



GEORGIA

TECHNICAL ASSISTANCE REPORT— OPERATIONALIZING THE NEW BANK RECOVERY AND RESOLUTION FRAMEWORKS

January 2023

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TECHNICAL REPORT

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Operationalizing the New Bank Recovery and
Resolution Framework

December 2022

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Department**

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GLOSSARY

BB	Bridge Bank
BCL	Business Continuity Plan
BSD	Banking Supervision Department
CCG	Crisis Coordination Group
CoCo	Contingent Convertible Bond
DIA	Deposit Insurance Agency
DIF	Deposit Insurance Fund
EIM	Early Intervention Measure
ELA	Emergency Liquidity Assistance
FOLTF	Failing Or Likely To Fail
FSB	Financial Stability Board
FSC	Financial Stability Committee
FTE	Full Time Equivalent
GFSR	Group of Financial Sector Regulators
IADI	International Association of Deposit Insurers
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
ISSA	Insurance State Supervision Service
IT	Information Technology
KA	Key Attributes of Effective Resolution Regimes for Financial Institutions
LAC	Loss-Absorbing Capacity
MCM	Monetary and Capital Markets Department
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MPE	Multiple Points of Entry
NBG	National Bank of Georgia
NCWO	No Credit Worse Off
NPL	Nonperforming Loan
P&A	Purchase and Assumption
RA	Resolution Authority
RLD	Resolution and Liquidation Division
SCG	Securities Commission of Georgia
SIB	Systemically Important Bank
SPE	Single Point of Entry
TPF	Temporary Public Funding
TA	Technical Assistance

PREFACE

At the request of the National Bank of Georgia (NBG), a Monetary and Capital Markets (MCM) Department mission provided offsite Technical Assistance (TA) between March 17 and April 20, 2022 to assist the authorities in operationalizing the new bank recovery and resolution framework. The mission team comprised Alessandro Santoni (Mission Chief, MCM), and Antonio Carrascosa and David Scott (external experts).

The mission engaged by means of virtual meetings, workshops, and seminars with officers of the NBG, the Ministry of Finance (MoF), and the Deposit Insurance Agency (DIA), including via several presentations made by the NBG and the DIA on recovery, resolution, and deposit insurance. Each session was followed by Q&A sessions, and the mission benefited from forthright and constructive discussions with the NBG and DIA management and staff. Meetings were also held with senior officers of the MoF and with DIA Board members regarding their respective roles in financial stability, crisis management, and bank resolution. The mission met also with officials of the Insurance State Supervision Service (ISSA), and senior management of the Bank of Georgia, TBC Bank, and Liberty Bank.

The mission team would like to express its appreciation to Governor Koba Gvenetadze and to the staff of the NBG, MoF, DIA, and ISSA for the excellent cooperation and arrangements that were made to facilitate its work, as well as for constructive and open discussions.

The second mission, targeted for September 2022, will focus largely on assisting the NBG and the MoF in the development of resolvability assessments, the preparation of playbooks for the bail-in and sale of business tools, the development of resolution plans and strategies as well as other elements of the resolution regime.

EXECUTIVE SUMMARY

The Georgian authorities have indicated their interest in operationalizing their recovery, resolution, and crisis management frameworks. The mission provided extensive TA on these topics. In collaboration with the authorities, the following priorities were identified:

- Reinforce the Resolution Authority (RA) function within the NBG while clearly defining internal guidelines for engagement and escalation processes.
- Introduce objective and quantitative criteria for triggering escalation processes for supervisory measures, early intervention, failing-or-likely-to-fail (FOLTF) determinations, and resolution.
- Further develop guidelines for banks in the preparation of recovery plans and advance the NBG assessment and feedback process.
- Start setting loss-absorbing capital (LAC) targets to enable use of the bail-in tool and ensure banks can provide the necessary information in a timely manner to the resolution authorities, in order to (i) determine the banks' capacity to absorb losses; (ii) monitor the build-up of that capacity; and (iii) ensure compliance with requirements set by the resolution function.
- Analyze alternatives to the current temporary public funding (TPF) arrangements, especially the scope to deploy all such funding through the Resolution Fund and the potential use—subject to strict safeguards—of the deposit insurance fund (DIF) to finance resolution actions.
- Pursue further work in resolution planning with respect to being able to implement the resolution tools, ensure operational continuity and liquidity in resolution, and enable separability.
- Perform stock taking of contractual clauses in banks' current subordinated and senior debt issuances to determine whether the bail-in-ability of these instruments is recognized.
- Adopt a medium-term program to inventory existing policy and procedure playbooks, set priorities, fill gaps and overcome shortcomings, and commence work on agency-wide contingency plans.
- Adopt an annual playbook and contingency plan testing program planning cycle; and
- Redraft the Interagency Financial Stability Committee (IFSC) Charter, considering the inputs of this TA mission.

Georgia has made considerable progress in developing the infrastructure needed for an effective bank recovery and resolution regime. In 2017, a Deposit Insurance System Law was adopted to protect deposits of natural persons when a bank fails and is liquidated.¹ In 2019, both the NBG and the Banking Laws were amended to provide the authorities with powers to resolve banks that—in the past—might have been deemed too big to fail. Following recommendations of the 2021 FSAP, the new legislation brought into force in September 2020 provides a comprehensive legal framework for the resolution of banks, including triggers, legal powers, and safeguards. In 2020 the NBG published a series of rules specifying its policies and procedures for the use of its new powers and, jointly with the MoF, published regulations addressing the use of TPF to mitigate the potential systemic implications of bank failures. The 2021 FSAP focused on financial safety nets, with special attention to the resolution and crisis management frameworks, and made numerous recommendations. This TA addressed several of those recommendations and the mission’s advice to the authorities is summarized in the following paragraphs.

The NBG introduced recovery planning requirements for all banks. The mission provided guidance to strengthen the design of recovery planning requirements. The NBG should reinforce internal procedures for the review and assessment of recovery plans by establishing a small team of senior supervisors to lead and coordinate the review of all recovery plans.

The current escalation process from going-concern to gone-concern does not provide the supervisors with sufficient and adequate triggers to mitigate risks at a sufficiently early stage. The NBG should introduce internal guidance to clarify these triggers. These adjustments would also help reduce the potential for arbitrariness and promote transparency (e.g., by providing guidance on the logical progression of increasingly intrusive actions to deal with situations ranging from minor breaches to insolvency).

The mission recommends clarifying Article 30 of the Banking Law, which explicitly mentions only the temporary administrator as early intervention measures (EIMs). We understood that the authorities have a more extended view (measures are already included in Article 30, but not explicitly mentioned as EIMs). The NBG should review its internal supervisory early intervention framework to integrate the activation of recovery plans. The NBG should also adopt a formal communication policy process for the adoption of EIMs and failing-or-likely-to-fail (FOLTF) determinations.

The mission reviewed the FOLTF determination process and advised on best practices. The authorities have no clear internal standards or indicators of nonviability to help guide decisions (e.g., there are no forward-looking indicators of nonviability). The NBG should introduce clear quantitative and qualitative standards/guidelines or indicators of nonviability. While the determination that an institution is FOLTF remains the discretionary assessment of the

¹ From January 2022, deposits of legal entities are insured as well.

supervisory function, guidelines should be adopted that set forth broad elements on which this judgment should be based.

A key recommendation of the mission is to strengthen the NBG's resolution function. This should start with implementation of the planned repositioning of the Resolution and Liquidation Division (RLD) into the Financial Stability Department, which reports directly to the governor, and which will create the institutional separation from the supervisory function that was recommended in the 2021 FSAP. The independence of the banking resolution function will depend also on the availability of sufficient human and technical resources. In this respect, however, no increase in resources is planned at present.

The RLD should work further on policies and processes to facilitate the drafting of resolution plans and to enable the adoption of sound resolution decisions. It is also essential to have robust legal advice to adopt sound resolution decisions. Some outsourcing is feasible, especially for some specific tasks, but a specialized internal legal team is needed.

The NBG should ensure that arrangements and procedures for the exchange of information between the supervisory and resolution authorities are in place. While cooperation is reportedly good, it is necessary to formalize that cooperation, especially with respect to documentation prepared by the supervisory function (e.g., onsite inspection findings, EIMs taken), which will be essential to transmit to the resolution function.

The operationalization of the resolution regime requires that playbooks be developed for the main resolution tools: bail-in, sale of business, and bridge bank. Such a playbook has already been developed for bank liquidations. The mission provided a list of the main steps to follow when implementing resolution tools. The playbooks should specify the allocation of responsibilities and necessary interactions among relevant NBG staff.

The authorities proposed revisions to the credit hierarchy to achieve the 2021 FSAP recommendations. The mission expressed general support for the proposed revisions, but suggested the authorities examine the status of the DIA when subrogated for insured depositors under the DIS Law, to ensure it is consistent with the proposed hierarchy amendments.

The mission provided guidance on the general architecture of intra- and interagency contingency plans, which serve as the building blocks for a national financial crisis preparedness plan. These include departmental and scenario-specific plans, whole-of-agency plans, and bilateral plans between two or more agencies. The mission provided guidance on the general structure and content of such plans.

A few agency-specific recommendations were made. The NBG should update its emergency liquidity assistance (ELA) playbook to address potential ELA in resolution. The MoF should develop a playbook for use of its TPF powers, including via the Resolution Fund. The MoF needs playbooks addressing its contingent liabilities for NBG ELA and its potential lending to the DIF. It also requires a bridge-bank playbook to complement that of the NBG. The DIA

requires playbooks for the potential need to liquify its investment portfolio and to borrow if the DIF should require replenishment.

The mission advised on developing bilateral interagency plans. These include an NBG-MoF bridge bank playbook (integrating the agency-specific playbooks) and a playbook addressing resolution funding. The NBG and the MoF should consider a broader joint playbook addressing a systemic crisis scenario. The NBG and the DIA should develop a playbook for bank liquidation. The DIA and the NBG should agree on a playbook addressing the DIA's ability to liquify the DIF investment portfolio. The DIA and the MoF should consider a playbook for coordination in the event the DIA needs to borrow from the MoF to replenish the DIF.

Each of the IFSC member agencies should eventually put in place internal whole-of-agency financial crisis contingency plans. The mission presented the potential overall structure of such a plan, using the NBG as an example. The long-term goal is an integrated financial sector crisis contingency plan that leverages upon relevant internal playbooks and bilateral plans. The mission presented the potential overall structure of such a plan.

The mission advised on a program of periodic testing of key playbooks and plans. Agency senior management should provide oversight. Good practice is to adopt an annual planning cycle, identifying the exercises deemed priorities for the coming year. Results of tests and actions to be taken (enhancements of playbooks) should be reported to senior management.

The mission suggested a medium-term work program to strengthen crisis preparedness (e.g., over the next three years). This includes an inventory of key departmental-level, scenario-specific, and bilateral playbooks to identify gaps and shortcomings that could be completed in 2022. Priorities for overcoming the absence of playbooks and shortcomings in current documents should be set by agency management and incorporated into departmental and agency-wide workplans for the remainder of 2022 and 2023. Work on developing agency-wide financial crisis contingency plans, at least within the NBG and the MoF, could be contemplated for 2023 and 2024.

The mission advised on the roles of agency senior management and the IFSC in the work program suggested in this TA. The work program should be endorsed and overseen by senior management within the IFSC member agencies, with high-level oversight provided by the IFSC. While agency senior management is responsible for implementing the work program in each IFSC agency, the IFSC should serve in an information sharing and process-coordination role. The authorities proposed changes to the IFSC Charter text to reflect such a role. The mission recommended the authorities consider a more substantive redraft of the charter considering the finalized inputs of this first TA mission. It recommended forming a standing working group comprised of a small number of individuals from the member agencies to support the IFSC members in overseeing the implementation of the work program.

Table 1. Georgia: Key Recommendations

Recommendations and Authority Responsible for Implementation	Priority¹	Timeframe²
Strengthen the supervisory measures and EIM regime by clarifying internal triggers (quantitative) for gradual escalation process.	M	MT
Clarify the escalation process of supervisory measures and EIM adoption and the engagement with resolution function.	M	MT
Adopt a formal communication policy addressing the use of EIMs.	M	MT
Introduce clear standards or indicators of nonviability to help guide FOLTF determination.	H	MT
Adopt a clear separation of responsibility for recovery and resolution planning between the supervisory and resolution functions.	H	NT
Invest in recruiting and training of resolution function staff.	H	NT
Establish a small team of senior supervisors with the appropriate experience and knowledge to lead and coordinate the review of all recovery plans.	H	NT
Provide more guidance to banks for preparing and maintaining up-to-date recovery plans.	M	MT
Start setting LAC targets (in line with the 2024 time horizon) and ensure banks can provide the information necessary to monitor LAC build-up and to ensure progressive compliance.	M	MT
Analyze alternatives to current TPF policies, especially to consider the deployment of all TPF through the Resolution Fund and to use the DIF to finance resolution transactions.	M	MT
Undertake further work in resolution planning; in particular, the ability to implement the resolution tools, to ensure operational continuity and liquidity in resolution, and to enable separability.	H	NT
Perform a stock taking of contractual clauses in banks' current issuances of subordinated and senior debt issuances to determine whether the bail-in-ability of the instruments is recognized.	M	MT
Adopt formal work programs involving inventorying key playbooks to identify gaps and incompleteness, setting priorities for remedying those, and initiating work on whole-of-agency financial crisis management plans.	H	NT
Introduce formal playbooks and plan testing programs on an annual cycle.	M	NT
Redraft the IFSC Charter with sections on its role in normal times and in crisis times.	M	NT

¹ H: High, M: Medium.

² Near term: < 12 months; Medium term: 12 to 24 months.

I. INTRODUCTION

A. Overview of the Georgia Financial System

1. **Overall, external vulnerabilities that may affect the Georgian economy have increased compared to previous years.** Although Georgia's current account deficit has been decreasing in recent years, it deteriorated due to the COVID-19 pandemic and remains at an elevated level compared to similar countries. Compared to Commonwealth of Independent States (CIS) and emerging market countries, the shares of interest payments and external debt to export earnings are high in Georgia, which constitutes an external vulnerability. Moreover, the high share of foreign currency debt in Georgia creates the risk of a rapid rise in debt servicing costs in the event of a sudden depreciation of the exchange rate. The Georgian economy is highly exposed to developments in the European Union (EU), Russia, and Turkey. As of the last quarter of 2021, the aggregate share of these countries in Georgia's total exports and total external inflows was 44 percent and 52 percent, respectively.

