noting that the cycle for submission will be tailored to each SFI;

2.3 SFIs to establish minimum capital adequacy internal requirements and additional capital buffers;

2.4 SFIs to select indicators and quantitative action triggers, including but not limited to profitability, capital, liquidity, asset quality, and macroeconomic indicators;

2.5 SFIs to select recovery options per trigger, noting that the same option can be used for more than one trigger with a justification of why one option is selected over the other; and

2.6 SFIs to analyse feasibility, timing and impact for each recovery option and evaluate the selections after testing is complete;

III. CONSULTATION PERIOD AND NEXT STEPS

The Central Bank invites your comments on the proposed guidelines, which should be submitted no later than 18 February, 2022. Your comments and questions regarding the proposals and amendments should be directed via email to the following:

Policy Unit
Bank Supervision Department
Central Bank of The Bahamas
Email: Policy@centralbankbahamas.com

Upon receiving feedback from interested parties, the Central Bank intends to finalise the Recovery Planning Guidelines by 28 February, 2022, to become effective by 1 March 2022. The Bank reserves the right to vary this timeline based upon information received through consultation on this Guideline.

SFIs selected to participate in the pilot program are to submit their draft recovery plan to the Bank by 31 May, 2022. The Central Bank will provide feedback to those SFIs by 29 July, 2022, and they will be required to submit their finalised recovery plans, signed off by their Board of Directors to the Central Bank, by 28 October, 2022. All other SFIs will be required to submit their draft plans, in December 2022.

SUPERVISORY AND REGULATORY GUIDELINES: 2021
Recovery Planning Guidelines
ISSUED: 202X

RECOVERY PLANNING GUIDELINES

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1. INTRODUCTION

1.1 The Central Bank of The Bahamas ("the Central Bank") is responsible for the licensing, regulation and supervision of supervised financial institutions ("SFIs") operating in and from within The Bahamas pursuant to the Central Bank of The Bahamas Act, 2020 ("the CBA"), the Bank and Trust Companies Regulation Act, 2020 ("the BTCRA"), and the Bahamas Co-operative Credit Unions Act, 2015 ("the BCCUA").

1.2 All SFIs are required to adhere to the Central Bank's licensing, regulation and prudential requirements and ongoing supervisory programs, including periodic on-site inspections and required regulatory reporting. SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements.

2. PURPOSE

2.1 The BTCRA and the CBA grant enhanced resolution powers to the Central Bank to address potential bank failures in the financial system. A thorough and detailed recovery plan is a vital component of a strong crisis management process. The recovery plan should produce a high-level plan fully understood and endorsed by senior management and Board of Directors. These guidelines specifically address a SFIs' responsibility in developing and testing its own recovery plan as part of their risk management framework and should be designed to apply well before a SFI gets into a crisis situation, in effect enabling the SFI to prevent a crisis rather than to respond belatedly to one.

2.2 The objective of the recovery plan is to enable a SFI to restore itself to financial soundness and compliance with all regulatory requirements in a timely and credible manner following adverse shock affecting an SFI's capital, liquidity or operational capacity. This process is to be commenced at an early stage in the emergence of financial stress.

2.3 These guidelines are meant to serve as a general guide to recovery plans. Nothing in this Guide prevents or limits the Central Bank from taking any course of action, as it deems necessary, for the protection of depositors or the financial system in The Bahamas.

3. APPLICABILITY

3.1 These Guidelines apply to all banks and banks and trust companies incorporated in The Bahamas as well as to co-operative credit unions (collectively referred to as "supervised financial institutions") and branches of foreign banks which are licensed or registered by The Central Bank of The Bahamas. These guidelines do not apply to pure and nominee trust companies, restricted banks and/or trust companies or managed branches.

3.2 The Central Bank recognises that some SFIs are subsidiaries of larger groups, and the recovery planning process may be led and/or managed by an offshore parent. Notwithstanding that a foreign parent will likely lead n these instances, the Central Bank expects the management of the local SFI to be aware of how the parent's global recovery process works for the SFI, and how crisis management at the local level fits into the Groups' recovery plan approach. The local recovery plan should include the triggers for seeking capital injections or other support from a recovering bank's Head Office.

