CENTRAL BANK OF
TRINIDAD & TOBAGO

RECOVERY PLANNING GUIDELINE FOR FINANCIAL INSTITUTIONS

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1. INTRODUCTION

1.1. Large-scale financial crises demonstrate the destabilizing effect that severe stress events at large, complex financial institutions can have on domestic economies, capital markets, and the overall financial stability of the banking and insurance systems. During the 2007–2009 financial crisis, financial institutions faced additional challenges because of their complex organizational structures, shared service models, technology frameworks, and wide geographic operations. Many financial institutions were forced to take significant actions quickly without the benefit of well-developed plans.

1.2. The emergence of pandemic risks, climate risks, cyber risks and geopolitical risks across the globe have heightened financial stability concerns across all countries. Regionally, the small, developing states in the Caribbean face unique challenges. Restrictions on international travel due to the COVID 19 pandemic stifled growth in several tourism-dependent territories. Other environmental risks, including weather-related disasters due to climate change also pose a threat.

1.3. The risk of the withdrawal of correspondent banking services from Caribbean countries, a phenomenon known as 'de-risking' also prevails as the cost of compliance with international standards for anti-money laundering and tax transparency outweighs the cost of doing business with respondent banks in these small regional territories. This may have contributed to the exit of certain international banks from some member states, which has intensified mergers and acquisitions among regional financial institutions, raising market concentration and interconnectedness concerns.

1.4. More recently, the Russia-Ukraine conflict, which commenced in March 2022 is causing supply side challenges and creating inflationary pressures given the reliance of regional territories on imported goods. This presents a further economic challenge to the jurisdiction.

1.5. Large-scale stress events highlight the need for financial institutions to plan how they will respond. Such events include the following:

- Portfolio shocks;
- Significant financial losses;
- Fraud;
- Material litigation or counterparty actions;
- Severe changes in debt or equity valuations;
- Destructive cyber-attacks;
- Business interruptions;
- Leadership vacancies;
- Destruction caused by hurricanes, earthquakes and other natural disasters; and
- Liquidity events (e.g., a run on the financial institution).

1.6. Accordingly, the Central Bank has developed this Recovery Planning Guideline ("Guideline") which outlines a framework for financial institutions to develop and maintain recovery plans, including the measures to be taken by the institution to restore it to financial viability following a stress event. The Guideline was developed in accordance with international standards and capture practices of standard setting bodies[1] and other international regulatory agencies[2].

1.7. The Guideline consists of the following nine (9) sections:

Section 1	Introduction**.**
Section 2	Outlines the purpose, application and scope of the document. It describes which financial institutions the Guideline applies to and defines important terms.
Section 3	A list of definitions and abbreviations.
Section 4	Provides the standards for the board's (or appropriate board committee's) and senior management's responsibilities in connection with the recovery planning process and the recovery plan.
Section 5:	Sets forth the standards for the design and execution of a financial institution's recovery plan.
Section 6:	Outlines the key elements of the recovery plan including triggers, stress scenarios, options for recovery, impact assessments, escalation procedures, and communication protocols.
Section 7:	Outlines the expectations of domestic financial groups and financial holding companies in preparation of their recovery plans.
Section 8:	Highlights the Central Bank's supervisory expectations for recovery planning.
Appendices:	Provide a framework for key recovery indicators for consideration in developing the recovery plan.

2. PURPOSE, APPLICATION, AND SCOPE

2.1 This Guideline is made in accordance with section 10(b) of the FIA and section 278(1) of the IA and applies to financial institutions as defined in section 3 of this Guideline.

2.2 The Guideline may also be implemented by any other financial entity identified as presenting a financial stability risk in accordance with the Central Bank's Framework for the Resolution of Systemic Financial Institutions, whether or not regulated by the Central Bank[3].

2.3 The Financial Stability Board in its Key Attributes states that *"the recovery plan serves as a guide to the recovery of a distressed firm. The recovery plan should include measures to reduce the risk profile of a firm and conserve capital, as well as strategic options, such as the divestiture of*

[1] Financial Stability Board: Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Identification of Critical Functions and Critical Shared Services, July 16, 2013; and Key Attributes of Effective Resolution Regimes for Financial Institutions, October 15, 2014.

[2] European Central Bank: Guidelines on the minimum list of qualitative and quantitative recovery plan indicators, May 6, 2015; and Office of the Comptroller of the Currency: Recovery Planning, April 2018.

[3] The heightened risk of other financial entities not regulated by the Central Bank will be determined based on collaboration with other regulators and such entities will be notified of their status and the requirement to prepare a Recovery Plan.

business lines and restructuring of liabilities." The Central Bank therefore expects financial institutions to undertake recovery planning so that they are ready for periods of financial stress, can stabilise their financial position, and can recover from financial losses. Financial institutions should have a number of recovery options and maintain and test their plans. Governance of the plan should be clearly defined and financial institutions should have effective processes to identify and report the risks affecting their ability to recover.

2.4 The purpose of this Guideline therefore sets out the Central Bank's expectations with respect to recovery planning and the development and content of plans so that financial institutions pro-actively identify potential stress situations, monitoring indicators, and trigger events, as well as, determine appropriate measures to implement in a timely and effective manner.