2. **The Georgian financial sector is concentrated, with two commercial banks of equal size having a combined market share of 75 percent.** As of end-December 2021, TBC Bank (TBC) and Bank of Georgia (BOG) held 77 percent of total deposits and total insured deposits. Both banks are deemed systemically important banks (SIBs) for supervisory purposes by the NBG, as is Liberty Bank, which has a 5 percent share of assets, 6 percent share of deposits, and 13 percent share of insured deposits. There are 12 other commercial banks, including 2 locally owned banks, 8 subsidiaries of foreign banks or financial groups (based in Russia and Germany (2); Kazakhstan, Azerbaijan, Turkey (2); and the Netherlands); and 2 foreign-owned banks (China and the United Arab Emirates).

3. **The two largest SIBs are subsidiaries of parent nonfinancial legal entities listed on the London Stock Exchange.** Both TBC and BOG encompass several legal entities that are licensed and based in Georgia, with further operations in a few foreign markets (Azerbaijan, Uzbekistan, and Belarus)—some of which are the bank's subsidiaries and some are subsidiaries of the parent entity (sister entities to the bank). The third SIB, Liberty Bank, is a subsidiary of a Georgian company that, in turn, is a subsidiary of an unlisted Netherlands holding company controlled by three individuals. Liberty Bank has no significant subsidiaries or sister financial entities.

4. **The financial position of the banking system is adequate.** On average, the banking system is highly capitalized and highly liquid. As of end-December 2021, the average capital adequacy ratio (CAR) was 19.6 percent of risk-weighted assets and the liquid assets to total assets ratio is estimated to be over 20.7 percent. All banks have significantly more capital than the minimum CAR of 8 percent. Nonperforming loans (NPLs), net of provisioning, were 5.2 percent of total loans. Profitability has been affected by the weakened macroeconomic

conditions, although the system managed to maintain a return on equity (ROE) of 30.7 percent and return on assets (ROA) of 3.6 percent (see Table 2 for more details).

5. **The asset quality of Georgian banks is exposed to potential downside risks.** The share of short-term debt in corporate liabilities is particularly high among large enterprises. This group of companies also exhibits large exposure to foreign sources of financing. Debt rollover risks among companies are particularly acute because of the pandemic. Despite a significant decline, dollarization remains one of the major challenges for the financial sector. Over the recent period, the process of increasing loan larization (de-dollarization) has been ongoing. Considering that most borrowers are unhedged, the local currency depreciation caused by the pandemic and the events in Ukraine have made banks face increased credit risk, which has also been reflected in the increased NPL ratio for foreign currency.

Table 2. Georgia: Financial Soundness Indicators
(As of December 2021)

Assets of banks	In percent
Loans/total assets	71.15
Net NPLs/total loans	5.23
FX Loans/total loans	50.88
Securities/total assets	8.88
Liabilities of banks	
Liquid Assets/Total Assets	20.67
Total deposits/total liabilities	71.92
Capital adequacy:	
CET1	13.48
Tier 1	15.58
Total capital ratio	19.56
Profitability:	
ROA	3.59
ROE	30.72

Source: Central Bank of Georgia.

6. **Wholesale financing, represented by senior and subordinated debt funds, represents 26.0 percent of total funding of the sector in 2021.** For the two largest banks, it represents 18.3 percent. For the banking sector overall, total deposits represent 62.8 percent of total assets, insured deposits represent 7.5 percent of total assets (and 12.0 percent of total deposits), while senior and subordinated debt represents 22.0 percent of total assets, driven by TBC at

19.5 percent and BOG at 22.3 percent, respectively. Most of the TBC and BOG debt is issued in foreign jurisdictions, notably, the United Kingdom and Ireland. Significant investors include multilateral international financial institutions.

7. **On March 3, 2022, the NBG instructed the representatives of the Georgian financial sector to fulfill their obligations under financial sanctions imposed by the United States, Great Britain, the European Union, and other countries on the Russian financial system.** These sanctions were also applied to VTB Bank Georgia JSC operating in Georgia. An agreement was reached between VTB Bank Georgia JSC and Basisbank JSC on the transfer of deposits and loans of individuals from the former to the latter. Similarly, an agreement was reached between VTB Bank Georgia JSC and Liberty Bank JSC on the transfer of a certain portion of the deposits and loans of legal entities.

B. Recovery and Resolution Regime

8. **The mission provided guidance on the general architecture of recovery and resolution regime.** The NBG's extensive draft amendments to modernize its resolution and crisis management framework represent a major step in the right direction. Notably, these amendments strengthen the NBG's supervisory powers, designate the NBG as the resolution authority, provide a set of resolution objectives, and introduce recovery and resolution planning. The process is not complete, with the need to define resolution triggers around nonviability, operationalize resolution tools (e.g., bridge bank), and set up a resolution funding framework with a combination of TPF and DIF resources, among other required tasks. To pursue this agenda, the NBG should reinforce RLD staffing and provide the capacity to mobilize additional staff to support any actual bank resolution actions. Clear separation of responsibilities on recovery and resolution planning between the NBG's supervisory and resolution functions should be finalized.

II. RECOVERY PLAN, RESOLUTION PLAN, AND EARLY INTERVENTION

A. Recovery Planning

9. **The 2019 amendments require that all banks prepare recovery plans specifying how they will overcome shocks to their capital and liquidity.** The NBG issued guidance for plan preparation and for the complementary self-assessments of banks' critical functions in June 2020. As of March 2022, the NBG received 14 recovery plans from the three SIBs and other less significant banks. The NBG's Bank Supervision Department (BSD) leads the review of plans with input from other specialist units, including the RLD. Written feedback on plans was provided within three months of receipt of the plans.

10. **The mission reviewed recovery plans and the internal assessment process and recommended that the NBG reinforces its internal procedures for the supervisory review and assessment of recovery plans (see Annex I).**² The overview of the recovery plan analyzed by the team showed several shortcomings, including (a) the absence of a clear governance structure (e.g., table with the person in charge of the different processes),³ (b) few quantitative and qualitative indicators (e.g., lower than EBA’s minimum list of quantitative and qualitative indicators)⁴ (d) inadequate attention to implementation risks and impediments, and potential mitigation actions, (e) absence of idiosyncratic and market-wide stress, as well as strategy and scenario analysis, and (f) a lack of duly correlated stress scenario and analyses showing their combined impact.

11. **Recovery plans should, desirably, include an executive summary encompassing information on the trigger framework, internal escalation and decision-making processes, recovery options, and communication strategy.** The executive summary should serve as a roadmap to the recovery plan, which allows the bank’s senior management and its board to quickly understand and assess the recovery options in severe stress. The substantial body of material in these areas, which has been published by the international and regional standard-setting bodies and many national authorities, should provide sufficient basis upon which to develop further guidance to banks with relevance to the Georgian context. Once issued, the NBG will need to review plans and provide feedback to banks for improvements. It is anticipated this will be an iterative process over several years, until all banks imbed recovery planning into their internal risk management functions.

12. **The NBG should establish a small team of senior supervisors with the appropriate experience and knowledge to lead and coordinate the review of all SIB recovery plans.** The team would be responsible for ensuring a consistent approach to the review process and assist individual supervisors in their review of a SIB’s recovery plans. Once recovery planning has become well established and the NBG supervisors gain a deeper understanding of the recovery plans, the team could be disbanded, leaving the supervisory review of recovery plans to each SIB supervisor.

13. **Recovery plan implementation could be made more manageable by providing banks with templates as a tangible tool to articulate the NBG’s expectations.** Templates covering early warning and escalation triggers, recovery options, and scenarios would facilitate the BSD in benchmarking SIBs plans against each other. This would then facilitate industry dialogue. Following the review and benchmarking of the first pilot plans and drawing on lessons learned

² Appendix I sets out further guidance on these matters, including indicative questions that supervisors could consider in reviewing recovery plans.

³ FSB I-Annex 4: Essential Elements of Recovery and Resolution Plans 1.18–19.

⁴ EBAGL-2015-02.

from that process, the BSD could then ask SIBs to revise their recovery plans and extend the recovery planning requirements to all other banks.

B. Early Intervention and FOLTF

14. **The mission reviewed the current supervisory escalation process and the NBG’s internal guidelines.** The escalation process of supervisory measures and EIM adoption, and the engagement with the resolution function, is not clarified. The mission suggested developing an internal guideline to describe the escalation process and the RA’s direct involvement, which would allow the RA to update resolution plans and eventually start preparing resolution tools.

15. **The current escalation process from going-concern to gone-concern does not provide the supervisor with sufficient and adequate triggers to mitigate risks at a sufficiently early stage.** The NBG should consider introducing internal guidance to clarify these triggers together with forward-looking approaches, incorporating both quantitative and qualitative elements into the risk-based supervisory assessments.⁵ These adjustments would also help reduce arbitrariness and promote transparency (e.g., by providing guidance on a logical progression of increasingly intrusive actions to deal with situations ranging from minor breaches to insolvency).

16. **The mission recommends clarifying Article 30 of the Banking Law.** Although the imposition of a temporary administrator is the only measure that is listed under the provision specifically titled as EIMs (Banking Law, Article 30¹), discussions indicate that this should not be interpreted as though it is the only EIM available to the authorities. Article 30 also includes the NBG’s early intervention measures. Both the grounds in para (1) as well as measures in para (2), and especially in para (3), ensure the availability of these powers for a deteriorating bank’s condition. Overall, considering Article 30 and 30¹ together, we believe the NBG’s EIM powers are broad. Clarifying Article 30 and changing the title of Article 30¹ to “temporary administration” should remove any misunderstanding about the scope of EIM powers.

17. **The NBG has not yet adopted a formal communication policy guidance for the adoption of supervisory measures or EIMs.** On the external communication, the NBG should clarify what banks should communicate and how. Regarding the NBG communication for the supervisory measures and EIMs adoption, the NBG should develop internal guidance. The mission provided examples of case studies to the authority on best practices in communication guidance.

18. **Authorities have no clear standards or indicators of nonviability (FOLTF) to help guide decisions.** Of particular importance for an effective resolution regime is the determination of the appropriate conditions for the entry into resolution. Enabling the use of resolution powers

⁵ Basel Committee on Banking Supervision. Frameworks for Early Supervisory Intervention (March 2018).

must be supported by: (i) clear triggers that permit action before the bank is insolvent and before all equity has been fully absorbed; and (ii) adequate checks and balances to ensure there is no adverse effect on constitutionally protected shareholders' and creditors' property rights. The mission suggested the NBG introduce clear quantitative and qualitative (but supported by objective considerations) standards or indicators of nonviability. The mission also suggested an adoption of a forward-looking methodology for the FOLTF determination.

C. Resolution Planning

19. **While banks have progressed significantly in the application of the recovery framework, they are less advanced in resolution planning.** We have seen a similar evolution in other jurisdictions. The resolution framework is brand new, and the resolution function must be set up and grown from scratch. Although the RLD is responsible for drafting resolution plans, this activity requires banks' involvement in different areas, for example management of information systems, operational continuity, liquidity arrangements, and governance.

20. **Starting a constructive dialogue with banks is crucial to make progress in improving their resolvability.** For example, the provision of information by banks is key to resolution planning. The quality of that information should be assessed annually by the RLD. Likewise, to start assessing resolvability, the RLD should communicate to banks its expectations in these areas. There are good examples of this kind of documentation in other jurisdictions.⁶

21. **The RLD should develop templates for the provision of core information by banks, especially on liabilities, on a regular basis.** However, this does not prevent the RLD from collecting any additional information it deems necessary. Improving data reporting is not only useful for the RLD, but it can also enable banks' management to take better decisions on business continuity, assets sales process, and audit reports, etc.

22. **For future resolution planning cycles, further work is needed on the implementation of resolution tools, operational continuity, separability, and liquidity in resolution.** Considering that the current resolution plans are the output of a first cycle of planning, the assessment is positive. The strategic business analysis is well focused. The RLD has prepared a stress scenario to assess banks' resilience in different scenarios (idiosyncratic and systemic).

23. **The RLD should issue policies and guidelines to make progress in the different chapters of resolution plans, as they have done with the operational continuity guideline.** A new resolution authority always has a dilemma as to the best the way to proceed in its resolution planning activity; to invest more in the development of policies, procedures, and guidelines, or to start working as soon as possible on specific resolution plans. Although the interaction between

⁶ See, for example, Single Resolution Board: "Expectations for banks." March 2020.

these two activities is clear, the development of policies and guidelines is necessary to get effective and consistent plans.

24. **Although Georgian banks might have sufficient liabilities eligible to be bailed in, in principle, it is necessary to set specific LAC targets for each bank that might be subject to bail-in.** Following FSAP recommendations, the deadline for this process is 2024. In some jurisdictions, the resolution authority has started the process of building up LAC with provisional policies and indicative targets. These experiences have been positive because the involvement of banks increases progressively. Building up and maintaining LAC by focusing on quantity, quality, governing law, and appropriate location of LAC instruments (i.e., whether they are to be issued by the parent holding company, the bank, or both) plays a key role in improving banks' resolvability. To set LAC targets and to monitor compliance also would require the issuance of a liabilities data report to be submitted by the banks to the RLD.

25. **In the computation of LAC targets, the recapitalization amount allows positive and negative adjustments.** The RLD should discuss with the BSD the expectations for capital requirements in a resolution scenario. These contacts have already started, and the BSD is willing to give a bank special treatment in capital requirements during the first year after resolution, especially with respect to buffers.

26. **A key aspect of resolution planning is the issue of ensuring adequate liquidity in resolution.** First, banks must anticipate their expected liquidity needs in a resolution scenario. Second, they must implement an analytical framework to oversee the encumbrance of assets, a significant tool to facilitate the process of getting liquidity with adequate collateral.⁷ At the same time, further consideration should be given to the role of NBG liquidity support (ELA) in resolution, as discussed later in this report.

27. **The high concentration of the banking market in Georgia raises considerable challenges for effective bank resolvability.** Some of the resolution tools (for example, the sale of a whole bank) might not be able to be used in the case of the largest banks, except if foreign large banks could be considered as potential bidders. Although the bail-in tool can pose significant contagion risks, this tool seems to be the preferred one for the SIBs, with the possibility of applying another complementary tool (for example, the sale of some businesses or activities). The RLD should analyze alternatives for the long term.

