Feedback from the First Round of Consultation: Recovery Planning Guidelines, 2022

Section	Questions/Comments Received	The Central Bank's Response
Cover - Introduction III - Consultation Period and Next Steps	The May 31st, 2022 submission deadline for SFIs participating in the pilot programme may not be practical as SFIs may require a longer period to complete the document.	Your comment has been duly noted, however the Central Bank deems the timeline sufficient for the SFIs currently participating in the pilot programme to prepare and submit their draft Recovery Plan.
6.6 (f) (6) - Main Features of the Recovery Plan - Scenarios	Can the Board delegate its participation in the live simulation type exercise to Senior management/regional executive?	While Board participation is not necessary in all simulation exercises, it is appropriate that both Senior Management and Board Members participate in live simulations to test the Board Chairperson and Senior Management's ability to communicate effectively with external parties.
6.2 (d) (1) - Main Features of the Recovery Plan - Scope	This subsection states that where SFIs are a part of the group, recovery plans must address recoverability on either a solo basis or on a group basis. The language suggests that the SFI has a choice. Please clarify whether the SFI has the option to choose solo or group basis.	SFIs have to present a plan that addresses recoverability on both a solo basis and a group basis.
6.2 (h) (9) - Main Features of the Recovery Plan - Indicators	We note that 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. Please provide additional context on scope or level of details required for unwinding.	Please refer to section 59 of the BTCRA, which speaks to the voluntary liquidation of banks. Unwinding is not a process that can be performed once a SFI has been wound-up.
7.6 - Central Bank's Supervisory Review & Evaluation Process	We note that 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. Submission cycles less than 1 year will be onerous for a SFI and we recommend that the Central Bank take this into consideration in determining the frequency.	Thank you for your comment.

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	What is the basis for selection to participate in the pilot programme?	
Appendix	The last bullet states, "Liquidity scenarios to include "International funding and capital markets have become disordered, along the lines of the late 2008 North Atlantic financial crisis." Caribbean experience in 2008 is different from global banks, is liquidity stress aligned to Basel LCR parameters adequate?	The liquidity stress scenario will simulate a scenario that may indicate that in the event that the markets were to become disordered as they were during the 2008 North Atlantic financial crisis, which would factor in the SFI's actual local experience.
	There appears to be an overlapping/duplication of other Central Bank guidelines/regulatory reporting (ICAAP, BCP, Risk Appetite framework, stress testing, etc.), will you now require SFIs to maintain and submit those reports separately or will the proposed guidelines be used to consolidate and report through one 'super' Recovery Planning document?	The Recovery Planning Guidelines is not to be viewed as a duplication of other reporting requirements but instead as an integration into the wider risk management framework. SFIs will continue to report separately on the other risk areas.
6.2 (b) Government and Risk Management	The Guidelines establishes that the recovery plan must be presented to the Board of Directors for approval once developed and tested. What is the scope of the test required? Like other plans, it is suggested that the approval be provided regardless of having been previously tested. As tests are carried out, the plan may undergo modifications, which must be approved by the Board of Directors. No testing should be required before initial approval.	As per Section 6.2(g), 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. Further, Section 6.2(b)(5) states that the Central Bank recognizes that senior management may approve some recovery options, while others may require approval of the Board. These decisions, where delegated, should be clearly documented in the recovery plan, along with details regarding the decision-making and escalation process. Finally, as per Section 6.2(m), 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 updated recovery plan should be subject to

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		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. The Central Bank expects the SFIs Board of Directors to challenge, review and approve the recovery plan. The Board of Directors are expected to provide their view on why they believe the recovery plan is both feasible and executable when faced with severe stress and provide an explanation for this view
6.2 (f) (6) Scenarios	The Guidelines establishes that every three years the SFI should conduct "live simulation" type exercises to test the recovery plan in its entirety. We suggest a longer term, for example every 5 years, which is a period that covers an entire economic cycle.	Your suggestion has been duly noted. Live simulations are a useful way to test the effectiveness of the recovery plan in a "live" simulation. By conducting these simulations every three years as opposed to five, SFI's are able to ensure that the recovery plan remains relevant, credible and executable based on current information and economic climate.
6.2 (g) Testing	The Guidelines establishes that recovery plan testing should be annually. What are the main differences between this annual test and the live simulations test mentioned in point 6.2.f.6 of this Guideline?	A 'live' simulation exercise is an effective instrument for testing crisis management policies and capabilities in a controlled environment. Simulation recreates selected elements of a crisis and require participants to act, as far as possible, in the way they would if they were confronted with such a situation in reality. As such, a "live" simulation is designed to mirror the circumstances participants would face in a real crisis, although simplifications are inevitably required to keep the exercise targeted and manageable. The live simulation, which is conducted every three years, will be based on a selected scenario in order to test the recovery plan in its entirety. The purpose of the annual test is to facilitate the annual review of the recovery plan. This could take the form of a desk top style of testing that focuses on particular elements of the SFIs recovery plan. This annual review will ensure that recovery plans are up to date, relevant and executable. Live simulation testing would normally involve the Board (or at least the Chairman and one other director) and management team, together with SFI

