

Excerpt from Key Attributes of Effective Resolution Regimes for Financial Institutions

## **I-Annex 4: Essential Elements of Recovery and Resolution Plans**

The *Key Attributes* call on jurisdictions to put in place an ongoing recovery and resolution planning process to promote resolvability as part of the overall supervisory process (see Key Attribute 11). The process should involve the resolution authorities and all other relevant authorities.

### **1. Objectives and governance of the RRP**

- 1.1 An adequate, credible RRP is required for any firm when its failure is assessed by its home authority to have a potential impact on financial stability. This would include, at a minimum, all G-SIFIs (see Key Attribute 11.2).
- 1.2 The RRP should take account of the specific circumstances of the firm and reflect the nature, complexity, interconnectedness, level of substitutability and size of the firm.
- 1.3 The underlying assumptions of the RRP and stress scenarios should be sufficiently severe. Both firm (group) specific and system-wide stress scenarios should be considered taking into account the potential impact of cross-border contagion in crisis scenarios, as well as simultaneous stress situations in several significant markets. RRP should make no assumption that taxpayers' funds can be relied on to resolve the firm.
- 1.4 RRP should serve as guidance to firms and authorities in a recovery or resolution scenario. They do not in any way imply that the authorities would be obliged to implement them, or be prevented from implementing a different strategy in the event that the firm needs to be resolved.

### ***Recovery plan***

- 1.5 The recovery plan serves as a guide to the recovery of a distressed firm. In the recovery phase, the firm has not yet met the conditions for resolution or entered the resolution regime. There should be a reasonable prospect of recovery if appropriate recovery measures are taken. The recovery plan should include measures to reduce the risk profile of a firm and conserve capital, as well as strategic options, such as the divestiture of business lines and restructuring of liabilities.
- 1.6 The responsibility for developing and maintaining, and where necessary, executing the recovery plan lies with the firm's senior management. Authorities should review the recovery plan as part of the overall supervisory process, assessing its credibility and ability to be effectively implemented. The authorities should have the requisite powers to require the implementation of recovery measures.

- 1.7** Firms should be required to update the recovery plan at regular intervals, and upon the occurrence of events that materially change the firm’s structure or operations, its strategy or aggregated risk exposure. They should be required to regularly review the exogenous and firm-specific assumptions a recovery plan is based upon and assess on an ongoing basis the relevance and applicability of the plans. If necessary, firms should adapt their recovery plan accordingly.

### ***Resolution plan***

- 1.8** The resolution plan should facilitate the effective use of the resolution authority’s powers with the aim of making feasible the resolution of any firm without severe systemic disruption and without exposing taxpayers to loss while protecting systemically important functions. It should serve as a guide to the authorities for achieving an orderly resolution, in the event that recovery measures are not feasible or have proven ineffective.
- 1.9** The responsibility for developing and maintaining, and where necessary, executing the resolution strategies set out in resolution plan lies with the authorities.
- 1.10** At the national level, all relevant authorities involved in supervision, implementation of corrective actions and resolution should participate in the RRP process.
- 1.11** Firms should be required to provide the authorities with the data and information, including strategy and scenario analysis, required for purposes of resolution planning on a timely basis. Authorities should identify the specific information requirements and satisfy themselves that the firm has the capacity to provide the information upon request and in a timely manner.
- 1.12** Authorities should review resolution plans with the firms to the extent necessary. Authorities may decide not to disclose a resolution plan or parts of it to the firm.

### ***Governance and oversight of the RRP***

#### ***Authorities***

- 1.13** Authorities should establish a robust governance structure for the oversight of the recovery and resolution planning processes, including the ongoing review and updating of RRPs to take into account any changes in circumstances facing the firm or the financial system. Responsibilities for the development, review, approval and maintenance of RRPs should be clearly assigned. Authorities should define and communicate a clear process for interaction with the firms in recovery and resolution planning. In those jurisdictions where court orders are required to apply resolution measures, resolution authorities should take this into account in the resolution planning process, so as to ensure that the time required for court proceedings will not compromise the effective implementation of resolution actions.

- 1.14** Authorities should have sufficient resources and expertise to support the preparation and assessment of RRP on an ongoing basis.
- 1.15** Authorities should review, and where necessary, direct changes to the assumptions and stress scenarios underlying a firm’s RRP and require the firms to prepare additional stress scenarios. The stress scenarios should adequately consider all relevant endogenous and exogenous risk exposures that the firm faces, taking into account the firm’s specific situation, strategy and positions. Authorities should seek to achieve a reasonable degree of consistency in the severity of stress scenarios used by different firms. However, the stress scenarios used need not be the same for each firm.
- 1.16** Authorities should assess the willingness of the firm’s management to implement corrective measures, and where necessary, enforce the implementation of recovery measures.
- 1.17** Authorities should consider the systemic impact of measures if these were being implemented by several firms at the same time.