⁷ See, for example, Financial Stability Board: "Funding Strategy Elements of an Implementable Resolution Plan" (2018) and Single Resolution Board: "Operational guidance for liquidity and funding in resolution" (2021).

III. BANK CRISIS MANAGEMENT

A. Resolution Powers

28. **No progress has been made on the FSAP recommendations regarding the appointment and skills of special managers.** The FSAP recommended a rule defining the desired skills of a special manager and establishing a presumption that NBG staff, as a general principle, have a conflict of interest and should only serve as special managers in extraordinary circumstances. Steps should also be taken to identify qualified, independent professionals who would be willing and able to serve as special managers.
29. **While possible under Georgian law, imposing a moratorium of up to 90 days can have adverse effects on the viability of a bank in crisis.** For the approval and execution of a resolution scheme, the authority should not need a long moratorium if the resolution framework and the specific measures that have been taken are credible. Diligent preparation can support swift resolution decisions, thus reducing the need for a long moratorium.
30. **The effectiveness of the “no-creditor-worse-off” safeguard requires the conduct of a liquidation valuation (known as ‘valuation 3’ in the European Union).** This means that the RLD needs a list of preselected independent valuers, draft contracts, templates with the required information from banks, and an effective way to manage the right to be heard before adopting the final decision, etc.
31. **The RLD needs to formulate a policy addressing potential deviation from pari passu treatment of creditors when executing resolution actions.** In setting up a bridge bank, or in the sale of shares, assets, and/or liabilities, as examples, it is necessary to issue a policy limiting such deviations from this important resolution safeguard to specific situations. These would include where: (i) it is not possible to impose a resolution tool within a reasonable time; (ii) it is strictly necessary and is proportionate to ensure continuity of critical functions and core business lines; (iii) it is strictly necessary and proportionate to avoid giving rise to widespread contagion of financial difficulties and threats; and (iv) the losses borne by other creditors would be higher.
32. **The NBG should assess possible specific measures to try to minimize legal uncertainty as to whether its resolution decisions will be sustained by the court.** The court can confirm or declare the NBG resolution action as illegal, although appropriate provisions exist to ensure that judicial actions do not impede resolution implementation and to compensate creditors for damages paid by the Resolution Fund (for which the banking industry is ultimately financially responsible).

33. **An effective exercise of resolution powers requires an independent authority with adequate human and technical resources.**⁸ The NBG should implement the planned relocation of the RLD into the Financial Stability Department, which reports directly to the governor. In addition, the number of staff allocated to the RLD is clearly insufficient and should be increased.

B. The Operationalization of the Resolution Regime

34. **To operationalize the resolution tools, playbooks for the authorities, including steps, responsibilities, templates, and drafts of documents, need to be prepared.** Appendix II illustrates the content of these playbooks for the sale of business, bridge bank, and bail-in tools. The RLD should start preparing these documents in coordination with other authorities: the MoF, the BSD, and the Securities Commission of Georgia (SCG), etc. It can be useful clarifying to contact other institutions (payment systems, central counterparties, and other financial market infrastructures) that could play a role in ensuring the operational continuity of banks in resolution. Robust legal support is also needed.

35. **Further work is needed to ensure the feasibility of bail-in strategies for the two largest SIBs, considering the share of debt issued in foreign jurisdictions in their liability structures.** Although, from a statutory perspective, it is clear that bail-in can be applied to all subordinated and senior debt instruments, the application of resolution decisions taken by the NBG to debt instruments issued abroad—in the absence of contractual bail-in clauses—is not straightforward and will hinge on close cooperation with foreign resolution authorities.

36. **In order to increase the extra-territorial effectiveness of its bail-in decisions, the NBG should explore the possibility of negotiating a cooperation agreement with the Bank of England and the Central Bank of Ireland.** These agreements would help ensure a transparent and expedited recognition process and prepare for the documentary needs of those resolution authorities when seeking to implement bail-in strategies.

37. **As suggested in the FSAP, the NBG should prepare its own legal analysis in each relevant jurisdiction of the likely outcomes of investor challenges to potential NBG bail-in decisions.** This analysis may inform steps the NBG can take to increase legal certainty and reduce litigation risks associated with its bail-in decisions. It should also provide an analysis of the practicality of bailing in existing and new debt issuances in different jurisdictions, which in turn may guide the NBG in further defining and setting banks' LAC targets.

⁸ See Financial Stability Board: “Key Attributes of Effective Resolution Regimes for Financial Institutions” (2014), pg. 6.

C. Temporary Public Funding and Resolution Fund

38. **As Georgia’s current resolution fund is based on ex post contributions, it can be more procyclical than one based on ex ante contributions; the MoF, the NBG, and the DIA should analyze some alternatives to tackle this problem.** One alternative is to effectively manage the timing of required ex post contributions. Another way is the possibility of using the DIF to finance resolution operations, with strict safeguards—the latter, which was also suggested by the 2021 FSAP, is more a long-term alternative, due to necessary legal changes.

39. **A policy addressing the timing of ex post contributions should be adopted.** The policy should consider idiosyncratic and systemic factors that might bear on decisions about the timing of repayment requirements. The current regulation allows a bank, in exceptional circumstances, to defer the payment of ex post contributions for no longer than one year, but further allows the bank, with appropriate justification, to request an extension of that period. The proposed policy should specify the requirements to extend the payment period and the features of that extension.

40. **A rule clarifying in what circumstances collateral would be required when state funding is provided through a loan is necessary.** Such funding could take the form of a loan to the bank in resolution, to the bridge bank, or to the acquirer of the shares, assets, and/or liabilities of the bank in resolution. The regulation specifies that the MoF is authorized to request the submission of a collateral, but it is recommended to elaborate more on the requirements to be exempt from that obligation.

41. **A clear rule on the provision of grants is needed, especially if the grants have to be reimbursed ex post by the banks.** The Resolution Fund consists of TPF, which includes loans, guarantees, and grants issued by the MoF. Loans and guarantees are common financial instruments in a resolution framework, but that is not the case with grants.

42. **In the calculation of ex post contributions, the NBG should provide further guidance on the computation of risk elements, notably those for asset quality (20 percent of the total weight) and business model and profitability (20 percent).** There are practical rules in the European framework to compute these two risk factors, which could serve as a starting point. The other two risk factors that the regulation contains—capital (40 percent) and liquidity (20 percent)—are more easily computable.

43. **The operationalization of the use of the TPF has institutional implications.** First, the MoF and the NBG should develop an internal contingency policy framework that will help ensure a shared understanding of situations that might arise and facilitate rapid decision making in extraordinary circumstances. Secondly, as the provision of TPF by the MoF is subject to parliamentary approval, the MoF should prepare templates for the documentation that would need to be sent to the parliament to secure approval. Thirdly, the MoF should assess the budgetary implications of the TPF, and the provision of an explicit contingency fund for this purpose in the annual budget.

44. **A clarification is needed on when liquidity needs in resolution will be covered by TPF and when it will be covered by ELA.** The law now allows that, in exceptional circumstances, the NBG can provide ELA to a bank whose solvency may be in doubt, such as a bank pending resolution action or a bank undergoing resolution. If, in practice, there are operational or legal obstacles to the implementation of TPF for liquidity purposes, the ELA in resolution will be the general rule. In any case, a rule should incorporate the roles of the RLD and the RC in initiating a request for ELA for a bank pending or undergoing resolution.

45. **The use of ELA in resolution also has some institutional implications.** A formal joint agreement between the MoF and the NBG for the execution of the MoF guarantee for ELA is needed. This agreement should address the MoF’s expectations regarding NBG collateral requirements for ELA, and the relationship between ELA financing and potential Resolution Fund liquidity financing. The agreement should also define in detail the procedures for putting in place the guarantee, and for calling upon the guarantee in the event of a default on the ELA, and a consequent NBG loss—including the roles of both parties. Finally, the potential role of ELA in resolution financing (including guidance on the use of TPF via the Resolution Fund to repay any ELA that might have been granted) should be addressed.⁹

D. Creditor Hierarchy in Liquidation and Resolution

46. **The authorities provided the mission with a tentative proposal for a revised legal text for the creditor hierarchy in liquidation intended to achieve the objectives recommended in the FSAP.** The proposed text is summarized in Box 1.

47. **The mission expressed general support for the proposed revisions.** The mission suggested the authorities examine the status of the DIA when subrogated for insured depositors, in that the DIS Law appears to assign priority to DIA claims inferior only to NBG claims (and, thus, senior to MoF and Resolution Fund claims). It would be appropriate that the DIA simply substitute for insured depositors in the hierarchy. The authorities stated they would assess the need for harmonization of the Banking Law and the DIS Law in this regard.

48. **The mission suggested the authorities consider the potential practical challenges of identifying direct and indirect owners (with non-deposit instrument claims).** It is unclear if such claims exist in the banking system at present.

49. **The special status of the Pension Agency in the proposed creditor hierarchy should be reconsidered.** The Pension Agency, which collects mandatory pension premiums, is a large depositor in the banking system. The Pension Agency management’s practice of failing to ensure that the funds it places in banks are fully secured puts those funds at unnecessary risk. The NBG and the MoF should consider working with the Pension Agency to help it understand how to

⁹ See a discussion on ELA and liquidity in resolution in International Monetary Fund: “Managing Systemic Banking Crises,” 2020, pp. 18–22 and p. 30.

ensure that it does not maintain uninsured and unsecured deposits in the banking system. The NBG’s expertise in ensuring that ELA is fully secured could be relevant.

Box 1. Authorities Proposed New Creditor Hierarchy

- a) Claims secured by financial instrument collateral (proposed Banking Law Article 3710.1).
- b) Claims secured by nonfinancial collateral (Article 10.2).
- c) Other claims as follows (Article 10.3).
- d) Expenses arising from the liquidation process (costs of the liquidation estate).
- e) NBG (unsecured) claims, as well as any commercial bank claims arising from a loan to the liquidation estate.
- f) MoF and the Resolution Fund outlays for resolution funding (i.e., excluding tax liabilities).
- g) Insured deposits.
- h) Deposits above the insured limit but less than GEL 100,000.
- i) Pension Agency claims.
- j) Deposits above the insured limit in excess of GEL 100,000, and deposits ineligible for deposit insurance.
- k) Deposits of bank managers and 5 percent or greater shareholders, and their family members and agents, and deposits of financial institutions.
- l) Tax liabilities.
- m) Other claims.
- n) Liabilities to direct and indirect owners arising from non-deposit (e.g., loan) instruments.
- o) Subordinated debt not qualifying as regulatory capital.
- p) Debt instruments with contractual bail-in clauses.
- q) Capital instruments qualifying as Tier II capital.
- r) Other capital instruments (i.e., AT1 instruments).
- s) Equity capital.

IV. INTER-AGENCY CRISIS PREPAREDNESS AND COORDINATION

50. **The mission provided guidance on the general architecture of intra- and interagency contingency plans, which serve as the building blocks to a national financial crisis preparedness contingency plan.** At its base are departmental-level policy, procedure, and coordination framework documents that address the scope of individual departments’ responsibilities and authorities. These documents were mostly referred to as “playbooks” during the mission, and that term is used in this document (see Appendix III for a description of the generic content and structure of a “playbook.”) At the next level are scenario-specific playbooks involving two or more departments. Above that, leveraging upon the departmental and scenario-specific playbooks, are internal whole-of-agency contingency plans. At the interagency level, there would be a number of joint playbooks (e.g., between the NBG and the MoF for

coordination in bank resolution). Ultimately, the authorities need to develop an IFSC national financial crisis preparedness plan.

51. **The NBG should ensure it has in place departmental-level playbooks for all its key functions.** The RLD has already prepared a liquidator’s playbook and an NBG staff playbook for liquidations, along with a very detailed Excel-based technical map of all steps in the process, along with some 55 document templates. This work built upon the 2018 *Regulation on Liquidation of Commercial Banks*. Additional playbooks of most relevance to this TA that should be prepared are those for supervisory early intervention, FOLTF determination, ELA, and use of individual resolution tools (e.g., bail-in, sale of business and bridge bank playbooks, as described in Appendix II). The ELA playbook can build upon the 2020 *Rule and Conditions for Issuing a Last Resort Loan by the National Bank of Georgia*. As recommended in the 2021 FSAP Technical Note, the ELA playbook should incorporate the role of the RLD and the RC in initiating a request for ELA for a bank pending resolution or undergoing resolution. The resolution-related playbooks can build upon the significant work already performed by the NBG, which produced the following policy and procedure documents in 2020:

- Rule on Simplified Procedures for the Acquisition of a Significant Share of a Commercial Bank under Resolution;
- Rule on Licensing, Management and Market Exit of a Bridge Bank;
- Rule on Recapitalization of a Bank in Resolution by Means of Write-down or Conversion of Bank’s Liabilities;
- Rule on Recapitalization by Means of Issuing New Shares of a Bank in Resolution; and
- Rule for the Valuation of the Assets and Liabilities of a Commercial Bank for the Purposes of Resolution.

52. **Eventually, the resolution function should prepare a comprehensive Resolution Handbook that integrates all the resolution tool playbooks and addresses additional components such as valuations and resolution funding.** The Resolution Handbook would identify the potential roles played by other NBG departments in supporting resolution action (e.g., financial markets, legal, procurement, and logistics), and those departments might need to develop playbooks addressing their supporting roles in resolution action. The NBG also should put in place other scenario-specific playbooks, for example, to address contingencies such as payment system disruptions.

53. **The MoF, too, should ensure it has in place departmental-level playbooks for all its key financial stability and crisis management functions.** Those of most relevance to this TA are playbooks addressing the use of TPF, including for bridge bank capitalization (by policy, the only currently envisioned use of direct TPF), and for other legally permissible forms of direct TPF. A Resolution Fund playbook should be developed that addresses the deployment of indirect

TPF via the fund. These playbooks can build upon the foundations laid by the *MoF/NBG Joint Decree on Approval of Criteria for the Collection of Contributions and the Procedure for Making Contributions for the Purpose of Repayment of Funds Allocated under Temporary Public Funding*, and the *MoF/NBG Joint Regulation on Establishing and Administering the Resolution Fund and Provision of Temporary Public Financing by the Ministry of Finance*, both of which were issued in 2020. The MoF also needs playbooks that address its contingent liabilities for NBG ELA (in response to NBG notification) and its potential lending to the DIF (in response to a DIA request). Since it would be the owner, a bridge bank playbook addressing matters such as establishment, governance, capitalization and financing operation, and eventual sale of the bridge bank, is required. The MoF should also put in place scenario-specific playbooks.

