



Regulatory Framework on Recovery Planning

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Preamble

The financial crises in different jurisdictions have shown that there is a need to improve recovery planning function of financial institutions for severe stress events. In order to address this, the Financial Stability Board (“FSB”) has issued the set of standards relating to recovery and resolution planning in its “Key Attributes of Effective Resolution Regimes for Financial Institutions”.

SBP has been continuously updating its regulatory and supervisory frameworks in line with international best practices and adapting them to domestic environment. In this regard, SBP in 2018, disseminated a framework for Domestic Systemically Important Banks (D-SIBs) which inter alia prescribed enhanced supervisory requirements for D-SIBs, including the development of effective recovery plans tailored to size and complexity of these entities. Moreover, in order to align SBP’s recovery and resolution framework with international best practices, various amendments in relevant laws i.e. SBP Act 1956, BCO 1962 and DPC Act 2016 have also been enacted. The amendments, inter alia, provide SBP explicit legal powers to direct the banks to submit a recovery plan in the form, content and manner as directed by the SBP, remove any impediments to the implementation of the plan and revise and update the recovery plan as needed. Accordingly, to outline SBP’s supervisory expectations for recovery planning for all banks and to harmonize recovery planning practices across the banking industry, the regulatory framework on recovery planning is being issued.

1. Recovery Planning - Objective and Scope

- A. The basic objectives of recovery planning are to ensure that the banks are prepared for periods of financial stress, can stabilize their financial position, recover from financial losses, and avoid failure. The banks should develop and maintain recovery plans that include a number of recovery options, and test their plans to assess their effectiveness. The recovery plan should include measures to reduce the risk profile of a bank and conserve capital in case of need. It should also include strategic options, such as, the divestiture of business lines and restructuring of liabilities.
- B. The recovery planning requirements would be applicable on banks requiring them to prepare and maintain comprehensive recovery plans on group wide basis including their subsidiaries and associates, where applicable. The banks may adjust their recovery plans keeping in view their size, complexity of operations, and risk profile while ensuring that at a minimum, key components set out in this framework are duly covered.
- C. The Foreign bank branches must align their recovery plans with those developed by their Head Office, ensuring consistency with the applicable provisions in this document with respect to their operations in Pakistan. The Islamic Banking Institutions (IBIs) shall ensure that the recovery plans are in conformity with Shariah principles, and the role of Shariah Board has been appropriately defined (if required).
- D. Moreover, under BSD Circular No.07 of 2003, the banks were required to prepare contingency funding plans for any unexpected or worst case scenarios. In this regard, the banks are now required to incorporate their contingency funding plans in the board approved recovery plans prepared under this framework to effectively deal with unusual situations in a timely and effective manner.

2. Recovery Plan - Key Components

The following section outlines the key components of recovery plans and details of the supervisory expectations for each component.

2.1. Organizational Structure and Critical Functions

The banks should ensure to provide the following information in this section:

- i. A hierarchical list of all legal entities within the bank's organization e.g., subsidiaries and associates etc. (including legal entities that directly or indirectly hold such entities).
- ii. Shareholding pattern and the percentage of voting and non-voting equity (if applicable) of each legal entity.
- iii. The location, jurisdiction of incorporation, licensing, and key management personnel associated with the bank and each of its legal entity.
- iv. The banks shall identify entities that are assessed by the bank to be material (material entities) within the group and document the factors or criteria used by the bank to assess their materiality.
- v. The banks shall cover an overview of the business model of material entities and identify core business lines that are crucial for the operations, profitability, and overall value of material entities. The banks should also describe the activities conducted by these entities in Pakistan or abroad.