*Firms*

- 1.18** Firms should be required to have in place a robust governance structure and sufficient resources to support the recovery and resolution planning process. This includes clear responsibilities of business units, senior managers up to and including board members, and identifying a senior level executive responsible for ensuring the firm is and remains in compliance with RRP requirements and for ensuring that recovery and resolution planning is integrated into the firm’s overall governance processes.
- 1.19** Firms should be required to have in place systems to generate on a timely basis the information required to support the recovery and resolution planning process to enable both the firm and the authorities effectively to carry out recovery and resolution planning, and where necessary, implement the RRP.
- 1.20** Firms should be required to draw up concrete firm-specific stress scenarios, including both idiosyncratic and market-wide stress and, upon request, provide strategy and scenario analysis.
- 1.21** Firms should upon request engage in periodic simulation or scenario exercises with home and host authorities to assess whether the RRP are feasible and credible.

*Cross-border coordination*

- 1.22** The top officials of the home and key host authorities of G-SIFIs should meet, where appropriate with the CEO of the firm, and review at least annually the overall resolution strategy (see Key Attribute 1.6).

- 1.23** Appropriate senior officials of the home and host authorities should, at least annually, review the operational resolution plans for each G-SIFI and engage in periodic simulation or scenario exercises to test the viability of the plans. These exercises may include the firm in question.
- 1.24** At least for G-SIFIs, the home resolution authority should lead the development of the group resolution plan in coordination with all members of the firm’s CMG. Host resolution authorities may maintain their own resolution plans for the firm’s operations in their jurisdictions, cooperating as far as possible with the home authority to ensure that the plan is as consistent as possible with the group plan.
- 1.25** For all G-SIFIs, the home authorities should have a process to ascertain which jurisdictions that are not included in the CMG assess the local operations of the firm as systemically important to the local financial system, and the reasons for that assessment. The home authorities should establish a process for maintaining contact with such non-CMG jurisdictions and ensure that appropriate modalities for cooperation and information sharing are in place.

## **2. General outline of RRP**

### *Structure of RRP*

- 2.1** To support rapid execution, both recovery and resolution plans should include:
- (i) a high-level substantive summary of the key recovery and resolution strategies and an operational plan for implementation;
  - (ii) the strategic analysis that underlies the recovery and resolution strategies;
  - (iii) conditions for intervention, describing necessary and sufficient prerequisites for triggering the implementation of recovery or resolution actions;
  - (iv) concrete and practical options for recovery and resolution measures;
  - (v) preparatory actions to ensure that the measures can be implemented effectively and in a timely manner;
  - (vi) details of any potential material impediments to an effective and timely execution of the plan; and
  - (vii) responsibilities for executing preparatory actions, triggering the implementation of the plan and the actual measures.

### *Recovery and resolution strategies*

- 2.2** RRP should contain a high-level substantive summary of the key recovery and resolution strategies and an operational plan for their implementation. This should include the identification of the firm’s essential and systemically important functions (for example, illustrated with an organisational chart of the firm’s major operations),

a description of the critical measures to implement the key recovery and resolution strategies and an assessment of potential impediments to their successful implementation, as well as any material changes or actions taken since the firm's last submitted RRP.

### ***Strategic analysis***

**2.3** A key component of RRPs is a strategic analysis that identifies the firm's essential and systemically important functions and sets out the key steps to maintaining them in recovery as well as in resolution scenarios. Elements of such analysis should include:

- (i) identification of essential and systemically important functions, mapped to the legal entities under which they are conducted;
- (ii) actions necessary for maintaining operations of, and funding for, those essential and systemically important functions;
- (iii) assessment of the viability of any business lines and legal entities which may be subject to separation in a recovery or resolution scenario, as well as the impact of such separation on the remaining group structure and its viability;
- (iv) assessment of the likely effectiveness and potential risks of each material aspect of the recovery and resolution actions, including potential impact on customers, counterparties and market confidence;
- (v) estimates of the sequencing and the time needed to implement each material aspect of the plan;
- (vi) underlying assumptions for the preparation of the RRPs;
- (vii) potential material impediments to effective and timely execution of the plan; and
- (viii) processes for determining the value and marketability of the material business lines, operations, and assets.