2.5 The development of a Recovery Plan by financial institutions should be guided by the principle of proportionality. In this regard, the Recovery Plan should be commensurate with the nature, scope, scale, and degree of complexity of the financial institution's business model and activities. Variations in the approaches, trigger events, stress scenarios, and recovery options for example are expected in the content of Recovery Plans.

2.6 In addition to this Guideline, financial institutions should consider all relevant legislation and guidelines issued by the Central Bank, particularly those related to corporate governance and risk management, including the Internal Capital Adequacy Process ("ICAAP") and capital adequacy requirements in developing their recovery plans.

2.7 The Central Bank expects the board and senior management of financial institutions to be proactive, and to be aware of and adopt as appropriate, best practices and align their recovery planning practices with this Guideline as far as practicable.

2.8 The Central Bank will review this Guideline periodically to ensure that it remains relevant and reflects changes in international best practices, legislative amendments or occurrences in the domestic financial system.

3. DEFINITIONS[4]/ ABBREVIATIONS

board of directors/board	A governing body of persons appointed or elected by shareholders.
BCP	Business Continuity Plan
CBA	Central Bank Act, Chap. 79:02.
Central Bank/ Bank	Central Bank of Trinidad and Tobago.
FIA	Financial Institutions Act, 2008.
financial institution	Refers to commercial banks and other non-banks licensed under the FIA; insurance companies registered under the IA and financial holding companies (FHCs) issued permits under either FIA or IA.

[4] All terms used in this Guideline, except where otherwise defined in this Guideline, have the same meanings as defined in relevant legislation applicable to the financial institution.

IA	Insurance Act, 2018[5].
ICAAP	Internal Capital Adequacy Assessment Process.
ORSA	Own Risk Self-Assessment
parent company	A parent company is one which has a controlling or majority interest in another company, which gives it the right to control the subsidiary's operations.
recovery	Timely and appropriate action that an institution takes to remain a going concern when it is experiencing or is likely to experience considerable financial or operational stress.
recovery plan	A plan that identifies indicators, triggers, and options for responding to a wide range of severe internal and external stress scenarios to restore an institution to financial strength and viability in a timely manner.
resolution	the restructuring or orderly exit of a financial institution when it is no longer viable or likely to be no longer viable, and has no reasonable prospect of becoming so.

4. BOARD AND SENIOR MANAGEMENT RESPONSIBILITIES

4.1 The responsibilities of the board and senior management should be addressed in the financial institution's recovery plan. Effective governance of a financial institution's recovery planning process should follow written policies and procedures that provide a clear and sufficiently detailed description of the operational development process, the approval process, the schedule and process for updating recovery plans, and operational procedures for activation of the recovery plan and any escalation processes

4.2 The recovery planning process involves coordination across multiple business and frontline units and risk governance functions as well as coordination with existing strategic, operational, contingency, capital (including stress testing), liquidity, and resolution planning.

4.3 Recovery plans can assist the board and senior management in assessing the adequacy of existing risk management frameworks, legal entity structures, connectivity, and possible contagion if recovery options are to be implemented.

BOARD RESPONSIBILITIES

4.4 The board is responsible for overseeing the financial institution's recovery planning process and approving the recovery plan.

4.5 A financial institution's board should review and approve the recovery plan at least every three years or more frequently as needed where significant changes are made by senior management.

[5] As proclaimed on January 1, 2021 by Legal Notice 369 of 2020.

4.6 As part of the board's oversight of the financial institution's safe and sound operations, the board should ensure appropriate involvement of the independent risk management function (second line of defense) and internal audit (third line of defense) in developing and executing the recovery plan.

4.7 The board should also ascertain that, to the extent possible, the financial institution's recovery plan is coordinated and consistent with other recovery plans of the institution's parent where applicable and also that recovery options are appropriately focused on allowing the financial institution itself to remain viable under severe stress. Such a focus may include an evaluation and realignment of board or committee responsibilities or member composition where the financial institution invokes its recovery plan. For example, business-as-usual delegations of authority and escalation of decision-making processes to the parent may not be appropriate if the financial institution invokes its recovery plan.

SENIOR MANAGEMENT RESPONSIBILITIES

4.8 Senior management should review the recovery plan **at least annually** or upon the occurrence of a material event or change. During this review, senior management should:

4.8.1 revise the recovery plan as necessary to reflect material changes in the financial institution's risk profile, complexity, size, and activities, as well as changes in external threats;

4.8.2 consider the ongoing relevance and applicability of the stress scenarios;

4.8.3 confirm the plan's stress indicators, options to respond to breaches of those indicators, as well as, triggers and options to respond to trigger events, and revise them when necessary;

4.8.4 evaluate the financial institution's organizational structure and its effectiveness in facilitating recovery;

4.8.5 consider the financial institution's legal structure, current number of entities, geographical footprint, booking practices (e.g., guarantees and exposures), and servicing arrangements; and

4.8.6 inform and educate the board on updates or amendments to the recovery plan (e.g., arrange table top exercises or other methods) and seek approval of the updated plan.