54. The DIA has drafted new “Normative Acts” (regulations) that are pending approval by the Supervisory Board. These reportedly provide detailed procedures for insured banks, agent banks (contracted by the DIA to make payouts to insured depositors), and the DIA for conducting payouts. The acts were reviewed and commented upon by the NBG. The DIA also requires playbooks for the contingencies of the need to liquify its investment portfolio (via arrangements with the NBG) and to borrow from the MoF, or market sources, if the DIF should require replenishment. The DIA has been developing a Crisis Management Plan for crisis situations beyond a single-bank payout (e.g., multiple simultaneous payouts).

55. The mission reviewed with the authorities the need to develop several bilateral interagency playbooks, in particular between the NBG and the MoF. There is a need to address joint NBG-MoF coordination in the context of potential use of the bridge bank resolution tool. This can be built upon by the NBG *Bridge Bank Rule* cited above. The MoF and the NBG also need a bilateral playbook addressing resolution funding, with respect to potential provision by the MoF of temporary public funding, both directly and indirectly via the Resolution Fund, and to potential NBG ELA. The playbook can build upon the *Joint Regulation on the Resolution Fund and Temporary Public Financing* cited above. The NBG and the MoF should consider whether a broader coordination framework addressing a systemic crisis scenario involving, for example, the potential failure of several banks simultaneously, should be documented by means of a joint playbook. The joint playbooks for bridge banks, TPF, and ELA could potentially be incorporated into a broader coordination framework playbook.

56. The need for other bilateral interagency playbooks was discussed. While the NBG and the DIA have internal playbooks addressing bank liquidations and insured deposit payouts, respectively, the two agencies should develop a joint playbook for coordination in the case of a problem bank that might be declared FOLTF and put into liquidation. The DIA and the NBG should agree on a joint playbook addressing the eventuality that the DIA needs to liquify the DIF investment portfolio. The DIA and the MoF should consider a joint playbook for coordination in the event the DIA needs to borrow from the MoF to replenish the DIF.

57. **Each of the IFSC member agencies should eventually put in place internal whole-of-agency financial crisis contingency plans.** The mission presented to the member agencies the potential overall structure of such a plan, using the NBG as an example. The ultimate long-term goal is to develop an overarching, integrated financial sector crisis contingency plan for Georgia, which leverages upon all relevant internal playbooks and joint plans. The mission supplied a presentation for the potential overall structure of such a plan.

58. **An important complement to the development of playbooks and contingency plans is a testing program.** Testing by means of simulation exercises brings the benefits of allowing managers and staff to practice use of the playbooks/plans, as well as identifying the scope for enhancements (revisions) to the documents. Actual use of playbooks/plans also should lead to revisions. Each department should be required to undertake periodic testing of key playbooks in cooperation with other departments, when relevant. Agency senior management should provide oversight to ensure this is happening for the playbooks deemed most important, including scenario-specific playbooks and the eventual agency-wide plans. Good practice is to adopt an annual planning cycle identifying the exercises deemed priorities for the coming year. Results of tests and actions to be taken (enhancements of playbooks) should be reported routinely to senior management (e.g., to the NBG FSC).

59. **The mission suggested to the authorities a medium-term work program to strengthen crisis preparedness (e.g., over the next three years).** A first step would be to undertake in each agency an inventory of key departmental-level, scenario-specific, and bilateral playbooks. The goal would be to quantify the extent of documented policy, procedures, and coordination frameworks benchmarked against the recommendations in this technical report, as well as other goals deemed important by agency management. This stocktaking should serve to identify gaps and shortcomings (e.g., missing playbooks, partial or incomplete playbooks), and could be completed in 2022. Priorities for overcoming the absence of playbooks and shortcomings in current documents should be set by agency management and incorporated into departmental and agency-wide workplans for the remainder of 2022 and in 2023. Work on developing agency-wide financial crisis contingency plans, at least within the NBG and the MoF, could be contemplated for 2023 and 2024. As noted, testing of existing and new playbooks should also be incorporated into annual workplans.

60. **The development of key playbooks and implementation of a program of route testing should be endorsed and overseen by the senior management within each of the IFSC member agencies.** For example, within the NBG, this work program probably would be most appropriately overseen by the FSC. The active involvement of senior management is essential to ensure adequate resources are devoted to the effort and that the relevant departments work collaboratively and with a common purpose.

61. **Implementation of the work program to enhance the domestic crisis preparedness and coordination framework should be overseen ultimately by the IFSC.** While senior management of each individual agency is responsible for implementing the work program in

each IFSC member agency, the IFSC should serve as an information sharing and process-coordination role. This will help ensure that the whole-of-agency contingency plans can dovetail into a national financial crisis contingency plan.

62. The authorities proposed a few changes to the IFSC Charter text to reflect such a role. The mission recommended the authorities consider the utility of a more substantive redraft of the charter, considering the finalized inputs of this first TA mission. The revised charter could usefully address separately the IFSC's role in normal times, including overseeing the crisis preparedness work program, and its role in crisis times (i.e., interagency coordination in a situation of heightened stress or crisis).

63. The mission recommended that the IFSC be supported by a formal standing working group comprised of a small number of individuals from the member agencies. A key task of the working group would be to support the IFSC members in overseeing the implementation of the crisis preparedness and coordination framework work program. The working group's role in this respect, as well as in supporting the other work of the IFSC, should be articulated in the charter.

V. NEXT STEPS

64. The mission recommended that the authorities complete the following tasks ahead of the second mission scheduled for September 2022:

- a) Stocktaking on missing/incomplete playbooks and contingency plans;
- b) Operationalizing the bail-in tool from the authorities' point of view (including a clear allocation of responsibilities and the interaction with other authorities and institutions);
- c) Operationalizing the bridge bank tool from the authorities' point of view, especially the MoF and the NBG;
- d) Operationalizing the sale of business tool, with all the steps, templates, and drafts that the RLD needs to perform a successful sale;
- e) Initiating the inventory of key playbooks and identifying missing or incomplete playbooks;
- f) Establishing a formal standing Working Group to support the IFSC;
- g) Preparing a new draft of the IFSC Charter; and
- h) Further revising the creditor hierarchy as appropriate.

65. **The second mission will provide further guidance on the contingency preparation and staffing, development of the resolution regime, and playbooks on the bail-in, sale of business, and bridge bank tools.** The RLD/NBG and the MoF should review their long-term staffing needs. They should appoint and train a small core of permanent staff and establish arrangements to enable the quick increase of staff, as needed, to discharge their responsibilities. The RLD should be tasked to develop guidelines/playbooks for the bail-in and sale of business tools, while the RLD and the MoF should do so for the bridge bank tool.

APPENDIX I. GUIDANCE FOR SUPERVISORS ON RECOVERY PLANS

1. This appendix sets out indicative questions that supervisors may wish to consider in their review and assessment of SFI recovery plans, covering the following elements of recovery plans:
 - Executive summary of the recovery plan;
 - Governance of recovery plans;
 - Integration of recovery plans with the bank's risk management framework;
 - Overview of the bank and group, and critical functions and services;
 - Triggers for activation of the recovery plan;
 - Restoration points to achieve financial soundness;
 - Recovery options;
 - Scenarios;
 - Communications;
 - Preparatory measures;
 - Testing of the recovery plan; and
 - Review of the recovery plan.

The guidance set out in this appendix is particularly focused on the recovery plans for the larger banks. In the case of the credit unions and other small SFIs, a proportionate approach needs to be taken to recovery planning, with recovery planning requirements being scaled back to the needs, circumstances, and resource capacity of the SFIs in question. That said, even with a small SFI, such as a credit union, a recovery plan would still need to cover the topics contained in these guidelines but would do so on a more limited scale than for a larger financial institution. In the case of credit unions and other mutual entities, the capital issuance options are limited, and hence this element of a recovery plan would be scaled back considerably relative to that for a non-mutual.

Executive summary of the recovery plan

General guidance

2. The recovery plan should desirably include an executive summary encompassing information on the trigger framework, internal escalation and decision-making processes, recovery options and communication strategy. It should serve as a roadmap to the recovery plan, which allows the senior management and a bank's board to quickly understand and assess the recovery options in a severe stress.
3. The Executive Summary should be relatively brief and should provide a succinct summary of all of the elements of the plan, including:

- a. the objectives and scope of the plan;
 - b. governance of the plan—both in terms of approval process and governance in a recovery plan activation process;
 - c. its integration with the risk management framework, ICAAP, BCP and related matters;
 - d. the triggers for recovery plan activation, and escalation and implementation arrangements;
 - e. the ‘restoration points’ for key variables – i.e., especially capital and liquidity;
 - f. the recovery options;
 - g. a brief description of the scenarios;
 - h. communications; and
 - i. process for regular review and testing.
4. The Executive Summary should either contain or include reference to a short checklist of decisions and actions that the senior management team and board can use to:
- a. determine whether to invoke the recovery plan;
 - b. ascertain the nature of the problem affecting the bank, its cause, and its impact;
 - c. determine the recovery strategy, including recovery actions and communications; and
 - d. ensure that all actions are subject to effective oversight and coordination.

Indicative questions for supervisors

5. Supervisors could consider the following matters in reviewing a recovery plan:
- a. Does the recovery plan contain an executive summary that is succinct and practical in its focus?
 - b. Does the executive summary cover the items listed above?

- c. Would the executive summary be a useful guide for senior management and directors for use of the recovery plan in a situation where the plan needs to be applied? Is the executive summary easy for a user to access and apply?
- d. Does the executive summary contain a checklist of key decisions and actions that senior management and the board need to make in deciding to invoke the recovery plan, in determining the nature and impact of the problem being addressed, and in applying recovery actions? If not, does a separate document exist which contains such a checklist?

Governance of recovery plans

General guidance

6. The recovery plan should contain a description of the specific governance arrangements relating to the plan, including clearly articulating the respective roles and responsibilities of the board and senior management during the different stages of recovery planning, namely:
 - development, review, approval, and ongoing maintenance of the recovery plan during a “business-as-usual” environment; and
 - monitoring and internal escalation processes for triggering the recovery plan, and the execution of recovery actions during a crisis.
7. The recovery plan should contain a section on governance that explains how the recovery plan was developed, the processes for obtaining senior management approval, and the processes for obtaining Board Risk Committee and board approval. There should be a senior-level “owner” of the recovery plan, with responsibility for overseeing its development and review, and submission for approval. The owner is often a bank’s Chief Risk Officer (CRO). The plan should clearly identify the board’s responsibilities, the relevant board committees, and senior management in relation to the recovery plan.
8. The recovery plan should describe how the plan would be activated, based on the triggers for the plan, and identify who has responsibility for monitoring the triggers and for authorizing the activation of the total plan or any part of it. The plan should also identify the management structure during the recovery phase, including who has responsibility for particular recovery actions and the authorizations and delegated authorities required for recovery actions. It is common for the CEO, or the CEO and Chairperson of the Board, to have responsibility for the activation of the recovery plan. A Crisis Management Team (CMT) is often established by the CEO to coordinate the recovery process, overseen by the CEO and EXCO, and with ultimate oversight by the board. It is usual for the recovery

plan to specify, for each recovery option, the level of authority needed to obtain approval to undertake that particular recovery option.

9. Senior management and the board need to ensure that the recovery plan covers all of the regulatory requirements and is comprehensive. As importantly, they need to ensure that the recovery plan is “fit for purpose”—i.e., that the recovery plan enables the bank to restore itself to financial soundness within a reasonably short timeframe (generally within three months of the trigger points in the plan being breached, and no more than six months), sufficiently to ensure that the bank is in compliance with all prudential requirements, is prudentially sound and resilient to future shocks, can resume normal operations (at least with respect to its critical functions and services), and has the confidence of all relevant stakeholders, including the financial markets. This means that the senior management team and board must ensure that:
 - a. the recovery plan has clearly defined triggers that apply before there is any breach of prudential requirements; i.e., the triggers should occur sufficiently early as to enable the bank to take corrective actions promptly to avoid breaches of prudential requirements and to avoid, where possible, a significant deterioration in market confidence in the bank;
 - b. the recovery plan is based on well-defined scenarios that are realistic and sufficiently severe as to result in the bank sustaining a major fall in capital and liquidity (see later in this note), with all relevant assumptions pertinent to the scenarios being clearly identified, and where scenarios include both idiosyncratic and system-wide scenarios (and a hybrid of the two);
 - c. the recovery plan contains specific and detailed recovery actions that are realistic and practicable, with the priorities for each recovery action being clearly identified;
 - d. the recovery plan quantifies the expected contribution of each recovery action to the purpose for which it is intended; e.g., that recovery actions designed to increase capital include quantification of the amount of capital expected to be raised by the particular recovery action;
 - e. the recovery actions are supported by details relating to how each recovery action would be implemented, including step-by-step implementation guidance and associated documentation required for implementation;
 - f. the stakeholders (internal and external) have been identified and their information needs assessed, and the means by which they will be provided with information (and when) is identified in the recovery plan;

- g. all staff are aware of the recovery plan and know their responsibilities in relation to it;
 - h. the recovery plan is closely integrated into the bank's risk management framework, including early warning indicators (EWIs), stress testing, risk monitoring, risk limits and controls, ICAAP, liquidity contingency planning, and business continuity planning; and
 - i. the recovery plan is kept under regular (generally annual) review, is updated to reflect changes to the bank's operations and structure, and is subject to regular testing (e.g., an annual "desk top" form of testing and a live simulation exercise every three years).
10. The issues referred to above are covered in more detail later in this paper.
11. The board needs to maintain a close overview of senior management's performance of its responsibilities in relation to the recovery plan in order satisfy itself that senior management has performed all of its responsibilities effectively. The board also need to clearly understand its own responsibilities in relation to the recovery plan, including the recovery actions entrusted to the board. The board needs to maintain a comprehensive understanding of the recovery plan and to be satisfied that it complies with all regulatory requirements, is comprehensive and is practical and realistic. They also need to ensure that the plan is subject to regular testing and to assess the results of the tests. Occasionally, it would be appropriate for the board to participate in the tests of the recovery plan, both as active participants and as observers.