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		staff undertaking role-plays of external parties. In contrast, a desk-top review is smaller in scale and would generally involve only selected senior management and other staff, without the Board necessarily being involved.
III. Consultation Period & Next Steps	When will SFIs be notified that they are a part of the Pilot Program? The timeline is only allows for a little over 2 months to produce a draft plan and thus would require prompt notification.	Your comments are duly noted. SFIs who were initially selected for the Pilot Programme were notified of their selection to produce draft recovery plans in December 2021.
III. Consultation Period & Next Steps	When will feedback be provided for SFIs not in the pilot program and how long will they have to develop the final plan?	SFIs not selected to participate in the pilot program will be required to submit their draft plans in December 2022, which will then be reviewed and SFIs provided feedback thereafter.
3.2 Applicability	For groups, is one recovery plan covering all entities/jurisdiction sufficient? Or will each entity be required to submit an individual plan referencing a group-wide plan (if it exists)?	As per Section 6.2(d)(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 a group-wide coordination to avoid inconsistent recovery actions in times of crisis. Where SFIs are subsidiaries of groups, the local entity is expected to submit a local recovery plan, referencing the group-wide plan and how the local is factored in it. If a SFI is part of a financial group headed by a foreign bank, then the recovery plan for the SFI should cover the SFI and its group in the Bahamas, while the group parent recovery plan should cover the parent entity and the global group.
6 (f) (2) Scenarios	*"SFIs can select its own set of scenarios but should not be limited to a few options…"*	1. As per section 6(f)(2) the Central Bank would consider the following acceptable and what the scenarios should include:

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	1. Is there a range of scenarios that would be considered acceptable by the Central Bank? 2. Should SFIs submit proposed scenarios for Central Bank feedback ahead of submission of the full plan? The statement could be subjective and lead to rework by the SFI if the amount and type of scenarios are not acceptable to Central Bank.	- "the scenario need not be a detailed narrative, but rather focus on the impact the scenario would have on their capital and liquidity; - 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 scenario contemplating a catastrophic hurricane striking New Providence" Also note, as outlined in the Appendix of the Guidelines, SFI's which are subsidiaries of foreign banks or holding companies are required to provide: "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. 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 - The above scenarios should also include the financial stress experienced during the late 2008 North Atlantic financial crisis." SFI's recovery plan need to ensure that they address a: - 'Idiosyncratic scenario' whereby the SFI has sustained an adverse financial shock and the financial system is assumed to be operating normally; and

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		- 'System wide-scenario' where the financial system is in stress and the SFI has suffered an adverse financial shock in that context. 2. As noted in the Guidelines, SFIs are required to submit a *draft* of their recovery plan by 31 December, 2022, therefore, the scenarios included within this draft will be submitted before the submission of the finalized plan (deadline for <u>submission of the final recovery plan for SFI's is TBC</u>). The Central Bank will provide feedback on the SFIs draft recovery plans following their submission.
6 (f) (2) Scenarios	*"The scenarios…should include, but not be limited to, the scenarios used by an SFI for its stress testing"* How would the impact analysis required in section f) 3 be conducted exclusively from stress testing? The requirements associated with f) 3 include the movement of macro and internal factors in order to determine the impact on profitability, capital, etc for each section essentially resulting in a stress test for each scenario.	The impact analysis is not meant to be conducted exclusively but as a part of the stress test. Stress tests are forward looking exercises that aim to evaluate the impact of severe but plausible adverse scenarios on the resilience of financial firms.[1] Section 6 (f) (3) of the Guidelines is clarifying that along with analysing the impact from the stress testing, SFIs should also analyse the impact of their profitability, capital and liquidity, credit rating, etc. The scenarios used for a recovery plan should be severe but plausible. They should ideally result in a shock that causes the SFI to breach its capital and liquidity regulatory requirement (or would breach the requirements in the absence of recovery actions).
6 (f) (4) Scenarios	*"SFIs should also include detail about the design and planning of the scenario used…a report on how the exercise unfolded, and lessons learnt for the development of the recovery plan."* Are these to be included in/submitted along with the draft recovery plan or final version of the plan?	Yes. This is expected to be included in both the draft recovery plan, as well as the final board approved version of the recovery plan.

