

Financial Services (Recovery and Resolution) Regulations 2014 – Summary of Full and Simplified Obligations Requirements

Background

Institutions are required under the Financial Services (Recovery and Resolution) Regulations to draw up and maintain recovery plans on an annual basis.

A recovery plan should set out a management strategy aimed at preventing an institution from failing when faced with severe stress. The plan should identify the options that might be available to management to respond to a crisis and to assess whether these options are viable and sufficiently robust to enable an institution to recover in the event of a potential crisis.

The Regulations require institutions to draw up and maintain recovery plans which set out in significant detail the following points:

- Core business lines
- Critical functions
- Material entities within the organisation
- Stress scenarios (systemic, idiosyncratic and combined)
- Recovery options - including framework for defining and assessing the options
- Recovery indicators - which will be used to monitor the sustainability and viability of the business
- Governance – how the plan was developed and the framework for implementation of the recovery options

The Regulations do, however, allow for simplified obligations to be applied to certain institutions, taking into consideration their size, business model, complexity and shareholding structure. The institutions that qualify for simplified obligations will be advised separately by us.

Appendix A, sets out the content requirements for Recovery Plans under both full and simplified obligations for comparative purposes.

Appendix A - Recovery Plan: Full Obligations vs. Simplified Obligations

	Full Obligations	Simplified Obligations
Summary (key elements)	<ul style="list-style-type: none"> ➤ Governance ➤ Strategic Analysis ➤ Communication and disclosure plan ➤ Preparatory measures ➤ Update frequency: Annually or when there has been material changes to the institution during the year; upon the request of the GFSC 	<ul style="list-style-type: none"> ➤ Governance ➤ Strategic Analysis ➤ Communication and disclosure plan ➤ Preparatory measures ➤ Update frequency: every 2 years or when there has been material changes to the institution within the 2 year cycle; upon the request of the GFSC
Governance (how the plan was developed, and framework for implementation of recovery options)	<ul style="list-style-type: none"> ➤ Details of who is involved in preparing, implementing and updating the plan ➤ Overall responsibility ➤ Policies and procedures governing approval of the plan ➤ Conditions and procedures necessary to ensure the timely implementation of recovery options, internal escalation and decision making process, monitoring of the indicators reflecting vulnerabilities, weaknesses and threats to <ul style="list-style-type: none"> ○ Capital position ○ Liquidity situation ○ Profitability ○ Risk profile of institution ➤ Qualitative and quantitative indicators to be used (with justification if not used and replaced by an alternative suitable for the 	<ul style="list-style-type: none"> ➤ Details of who is involved in preparing, implementing and updating the plan ➤ Overall responsibility ➤ Policies and procedures governing approval of the plan ➤ Conditions and procedures necessary to ensure the timely implementation of recovery options, internal escalation and decision making process, monitoring of the indicators reflecting vulnerabilities, weaknesses and threats to <ul style="list-style-type: none"> ○ Capital position ○ Liquidity situation ○ Profitability ○ Risk profile of institution ➤ Qualitative and quantitative indicators to be used: <ul style="list-style-type: none"> ○ Capital (Common Equity Tier 1 Ratio)

	<p>firm)</p> <p><u>Mandatory categories</u></p> <ul style="list-style-type: none"> ○ Capital (Common Equity Tier 1 Ratio, Total Capital Ratio, Leverage Ratio) ○ Liquidity (Liquidity Coverage Ratio, Net Stable Funding Ratio) ○ Profitability (Return on Assets or Return on Equity, Significant Operational Losses) ○ Asset quality indicators (Growth rate of gross non-performing loans, coverage ratio (provisions/total non-performing loans)) <p><u>Optional dependant on relevance to institution</u></p> <ul style="list-style-type: none"> ○ Market-based indicators (Rating under negative review or rating downgrade, CDS spread, Stock price variation) ○ Macroeconomic indicators (GDP variations, CDS on sovereigns) <ul style="list-style-type: none"> ➤ Threshold to be set above capital and liquidity regulatory requirements ➤ Consistency with general risk management framework 	<ul style="list-style-type: none"> ○ Liquidity (Liquidity Coverage Ratio) ○ Profitability (Return on Assets or Return on Equity) ○ Asset quality indicators (Net non-performing loans / equity) <ul style="list-style-type: none"> ➤ Threshold to be set above capital and liquidity regulatory requirement ➤ Consistency with general risk management framework
<p>Strategic analysis (description of the institution's core business lines and critical functions, and analysis of the recovery options to recover from</p>	<ul style="list-style-type: none"> ➤ Description of the institution covered in the plan (overall global business and risk strategy, business model and plan, exposures) 	<ul style="list-style-type: none"> ➤ Description of the institution covered in the plan (overall global business and risk strategy, business model and plan, exposures)

<p>potential shocks)</p>	<ul style="list-style-type: none"> ➤ Identification and mapping of core business lines and critical functions ➤ Financial, operational and legal interconnectedness (internally and externally) ➤ Description of significant exposures and liabilities to main counterparties ➤ Scenario and recovery options <ul style="list-style-type: none"> ○ System-wide event ○ Idiosyncratic event ○ Combination of those ➤ Detailed impact and feasibility assessment of each recovery option (financial and operational, external, internal, feasibility assessment, impediments, effectiveness and timeliness) ➤ Scenario/ stress testing assessing the impact of each of the scenarios of financial stress on the following areas: <ul style="list-style-type: none"> ○ Capital ○ Liquidity ○ Profitability ○ Risk profile ○ Operations 	<ul style="list-style-type: none"> ➤ Identification and mapping of core business lines and critical functions ➤ Financial, operational and legal interconnectedness (internally and externally) ➤ Description of significant exposures and liabilities to main counterparties ➤ Scenario and recovery <ul style="list-style-type: none"> ○ Combination (system-wide or idiosyncratic event together with another scenario) ➤ Impact and feasibility assessment of each recovery option (financial and operational, external, internal, feasibility assessment, impediments, effectiveness and timeliness) ➤ Scenario/ stress testing assessing the impact of the scenario of financial stress on the following areas: <ul style="list-style-type: none"> ○ Capital ○ Liquidity ○ Profitability ○ Risk profile ○ Operations
<p>Communication Plan</p>	<ul style="list-style-type: none"> ➤ Internal communication ➤ External communication ➤ implementation 	<ul style="list-style-type: none"> ➤ Internal communication ➤ External communication ➤ Implementation
<p>Preparatory measures (for implementation of the plan)</p>	<ul style="list-style-type: none"> ➤ Measures to facilitate implementation of the recovery plan or improve its effectiveness and remove obstacles 	<ul style="list-style-type: none"> ➤ Measures to facilitate implementation of the recovery plan or improve its effectiveness and remove obstacles