4.9 Senior management should integrate the recovery planning framework into the financial institution's risk governance framework established and maintained by the independent risk management function (second line of defense). The independent risk management function should appropriately challenge the first line of defense's assessment and management of the risks associated with frontline activities.

4.10 Senior management should implement monitoring processes for trigger events and timely activation of recovery options when appropriate. The monitoring process should include timely and regular monitoring of specified indicators and their trigger events to allow for prompt discussions and minimize time lags for taking action. Periodic reports (e.g. quarterly or semi-annual) on the performance of the indicators should be submitted to the board/ board committee.

4.11 Senior management should identify the person who will be responsible for the financial institution's recovery plan and for acting as the institution's contact point with the Central Bank on its recovery plan.

5. RECOVERY PLAN

5.1 A recovery plan's purpose is to provide the financial institution with a framework to effectively and efficiently identify and address the financial effects of severe stress events and avoid failure or resolution. The recovery plan should play an important role in crisis management and should not be confused with a business continuity plan ("BCP"), which focuses on keeping business operational in the face of a threat or a disaster.

5.2 The recovery plan should recognize the financial institution's transitions from business as usual to early warning of severe stress to severe stress.

5.3 A recovery plan must be specific to the institution's business model and appropriate for its size, risk profile, activities, and complexity, including the complexity of its organizational and legal entity structure.

5.4 An effective recovery plan helps senior management identify when the institution is or may be approaching or encountering a severe stress event that threatens or may threaten its financial strength and viability. In such event, the recovery plan should be initiated by senior management to take the relevant actions to restore the institution's financial strength and viability.

5.5 A recovery plan's components should generally draw from and align with other risk management processes, such as those governing capital, liquidity, stress testing, business continuity, or resolution planning. The Central Bank therefore expects that a financial institution's ICAAP[6] or ORSA, liquidity contingency plan, business continuity plan, stress test documents, and recovery plan will be in alignment[7].

5.6 The financial institution's recovery planning process should be ongoing. The process should complement the institution's risk governance functions and support its safe and sound operation. There should be coordination between the recovery plan and other risk planning activities and the plan's indicators and trigger events should be aligned with the financial institution's other early warning and risk appetite metrics. The process of developing and maintaining a recovery plan should lead to a greater focus by the board of directors and senior management on risk governance with a view toward lessening the financial impact of future unforeseen events.

5.7 A prerequisite to development of the recovery plan, is the conduct of a strategic analysis that identifies the institution's essential and systemically important functions and sets out the key steps to maintaining them in recovery. Elements of such analysis should include:

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[6] ICAAP refers to Internal Capital Adequacy Risk Assessment for banking institutions. The equivalent for insurers is ORSA or own risk self-assessment.

[7] For example, similar scenarios in two documents should have broadly similar impacts (there may be exceptions) and the recovery plan should include all management actions proposed in other documents. Where these documents are produced by different people in the institution or group, the Central Bank expects them to effectively co-ordinate to consider related documents together. Where inconsistencies are noted following the Central Bank's review, they will have to be rectified by the financial institution.

5.7.1 identification of essential and systemically important functions, mapped to the legal entities under which they are conducted;

5.7.2 actions necessary for maintaining operations of, and funding for, those essential and systemically important functions;

5.7.3 assessment of the viability of any business lines and legal entities which may be subject to separation in a recovery scenario, as well as the impact of such separation on the remaining group structure and its viability;

5.7.4 assessment of the likely effectiveness and potential risks of each material aspect of the recovery actions, including potential impact on customers, counterparties and market confidence;

5.7.5 estimates of the sequencing and the time needed to implement each material aspect of the plan;

5.7.6 underlying assumptions for the preparation of the recovery plan;

5.7.7 potential material impediments to effective and timely execution of the plan; and

5.7.8 processes for determining the value and marketability of the material business lines, operations, and assets.

6. ELEMENTS OF THE RECOVERY PLAN

6.1 At a minimum, the following seven elements should be included in a recovery plan:

A. Overview of the financial institution, which includes a high-level substantive summary of the key recovery strategies and an operational plan for implementation;

B. Conditions for activation, describing necessary indicators and prerequisites or trigger events for the implementation of recovery actions;

C. Stress Scenarios;

D. Concrete and practical Options for Recovery;

E. The Impact Assessment that underlies recovery strategies and options;

F. Escalation Procedures and Management Reports, which should include details of any potential material impediments to an effective and timely execution of the plan; and

G. Communication Protocols and Procedures.

6.2 Many of the elements of the recovery plan will influence one another. For example, impact assessments are conducted after developing recovery options but should also be used to revise and refine those options. In addition, while stress scenarios facilitate identifying indicators, triggers and subsequently, recovery options, stress scenarios can also be used to evaluate the effectiveness of those triggers and recovery options, thereby enhancing the impact assessment.

6.3 One of the essential elements of recovery plans is that they should define clear backstops and escalation procedures, identifying the criteria (both quantitative and qualitative) that would trigger implementation of the plan (or individual measures in the plan) by the financial institution.