[1] https://www.bis.org/fsi/fsisummaries/stress_testing.pdf

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6 (f) (5) Scenarios	*"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."* Is it acceptable for remediation plans for identified deficiencies to be due after submission of the plan? All remedial activities necessary may not be achievable before submission of the plan.	No. See point above (6(f)(4). It is expected that SFI's conduct these exercises, and where the SFI identifies deficiencies, the relevant parts of the plan should be improved. SFIs should ensure that these exercises are conducted with enough time to be able to provide an analysis of the lessons learnt and how the SFI would remediate the deficiencies identified. Where remedial actions require more time for completion, the detailed action plan to achievement should be provided. Testing of the recovery plan – and the assessment of any deficiencies in it should be done once the first recovery plan has been completed, signed off by the Board of the SFI and reviewed by the CBOB.
6 (f) (6) Scenarios	*"Every three years, the SFI should conduct live simulation type exercises based on a selected scenario to test the recovery plan in its entirety."* Is this simulation required before submission for the first recovery plan or within 3 years of the first submission? It would be helpful to make a distinction between the requirements for first time plans and ongoing maintenance of the plans.	Within 3 years of the first submission.
6 (h) (5) Indicators	*"Where the group is weak but the local entity is sound"* 1. How is it determined whether the group is 'sound' or 'weak'? Is this determined by the local entity or by the Central Bank? 2. If the latter, will the local entity be notified of this determination?	While the local entity should be aware of the strength of its group at all times, the determination of the strength or weaknesses will be made by the Central Bank as part of its supervisory monitoring. Through its onsite and offsite surveillance, the Central Bank pays particular attention to the capital and liquidity strength of the local entity and its group. Any weaknesses found is communicated to the former. See also Stage 2 of the Guide to the Central Banks Ladder of Supervisory Intervention .

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6 (h) (9) Indicators	*"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."* A contingency plan in this instance would constitute a resolution plan. Is the expectation that the recovery plan state the indicators that would trigger/invoke the separate resolution plan, or that the resolution/contingency plan should be fully built out within the recovery plan?	A contingency plan sets out the strategies for addressing liquidity shortfall in emergencies. It is the compilation of policies, procedures and actions plans for responding to *severe* disruptions to a SFI's ability to fund some or all of its activities in a timely manner and at a reasonable cost. A recovery plan seeks 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 and SFI's capital, liquidity or operational capacity. The winding up of the SFI as a whole would not be expected as part of their recovery plan. Rather, the recovery plan might include the sale/closure of parts of the business of the SFI as an element in the recovery strategy.
6. i) DSIBs	*"If DSIBs collectively or individually seek to rapidly reduce their portfolios, they must first engage in discussions with the Central Bank."* 1. Are the portfolios being referred to asset portfolios, depositors or either? 2. In the case of non-DSIBs, what is the requirement for notification to Central Bank when a significant recovery option is planned to be executed? 3. Would Central Bank advise all SFIs of any recovery options that they see as requiring discussion before execution?	1. The portfolios being referred to are all the portfolios, including both asset and depositors portfolios. 2. Section 7.1 states that "SFI's 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 option. 3. While recovery options would have benefitted from the review and approval of senior management and the board, in its review, the Central Bank would provide feedback on any area of concern.
6 (n) (1) Integration with the Risk Management	*"The recovery plan should be integrated into SFIs wider Risk Management Framework, focusing in particular on the ICAAP"*	The scenarios have to be fitting with regard to scenarios that would occur should a SFI have to trigger their recovery plan. Under section 6(n)(3), (page 16) of the Recovery Planning Guidelines, it states: *"The Central Bank expects that SFI's ICAAP, CFP, BCP, recovery plan and (where relevant) concurrent stress test documents to be consistent with each*

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	Given that the recovery planning process and stress tests should be integrated with the ICAAP, is it acceptable to utilize the same scenarios used in the latest ICAAP? Or should it include but not be limited to these scenarios?	*other. For example, similar scenarios in two documents should have broadly similar impacts…"* Scenarios might be the same as in the ICAAP, but would generally be more severe than used in an ICAAP, given that the recovery plan is intended to be applied in severe scenarios, whereas the ICAAP is designed to cover more business-as-usual settings.
7.1 Central Bank's Supervisory Review and Evaluation Process	*"SFIs must report on a timely basis to the Central Bank any breach of indicator thresholds"* Is there a specified timeline within which an SFI must report a breach of indicator thresholds?	When referencing a timely basis, it is expected that a SFI will report any breach of indicator thresholds within seven days to the Central Bank.
Appendix – Home Supervised Domestic Banks	Is this appendix requiring that at minimum, home-supervised domestic banks must include 3 capital and 3 liquidity scenarios noted?	Yes. At a minimum, a SFI should have three scenarios based on capital which will cover - - 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. And three scenarios based on liquidity which will cover; - 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 - The above scenarios should also include the financial stress experienced during the late 2008 North Atlantic financial crisis.
	It would appear that the information requested is already substantially covered between the Internal Capital Adequacy Assessment Process (ICAAP) and Business Continuity Planning (BCP) submissions. As there is substantial overlap, we respectfully ask if consideration can be made to	Your suggestion has been duly noted. The recovery plan should be aligned with the ICAAP and BCP as they all form part of and should be integrated into the bank's risk management framework. In this light, it would not be a duplication of effort. Recovery plans are intended to address severe scenarios which pose a threat to the viability of a SFI (but which they can recover). When compared

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	streamlining these processes to minimize duplication of efforts.	with the purpose of a SFI's ICAAP and BCP, a recovery plan focuses on financial shocks and address more severe situations.