Issues to be assessed by supervisors

12. Indicative questions that supervisors could consider in reviewing the governance arrangements for recovery plans are:

Governance over the preparation and sign-off of the recovery plan

- a. Does the recovery plan have an ultimate "owner" in the bank, with suitable skills, experience, and seniority, such as the Chief Risk Officer?
- b. Was the recovery plan prepared by a senior-level team of staff with dedicated responsibility for developing the recovery plan?
- c. Did the team responsible for preparing and maintaining the recovery plan comprise representatives of the key areas of the bank relevant for the plan, including the CRO (or deputy), CFO, Head of Treasury, Head of Operations, Head of IT, Head of Legal, Head of Compliance, and Head of Communications?

- d. Was the recovery plan subject to comprehensive oversight by the Board Risk Committee and ultimately by the board?
- e. How thorough was the Board Risk Committee and board review and sign-off of the plan? How much time did the Board Risk Committee and board dedicate to reviewing the recovery plan?
- f. How thorough was the controlling shareholders' review and sign-off of the plan, particularly as regards responsibilities applicable to them, such as in relation to capital issuance?
- g. What arrangements have been made to ensure that all relevant staff are aware of the recovery plan?
- h. Do the board members demonstrate a thorough understanding of the recovery plan and the board's responsibilities in relation to all relevant elements of the plan?

Governance in the activation of the recovery plan

- a. Is there a clearly defined governance process for the activation of the recovery plan? Who has the power to activate the recovery plan?
- b. If the board is not involved in activating the recovery plan, when would the board be convened to consider the situation and determine or agree to the recovery strategy, and to ensure that the board has effective oversight of the recovery process?
- c. Does the recovery plan clearly set out responsibilities for decision-making in respect of particular recovery actions? For example, does it set out those recovery actions which are subject to board approval, those which are subject to CEO approval, and those which can be made by others under delegated authority?
- d. Is there a clear allocation of authorities for exercising recovery actions?
- e. Is there a crisis committee with responsibility for coordinating recovery actions?
- f. Is there a board-level crisis committee that oversees and approves the recovery strategy and key recovery actions?
- g. Do the board members understand their responsibilities in the recovery plan, including for particular recovery actions?

Integration of recovery plan with risk management arrangements

General guidance

13. Recovery plans need to be closely integrated with banks' risk management policies and processes. To ensure effectiveness, recovery planning should be treated as a critical component of a bank's risk management framework, rather than an isolated process that is merely prepared for regulatory compliance reasons. Several linkages are particularly noteworthy:
 - a. the role that a bank's stress testing processes (and especially reverse stress tests) play in assessing the potential impacts on capital and liquidity arising from financial and economic shocks, and for informing scenarios used in the plan;
 - b. the importance of EWIs, supported by robust management information systems, in informing a bank's management and board on the triggering of the recovery plan, and the linkage between the early warning indicators and relevant risk settings in the Risk Appetite Statement (RAS);
 - c. the close linkages between the recovery plan and a bank's ICAAP and ILAAP, particularly as regards the setting of the restoration point for capital and liquidity;
 - d. the importance of the triggers in the recovery plan being informed by and linked to the minimum risk tolerances in the RAS;
 - e. the importance of the restoration points in the recovery plan being informed by and linked to the desired risk settings in the RAS;
 - f. the linkages between the recovery plan (especially triggers and recovery actions) as regards capital-related matters in the recovery plan and the bank's capital contingency plan, and as regards liquidity-related matters in the recovery plan and the bank's liquidity contingency plan;
 - g. the linkages between recovery planning and business continuity planning, particularly in relation to key operational requirements for recovery actions; and
 - h. the feedback from the recovery plan to the bank's risk appetite settings and risk limits (e.g., adjustments of risk limits and capital and liquidity buffers following the materialization of shocks that necessitated the activation of the recovery plan, or in situations where the supervisors conclude that recovery plan lacks credibility).

14. It is therefore important that a bank ensures that its recovery planning processes are fully integrated into the wider risk management framework. The recovery plan should include information that sets out the nature of the linkages between the recovery plan and the above matters, and the means by which the bank seeks to ensure that there is a strong degree of integration of recovery planning into the risk management framework.

Issues to be assessed by supervisors

15. Indicative questions that supervisors could consider in reviewing the integration of the recovery plan with the bank's risk management framework and related matters are:
 - a. Is the recovery plan adequately integrated with the bank's stress testing arrangements?
 - b. Have the scenarios, restoration points, and recovery actions been informed by stress test results? In particular, have reverse stress tests been used by the bank to identify the magnitude of economic and financial shocks required to cause the bank to breach recovery plan triggers?
 - c. Is the recovery plan integrated with the bank's risk management framework and RAS, especially as regards the setting of triggers and restoration points? Are the triggers for the recovery plan aligned to minimum tolerance levels in the RAS in respect of capital and liquidity?
 - d. Are EWIs used in the recovery plan informed by the bank's stress testing and RAS?
 - e. Is the recovery plan integrated with the bank's ICAAP and capital contingency plan?
 - f. Is the recovery plan integrated with the bank's liquidity contingency plan?
 - g. Is the recovery plan integrated with the bank's BCP?

Overview of the bank—and critical functions and services

General guidance

16. The recovery plan should include comprehensive information on a bank's structure and operations. This should include information on:
 - a. the bank's ownership structure, including an identification of all parties with a significant ownership stake;

- b. the group structure if the bank has subsidiaries or is owned by a holding company, including an organization chart for the group and an identification of each entity in the group;
 - c. if the bank is part of a wider financial conglomerate, the nature of its functional interdependencies with the various entities in the conglomerate;
 - d. the functions performed by the bank and each of the other entities in the group – domestically and in other countries;
 - e. the financial products and services provided by the bank and each entity in the group;
 - f. key risks of the bank and each entity in the group, and a description of (or reference to) the risk management framework applied to identify, measure, monitor and manage all material risks;
 - g. the nature of the inter-connections between entities in the group, including financial and operational inter-connections;
 - h. location of all branches of the bank and offices of other entities in the group, domestically and in other countries;
 - i. identification of correspondent banks and other banks or financial service providers with which the bank or the group has significant business dealings;
 - j. nature and extent of participation of the bank and the group in financial markets, by category of financial market;
 - k. nature and extent of participation of the bank and the group in payment and settlement systems;
 - l. entities that provide critical functions or services to the bank and the group (see below for a definition of critical functions and critical services); and
 - m. extent and nature of any outsourcing of critical functions and services to parties outside the group.
17. An important aspect of recovery planning is the identification of a bank's critical functionality. Banks need to identify the critical functions and services they perform, the legal entities and jurisdiction in which the functions and services are located, and the inter-dependencies between these entities. Recovery actions should be designed to ensure that, at a minimum, these functions and services can be maintained without interruption.

18. The definitions of critical functions and critical services applied by the Financial Stability Board (FSB)—the international body that provides guidance on bank recovery plans—are set out in the box below.

FSB Definition of Bank Critical Functions and Services

“Critical functions are activities performed for third parties where failure would lead to the disruption of services that are vital for the functioning of the real economy and for financial stability due to the banking group’s size or market share, external and internal interconnectedness, complexity and cross-border activities. Examples include payments, custody, certain lending and deposit-taking activities in the commercial or retail sector, clearing and settling, limited segments of wholesale markets, market-making in certain securities and highly concentrated specialist lending sectors.”

“A critical function has the following two elements:

- it is provided by a bank to third parties not affiliated to the bank; and
- the sudden failure to provide that function would be likely to have a material impact on the third parties, give rise to contagion or undermine the general confidence of market participants due to:
 - the systemic relevance of the function for the third parties; and
 - the systemic relevance of the bank in providing the function.”

“Critical shared services are activities performed within the firm or outsourced to third parties where failure would lead to the inability to perform critical functions and, therefore, to the disruption of functions vital for the functioning of the real economy or for financial stability. Examples include the provision of information technology given the dependency of core banking processes on IT and other services such as facility management and administrative services.”

19. Recovery plans should identify all critical functions and services, as well as the legal entities (including outsourced providers) that perform these functions and services, the jurisdiction in which they are located, and the inter-dependencies between them.
20. At a minimum, the critical functions should include:
- a. deposit-taking, particularly the capacity to receive deposits into transaction-facilitated deposit accounts and short-term deposits;
 - b. wholesale funding, including the capacity to receive deposits from other banks, correspondent banks and corporate entities, capacity to transact with the central bank for money market operations, issuance and servicing of bonds and paper, and capacity to meet obligations under securities lending, repos and risk transformation services;
 - c. lending and loan servicing, particularly the capacity to provide credit under committed credit facilities (such as overdrafts and stand-by facilities), participation in existing syndicated lending facilities, trade finance, leasing and factoring;
 - d. credit card services;

- e. payments, clearing and settlement, and custodial services, including retail and wholesale payments services, capacity to meet obligations to payment and settlement service providers and other Financial Market Infrastructures (FMIs), treasury and cash management services;
 - f. capacity to meet obligations (paying and receiving) in relation to financial derivatives, such as swaps, options, forward contracts and other financial instruments used by the bank or its clients for risk hedging purposes; and
 - g. capacity to meet obligations in relation to capital market transactions and services.
21. At a minimum, the critical services should include the IT and other systems and controls required to:
- a. perform all critical functions (as identified above);
 - b. maintain all customer and client records;
 - c. maintain all financial and management accounting records and reporting obligations;
 - d. identify, measure, monitor and control all material risks (including credit risk, exposure concentration risk, liquidity risk, interest rate risk, basis risk, currency risk, equity risk, asset price risk, operational risks, and reputation risk); and
 - e. meet all regulatory obligations and other legally binding regulatory requirements.
22. The recovery plans should set out the recovery actions—financial and operational—to ensure that all critical functions and services can be maintained without interruption. It should also set out the recovery actions needed to manage contagion risk that could arise from interlinkages with entities in a financial conglomerate or exposures to wider corporate connectedness.

Issues to be assessed by supervisors

23. Indicative questions that supervisors could consider in reviewing the recovery plan information relating to the overview of the bank are:
- a. Does the recovery plan provide sufficient detail of the bank's organizational structure and group structure? If the bank is part of a financial conglomerate, does the recovery plan set out the nature of the interlinkages and interdependencies between the bank and other entities in the conglomerate?

- b. Is there sufficient information on the ownership structure of the bank, including an identification of all parties with a significant ownership stake?
- c. Does the recovery plan identify adequately all critical functions and services, including critical shared services within the bank and group (see later in this paper)?
- d. Does it identify the legal entities that provide critical functions and services?
- e. Does it identify the inter-dependencies (functional and financial) between legal entities providing critical functions and services?
- f. Does it identify all material outsourcing arrangements for critical functions and services, including the legal entities with responsibility for performing these functions and services, the jurisdictions in which they are based, and reference to the legal contracts under which they operate?
- g. Does it identify back-up and business continuity arrangements for all critical functions and services, or refer to these matters being identifiable in the bank BCP?
- h. Are cross-border operations adequately identified?
- i. Does it identify the financial products and services provided by the bank and each entity in the group?
- j. Does it identify the sources of funding for the bank and other entities in the group?
- k. Does it identify the key risks of the bank and each entity in the group, and a description of (or reference to) the risk management framework applied to identify, measure, monitor and manage all material risks?
- l. Does it identify correspondent banks and other banks or financial service providers with which the bank or group has significant business dealings?
- m. Does it identify the nature and extent of participation of the bank and group in financial markets, by category of financial market?
- n. Does it identify the nature and extent of participation of the bank and group in payment and settlement systems?

Triggers for activation of the recovery plan

General guidance

24. A recovery plan needs to have clearly defined triggers for invoking the recovery plan. The triggers should relate to the key risk metrics relevant to the financial soundness of a bank and banking group. Typically, the triggers will comprise:
 - Capital ratio (e.g., CET1, tier 1 and total capital ratios);
 - Liquidity ratio (e.g., HQLA to total liabilities, LCR, Counterbalancing Capacity);
 - Asset quality (e.g., NPLs over 90 days past due as a percentage of total loans);
 - Profitability (e.g., NPAT as a percentage of total assets or equity); and
 - Credit rating.
25. The triggers should be set at a level that enables the recovery plan to be invoked well before the bank breaches prudential requirements and before it gets into any significant difficulties. The triggers should enable a recovery plan to be invoked proactively ahead of emerging stress so that a bank is well placed to respond quickly and effectively, in order to avoid breaches of prudential requirements or adverse market confidence impacts. Triggers for capital and liquidity ratios are often set at or slightly above the minimum tolerance levels in the bank's RAS. Similarly, triggers for asset quality are generally set at or below the maximum tolerance in the case of NPLs/total loans and, for profitability, at or slightly above the minimum tolerance for ROE or ROA. If a credit rating is used as a trigger, then this would usually be set at or slightly above minimum tolerance for the rating level in the RAS; e.g., one or two notches above the minimum rating for investment grade (BBB- or equivalent).
26. It is often desirable for a bank's recovery plan to include a trigger relating to the disruption in the performance of critical functions and services. For example, some banks include a trigger relating to a sustained interruption to the performance of any material critical functions and services for more than x hours (e.g., more than 8 hours) or where the disruption to critical functions and services has the potential to cause material damage to the bank's reputation and/or ability to meet payment and settlement obligations.
27. Not all triggers need to be quantitative. Recovery plans can also be designed to include triggers of a qualitative nature. Qualitative triggers could include elements such as: requests from counterparties for early redemption of liabilities; difficulties in issuing liabilities at current market rates; an unexpected loss of senior management; adverse court rulings; negative market commentary; fraud or malfeasance events; and other events that could cause significant reputational damage.