A. OVERVIEW OF THE FINANCIAL INSTITUTION

6.4 The recovery plan should provide a detailed description of the financial institution's overall organisational and legal entity structure, including its: -

6.4.1 governance and risk management arrangements;

6.4.2 material entities (e.g. subsidiaries and affiliates);

6.4.3 critical operations;

6.4.4 core business lines, identified by contributions to revenue, profit, market share, strategic importance, enterprise value, growth, or other similar metrics; and

6.4.5 core management information systems.

6.5 The plan should explain the financial institution's interconnections and interdependencies across business lines; amongst affiliates and subsidiaries in a financial group structure, as well as with critical third parties.

6.6 The plan should address whether (and how) a disruption of these interconnections or interdependencies would materially affect the financial institution.

B. TRIGGER EVENTS[8]

6.7 A trigger event is a situation, occurrence or scenario that signals the existence or emergence of severe stress on the financial institution. Trigger events serve as alarm warnings that severe stress to the financial strength and viability of the financial institution is happening, has happened, or may happen. The recovery plan should contain indicators that, when neared or breached, will assist the financial institution in identifying the risk or existence of severe stress and trigger activation of parts of the recovery plan. Appendices II and III set out a framework for establishment of recovery plan indicators and relevant quantitative metrics respectively.

6.8 Trigger event indicators should be designed and implemented to prevent undue delays in the implementation of recovery measures. The breach of any trigger should result in timely notice accompanied by sufficient information to enable senior management to take corrective action. Examples of recovery measures include restructuring the balance sheet, conserving capital and liquidity, terminating activities or business lines, or taking other operational or capital actions. The recovery plan may not assume or rely on any extraordinary government support.

6.9 Trigger events should be well defined, pre-determined, plausible, and tailored to the risks faced by the financial institution and should be aligned to other early warning indicators within the financial institution's existing risk governance framework[9].

8 Refer to Appendix I for trigger event indicators

9 The trigger framework should be aligned with other contingency plans and processes in the entity's risk framework such as its Enterprise Risk Management or in the case of an insurer, its Own Risk Self-Assessment (ORSA).

6.10 The recovery plan should identify indicators (refer to Appendix II) and their appropriate triggers that reflect the financial institution's particular vulnerabilities. The number and nature of indicators and trigger events should be appropriate for the institution's size, risk profile, activities, and complexity. The nature of the trigger event should inform the response.

6.11 Trigger events should be designed to provide the financial institution with notice of a continuum of increasingly severe stress, ranging from warnings of the likely occurrence of severe stress to the actual existence of severe stress.

6.12 Trigger events should be appropriately calibrated to leading indicators to allow the financial institution time to activate recovery options as well as provide sufficient notice of the situation to management. For example, falling below regulatory minimum capital levels may not be an appropriate trigger event, as the financial institution may not be able to implement timely corrective action after breaching these levels.

6.13 Trigger events may include changes to the institution's internal and external financial position (both point-in-time and projected). Appendix II lists out potential quantitative indicators.

6.14 Although most trigger events are quantitative, there may be qualitative triggers such that, if breached, will have a financial impact on the financial institution and these should also be considered and factored into the recovery plan.

6.15 Senior management should review and update recovery plan trigger events, as necessary, when conducting the annual review of the recovery plan and when reviewing it in response to a material event. In addition, senior management should consider the regulatory or legal consequences that may be associated with the breach of a particular indicator that leads to a trigger event.

6.16 A particular trigger event does not necessarily correspond to one single recovery option. More than one option may be appropriate when a particular trigger event occurs. During a period of severe stress, a financial institution should use its judgment to determine the most appropriate option(s) for the entity to take. In addition, the financial institution should be prepared to act if it is at risk, regardless of whether a trigger event has occurred or the recovery plan includes options that specifically address the problems the financial institution faces.

C. STRESS SCENARIOS

6.17 Stress scenarios are a tool to help management identify, develop, calibrate, and validate the appropriateness of indicators and trigger events that will alert it to the risk or presence of severe stress. Scenarios should demonstrate the relevance of the financial risk to the institution's business model, core business lines, and material entities.

6.18 Stress scenario testing simulates the impact of changes to key variables, both idiosyncratic and market-wide, and helps validate the credibility of trigger events and recovery options. Scenarios can also help validate the time the financial institution estimates it needs to bring its capital and liquidity levels, as well as other financial effects, back within risk tolerances well before failure.

6.19 The financial institution's recovery plan should consider, at a minimum, at least two stress scenarios, one for institution specific risks and one for market-wide events. Notwithstanding financial institutions should consider the complexity of their business model in determining the number of stress scenarios to include in their recovery plan.

6.20 While stress scenarios are important tools to determine areas of vulnerability and help identify appropriate trigger events, it is recognized that not all stress scenarios can be pre-determined and therefore may not be included in the plan at the time of preparation. Stress scenarios are, however, one of the most critical aspects of the recovery planning process and every effort should be made to determine plausible stresses that the financial institution may potentially face.

6.21 Senior management should be able to discuss with the Central Bank why particular scenarios were chosen. Documentation of stress scenarios should describe with sufficient detail the basis for, and assumptions in, the key drivers of the stress.