3.3 Local management must understand the SFI's risk profile and be prepared to engage in discussions with the Central Bank as needed. The Central Bank expects SFIs to have relevant documentation in place to address these matters, as responsibility for compliance with the requirements of these Guideline remains with the SFI.

3.4 These Guidelines should also be read in conjunction with the following documents:

i. Guidelines for the Internal Capital Adequacy Assessment Process ("ICAAP");
ii. A Guide to the Central Bank's Ladder of Supervisory Intervention;
iii. Guidelines for the Management of Capital and the Calculation of Capital Adequacy;
iv. Guidelines for the Management of Liquidity Risk; and
v. Business Continuity Guidelines.

4. DEFINITION

4.1 These guidelines specifically address a SFIs' responsibility in developing and testing its own recovery plan as part of their risk management framework and should be designed to prevent a crisis. The recovery plan is a formal action plan that sets out measures (including extraordinary measures) to restore an SFI's financial position in response to emerging stress and following a crisis On the crisis continuum, the recovery stage falls between the lesser stress stage and the greater resolution stage. The SFI should adequately develop recovery triggers and identify and analyse recovery options to enhance management's focus on risk governance toward minimising the financial impact of unforeseen events in the future.

5. OVERVIEW

5.1 A SFI's recovery planning process should enable SFIs to continue to operate as a going concern, recovering from adverse but non-fatal shocks to restore its capital, liquidity, or operational capacity to an acceptable level. Recovery planning may improve an SFI's understanding of its risks from severe but plausible scenarios.

5.2 The recovery planning process should be integrated with the SFI's strategy, business decision-making, risk management framework, stress testing, internal capital adequacy assessment process (ICAAP), contingency and business continuity planning.

5.3 The Central Bank requires SFIs to establish and document a recovery plan, which should identify options to restore financial strength and viability when under severe stress and should include:

i. Credible options to cope with a wide range of scenarios including firm-specific and market-wide stress;
ii. Scenarios that address capital shortfalls and liquidity pressures; and
iii. Processes to ensure timely implementation of recovery options in a range of stress situations.

5.4 The Basel Committee on Banking Supervision ("Basel Committee") has published extensive guidance on recovery planning. This guidance is intended for large, internationally active banks operating in deep capital markets, and is not necessarily relevant for host-supervised banks in jurisdictions lacking deep capital markets. Rather than introduce the Basel Committee's recovery planning rules, the Central Bank will instead require all home and host-supervised institutions to produce the documents outlined in Appendix I.

6. MAIN FEATURES OF THE RECOVERY PLAN

6.1 Effective recovery planning makes a SFI more resilient to financial stress. The recovery plan should include both a SFI's risk management framework for monitoring, and recovery options for responding to, a range of stress scenarios. These recovery options should help the SFI to restore itself to a stable and sustainable condition. Each aspect of the plan should be underpinned by detailed analysis.

6.2 At a minimum, the Central Bank expects the following elements to be contained in the recovery plan as well as general consideration SFIs should incorporate when developing their recovery plans:

a) Executive Summary;
b) Governance and risk management;
c) Documentation and data;
d) Scope;
e) Critical functions and services;
f) Scenarios;
g) Testing;
h) Early warning indicators and triggers;
i) Recovery options;
j) Feasibility, Timing, Impact and Objective
k) Communications;
l) Implementation of framework (including preparatory measures)
m) Updating
n) Interaction with other relevant regulatory requirements

a) Executive Summary

The recovery plan should include a high-level summary that provides an overview of the plan and how it will be implemented. This includes the identification of the SFI's critical services, stress scenarios and recovery triggers, as well as preparatory measures.

b) Governance and Risk Management

1. The SFI's senior management is responsible for:

    i. Developing and implementing a recovery plan and maintaining the recovery plan process;

    ii. Presenting the recovery plan to the Board of Directors for approval once developed and tested (feedback from the Board should be addressed and the recovery plan revised accordingly);

        a) For branches of foreign banks, the responsibilities outlined for the Board of Directors of an SFI should be assumed by the Head Office of the local branch. Senior managers at Head Office should ensure that the standards outlined herein are appropriately addressed by the senior management of the local branch.

    iii. Annual review and testing of the recovery plan; and

    iv. Identifying the accountable executive who will be responsible for the SFI's recovery plan and for acting as the SFI's contact point with the Central Bank on its recovery plan. Those who typically have oversight of the risk management function (CEO, CFO, or CRO) will have ownership of the plan and should ensure that the plan is kept up to date.