28. In addition to the triggers, banks should include in their recovery plan or in supplementary material the nature of the EWIs they have in place in respect of each trigger, and the means by which they monitor such indicators. Banks should maintain comprehensive early warning indicators that enable them to identify, as early as possible, emerging stress that could potentially lead to a breach in one or more triggers for the recovery plan. The EWIs would appropriately relate to each category of trigger, including capital, liquidity, asset quality and profitability, as well as EWIs relating to qualitative triggers. Indicative examples of EWIs are set out below:

Risk category	Early Warning Indicators
Capital	<ul style="list-style-type: none"> • Early-stage deterioration in capital ratios • Capital ratios falling below target levels in the RAS or in ICAAP • Rapid growth in lending • Increase in the proportion of higher-risk lending • Increase in risk appetite • Adverse movement in risk environment • Deterioration in risk management quality • Increase in risk-preferent activity • Deterioration in asset quality • Declining profitability
Liquidity	<ul style="list-style-type: none"> • Counterbalancing capacity evolution • Early-stage deterioration in liquidity ratios • Reduced reinvestment of maturing deposits • Shortening of average maturity of funding • Acceleration in withdrawal of deposits • Increase in risk premium on funding costs • Adverse movements in asset/liability maturity mismatch • Reduced cashflows (actual or forecast) from loan portfolio • Reduced ability to obtain funding in the inter-bank market
Asset quality	<ul style="list-style-type: none"> • Early-stage deterioration in asset quality indicators • Increase in unemployment and underemployment • Lengthening in loans past due • Increase in requests from borrowers for loan restructuring due to stress • Increase in interest rates • Increase in household and corporate leverage • Decline in asset prices relevant to collateral values
Profitability	<ul style="list-style-type: none"> • Increase in operating expenses • Reduced net interest margins • High wage inflation • Weakening in asset quality • Increased competitiveness and contestability in key financial markets • Higher forecast expenses associated with IT/cyber security risk factors • Higher forecast expenditures on bank restructuring and technology updates

Issues to be assessed by supervisors

29. Indicative questions that supervisors could consider in reviewing the triggers for recovery plans are:
- a. Does the recovery plan differentiate between the triggers for activation of the recovery plan as a whole, and the triggers for the activation of specific recovery actions?
 - b. Do the triggers enable the recovery plan to be activated well before any breach of prudential requirements has occurred?
 - c. Are the triggers set in relation to the risk tolerances in a bank's Risk Appetite Statement (e.g., the bank's lower tolerance levels for capital ratios and liquidity ratios, and its upper tolerance for impaired loans and for exposure concentration ratios)?
 - d. What monitoring arrangements are in place to enable the senior management and the board to regularly monitor data in relation to the triggers?
 - e. What systems apply for alerting the senior management and board to a breach or risk of future breach of the triggers?
 - f. Are the triggers supported by comprehensive EWIs? Are there EWIs that provide reliable predictors of possible future breaches of recovery plan triggers, including in relation to capital, liquidity, asset quality and profitability?
 - g. What monitoring arrangements are in place to enable the senior management and board to regularly monitor data in relation to the EWIs?
 - h. Are the EWIs structured so that they identify escalating levels of potential risks of future trigger breaches, such as a 'traffic light' structure for EWIs?
 - i. Does the plan clearly set out the process by which a bank would activate its recovery plan and to activate particular recovery actions?
 - j. Does it identify the persons responsible for the different elements of the activation process?
 - k. Is there a clear documentation of delegated authorities for particular actions?
 - l. Is there an appropriate process for escalation of decision-making?

Restoration points for recovery

General guidance

30. The “restoration point” for recovery needs to be clearly specified in a bank’s recovery plan. At a minimum, a bank must restore capital and liquidity to levels that meet the regulator’s regulatory requirements, with a sufficient cushion to achieve a very low probability of any future breaches of these requirements. However, in many situations, higher restoration points should be specified in order to ensure that the bank in question can restore and maintain market confidence - and as such, retain access to inter-bank funding - and to reduce the probability of subsequent near-failures. In many cases, banks tend to set their restoration points towards the higher end of the target range for key risk metrics in their RAS; e.g., as for capital and liquidity.
31. Bank recovery plans should set out clearly the restoration points being applied by the bank and the rationale for the restoration points. The restoration points should include restoration levels in relation to:
 - CET1 ratio;
 - Tier 1 capital ratio;
 - total capital ratio;
 - HQLA ratio;
 - LCR ratio;
 - profitability, expressed both in ROA and ROE terms; and
 - asset quality, expressed in terms of relevant indicators of impaired and restructured assets, as a percentage of total assets or total loans.
32. The restoration points for the recovery plan should also include reference to a target credit rating (where the bank already has a rating). Other restoration points can also be applied, including ones relating to defined measures of market confidence in the bank, depositor satisfaction, other stakeholder satisfaction, and resumption of business-as-usual operation of all critical functions and services.

Issues to be assessed by supervisors

33. Supervisors should assess whether the recovery plan sets out clearly and specifically the restoration points for the above factors, and the reasons stated by the bank for selecting the restoration points in question. Supervisors need to satisfy themselves whether the restoration points are realistic and achievable. They also need to assess whether the restoration points are consistent with the bank resuming normal operations, especially for critical functions and services, and maintaining market confidence.

34. Indicative questions that supervisors could consider in reviewing the restoration points for recovery plans are:
- a. Does the recovery plan establish restoration points for key variables, such as capital, liquidity, asset quality and profitability?
 - b. How has the bank set these restoration points? Were the levels of restoration points for capital and liquidity set in relation to the bank's minimum tolerances in the Risk Appetite Statement? Were they set taking into account the bank's stress tests?
 - c. Do the restoration points provide reasonable assurance that future breaches of prudential requirements will not occur? In particular, has the bank set post-recovery capital and liquidity levels at a sufficiently high level?
 - d. Would the restoration points enable the bank to retain an acceptable credit rating (sufficient to maintain access to financial markets and inter-bank funding)?

Recovery options

General guidance

35. It is essential that recovery options are set out in a comprehensive manner, in sufficient detail as to enable any person using the recovery plan to understand what is required to implement the recovery action. Each recovery action should be accompanied by step-by-step implementation guidance. The person(s) authorized to take each action in the implementation process should be identified clearly, with all delegated authorities made clear. The maximum plausible amount that the recovery action would contribute to capital or liquidity should be identified.
36. Emphasis needs to be on recovery actions that are practicable and can be implemented within a relatively short timeframe (e.g., within three months, and no longer than six months). A risk associated with bank recovery plans is that they evolve into long lists of potential actions, without adequate specification of how practical they are, their contribution to recovery and the timeframe for implementation. This risk can be lessened by banks prioritizing the recovery actions, giving prominence to recovery actions with the greatest near-term benefit in terms of restoring capital, liquidity, profitability and improving asset quality, and which will have credibility with key stakeholders (such as depositors, other creditors, the news media, and rating agencies).

37. For each recovery action, the recovery plan should specify:
- a. the quantitative amount that the recovery action would contribute to the restoration of capital, liquidity, profitability or asset quality;
 - b. the period of time required to complete the recovery action;
 - c. the processes and procedures required to implement the recovery action to the point of completion;
 - d. the documentation that has been prepared or that will need to be prepared to ensure prompt implementation of the recovery action;
 - e. the potential legal and regulatory requirements which must be met to implement the recovery action and the means by which these requirements will be met; and
 - f. the persons in the bank (including directors) with the authority to approve implementation steps for the recovery action.
38. Recovery actions also need to address the underlying causes of the problem in order for the recovery action to have credibility. For example, if poor lending decisions led to a deterioration in asset quality and associated loan losses, and a decline in capital, the recovery actions need to go beyond restoring capital adequacy and asset quality. The recovery package also needs to address the underlying cause of the problem – in this example, the poor lending decisions. Accordingly, recovery actions should provide at least generic guidance as to the steps that a bank would take to identify and resolve the underlying cause of the problems, and to do so in a manner that has credibility to all stakeholders, including rating agencies, depositors, market participants and the news media. This would often suggest the need for some form of independent expert party to be engaged to assist in the resolution process, and hence the need for guidance in the recovery plan on how this would be facilitated.

Recovery actions in relation to capital

39. The recovery plan should set out comprehensive and detailed recovery actions to restore capital (CET1, Tier 1 and total capital) to the target level. The recovery actions need to be realistic, practicable and credible. Priority should be given to recovery actions that have the greatest probability of successful implementation in the shortest period of time, and which make the greatest contribution to capital restoration. Recovery actions should generally be capable of completion within three months desirably, and not more than six months.

40. Recovery actions should be classified into specific categories, including initiatives to:
- a. raise equity from existing shareholders via a rights issue (desirably underwritten by an investment bank) or through private placement of equity to existing controlling shareholders, consistent with what is permitted under the bank's constitution;
 - b. raise equity from new investors, such as the issuance of shares to selected potential shareholders;
 - c. convert debt into equity where the bank has a tranche of debt with contractual provisions to enable it to be converted into equity upon specified triggers being met;
 - d. write down debt where the bank has a tranche of debt with contractual provisions to enable the debt to be written down upon specified triggers being met;
 - e. suspension of distributions (including dividends) to shareholders;
 - f. reduction or suspension in new lending, so as to reduce the amount of additional capital required;
 - g. initiatives to reduce operational expenses, so as to reduce the amount of additional capital required;
 - h. sale of assets or change in the mix of assets so as to reduce the amount of additional capital required and to increase the risk-weighted capital ratio by reducing the amount of risk-weighted credit exposures;
 - i. sale of subsidiaries; and
 - j. issuance of new debt that meets the eligibility criteria for inclusion in tier 2 capital.
41. With each recovery action, the bank should specify the amount estimated to be raised or capital savings induced by the recovery action and the timeframe for completion. In each case, the recovery plan should set out the step-by-step implementation arrangements, together with the draft documentation required for the recovery action to be implemented. In the case of issuing new capital instruments or raising capital from existing shareholders, the recovery plan should include as attachments the draft capital issuance documentation and underwriting documentation, or at least detailed terms sheets for the documentation. As noted in the discussion on scenarios, later in this document, the feasibility, amount, sequencing, and timeframe for implementation of recovery options will be different in an idiosyncratic scenario than in a market-wide scenario. In general, recovery actions will be more feasible, faster to implement and capable of contributing a

greater amount to recovery in an idiosyncratic scenario than in a market-wide scenario. This is as true for capital-related recovery actions as it is for other recovery actions.

Recovery options for liquidity

42. Recovery actions for liquidity, like all recovery actions, should be specific, realistic, practicable and credible. The recovery actions should be set out in order of priority, based on the probability of successful implementation and contribution to the estimated need for additional liquidity. Speed of implementation is critical for any liquidity actions, where success and credibility of recovery actions are measured in hours and days, rather than weeks or months.
43. Recovery actions should be set out under specific categories, such as initiatives to:
 - a. sell marketable securities;
 - b. obtain liquid assets from controlling shareholders where feasible;
 - c. raise liquidity via borrowing from other banks under committed stand-by facilities;
 - d. borrow from the central bank under business-as-usual liquidity facilities provided routinely to banks by the central bank;
 - e. sell illiquid assets in exchange for liquid assets, including via sale and repurchase agreements or securitization;
 - f. lengthen the maturity profile of liabilities;
 - g. shorten the maturity profile of assets (where feasible);
 - h. reduce the need for liquidity by reducing new lending and reducing operating expenses, where feasible; and
 - i. renegotiating the terms of scheduled debt repayments and debt servicing where this is considered feasible and prudent.
44. All recovery actions should be quantified in terms of the estimated impact on liquidity. The implementation steps and timeframe for implementation should be set out in relation to each recovery action. Any documentation needed for liquidity actions should be set out in draft form attached to the recovery plan or at least detailed terms sheets for documentation provided as part of the recovery plan.

Recovery options for profitability

45. All recovery actions should meet the standard test of being realistic, practicable and credible, and capable of delivering the intended outcomes in a realistic timeframe. Given that the restoration of profitability is likely to be less urgent and critical to a bank's survival (in the short term), and likely to take longer to achieve than capital and liquidity recovery actions, the recovery plan could be expected to attach lower priority to profitability restoration initiatives in the short-term. However, the restoration of profitability will be critical for the bank's longer-term survival, both in terms of capital maintenance and market confidence.
46. Recovery actions should be set out comprehensively with detailed implementation steps. The following categories of recovery actions are likely to be helpful:
 - a. Initiatives to reduce operating expenses, consistent with maintaining acceptable risk management practices and critical functions and services;
 - b. Initiatives to increase revenue from under-performing business lines where feasible and where this is consistent with the bank's risk appetite and risk management frameworks;
 - c. Initiatives to reduce or eliminate business activities that do not meet defined ROA and ROE hurdles; and
 - d. Initiatives to reduce average funding costs where feasible, consistent with the bank's risk appetite and risk management frameworks.
47. Where feasible, each category of recovery action should include estimates of the contribution that the initiatives in question are likely to make to increased profitability, the timeframe expected to achieve this, and the steps required to achieve it.

Recovery options for asset quality

48. Recovery actions in respect of improving asset quality need to meet the standard tests of being realistic, practicable and credible. By their nature, recovery actions relating to asset quality improvements will tend to be somewhat longer term than the more immediate needs of restoring the bank to sound capital and liquidity positions. Nonetheless, recovery actions should be achievable within timeframes that are likely to be seen as credible and realistic by financial markets, rating agencies, depositors and other stakeholders, who need to assist in restoring market confidence in the bank.

49. Recovery actions should be classified into categories, such as initiatives relating to:
- a. the restructuring of loans to enhance recoverability; e.g., by elongating the term of the loan, suspending interest payments, etc.;
 - b. transferring impaired loans into an asset management company owned by the bank;
 - c. selling impaired loans to other parties;
 - d. write-off loans considered to be irrecoverable; and
 - e. strengthening the quality of lending policies and procedures, and associated credit risk management arrangements, in order to enhance asset quality for new loans.
50. In the case of each recovery action, the plan should identify expected impacts on asset quality and the timeframe required to achieve the desired outcomes. Implementation steps should be specified in detail.

Other types of recovery actions

51. The recovery plan would generally also include other recovery actions, depending on the bank and group, and the situation. Examples include:
- a. Possible removal of staff, including senior management, to the extent that they have been responsible for the cause of the bank's stress situation or are impediments to the recovery process.
 - b. Actions to minimize or manage potential contagion risk between entities in the banking group or financial conglomerate.
 - c. Actions to address the underlying causes of the bank's/group's financial stress, potentially including:
 - i. Establishment of an internal review process to evaluate the causes of the situation and the remedies to address those causes.
 - ii. Possible appointment of an external, independent party to undertake an assessment of the causes and remedies.
 - iii. Board oversight of these processes.
 - iv. Reporting to the regulator.
 - v. Transparency, including public reporting on causes and remedies.