6.22 Given the numerous potential threats to the institution's financial strength and viability, senior management should focus first on those scenarios that have the largest impact, such as insolvency or illiquidity, but also on those that seem most imminent given the current environment. Focusing on the most prominent vulnerabilities helps senior management prioritize its choice of scenarios for reverse stress testing.

6.23 Senior management should, however, also consider a wider range of possible scenarios that could jeopardize the financial strength and viability of the institution, exploring what could represent potential blind spots. Reverse stress testing can highlight previously unacknowledged sources of risk that could be mitigated through enhanced risk management.

D. OPTIONS FOR RECOVERY

6.24 The recovery plan should be comprehensive and identify a wide range of credible options that the institution could undertake to restore its financial strength and viability, thereby allowing the institution to continue to operate as a going concern and to avoid liquidation or resolution. The recovery options should not be business-as-usual measures and should include steps that would not normally be considered. Recovery options may include:

6.24.1 equity or non-equity capital issuances;

6.24.2 reduction or suspension of dividend payments;

6.24.3 sale, transfer, or disposal of significant assets, portfolios, business units, or subsidiaries;

6.24.4 cessation of products or services;

6.24.5 reductions in, or restructuring of, the balance sheet;

6.24.6 restrictions on growth;

6.24.7 changes to underwriting practices;

6.24.8 repricing of insurance contract premiums;

6.24.9 realignment of reinsurance arrangements;

6.24.10 raising money via money markets, debt issuance, or securitization;

6.24.11 restructuring of liabilities, reducing new lending, or running-off part of a business or product;

6.24.12 organizational restructuring, including divesting legal entities, to simplify the financial institution's structure;

6.24.13 implementing a succession plan; and

6.24.14 use of Central Bank's liquidity facilities.

6.25 In many instances, the first option to be considered would be to look to the parent of the financial institution, where relevant, for a capital injection. The recovery plan should, however, have options that go beyond looking to the parent as a source of strength.

6.26 In developing its recovery options, the financial institution should customarily evaluate and document the credibility of each option with respect to such factors as feasibility, timing, implementing similar transactions, and impact to strategic or reputational risk. Recovery options should be designed to maintain the confidence of market participants.

6.27 The plan and the options should not assume or rely on any extraordinary government support (exceptions to this may exist on a limited basis with respect to support of the financial institution by a government, where the latter is a major shareholder).

6.28 There are many factors the financial institution should consider when evaluating how it would invoke recovery options, an exercise that may aid the institution in assessing recovery options. Some of these factors include the size of the benefit from invoking an option or dependencies among options. The most appropriate recovery option depends on the stress leading to a trigger event. Complex financial institutions should understand the impact that their actions may have on their parent or affiliates (e.g. disposing of a business line that provides significant shared services to affiliates).

6.29 The financial institution should not view the options in its plan as exclusive. A specific trigger event in the plan may necessitate the execution of a different option when presented with the actual situation. As such, the financial institution should use its judgment to determine the most appropriate options for the entity to take during a period of severe stress.

6.30 Credible options are those that can be executed within time frames that allow the options to be effective during periods of stress. The financial institution should understand that not all identified options may be a feasible response to the actual stress event, depending on whether the stress event is an idiosyncratic or a market-wide event.

6.31 The recovery plan should identify obstacles that could impede the execution of an option and set out mitigation strategies for addressing these obstacles. The recovery plan should describe any cross-effects or impacts to the financial institution or any of its critical affiliates of executing a particular option.

6.32 The recovery plan should explain how the financial institution would carry out each option, describe the timing for each option, and identify the options that require regulatory or legal approval. The plan should describe the decision-making process for implementing each option, including the steps to be followed, and any timing considerations. It should also identify the critical parties needed to carry out each option.

6.33 Some institutions may detail the viability and obstacles of each option in "playbooks." These playbooks document what senior management and the board should consider when deciding on and executing a recovery strategy in a succinct and action oriented manner. The playbooks vary in their detail of information on options for divestiture or asset sales. When available, the financial institution should consider using its resolution playbooks for recovery planning purposes.

E. IMPACT ASSESSMENT

6.34 Senior management should assess and describe how each recovery option would affect the financial institution. The impact assessment and description should specify how the institution would implement each recovery option to maintain or restore the financial strength and viability of its material entities, critical operations, and core business lines.

6.35 For each recovery option, the recovery plan's impact assessment should address the effect (including in the immediate term and future) each option would have on the financial institution's:

6.35.1 capital, liquidity, funding, reinsurance, and profitability;

6.35.2 material entities, critical operations, and core business lines, including reputational impact;

6.35.3 strategic or operational risk;

6.35.4 legal or market impediments or regulatory requirements that must be addressed or satisfied to implement the option;

6.35.5 internal operations (e.g. information technology systems, suppliers, human resources, operations); and

6.35.6 access to market infrastructure (e.g. clearing and settlement facilities, payment systems, and additional collateral requirements).