2. SFIs should designate a Recovery Management Team responsible for implementing the applicable sections of the recovery plan for their functional areas. This team may comprise executives and staff normally employed by the SFI in other roles.

3. SFIs must ensure that decision-making and escalation processes for the activation of recovery options are in place. In particular, this includes clearly defining the responsibilities of Board members, senior management and business units, and identifying a senior executive[1] responsible for ensuring that the SFI observes recovery planning requirements and that recovery planning is integrated into the SFI's overall governance processes. Management information on early warning indicators and any breach of triggers should be reported promptly to senior management and the Board to enable early detection of severe stresses.

[1] See 6.2(b)(1)(iv) above.

4. Escalation and activation procedures are also necessary to evaluate the various recovery options set out in the recovery plan in order to decide which, if any, of the options to activate and to specify how this activation will be implemented.

5. The Central Bank recognises that senior management may approve some recovery options, while others may require approval of the Board. These decision delegations should be clearly documented in the recovery plan, along with details regarding the decision-making and escalation process.

c) Documentation and Data

Recovery plans should be supported by documentation, data, and management information. The plan must be clearly defined and capable of being activated by senior management in a timely and effective manner. Data and management information should identify when triggers are breached or are likely to be breached and should be integrated with other data and internal reporting aspects of the SFI's risk management framework.

d) Scope

1. Where SFIs are a part of a group, recovery plans must address recoverability on either a solo basis or on a group basis.

2. In addition to this, the SFIs are required to include scenarios within their recovery plan which will reflect an event where the parent entity experiences a stress situation which would also affect the SFI. In this case, the SFI will be required to identify recovery options available to them, and also include the recovery options available where the parent entity is not willing or capable of providing capital or liquidity assistance.

3. In the case of cross-border groups, the Central Bank may require the submission of a supplementary recovery plan, particularly where no group recovery plan exists, or where the SFI is not adequately covered by the group recovery plan. However, SFIs should ensure that there is group-wide coordination to avoid inconsistent recovery actions in times of crisis.

e) Critical Functions and Services

1. For banks operating in the Bahamian domestic market, the recovery plan should identify the SFI's core business lines, critical functions and critical services, and the key legal entities and jurisdictions from which these functions and services are provided.

2. A critical function, which includes payments, clearing, settlement, and custody services; retail deposit-taking; retail lending; specialist lending (e.g. small and medium enterprises, industry sectors, or regions); and market-making in securities such as government bonds, will be recognised as an activity of an SFI, which, if discontinued following the failure of the SFI would cause significant damage to financial stability or the wider economy.

3. A critical service is one on which critical functions depend. These are likely to include IT systems, transaction processing, administrative services, trading and asset management, treasury-related services, access to financial market infrastructures, valuation, accounting and cash handling, ability to maintain customer account to identify, quantify, monitor and manage risks, real estate, legal services, and risk management and compliance functions. These services may be performed in-house, from within a financial group, or outsourced to third parties. It is important that SFIs focus on recovery options that would help to preserve the continuity of critical functions, while recognising and avoiding recovery options that might threaten the continuity of critical functions (e.g. the sale or closure of a group entity that provides all or part of a critical function, or provides critical services on which the continuity of a critical function may depend).

f) Scenarios

1. Scenario testing is important for demonstrating that the recovery plan is suitable for use in a range of different types of stress and testing should be used to improve the consistency of the elements of the recovery plan (i.e. governance, indicators, recovery options, etc.). SFIs should conduct scenario testing to ensure that the recovery plan is viable.