- vi. The banks shall identify and delineate critical functions and essential services specifying the entities responsible for performing these functions or providing these services and outline the necessary actions to operate and maintain them in a recovery scenario. The banks should also explain reasons/criteria for identifying certain activities, services, businesses or operations as critical functions¹, and/or explain the reasons why the bank determined that it has no critical functions.
- vii. A mapping of the bank's critical operations/services with the core business lines and responsible entities, including material asset holdings and liabilities related to such critical operations and core business lines.
- viii. The banks shall not rely only on a judgmental evaluation and qualitative considerations for identification of critical functions. The banks shall support the evaluation with quantitative information and comprehensive objective analysis.
- ix. A description of the material components of the liabilities of the bank and its material entities, separately identifying types and amounts of the short-term and long-term liabilities, the secured and unsecured liabilities, and subordinated liabilities.
- x. The banks shall determine connections such as asset encumbrance levels, liquid assets and off-balance sheet exposures between the parent bank, associated entities and other regulated entities.
- xi. The banks shall assess the viability of business lines that may undergo separation in a recovery scenario, as well as the impact of such separation on the structure and viability of the remaining bank/ group. Such assessment shall be made part of recovery plan.
- xii. The banks shall determine the processes to assess the value and marketability of material business lines, operations, and assets.
- xiii. The banks shall provide an overview of the key dependencies of the bank and its material entities, explain the criteria and assessment used to identify these key dependencies, and describe the governing contractual arrangements.
- xiv. The banks shall prepare a list of focal staff with key responsibilities with regards to the decision-making, activation process and selection of recovery options to be implemented.
- xv. The banks should identify in their recovery plan if other domestic regulatory bodies have supervisory authority over the bank, its material entities, critical operations and core business lines. In addition, the recovery plan should also identify any foreign agency or authority responsible for regulating/resolving a foreign based material entity and critical operations or core business lines of the bank and include contact information of such foreign agency or authority. The contact information at minimum should include phone numbers, email addresses, and postal addresses.
- xvi. The recovery plan shall identify a senior management official responsible for serving as a point of contact in the bank regarding the recovery plan of the bank, and include contact information of that official in the plan (including phone numbers, email address, and postal address).

¹ For further guidance and examples related to critical functions, the Regulated entities may refer to FSB's guidance on identification of critical functions and critical shared services issued on July 15, 2013. Link: https://www.fsb.org/2013/07/r_130716a/

2.2. Recovery Triggers and Early Warning Indicators (EWIs)

Recovery triggers determine the point at which, in a given situation, an institution starts to consider appropriate recovery options. The recovery plan must include appropriate triggers and procedures to ensure the timely implementation of appropriate recovery actions. The effective recovery triggers maximize the chance that the bank is alerted to an oncoming stress with sufficient time to implement and realize the benefits of any necessary recovery options. The banks are expected to ensure the following with respect to recovery triggers:

- i. The recovery triggers should serve as a guide for banks to take preemptive corrective actions at an early stage of stress to prevent breaches of minimum regulatory requirements.
- ii. The banks should develop clear and reasonable triggers to timely activate and implement recovery options identified in the recovery plan. Actions to be taken upon breach against each trigger should be clearly documented.
- iii. Recovery triggers should encompass stress scenarios that are plausible and severe enough to jeopardize the bank's viability. Consideration should be given to both bank specific and market-wide stress scenarios, including cross-border contagion and stress in bank's significant segments or activities. The recovery plan may also take into account the contingent/ possible future liabilities along with their financial impact and mitigating measures.
- iv. Recovery triggers should be comprehensive and robust, that include leading indicators where feasible. The banks should consider blend of both quantitative and qualitative indicators (e.g., operational and reputational) for a holistic assessment, which should relate to the solvency and liquidity of the institution in question under stressed scenarios. These triggers need to be timely and forward looking so as to provide enough time to take corrective action(s). The triggers also need to be capable of being monitored and should be clear.
- v. The activation of recovery plan may be considered when a bank breaches any one of the triggers relating to capital adequacy, liquidity, asset quality, profitability or any other indicator, which shall be set above the minimum regulatory requirements (where applicable).
- vi. The recovery plan shall also utilize early warning indicators (EWI) with specific levels relating to each trigger. EWIs shall provide early-stage indicators of stress and shall not necessarily cause the activation of recovery plan. EWIs shall enable a bank to take remedial actions, such as adjustments to risk appetite framework and risk limits, modifications of risk taking behavior, tightening of risk controls and preparation for the possible future activation of recovery options.
- vii. The recovery plan should provide details on how recovery triggers and EWIs are incorporated into an institution's risk management framework.