6.36 The impact assessment assists senior management in determining that an appropriate and sufficiently broad range of recovery options exists since some options will not be feasible in certain situations. The impact assessment should quantify the benefits of each recovery option and confirm that the recovery option allows the financial institution to sufficiently respond to both fast- and slow-moving situations and restore financial strength and viability.

6.37 The recovery plan should specifically identify how the financial institution will obtain required regulatory or legal approvals that may be necessary to execute some recovery options in a timely manner. The type and expected time frames to prepare and receive approvals should be factored into the financial institution's impact assessment. The assessment should also include an estimated time to realize a recovery option. Each recovery option impact assessment should address potential consequences, including the benefits and risks of that particular option. This should include analysis from a longer term perspective to confirm that the stability of the financial institution is not put at risk by any "short-term" fix.

F. MANAGEMENT REPORTING AND ESCALATION PROCEDURES

6.38 The recovery plan should require that periodic reports on trigger event indicators and other key information be submitted to the board and/or senior management

6.39 The types of reports that would allow the board or senior management to monitor progress of actions taken under the recovery plan (e.g. the reporting process should be enhanced beyond business-as-usual time frames, such as daily or weekly versus monthly or quarterly) should be itemized in the recovery plan.

6.40 A process for escalating issues to senior management or the board, as appropriate, in response to *any* trigger event should be clearly outlined the process to allow for timely decision making. A trigger event does not necessarily mean the financial institution is in recovery or action must be taken, but senior management or the board should determine the appropriate action as a response to any trigger event and should not consider this occurrence as business as usual.

6.41 The recovery plan should identify and map out the departments and persons responsible for executing the decisions of senior management or the board. Senior management or the board of the financial institution should take corrective action in the best interests of the entity. This is particularly important when senior management from the parent sits on the financial institution's board.

G. COMMUNICATION PROTOCOLS AND PROCEDURES

6.42 The aim of the communication strategy should be to manage stakeholder expectations and where necessary retain or restore confidence. The recovery plan must therefore include a communication strategy for communicating with all relevant stakeholders, setting out when and how the financial institution will notify stakeholders within and external to the entity of its actions under the recovery plan. This includes notifying the Central Bank forthwith of any significant trigger event and any action taken or to be taken in response to such an event

6.43 The communication procedures should recognize that differing levels of communication may be appropriate depending on the specific stress and action being taken. The audience, detail, and timing of information provided to stakeholders and the level and form of communication will vary. In some situations, the financial institution may determine that communication should be limited (e.g. to avoid receiving offers to buy a business line or subordinated entity at a "fire sale" price or causing the public to lose confidence in the institution).

6.44 The communication procedures for the various types of recovery actions should consider:

6.44.1 identification of key stakeholders;

6.44.2 protocol for determining key messages and communication objectives;

6.44.3 the procedures and preferred channel and form of communication;

6.44.4 personnel or functions responsible for communication; and

6.44.5 how the financial institution will obtain required regulatory or legal approvals.

6.45 Financial institutions may choose to utilize existing crisis or incident communication protocols or management committees or teams for informing relevant stakeholders of how the institution has responded or is responding to a trigger event.

7. RECOVERY PLANS FOR DOMESTIC FINANCIAL GROUPS AND FINANCIAL HOLDING COMPANIES.

7.1 The Central Bank expects local financial groups and financial holding companies comprising multiple financial institutions, whether local, regional, and/or international, to prepare and submit one consolidated group recovery plan that captures recovery options and scenarios for all regulated financial institutions within the financial group or financial holding company.

7.2 The group recovery plan must demonstrate how they have covered the different financial entities in other jurisdictions in the financial group. The financial holding company should identify material dependencies and assess key risk transmission channels and the extent of potential contagion and systemic impact arising from the disruption or failure of such dependencies, which may be financial, operational, or legal. Such information is necessary to assess the feasibility of recovery options, particularly in identifying potential financial, operational, or legal impediments to implementing recovery options.

7.3 Where there are individual recovery plans in place for entities outside of Trinidad and Tobago, the financial institution should ensure that there is reasonable consistency of recovery options, indicator frameworks, and governance arrangements between group and legal entity level plans.

7.4 At a minimum, the financial group or financial holding company should ensure that the main dependencies and risks of implementing recovery options at the subsidiary level are captured in the group plan particularly where the subsidiary relies on the parent for financial support as a recovery option.

8. SUPERVISORY EXPECTATIONS FOR RECOVERY PLANNING

8.1 A financial institution should document its recovery options, as well as internal governance for developing, testing, updating, and implementing the elements in a recovery plan.

8.2 A financial institution's recovery plan should be integrated into its wider risk management framework, focusing in particular on the ICAAP, capital and liquidity planning, as well as, the BCP. The person who typically has oversight of the risk management function will have ownership of the plan and should ensure that the plan is kept up to date.

8.3 A financial institution should review and update its recovery plan at least annually. At a minimum, such a review should analyse whether there have been changes to the financial institution's structure or to external conditions that would materially impact the execution of recovery options in the plan.

8.4 The Central Bank will review and where necessary direct changes to the assumptions and stress scenarios underlying a financial institution's recovery plan and may require additional stress scenarios to be prepared

8.5 Following the Central Bank's review, and where it has determined that inconsistencies exist between the institution's recovery plan and other documents that contain relevant stress related scenarios, the institution will be expected to rectify the inconsistencies.