2. The SFI should develop a range of both bank specific and market wide, plausible scenarios that accurately reflect the bank’s specific vulnerabilities based on its business activities. These scenarios should be a wide range of detailed stress events designed to negatively affect the SFI’s critical services, thus preparing the SFI in the event of a future occurrence. SFIs can select its own set of scenarios but should not be limited to a few options nor to just scenarios that are easy to implement. SFIs should note that the scenario need not be a detailed narrative, but rather focus on the impact the scenario would have on their capital and liquidity. The scenarios should also cover both fast-moving and slow-moving financial crises and should include, but not be limited to, the scenarios used by an SFI for its stress testing. A rationale as to why the particular scenario was selected should also be included. Additionally, SFIs should include an estimated time of recovery from each scenario and list the potential disruption issues within the critical business lines. Every Bahamian recovery plan should include a scenario contemplating a catastrophic hurricane striking New Providence.

3. SFIs should then analyse the potential impact of scenarios on their profitability, capital and liquidity; credit rating and cost of raising funding; external counterparties; operational capacity; material legal entities; core business lines; critical functions and critical services; and group-wide position. Recovery plan operational capacity may incorporate by reference each SFI’s business continuity plan.

4. SFIs should also include detail about the design and planning of the scenario used (this may or may not be one of the scenarios included in the scenario testing of the plan), a report on how the exercise unfolded, and lessons learnt for the development of the recovery plan.

5. Based on the identified shortcomings and recommendations, the institution should improve the relevant parts of its recovery plan and identify preparatory measures (as defined below) to improve the recoverability of the firm, where relevant. The exercise should be conducted with sufficient time before submission to reflect lessons learnt in the recovery plan and remediate identified deficiencies.

6. Every *three years,* the SFI should conduct live simulation type exercises based on a selected scenario to test the recovery plan in its entirety. This is a useful way to test the effectiveness of the recovery plan in a “live” situation. This simulation should involve the participation of the Board and senior management team. SFIs should use the findings of these exercises to improve their plans and demonstrate how the arrangements set out would work in practice. The results from the simulation should be incorporated into the next update of their recovery plan.

g) Testing

1. Testing is a key element in the credibility of a recovery plan while educating stakeholders on their role during a recovery scenario. Recovery plan testing is an annual process beginning with strategy and plan; test of design; preparation; execution of test; test evaluation; and revise plan and strategy if needed.

2. SFIs should leverage existing testing framework, align testing framework with governance, and involve all the lines of defence.

3. SFIs should also create a concise implementation guide covering the procedures for activating each recovery option, and should perform tests of their recovery plan. The Central Bank recognises that not all recovery options can be fully tested, but an SFI should confirm as far as feasible that its recovery options could be activated.

4. The results of any stress testing conducted should be included in the recovery plan. Moreover, where revisions are made to the plan, this should be submitted to the Bank.

h) Indicators

1. An effective indicator framework maximises the chance that the SFI is alerted to an oncoming stress with sufficient notice to implement and realise the benefits of- any necessary recovery options. The trigger of an indicator should be used as a prompt to consider the situation and whether it is appropriate to take any actions; for example it might trigger the convening of a senior decision-making recovery management team.

2. Trigger points in recovery planning enable SFIs to restore financial strength and viability before conditions are met for recovery measures to be implemented by the Central Bank[2]. SFIs should develop a set of early warning quantitative and qualitative indicators and triggers to indicate when recovery options might need to be activated.

[2] SFIs should always include a broader range of indicators than regulatory capital and liquidity ratios.

The trigger framework should provide sufficient early warning to allow corrective action to be taken and identify a set of pre-defined criteria that enable the SFI to monitor, escalate, and activate the appropriate range of responses for an emerging stress event.

3. Early warning indicators are used to signal negative trends and should alert the SFI to emerging signs of distress. Indicators should be forward-looking to allow time to initiate action prior to a potential breach of an identified trigger and for recovery options to be implemented.