## **3. Essential elements of a recovery plan**

**3.1** Firms should identify possible recovery measures and the necessary steps and time needed to implement such measures and assess the associated risks. The range of possible recovery measures should include:

- (i) actions to strengthen the capital situation, for example, recapitalisations after extraordinary losses, capital conservation measures such as suspension of dividends and payments of variable remuneration;
- (ii) possible sales of subsidiaries and spin-off of business units;
- (iii) a possible voluntary restructuring of liabilities through debt-to-equity conversion; and

- (iv) measures to secure sufficient funding while ensuring sufficient diversification of funding sources and adequate availability of collateral in terms of volume, location and quality. Proper consideration should also be given to possible transfers of liquidity and assets within the group.

**3.2** Firms should assess the additional requirements to which they may potentially become subject during crisis situations in order to maintain their membership of FMIs, for example, as regards pre-funding or collateralising of positions, and identify options for addressing the additional requirements (for example, plan for the sourcing of additional collateral, and assess potential constraints on the firm's total payment flows).

**3.3** Firms should ensure that they have in place appropriate contingency arrangements (for example, functioning of internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts) that enable them to continue to operate as they implement recovery measures.

**3.4** Firms should define clear backstops and escalation procedures, identifying the criteria (both quantitative and qualitative) which would trigger the implementation of the recovery plan or individual measures by the management of the firm, in consultation with the authorities. Such triggers should be designed to prevent undue delays in the implementation of recovery measures.

**3.5** Firms should develop a proper communication strategy with the authorities, public, financial markets, staff and other stakeholders.

## **4. Essential elements of a resolution plan**

**4.1** Authorities should identify potential resolution strategies and assess the necessary preconditions and operational requirements for their implementation, including with regard to arrangements for cross-border coordination. In addition to the overall resolution strategy and the underlying strategic analysis, authorities should identify:

- (i) regulatory thresholds and legal conditions that provide grounds for the initiation of official actions (including thresholds for entry into resolution) and scope for authorities' discretion (for example, the extent to which authorities can refrain from taking actions or not avoid acting under certain conditions);
- (ii) the critical interdependencies and the impact of resolution actions on other business lines and legal entities (would other entities be able to continue to operate?); financial contracts (do authorities have powers to limit or suspend termination or close-out rights?); markets and other firms with similar business lines; and include a comparative estimate of losses to be borne by creditors and any premium associated with various resolution strategies;
- (iii) the range of sources available for resolution funding;

- (iv) the process for disbursements by deposit insurance funds and other insurance schemes (including, for example, identification of insured and uninsured depositors);
- (v) the processes for preserving uninterrupted access to payment, clearing and settlement facilities, exchanges and trading platforms;
- (vi) the internal processes and systems necessary to support the continued operation of the firm’s critical functions;
- (vii) processes for their cross-border implementation; and
- (viii) proper communication strategies and processes to coordinate communication with foreign authorities.

## **5. Information requirements for recovery and resolution planning**

Firms should have the capacity to provide the essential information needed to implement the RRP on a timely basis for purposes of recovery and resolution planning, as well as in crisis situations, including information on the following:

- 5.1** Intra-group inter-linkages, for example, core business operations and interconnectedness by reference to business lines, legal entities and jurisdictions, intra-group exposures through intra-group guarantees and loans, and trades booked on a back-to-back basis; dependencies of the firm’s legal entities on other group entities for liquidity or capital support as well as other (for example, operational) support.
- 5.2** Operational data, for example, the extent of asset encumbrance, amount of liquid assets, off-balance sheet activities, etc.
- 5.3** Organisation and operations that support the execution of recovery and resolution measures, for example, information on dealing room operations, including trade booking practices, hedging strategies, custody of assets; information on payment, clearing and settlement systems; and inventory of the key management information systems, including accounting, position keeping and risk systems.
- 5.4** Key crisis-management roles and responsibilities, for example, contact information, communication facilities for in-crisis communication, and the firm’s procedures for providing relevant home and host authorities with access to information, both in normal times and during a crisis.
- 5.5** Legal and regulatory framework in which the firm operates, for example, the relevant home and host authorities and their roles, functions and responsibilities in financial crisis management; resolution regimes, including the relevant aspects of applicable corporate, commercial, insolvency, and securities laws and insolvency regimes affecting major portions of the group; liquidity sources, including both private and central bank sources.