2.3. Recovery Options

- i. The banks should provide a "menu of feasible and credible recovery options", which would enable them to respond to financial stress, whether idiosyncratic or systemic, and to assess the feasibility and impact of each option. This consideration of recovery options before occurrence of a stress is an essential component of a bank's preparedness and increases the

probability that a bank will be able to recover. The banks may consider all of the following or at least some of these recovery options in its recovery plan:

- a) Strengthening liquidity position
 - b) Reducing balance sheet growth
 - c) Voluntary restructuring of liabilities
 - d) Divestment of assets, subsidiaries or business units (or the whole institution)
 - e) Internal and external recapitalization
 - f) Voluntary mergers/acquisitions
- ii. The banks are required to provide a general description of all available recovery options, and the actions that would be taken to enable timely execution of each option. Recovery Plans should not be confined to easily implementable recovery options. Banks should also consider more radical options (e.g. exiting a business line, debt restructuring, part or whole disposal of the bank etc.) which might include selling strategic assets and fundamentally changing the bank's structure and business model.
 - iii. Recovery actions will vary from bank to bank due to its size, structure, complexity, scale of operation and business model and should be based on realistic assumptions using high-quality analysis e.g. analysis of the business model, capital, liquidity and operational implications of the recovery options.
 - iv. The recovery options outlined in the plan should primarily involve actions that the bank itself or other entities within its group can directly undertake. Conditions necessary for execution should be clearly specified. Given the potential complexity involved in executing recovery options and the likelihood of requiring a combination of strategies to address stress scenarios, the recovery plan should also estimate the sequencing of actions and the time required for implementation.
 - v. The banks should explain under which circumstances each option would be used.
 - vi. The recovery options should support the bank's recovery without making the post-recovery business model unviable. The banks should provide evidence that they have considered the impact of the recovery option on the bank and, if applicable, the wider group. The impact should include quantitative, operational and business model impacts, including the impact on the franchise, ratings, ongoing business operations, the response of providers of funding (such as wholesale unsecured creditors) and support functions. Banks should consider the systemic implication of each option and potential combinations of options on overall financial system.
 - vii. The banks should provide comprehensive description of each recovery option. The description should include, at a minimum, the following:
 - a) An estimation of benefits or outcomes expected from the recovery option towards restoration of capital/liquidity or any other financial indicator, any assumptions used to quantify these benefits, and a reasonable time frame within which the bank can restore its financial strength and viability.
 - b) The financial impact of recovery options should be quantified, as a minimum, in terms of the Common Equity Tier 1 (CET1) Ratio, Total Capital Adequacy ratio, Leverage Ratio, Net Stable Funding Ratio, Liquidity Coverage Ratio (LCR), Cash Reserve Ratio (CRR) Statutory Liquidity Ratio (SLR), Balance Sheet and Profitability in percentage point and nominal values. The quantification of recovery option

benefits should be prepared on both pre and post-tax basis (inclusive of deferred tax assets).