4. SFIs must indicate the selection criteria for recovery options, how the trigger points were determined and provide an analysis that demonstrates that trigger points would be breached early enough to be effective. It is also important to note that early warning indicators should be linked to triggers. Depending on the nature of the SFI's business, the range of selection criteria, early warning indicators and triggers should include3:

    i. The available steps within The Bahamas to improve the CET1 ratio, by any combination of reducing exposures or risk assets, by increasing capital, or by reducing capital deductions;
    ii. The triggers for asking the parent or other suitable group entity for a capital injection, and the method for calculating the amount of the injection;
    iii. The likely time required to receive an answer, and where relevant, funding from a capital injection request;
    iv. The SFI's intended course of action if the combination of steps (i) through (iii) are likely to prove insufficient to rapidly return the SFI to capital soundness;
    v. Profitability;
    vi. Asset quality;
    vii. Investment performance;
    viii. Insurance liabilities (technical provisions);
    ix. Internal forecasts of future performance, projected outcomes and trends;
    x. Market indicators (e.g. credit rating, CDS spreads, share price);
    xi. Macroeconomic indicators;
    xii. Operational events that could threaten financial viability; and
    xiii. Other triggers relevant to the SFI's business.

5. Where the local entity requires capital and the group is sound, the Central Bank expects, but does not require a contractual commitment, that the group will recapitalise its subsidiary. If the deficiency is small, and the SFI remains well above its regulatory capital requirement, then local actions such as reduction or suspension of dividends, or steps to improve profitability, may prove sufficient.

6. Where the group is weak but the local entity is sound, the Central Bank expects the local Board and management to ensure that the local entity's position is not weakened

[3] This list is for information purposes only and SFIs should consult the Central Bank where there is doubt.

to support the group. Among other things, any capital reduction through a return of capital or extraordinary dividend will require prior approval from the Central Bank.

7. Where both the group and the local entity suffer from capital deficiencies, the local management and Board should also take care that the Bahamian entity does not subsidise the group in any capital support sense.

8. As with capital, SFIs will need a liquidity recovery plan for the scenarios of weak local entity and strong parent, weak parent and sound local entity, and both the local entity and the parent suffering liquidity challenges. There is an additional scenario in which global capital, funding, and derivatives markets become disordered.

9. In each of these scenarios, the Central Bank expects that local management and Boards will ensure that the parent provides rapid and appropriate support, and that the local entity does not provide undue liquidity support to a troubled parent. As with capital, small liquidity deficiencies that remain above regulatory requirements may be addressed locally, but substantial deficiencies will require large and rapid parent support. Each SFI's liquidity recovery plan needs to include a contingency plan, possibly involving orderly wind-up and/or sale of the business, if parent support is not forthcoming.

10. At minimum, trigger points for recovery planning should be:

    i. Aligned with an SFI's existing capital or liquidity contingency plan triggers (but should not be limited to such triggers);
    ii. Incorporated into its overall risk management framework; and
    iii. Subject to review by the Board of Directors.

11. The SFIs can also develop a selection of less severe early warning indicators to identify emerging signs of stress for each financial institution.

i) Recovery Options

a) Recovery options are measures invoked in a stress situation to prevent a crisis and will be available to an SFI to restore its financial position before, during or following a crisis. Consideration of such options prior to a crisis is essential and increases the probability of an SFI's recovery.

b) The recovery plan should specify a range of recovery options that an SFI could activate to restore its financial position or confidence in its viability, following an adverse shock. The activation of these options should enable the SFI to survive a range of severely stressed scenarios. Recovery options should be sufficiently comprehensive to enable the SFI to respond effectively to a range of scenarios within the specified timeframe. Recovery options should not be limited to those that are easy to implement and should consider extreme options such as changing the SFI's structure and business model or the sale of strategic assets.

c) SFIs should identify the factors that could reduce the effectiveness of recovery options in restoring its financial position during or following a crisis, (e.g. prior experience in implementing a recovery option should be included where applicable, along with information on the circumstances which might render the recovery option unavailable). SFIs should also detail how these circumstances could be mitigated.

d) Specific recovery options should be in place to respond to each specific trigger point – although in some cases the same option may be used in response to more than one trigger.