Issues to be assessed by supervisors

52. Indicative questions that supervisors could consider in reviewing the recovery actions (in general terms) are:
- a. Does the recovery plan contain a comprehensive suite of recovery actions in respect of capital, liquidity, asset quality, profitability, maintenance of critical functions and services, and communications with stakeholders?
 - b. Are the recovery actions credible and realistic?
 - c. Have the recovery actions been set out by priority of action (i.e., sequence of implementation) and in the relevant categories?
 - d. Have the impacts of the recovery actions been quantified (e.g., in terms of contribution of the bank's capital, liquidity, etc.)?
 - e. Can the recovery actions be implemented in a timely manner (e.g., within one week for near-term liquidity recovery, within one month for longer-term liquidity recovery, and within three to six months for capital recovery)?
 - f. For each recovery action, is there comprehensive and detailed guidance on step-by-step implementation procedures?
 - g. Have the responsible persons and delegated authorities been identified for each recovery action?
 - h. Have any legal or regulatory obstacles to recovery actions been identified and the solutions to those obstacles set out in the recovery plan?
 - i. Is there supportive documentation for recovery actions; e.g., capital issuance term sheets, indicative capital offer documents, and liquidity stand-by facility documentation, etc.?
 - j. Does the recovery plan adequately differentiate between idiosyncratic and system-wide scenarios in terms of the impact they would have upon:
 - i. the selection of recovery actions;
 - ii. the implementation process for recovery actions;
 - iii. the likely success or failure of recovery actions;
 - iv. the amount of funds obtained (or saved) by particular recovery actions; and
 - v. the timeframe for implementation of recovery actions?

Capital recovery actions

53. Indicative questions that supervisors could consider in reviewing the capital-related recovery actions include:
- a. Do the recovery actions include sufficient capital-raising options?
 - b. Have the capital-raising options been prioritized in terms of the sequence in which they would occur?
 - c. Have the capital-raising options been quantified, indicating a maximum plausible amount of capital that could be raised (or capital savings that could be made)?
 - d. How long would it take to raise capital? Does the recovery plan provide sufficient detailed information to determine whether capital can be raised within (at most) a period of three to six months from the time the recovery plan activation has been triggered?
 - e. Does the recovery plan identify in detail the implementation steps required to implement particular capital-raising recovery actions?
 - f. Does the recovery plan identify all regulatory approvals needed for capital-raising recovery actions?
 - g. Has the bank prepared the necessary legal documentation, or at least terms sheets, for capital-raising recovery options?
 - h. For bail-in debt (if any), is the process for contractual bail-in documented?
 - i. Does the recovery plan adequately differentiate between idiosyncratic and system-wide scenarios in terms of the types of capital recovery actions that could be used, the amounts likely to be raised, the probability of successful implementation and the timeframe required for implementation?
 - j. Have other recovery actions for capital restoration and conservation been identified in sufficient detail, such as:
 - i. selling assets;
 - ii. selling subsidiaries;
 - iii. reducing the average risk weight of assets by changing the composition of assets to lower-risk assets;

- iv. reducing new lending;
 - v. suspending distributions to shareholders; and
 - vi. reducing expenditures, etc.?
- k. Have these options been prioritized and quantified; and
 - l. Have the implementation procedures for each option been documented adequately?

Liquidity recovery actions

54. Indicative questions that supervisors could consider in reviewing the liquidity-related recovery actions include:
- a. Have the liquidity-raising/saving recovery options been prioritized?
 - b. Are the recovery options practicable? Can they be implemented in sufficient time to meet liquidity needs?
 - c. Are they quantified?
 - d. Do they contain detailed implementation guidance?
 - e. Do the recovery actions include sufficient options for reducing cash outflows; e.g., via reduced new lending, reduced expenditures, and suspension of dividends, etc.?
 - f. Do the recovery actions include sufficient options for increasing cash inflows – e.g., via access to standby facilities, liquid asset injections from shareholders, acceleration of loan repayments?
 - g. Does the plan contain sufficient initiatives to increase High Quality Liquid Assets?
 - h. Does it contain sufficient measures to attract new deposits and retain existing deposits, and to lengthen the maturity of funding where feasible?
 - i. Has draft documentation been developed to facilitate liquidity recovery actions, such as draft liquidity injection documentation, stand-by documentation, and terms sheets for such documentation, etc.?
 - j. Do the recovery options identify potential sources of borrowing; e.g., particular banks, securitization vehicles, or a borrowing facility with shareholders?

Profitability recovery actions

55. Indicative questions that supervisors could consider in reviewing the profitability-related recovery actions include:
- a. Do the recovery actions include adequate initiatives to restore the bank to an acceptable level of profitability, and within a reasonable period of time?
 - b. Are cost reduction actions adequately identified and quantified? Would cost reduction options weaken the bank's ability to continue performing critical functions and services?
 - c. Are actions to increase revenue and margins adequately identified and quantified?
 - d. Would revenue-enhancing recovery actions be consistent with maintaining prudent risk management or create excessive risks?
 - e. Have the recovery actions been prioritized and quantified?
 - f. Have the procedures required to implement them been adequately documented?

Asset quality recovery actions

56. Indicative questions that supervisors could consider in reviewing the asset quality-related recovery actions include:
- a. Do the recovery actions include adequate initiatives to identify impaired assets?
 - b. Do the recovery actions include undertaking an asset quality review (if needed)? If so, have the procedures been adequately identified and documented?
 - c. Does the recovery plan identify how impaired assets would be managed in ways that maximize recovery value?
 - d. Does it contain measures to address the problems that created asset impairment; e.g., measures to strengthen the credit risk management process?
 - e. Does it contain initiatives to prevent further deterioration in asset quality; e.g., ceasing to extend credit to poor quality borrowers, etc.?

Critical functions/services recovery actions

57. Indicative questions that supervisors could consider in reviewing the critical function/service-related recovery actions include:
- a. Does the recovery plan identify all material critical functions and services, including the legal entities that perform each category of function and service and the legal jurisdiction in which it operates?
 - b. Does the recovery plan identify how the bank will maintain critical functions and services with minimal or no interruption?
 - c. How realistic are these recovery actions?
 - d. Have the recovery actions been prioritized?
 - e. Are the recovery actions supported by detailed implementation processes and IT arrangements?
 - f. Are they consistent with the bank's BCP, where consistency would be expected?

Other recovery actions

58. Indicative questions that supervisors could consider in reviewing other possible recovery actions include:
- a. Does the recovery plan include actions that are designed to identify and potentially remove persons from the bank/group to the extent that they are thought to have been part of the cause of the problem or are obstructing the recovery process?
 - b. Does the recovery plan identify actions to address possible intra-group contagion risk, particularly in the bank is part of a large group or financial conglomerate?
 - c. Does the recovery plan identify generic processes for reviewing and assessing the causes of the problem in question and the remedies to seek to avoid repeating the problem?

Scenarios for recovery plans***General guidance***

59. Standard supervisory regulation on recovery planning requires banks to include three types of scenarios in their recovery plans:

- a. an idiosyncratic scenario—i.e., a scenario in which the bank has been impacted by financial shocks, such as major loan losses, liquidity events or operational risk losses, but where the financial system remains stable;
 - b. a market-wide scenario—i.e., where the financial system is in stress, such as in a severe recession, with many banks sustaining capital and liquidity pressures, and with the bank in question being similarly affected; and
 - c. a combined scenario, combining elements of the idiosyncratic and market-wide scenarios, which occur simultaneously; e.g., where the financial system is under stress and the bank in question sustains major losses.
60. The recovery plans should provide reasonably comprehensive descriptions of the scenarios used for the recovery plan, including detailed information on the magnitude of impact on capital, profitability, asset quality and liquidity, together with all material assumptions made. It is particularly important that the scenarios used include severe impacts on both capital and liquidity, where the bank's minimum regulatory requirements for capital and liquidity are breached.
61. It is important that banks do not design recovery plans on the basis of particular causes of an adverse impact on their capital and liquidity position. The *cause* of the impact on capital and liquidity is much less important than the *magnitude* of the impact. The recovery planning process risks becoming overly complicated if plans are developed on the basis of detailed macroeconomic analysis and with overly specific narratives. Moreover, recovery plans tend to be less useful if they are overly scenario-specific. Therefore, it is generally preferable for a recovery plan to have broad-based, high-level scenarios that do not involve detailed storylines, but which provide relevant details for impacts on:
- a. loan losses;
 - b. operation risk losses (if the scenario involves these; e.g., a fraud or money laundering event);
 - c. profits;
 - d. capital;
 - e. cash inflows and outflows;
 - f. liquidity position; and

- g. losses (or gains) arising from market risks as a result of assumed changes in asset prices, interest rates and exchange rates.
62. Scenario analysis should include an identification of all material assumptions made for the scenario, including in respect of macroeconomic variables and the state of the financial system. Financial projections for each scenario should generally extend for two years from the point of initial impact. The projections should incorporate the financial impacts of recovery actions taken in the scenario. The selection of recovery actions should take into account the nature of the scenario. For example, initiatives to raise capital and to access liquidity from other banks are likely to be much more challenging in a market-wide or combined scenario than in an idiosyncratic scenario. The recovery strategy should reflect these types of considerations.
 63. Scenarios should be informed by stress tests, particularly reverse stress tests that involve breaching the bank's—and the group's—minimum regulatory capital and liquidity ratios. In the market-wide scenario, consideration should be given to including climate change impacts to the extent that the bank in question considers them to be relevant to their risk profile.

Issues to be assessed by supervisors

64. Indicative questions that supervisors could consider in reviewing the scenarios for recovery plans are:¹
 - a. Does the recovery plan contain credible and severe scenarios, with clearly specified and quantified impacts on capital, liquidity, asset quality and profitability?
 - b. Do the scenarios include impacts on capital and liquidity that are severe enough to cause the bank to breach its minimum capital and liquidity regulatory requirements?
 - c. Are the scenarios based on the bank's stress testing (especially reverse stress tests)? If so, are the assumptions and model parameters for the stress tests identified (either in the recovery plan or by reference to another document)?
 - d. Do the scenarios include financial projections for the bank and banking group extending out two years?

¹ See also the guidance provided by other supervisory authorities on recovery plans. The Bank of England's guidance *Supervisory Statement SS9/17 Recovery Planning*, December 2020 is a good example. This can be accessed at:

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2020/ss917update-december-2020.pdf?la=en&hash=7EE218D863A63481884C23BD12C17AA72C147F81>

- e. Are the financial projections supported by clearly identified assumptions?
- f. Do the scenarios clearly differentiate between an idiosyncratic scenario (in which the financial system is operating normally and only the bank in question has sustained major losses) and a market-wide scenario (in which many banks are experiencing very adverse economic and financial shocks)?
- g. Does the recovery plan identify the assumptions made as to the different impacts that idiosyncratic and market-wide scenarios have on the nature, feasibility, timeframe, and success of recovery actions?
- h. Does the recovery plan adequately identify the recovery actions taken for each scenario and incorporate the financial impacts of these actions into the financial projections?
- i. Does the recovery plan differentiate between recovery actions needed for fast-moving events and slow-moving events, especially as regards impacts on liquidity and the likely recovery strategies needed to respond to these?

Communications

General guidance

- 65. Communications aspects of recovery plans are important. In particular, recovery plans need to identify all stakeholders (internal and external), the information needs of each stakeholder category and the means by which those needs can best be addressed. Communications actions should include proactive and reactive communication initiatives, including:
 - a. call center communications arrangements and upscaling for high volumes of calls;
 - b. web-based communications;
 - c. Q&A material;
 - d. communications with correspondent banks and other counterparties on matters relating to scheduled payments and settlements;
 - e. communications with credit rating agencies and the financial news media;
 - f. information and processes to facilitate news media briefings; and
 - g. guidance for communications via social media.

66. Recovery plans should also address the need for synchronized communications, especially a bank's ability to announce, with credibility, the recovery actions it plans to take at the same time as it announces the adverse impact that prompted such actions. This is especially important for banks listed on the stock exchange or with other regulatory arrangements that require the banks to announce material developments that could impact on investor decisions as soon as the information becomes available. In that situation, it is critical that a bank has a well-developed strategy to enable it to announce the "good news" (i.e., the recovery actions) at the same time as the "bad news."
67. The recovery plan should identify the responsibilities of the board, CEO, CFO, and other key officers in the communications strategy. The plan should set out the means by which communications will be coordinated within the bank, within the group and with the relevant agencies (e.g., banking supervisor and the stock exchange). If the bank is part of a financial conglomerate, the communication strategy should include guidance on how the different entities in the conglomerate coordinate their communications processes and achieve consistency of message.

Issues to be assessed by supervisors

68. Indicative questions that supervisors could consider in reviewing the governance arrangements for recovery plans are:
- a. Does the recovery plan identify all internal and external stakeholders?
 - b. Does the recovery plan set out stakeholder information needs in sufficient detail?
 - c. Does it set out how and when the information will be provided to each category of stakeholder?
 - d. Does the recovery plan cover communications via different processes and are these adequate, including communications via:
 - i. news media statements;
 - ii. news media conferences;
 - iii. social media;
 - iv. call centers;
 - v. web-based information;
 - vi. automated emails; and
 - vii. telephone banking messaging?
 - e. Does the recovery plan contain communication process steps in sufficient detail?

- f. Does the recovery plan identify who would be the lead communicators within the bank (including at board and senior management levels)?
- g. Does it include draft material for news media releases, call center scripts, etc.?
- h. Does the bank have a strategy to escalate call center capacity for high-volume calls?