8.6 Financial institutions should not treat recovery planning as a regulatory compliance exercise. When the Central Bank assesses a recovery plan it will focus on the 'use case', that is:

8.6.1 whether the recovery plan has been integrated/ embedded into the financial institution's risk management framework;

8.6.2 whether the financial institution has realistically quantified the impact and timelines of specific recovery options; and

8.6.3 whether the financial institution's board and senior management can demonstrate how they would execute the plan.

9. EFFECTIVE DATE AND REQUIREMENTS

9.1 This Recovery Planning Guideline comes into effect on the date of issuance.

9.2 Financial institutions are required to review this Recovery Planning Guideline and develop a recovery plan within six (6) months of the date of issuance of this Guideline. The Recovery Plan must be approved by the financial institution's board and submitted to the Inspector of Financial Institutions.

9.3 Financial institutions must also implement all required governance and structural mechanisms to operationalise the recovery plan, including testing of the plan within twelve (12) months of the issuance of the Guideline.

APPENDIX I – TRIGGER EVENT INDICATORS

(a) Profitability decline (e.g. return on assets and return on equity);

(b) Revenue sources impacted

(c) Funding sources or business activities negatively impacted

(d) Increases in policy liabilities

(e) Liquidity ratios decrease

(f) Capital ratios decrease

(g) Credit rating downgrade

(h) Increased collateral requirements

(i) Increase in insurance liabilities

(j) Asset quality deterioration

(k) Significant market share or operational losses

(l) Increasing trend in cyber attacks

(m) Decreasing stock price or market valuation

(n) Default or downgrade of significant counterparties

(o) Economic trends, such as interest rate changes, inflation or employment rates.

APPENDIX II – FRAMEWORK OF RECOVERY PLAN INDICATORS

- The framework of recovery plan indicators should be established by institutions and should take into consideration the criteria laid down in the following paragraphs.
- Institutions should include recovery plan indicators of both a quantitative and qualitative nature.
- At a minimum, institutions should include in the recovery plan, the institution specific and external categories of recovery plan indicators set out in Table A below. Where financial institutions are of the view that any of these indicators are not suitable, they must provide satisfactory justifications to the Central Bank that such categories are not relevant to the legal structure, risk profile, size and/or complexity of the institution.

Table A – Categories of Recovery Plan Indicators
Institution Specific
Capital indicators
Liquidity indicators
Profitability indicators
Asset quality indicators
Reserving indicators (specific to Insurers)
External
Market-based indicators
Macroeconomic indicators

Capital Indicators

a) Capital indicators should identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern, including increasing level of leverage.

b) While selecting capital indicators, institutions should consider ways to address the issues stemming from the fact that the capacity of such indicators to allow for a timely reaction, can be lower than for other types of indicators, and certain measures to restore an institution's capital position, can be subject to longer execution periods or greater sensitivity to market and other conditions. In particular, this can be achieved by means of establishing forward-looking projections, which should consider material contractual maturities relating to capital instruments.

c) The capital indicators should also be integrated into the institution's Internal Capital Adequacy Assessment Process (ICAAP) for banking institutions as well as the existing risk management framework.

d) The thresholds should be calibrated based on the institution's risk profile and on the time needed to activate the recovery measures; should consider the recovery capacity resulting from those measures; and take into account how quickly the capital situation may change, given the institution's individual circumstances.

e) The thresholds for indicators based on regulatory capital requirements should be calibrated by the institution at adequate levels in order to ensure a sufficient distance from a breach of the capital requirements applicable to the institution.

f) Insurers should establish an Own Risk and Solvency Assessment (ORSA) framework.

g) Insurers' solvency should identify deterioration in the insurer's quantity and quality of capital, including metrics that may be sourced from the Central Bank's applicable insurance capital adequacy framework

Liquidity Indicators

a) Liquidity indicators should be able to inform an institution of the potential for, or an actual deterioration of the capacity of the institution to meet its current and foreseen liquidity and funding needs.

b) The institution's liquidity indicators should refer to both the short-term and long-term liquidity and funding needs of the institution and capture the institution's dependence on wholesale markets and retail deposits, distinguishing among key currencies where relevant.

c) The liquidity indicators should be integrated with the strategies, policies, processes and systems developed by each institution and its existing risk management framework.

d) The liquidity indicators should also cover other potential liquidity and funding needs, such as the intra-group funding exposures and those stemming from off-balance structures.

e) The thresholds identified by the institution should be calibrated on the basis of the institution's risk profile and should take into account how quickly the liquidity situation may change, given the institution's individual circumstances.

f) The thresholds should be calibrated on the basis of the institution's risk profile and on the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures. When referring to minimum regulatory requirements applicable to the institution, the indicators should be calibrated by the institution at adequate levels in order to be able to inform the institution of potential and/or actual risks of not complying with those minimum requirements.