e) Recovery options may include:

i. Injecting additional capital;
ii. Reducing or suspending dividends;
iii. Selling investments, subsidiaries, assets, or business lines;
iv. Accessing additional funding or using liquid assets to generate cash;
v. Cost reductions from suspending variable remuneration, and major projects and expenditures. Available options to address liquidity shortfall may also include drawdown on liquidity facilities, parent based liquidity support, initiatives to lengthen the maturity profile of funding, slowing lending, cutting non-essential expenditures, and securitisation (if feasible).
vi. Changes to the business model to de-risk the business and
vii. Restructuring.

f) Recovery options should not assume that government support would be available, or that a central bank would provide liquidity beyond pre-announced arrangements (including acceptable collateral).

g) Activating specific recovery options should not be automatic. Instead, the recovery plan should identify one or more recovery options that could be activated in response to the breach of a trigger. The choice of whether to activate a recovery option, or of which option to activate, will depend on the circumstances and should be discussed as part of the SFI's escalation processes for decision-making. The recovery plan should identify:
i. Who has the authority to approve each recovery option;
ii. The prioritisation/sequencing of recovery actions, differentiating between idiosyncratic and system-wide scenarios;
iii. The timeframe for recovery options to be completed and the implementation steps needed; and
iv. An estimate of the likely maximum amount that the recovery option could contribute to capital/liquidity restoration.

Special note: DSIBs

It is open to most SFIs to include large balance sheet and risk reductions in their recovery plans. If DSIBs collectively or individually seek to rapidly reduce their portfolios, they <u>must</u> first engage in discussions with the Central Bank. The Central Bank expects that DSIB's recovery plans will allow for DSIBs to support their borrowers, including providing additional funding for qualified borrowers.

j) Feasibility, Timing, Impact and Objective

Each recovery option should take the following key elements into consideration:

1. *Feasibility*
Some recovery options may not be available or may be less effective in certain circumstances (e.g. when there are market-wide stresses). It may also not be feasible to undertake multiple recovery options at the same time.

2. Timing
SFIs should include the expected impact and timeframe over which each recovery option could be implemented. Some recovery options may require a long time to implement or for the benefits of the option to materialise. It is therefore important that recovery options correspond with the timeframe to restore financial health or market confidence under each stress scenario.

3. Impact
SFIs should assess in advance the likely impact of each recovery option, not only on its immediate need for additional capital, funding, etc., but also on potential side effects such as the impact on critical functions and critical services, on the rest of the financial group (where applicable), and on the longer term viability of the institution.

4. Objective
SFIs should identify what a successful restoration point[4] for capital, funding, market confidence, etc., and whether the successful activation of one or more recovery options would deliver a successful outcome.

k) Communications

1. In the event of the activation of a recovery plan, there should be clearly defined protocols for when and/or how communication with internal and external stakeholders; the Central Bank; and in some cases, the local media will occur to ensure that the communication is of one accord.

2. The recovery plan should list who will be responsible for approving communications, which should be a central source to avoid sending mixed messages to internal and external stakeholders and the media.
3. The recovery plan should include contact lists of those who will need to be informed, a protocol for what information can be communicated and how it should be conveyed.

[4] SFIs should note that the successful restoration point is not simply meeting the minimum capital requirements but identifying what level of excess capital is needed based on risk preferences.

l) Implementation of Framework

1. An SFI should assess whether it is able to leverage other plans and processes to enhance the recovery plan.

2. SFIs will identify any preparatory measures related to the credibility and effectiveness of individual recovery options and detail a plan to conduct these.

3. SFIs should outline the preparatory measures that would enable them to increase the number and scale of credible recovery options, as well as the credibility/effectiveness of the recovery plan overall. Preparatory measures may include:

    i. Measures necessary to increase the sale of any capital issuance;
    ii. Measures necessary to overcome legal impediments to the transfer of own funds/repayment of assets or liabilities within the group;
    iii. Measures necessary to facilitate the sale of assets or business lines; and
    iv. Structural changes to the group necessary to increase the credibility and effectiveness of the recovery plan.

m) Updating

Recovery plans should be reviewed on an annual basis and regularly updated to reflect any change to an SFI's business activities, its financial situation, its legal or organisational structure, or any other matter, which could have a material effect on or necessitate a change to the recovery plan. The recovery plan should be subject to approval by the SFI's Board of Directors. SFIs must notify the Central Bank within *one month* of making any material changes to a recovery plan.