Preparatory measures

General guidance

- 69. To improve the feasibility of recovery actions, a bank needs to consider the key interdependencies for implementing each recovery action and identify the preparatory measures that should be taken in advance to alleviate operational barriers and complexities. Such preparatory measures might, for example, include possible changes to organizational or legal structures in the bank and the group, the separation of critical functions and services so that they can be self-supporting, and the preparation of documentation and procedures to facilitate recovery actions (especially those involving capital issuance, securitization, asset sales and accessing liquidity via standby facilities).
- 70. The recovery plan should describe the preparatory measures to be taken to improve the effectiveness of recovery options, with work program to implement the measures.
- 71. Examples of common preparatory measures include:
 - a. Share issuance terms sheets, documentation, and issuance procedures—for ordinary shares, preference shares and hybrid instruments (e.g., subordinated debt capable of conversion to equity);
 - b. Subordinated debt terms sheets, documentation, and issuance procedures, including tier 1 subordinated debt and tier 2 subordinated debt;
 - c. Terms sheets and documentation for equity and debt underwriting agreements;
 - d. Identification of potential underwriters;
 - e. Identification of potential institutional investors;
 - f. Identification of potential merger partners and indicative procedures for merger;
 - g. Documentation and operational pre-positioning for securitization of loans;

- h. Documentation and operational pre-positioning for asset sale and repurchase arrangements;
- i. Procedures and arrangements needed to sell subsidiaries, if required;
- j. Indicative shareholder resolutions and board resolutions for particular recovery actions;
- k. Terms sheets and documentation for liquidity stand-by facilities;
- l. Draft indicative news media statements and Q&A material; and
- m. Documentation of service-level agreements for all outsourced services and critical shared services.

Issues to be assessed by supervisors

72. Indicative questions that supervisors could consider in reviewing preparatory measures for recovery plans are:
- a. Has the bank identified potential impediments to recovery actions that could be addressed through preparatory measures?
 - b. Has the bank identified the preparatory measures it intends to put in place?
 - c. Is the list of preparatory measures complete and comprehensive?
 - d. Does the bank have a work program to implement preparatory measures? Is the work program adequately structured and resourced?
 - e. What progress has been made in implementing preparatory measures?
 - f. Have the preparatory measures been approved by the board?
 - g. Has internal audit assessed the progress made in implementing preparatory measures?
 - h. Has there been any testing of the preparatory measures?

Testing of recovery plans by banks

General guidance

73. It is critical that the recovery plans be subject to rigorous testing. Testing can be done in a number of ways, depending on objectives and scope. For example, tests can be structured to evaluate:
- a. the ability of the bank to detect emerging stress, so that the triggers for the recovery plan are able to be invoked as and when required;
 - b. the bank's ability to implement recovery actions relating to particular categories of recovery—capital, liquidity, asset quality, profitability, etc.;
 - c. the ability to communicate effectively with stakeholders (role-played);
 - d. the performance of senior management in terms of its responsibilities in a recovery process;
 - e. the board's performance in terms of its responsibilities in a recovery process – especially high-level approvals and communication with external stakeholders and the financial news media;
 - f. the data systems required for recovery;
 - g. the legal documentation required for certain recovery actions;
 - h. the ability to implement recovery actions within the specified timeframes, especially for time-critical actions; and
 - i. the degree of integration of the recovery plan with the bank's risk management framework, ICAAP, BCP and governance arrangements.
74. There are several different forms of testing for recovery planning purposes. The options can include “walk-through” tests of processes and procedures for particular scenarios, live simulation exercises for particular elements of the recovery plan (e.g., capital, liquidity, or communications), and full-scale live simulations to test the entirety of the recovery plan. For any substantive testing, it is imperative that the members of senior management are involved in the tests, especially for live simulation exercises, with each member of senior management playing his/her own role. For some tests, it will also be appropriate for board members to be included in the exercise; e.g., to test the Board Chairperson's ability to communicate effectively with external parties (role played). Of

particular importance is the testing of senior management and board members' capacity to communicate with role-played news media and financial markets, including under realistic time pressure.

75. The recovery plan should set out the framework for regular testing of the plan. This should include the objectives and scope of testing, the parties responsible for organizing and conducting the tests, the processes, and procedures for conducting the tests, and the means by which the test results will be documented and reviewed by the board, and by internal audit.

Issues to be assessed by supervisors

76. Indicative questions that supervisors could consider in reviewing the testing arrangements for recovery plans are:
- a. Has the bank identified the proposed arrangements for testing the recovery plan on a regular basis? Has the bank specified clear objectives for testing?
 - b. Is the scope of testing sufficient? Does it cover all elements of the recovery plan?
 - c. Does testing include members of the senior management team (including CEO) and board?
 - d. Is Internal Audit involved in the testing process?
 - e. Is the frequency of testing sufficient?
 - f. Has an 'owner' for the testing process been identified?
 - g. Is the testing process adequately resourced?
 - h. Are external parties be involved in the testing process?
 - i. Are the results of tests reported to the board and integrated into future revisions of the recovery plan?

Review and update of the recovery plan

General guidance

77. A bank's recovery plan needs to be subject to comprehensive and regular review—generally annually. The recovery plan should identify the internal review processes that

will be applied by the bank, including in respect of reviews by the risk management unit and internal audit. Reviews should be undertaken in respect of all aspects of the recovery plan, including the scenarios, triggers, recovery actions and governance arrangements. The reviews should be informed by the testing of the recovery plan.

78. Although reviews of recovery plans can generally be undertaken by a bank's own staff, occasional external reviews by independent experts can also be helpful. This is especially helpful if external, independent experts are present at regular tests of the recovery plan, given that they will be able to use their insights into the testing process and in results of the tests to assess the adequacy of the recovery plan. External reviews are also important in relation to reviewing the adequacy of the bank's management and board in relation to their respective responsibilities in the recovery plan, given that internal staff reviews might be less well placed to conduct such reviews freely and impartially.

Issues to be assessed by supervisors

79. Indicative questions that supervisors could consider in assessing the processes for reviewing and updating recovery plans are:
- a. Has the bank set out the proposed arrangements for the regular review of recovery plans? Are the arrangements adequate?
 - b. Has an "owner" for the review process been identified?
 - c. How frequently is the recovery plan reviewed?
 - d. How will the review be integrated with the bank's review of its risk management framework, risk appetite, ICAAP, and BCP, etc.?
 - e. What is the involvement of the CEO, EXCO, Board Risk Committee and the board in the review process?

APPENDIX II. GUIDANCE ON THE OPERATIONALIZATION OF RESOLUTION TOOLS

1. Sale of business

For the operationalization of the sale of business tool, the resolution authority shall start preparing:

- Legal advice on the suspension of any market information disclosure obligations by the resolution entity.
- A policy to apply the rule that would allow not following the liquidation hierarchy and pari passu principle in a sale of shares, assets and/or liabilities.
- Templates with the required information and rules to organize onsite visits (if needed) to support valuation 1 and 2.
- List of pre-selected firms and draft contracts for the appointment of an external valuer.
- Identification of internal experts in valuation for a possible appointment of an internal team for valuation 1.
- Template with the information that a valuation 2 should include (the definition of potential perimeters—entity as a whole, by business lines or geographic activity, loan portfolios, shares, etc.—the possible value of the object of the sale: indicative commercial terms of the sale; etc.).
- List of pre-selected firms and draft contracts for the appointment of an external advisor (investment bank or consultant company).
- Draft of the resolution decision, considering any resolution power to be executed.
- Template with the information that a vendor due diligence should contain.
- Draft of confidentiality agreements.
- Draft of the marketing decision.
- Draft of the call of expression of interest in the sale process.
- Rules to perform the nonbinding selection process.
- Draft of the sale process letter.
- Exchange information with the supervisory authority on the suitability assessment of potential bidders. The resolution authority has to test the effectiveness of the “rule on the

simplified procedures regarding acquisition of significant shares of a commercial bank during resolution.” That rule was approved to reduce the time limit for reviewing the declaration of the buyer’s suitability and to simplify the requirements for information to be submitted in the initial stage.

- Template with the content of the virtual data room.
- Rules to select the winning bid.
- Draft of the share/asset purchase agreement.
- Draft of press releases and other communications.
- Template with the information to be shared with the employee’s representatives.

2. **Bridge bank**

For the operationalization of the bridge bank tool, the resolution authority, in collaboration with the MoF should start preparing:

- Legal advice to set up a joint stock company and to draft the articles of association and other legal documents.
- Clarification on who will be the bank’s owner.
- Contacts with the department at the NBG in charge of providing the banking license.
- In the context of resolution plans: work to get separability of banks. Structural and operational changes in the bank should be identified in advance.
- List of pre-selected candidates for the bank’s valuation (including a draft for the request for proposal).
- Legal analysis of the transfer of staff from the resolved bank and the cancellation and modification of contracts.
- Legal assessment of other aspects of the transfer of assets and liabilities, including the tax implications.
- Technical assessment and preparation of the funding of the bridge bank.
- Technical assessment of the continuity of access to financial market infrastructures for the bridge bank.

- List of pre-selected candidates for managing the bridge bank (including their draft contracts).
- Exchange with the supervisory authority to ease the process to set the prudential requirements to the new bank (the transfer perimeter should be defined in advance and communicated to the supervisory authority).
- Drafts of communication actions to give confidence to depositors, customers, employees, etc.

3. **Bail-in powers**

For the operationalization of the bail-in tool, the resolution authority should start preparing:

- Templates with the required information and rules to organize onsite visits (if needed) to support valuation 1, 2 and 3.
- List of pre-selected firms and draft contracts for the appointment of an external valuer.
- Identification of internal experts in valuation for a possible appointment of an internal team for valuation 1.
- Templates with the required information for the bail-in execution (updated Liabilities Data Report, additional data points, compulsory exclusions, etc.).
- Draft for the resolution scheme, including: identification of the issuances affected by the write down or conversion; write-down of reserves, shares, relevant capital instruments and non-excluded liabilities; justification of discretionary exclusions; conversion of capital instruments into shares in a capital increase; determination of the rate of conversion to affected eligible instruments on the basis of the final valuation 2; suspension of trading of the instruments to be converted and written down; delisting and cancellation of the bailed-in shares; issuance and listing of the new shares; appointment a central securities depository to keep the book-entry registers for the new shares; appointment of an agent bank to perform all the transactions underpinning the conversion and write-down of the capital instruments vis-à-vis the central securities depositories where the relevant capital instruments are registered; date of effective application of the decision); specification of any other resolution powers applied in the decision; etc.).
- Drafts for other decisions and communications.
- Criteria for the removal and replacement by a special manager of the management body and the senior management of the institution.
- Contacts with the SCG to clarify the whole process.

- Template with the information to be shared with the employee representatives
- Draft of the business reorganization plan.
- Contacts with institutions (payment systems, central counterparties, and other financial market infrastructures, etc.) that can play a role supporting the bank to ensure its operational continuity.

APPENDIX III. GENERIC “PLAYBOOK” CONTENT AND STRUCTURE

The term “playbook” is used here to refer to a document that sets out policies and procedures for undertaking key organizational functions. (Other comparable terms in common usage are “handbooks” and “manuals.”) Playbooks are useful tools to help ensure an organization undertakes its functions in an organized, appropriate, and effective manner. They are particularly important where the functions involve legally mandated responsibilities and activities and the use of legal authorities and discretions.

While there is no standard format, the core of a playbook is often detailed step-by-step procedures that guide the actions of the organization’s management and staff and provide clarity as to what individuals are expected to do. The procedures often specify decision points that may lead to the use of further procedures. The playbook should address not only procedures that are likely to have to be implemented but must envision contingencies, procedures for which also should be documented. Having a comprehensive set of procedures in place, and adhering to them can also be important when the organization’s actions are subject to challenge in the courts, as is often the case in the field of financial regulation, supervision, and failure resolution. Procedures likely will form the bulk of a playbook.

Playbooks also need to incorporate policies adopted by the organization relevant to the subject. Policies generally guide the fulfillment of the organization’s legal responsibilities and activities and the use of its legal authorities and discretions. Policies should provide guidance, for example, on how to interpret relevant legal texts, on decisions that need to be taken, or which may need to be taken, and on how management and staff are to make judgements and use discretions. They may also provide guidance on what is expected that management and staff will not do, even if it might be permissible under law. Policies can be set out separately in a playbook or can be embedded within the step-by-step procedures.

The following is the possible structure for a playbook:

Cover Page

Including (i) the name of the document and its subject; (ii) the responsible department (or division); (iii) the responsible individuals within the department; (iv) the date originally adopted and the dates of revisions/updates; and (v) the person to contact for questions regarding the document.

Background

Including (i) citation of legal provisions that relate to the subject, addressing the organization’s responsibilities, activities, authorities, discretions, and restrictions on the use of legal authorities; (ii) the organization’s internal delegations of institutional responsibilities to the relevant department; (iii) an overview of the department’s responsibilities and duties relevant to the subject (e.g., tasks that must be fulfilled, required reporting, etc.); and (iv) the general

responsibilities and authorities of the specific managers and staff (i.e., who is responsible for what with respect to the subject).

Policies

If included as a separate section and not embedded in the procedures, describes the policies the organization or the department has adopted relevant to the subject, including citation of specific policy documents.

Procedures

Detailed step-by-step procedures to be followed in relation to the subject internally within the department, in collaboration with others in the organization (e.g., other departments), in collaboration with other organizations (e.g., other IFSC members) and with outside stakeholders (e.g., supervised firms, financial market participants, media and foreign supervisory authorities).

In general, from the perspective of front-line staff, the procedures specify their duties and responsibilities, including (i) work that must be performed; (ii) factors that need to be considered or assessed; (iii) spreadsheets or documents that need to be completed; (iv) reports that need to be prepared; (v) required routine reporting to managers; and (vi) responsibilities for escalating issues, concerns, or problems to managers. The procedures also address steps for documenting the work, judgments, and decisions of front-line staff.

In general, from management's perspective, the procedures specify their duties and responsibilities, including (i) the authorities of the department's managers (e.g., who decides what, who approves what, etc.); and (ii) requirements and steps for reporting upward to, and for obtaining required authorizations and approvals from, the organization's senior management. Procedures specify requirements and steps for interacting with official institutions outside the organization and with other stakeholders. The procedures also address steps for documenting the work, judgments, and decisions of managers.

Playbook Maintenance Responsibilities

Specifies who is responsible for updating the playbook and keeping it current. This might be an individual or small team within the department.

Possible Annexes

Among these could be: (i) lists of relevant individuals, titles and contact information; (ii) procedure flowcharts or maps; (iii) templates for relevant documents (e.g., documents to be completed when undertaking analyses to ensure procedures are followed and relevant information has been considered, documents for notifications and reporting, documents for recording work, judgments and decisions, etc.); (iv) legal texts relevant to the playbook; and (v) list of relevant policy documents (if not included in a separate section).