Profitability Indicators

a) Profitability indicators should capture any institution's income-related aspect that could lead to a rapid deterioration in the institution's financial position through lowered retained earnings (or losses) impacting on the own funds of the institution.

b) This category should include recovery plan indicators referring to operational risk-related losses, which may have a significant impact on the profit and loss statement, including but not limited to, conduct-related issues, external and internal fraud and/or other events such as regulatory fines, or cyber attacks.

Asset Quality Indicators

a) Asset quality indicators should measure and monitor the asset quality evolution of the institution. More specifically, they should indicate when asset quality deterioration could lead to the point at which the institution should consider taking an action described in the recovery plan.

b) The asset quality indicators may include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.

c) The asset quality indicators should cover aspects such as off-balance sheet exposures and the impact of non-performing loans on the asset quality.

d) The asset quality indicators should identify deterioration in the quality of the insurer's asset mix.

Reserving Indicators

a) Technical Provisions should indicate when increases in required reserves could lead to the point at which the insurer should consider taking an action described in the recovery plan.

b) Other indicators may include key reserving assumptions such as relevant yield curve, lapse rates or changes to the value of options and guarantees or Expected Profits Included in Future Premiums.

c) In reviewing insurance liabilities, indicators should capture changes in the external and internal environment that may cause an increase in technical provisions, for example, related to mortality, claim severity or interest rates

Market-based Indicators

a) Market-based indicators aim to capture the expectations from market participants of a rapidly deteriorating financial condition of the institution that could potentially lead to disruptions in access to funding, reinsurance, and capital markets. In accordance with this objective, the framework of qualitative and quantitative indicators should refer to the following types of indicators:

   i. ***equity-based indicators*** which capture variations in the share price of listed companies, or ratios that measure the relationship between the book and market value of equity;

   ii. ***debt-based indicators***, capturing expectations from wholesale funding providers such as credit default swaps or debt spreads;

   iii. ***portfolio-related indicators***, capturing expectations in relation to specific asset classes relevant to each institution (e.g. real estate); and

   iv. ***rating downgrades*** (long term and/or short term) as they reflect expectations of the rating agencies that can lead to rapid changes in the expectations from market participants of the institution's financial position.

Macroeconomic Indicators

a) Macroeconomic indicators aim to capture signals of deterioration in the economic conditions where the institution operates, or of concentrations of exposures or funding.

b) The macroeconomic indicators should be based on metrics that influence the performance of the institution in specific geographical areas or business sectors that are relevant for the institution, and may include unemployment rates, interest rates, and inflation.

c) The macroeconomic indicators should include the following typologies:

   i. geographical macroeconomic indicators, relating to various jurisdictions to which the institution is exposed, giving also consideration to risks stemming from potential legal barriers; and

   ii. sectoral macroeconomic indicators, relating to major specific sectors of economic activity to which the institution is exposed (e.g. distribution, real estate).

APPENDIX III – LIST OF METRICS OF RECOVERY PLAN INDICATORS

Table B – List of Metrics of Recovery Plan Indicators
1. Capital Indicators
a) Common Equity Tier I ratio
b) Total Capital ratio
c) Leverage ratio
d) Capital / Technical reserves (Insurers)
e) (Retained earnings and Reserves) / Total Equity
f) Adverse information on financial position of significant counterparties
g) Capital to Total Assets (Insurers)
2. Liquidity Indicators
a) Liquidity Coverage Ratio
b) Cost of Wholesale Funding
c) Net Stable Funding Ratio
d) Liquid assets / Current Liabilities (Insurers)
e) Concentration of liquidity and funding sources
f) Cost of total funding (retail and wholesale funding)
g) Average tenure of wholesale funding
h) Contractual maturity mismatch
i) Available unencumbered assets
3. Profitability Indicators
a) Return on Assets or Return on Equity
b) Operational Losses

Table B – List of Metrics of Recovery Plan Indicators
c) Cost-income ratio (Operating costs / Operating income)
d) Net interest margin
e) Net premiums to total equity (Insurers)
f) Expense (including commissions) to Gross Premiums (Insurers)
g) Investment income to Investment assets (Insurers)
h) Net/Gross premiums earned (Insurers)
i) Claims ratio (Insurers)
4. Asset Quality Indicators
a) Growth rate of gross non-performing loans
b) Gross Non-Performing Loans to Total Loans
c) Coverage ratio (Specific Provisions to Total Non-Performing Loans)
d) Net non-performing loans / Equity
e) Growth rate of impairments on financial assets
f) Non-performing loans by significant geographic or sector concentration
g) Forborne exposures / Total exposures
h) (Real estate+Unquoted equities+Debtors) to Gross Premiums (Insurers)
5. Reserving Indicators
a) Net premiums written to Total Gross Premiums
b) Net technical reserves to Average of Net Claims paid in the last 3 years (Insurers)
6. Market Based Indicators
a) Rating under negative review or rating downgrade
b) Stock Price variation

Table B – List of Metrics of Recovery Plan Indicators
c) Price to book ratio
d) Reputational threat to the institution or significant reputational damage
7. Macroeconomic Indicators
a) GDP variations
b) Rating under negative review or rating downgrade of sovereigns
c) Unemployment rate