n) Integration with the Risk Management Framework

1. The recovery plan is intended to be used in relatively severe situations of capital and liquidity stress, on the presumption that milder stress situations are covered in other plans. The recovery plan should be integrated into the SFI's wider Risk Management Framework, focusing in particular on the Internal Capital Adequacy Assessment Process (ICAAP), Contingency Funding Plans (CFP) for capital and liquidity, as well as the Business Continuity Plan (BCP).
2. SFIs should ensure that there is a coherent process for being alerted to and addressing a liquidity stress and helps to ensure a coherent risk management framework.

3. The Central Bank expects that SFI's ICAAP, CFP, BCP, recovery plan, and (where relevant) concurrent stress test documents to be consistent with each other. For example, similar scenarios in two documents should have broadly similar impacts (there may be exceptions) and the recovery plan should include all management actions proposed in other documents. Where the documents are produced by different people in the organisation, the Central Bank expects them to effectively co-ordinate to consider related documents together.

7. CENTRAL BANK'S SUPERVISORY REVIEW AND EVALUATION PROCESS

7.1 SFIs should monitor their full set of recovery indicators, increasing frequency as an SFI becomes more troubled. SFIs must report on a timely basis to the Central Bank any breach of indicator thresholds, even if it does not result in the implementation of a recovery action. SFIs should regularly review and update their list of credible and feasible recovery options and any preliminary measures that are necessary to quickly implement the recovery options that should be taken.

7.2 As a part of the assessment of an SFI's recovery plan, the Central Bank will use the SFI's analysis of its recovery options, along with the Central Bank's own assessment to estimate the SFI's current recovery capacity in various scenarios.

7.3 If a recovery plan is unable to restore the financial and operational health of an SFI, then the institution may no longer be viable or may have no reasonable prospect of becoming viable and the criteria for placing the SFI into resolution may be satisfied.

7.4 The Central Bank will assess the appropriateness and adequacy of an SFI's recovery planning process and the integration of that process in its risk governance framework, taking into account the systemic importance, size, and complexity of the SFI. The quality and reasonableness of the recovery plan will also be assessed. In some respects, this will be similar to the supervisory review and evaluation of the SFI's ICAAP with the quality of the recovery plan providing information about an SFI's risk management capabilities and providing information that can be fed into the supervisory risk assessment of the SFI.

7.5 Where the Central Bank is of the view that a recovery plan submitted by an SFI is deficient, the SFI will be notified and required to resubmit the recovery plan within a specified timeframe with such revisions as may be reasonably required to address the deficiencies in the plan.

7.6 Each SFI will be required to submit its recovery plan periodically to the Central Bank and the cycle for submission will be tailored to each SFI.

APPENDIX

The following, which is required from all Host-Supervised (foreign-owned) banks, including bank and trust companies, should be contained in the recovery plan.

1. A scenario on capital, covering three scenarios:
   - The local subsidiary requires capital, and the group is sound;
   - The group or parent is weak, but the local subsidiary is sound; and
   - Both the local subsidiary and the group require capital.
2. A scenario on liquidity, also covering three scenarios:
   - The local subsidiary/branch requires liquidity, and the group is liquid;
   - The local subsidiary/branch is liquid, but the group requires liquidity;
   - Both the local subsidiary/branch and the group require liquidity; and
   - International funding and capital markets have become disordered, along the lines of the late 2008 North Atlantic financial crisis.

The Central Bank does not require or expect that the recovery plan for Host-supervised institutions will become particularly long or complex. We note that the Central Bank's Basel III capital framework already includes substantially super-equivalent and more flexible capital buffers than the Basel Committee rules text, and to some extent, this super-equivalence allows a simpler approach to recovery planning.

Home-Supervised Domestic Banks

Home-supervised domestic banks must complete the recovery plan outlined in this Annex, and must complete the more extensive requirements associated with home-supervised domestic banks. In this case, the recovery plan referenced here should focus narrowly on aspects of support or non-support from the parent bank or group, with local recovery strategies outlined in the recovery planning for domestic banks.