- c) The activation process for recovery options, including maximum timeframes, implementation procedures, escalation protocols, authorization levels, and decision-making processes. Ownership of the process to ensure responsibility and accountability during times of stress needs to be specified.
 - d) The critical factors which might affect the timeframe for each phase of the recovery option.
 - e) The situations/circumstances/factors that may render each option not credible, unavailable or infeasible (for example, due to market conditions or because options are mutually exclusive), as well as any obstacles that could hinder its effectiveness. Additionally, remedial measures to overcome these impediments, including a defined time frame for implementation, should be outlined. It is important that bank consider the credibility of options rather than favoring options only because they appear to be executable in the shortest timeframe.
- viii. In case a bank's recovery plan includes options for disposing of entire business segments or assets or any part thereof, it must establish processes to determine their value and marketability. The banks should specify conditions for the disposal option of assets or business, outlining execution parameters and steps to be taken. It is crucial to anticipate disposal under unfavorable conditions, potentially leading to pressure to sell below market value.
- ix. The banks should consider the valuation approach for disposal options and actual sale values achieved in precedent transactions for similar entities. The banks are expected to be conservative in valuing their disposals by including appropriate price adjustments to reflect the distress level. The banks should document and explain their valuation methodology and the underlying assumptions. Asset sale and disposal options should include potential purchasers and the realistic discount required to achieve a sale, taking into account different market conditions.
- x. Plan for the disposals of assets and business lines considering the different scenarios should be incorporated with pricing assumptions and other pertinent risks for instance exchange rate risk etc. For disposal options, the recovery plan should:
- a) include a separability analysis to consider how the business would be impacted by the separation. The recovery plan should clearly describe issues with financial, operational and legal interconnectedness of businesses and the feasibility of separating them from the wider group, identifying measures that would be required to make this easier and considering any impact on the continued provision of critical services that could hinder the disposal and identify how these should be addressed. The banks should include such a separability analysis to consider how the business would be impacted by the separation. This analysis should include a description of all existing material intra-group exposures and funding relationships, capital flows within the entity or entities covered by the recovery plan, intra-group guarantees that are in place and intra-group guarantees that are expected to be in place when recovery action is required;
 - b) describe any third-party consent, approvals or notices required and any

- contractual obstacles that might restrict the disposal, explaining the steps that would be required to overcome these;
- c) comment on potential issues arising due to competition laws and how these would be mitigated;
 - d) assess whether the disposal changes the tax status of the remaining business e.g., resulting from changes in the manner in which the entity's activities are conducted with respect to applicable tax laws and regulations;
 - e) describe any significant pensions or human resources issues that would need to be dealt with and how these would be overcome; and
 - f) explain what due diligence information would need to be available and explain how the information would be quickly assembled, whether there would be any barriers to sharing it and how these would be overcome.
- xi. Where a merger or sale of the whole bank is a relevant recovery option, the banks are required to start with a fair valuation of the balance sheet and explain the risks inherent in that valuation linking to the scenario tests it undertakes. The banks should have the capacity to conduct such fair value valuations in a stress scenario.
 - xii. The banks should consider the options available to them to raise liquidity by encumbering assets in each stress scenario. In order to quantify the impact of such actions, the banks should consider the full range of potential secondary impacts, including on the cost and stability of its other sources of funding (e.g., wholesale unsecured and depositors) and on the credit rating.
 - xiii. The banks should include the timelines over which recovery options could be implemented. The banks should also distinguish between the time needed to execute an option (governance processes and relevant regulatory approvals etc.) and the time needed to realize its benefits (point at which any part of the financial impact is first achieved). But the recovery plan should also provide a timeline showing how the estimated benefits of each recovery option will accrue over time where the benefit is not instantaneous.
 - xiv. The banks should detail:
 - a) the main phases of implementation and the steps necessary to affect the recovery option, including approval process to execute recovery options. All steps should be documented in detail, including critical factors which might affect the timeframe for each phase.
 - b) how the potential barriers to execution could impact the proposed timelines in both idiosyncratic and market wide stresses. Barriers may relate to interconnectedness or legal, regulatory, operational, or business impediments. It is important that bank consider the credibility of options rather than favoring options only because they appear to be executable in the shortest time frame; and
 - c) measures to reduce the implementation time of recovery option and scenario testing should help the banks consider the end-to-end process for executing recovery options. The banks should identify impediments and steps which could be taken to reduce time frames e.g. setting up a data room to include information required for disposals.
 - xv. The banks are required to detail and explain the dependencies between recovery options and clearly identify where recovery options are mutually exclusive.

- xvi. The selection of recovery option(s) will depend on the type and severity of the stress scenario. In detailing the selection of recovery options, the banks should set out operational dependencies and impacts. The banks should also detail whether recovery options are dependent on third parties. This includes identifying where operational, technical and financial support from third parties is required to execute recovery options. The banks should highlight key regulatory and legal issues with executing each option, and actions that would be necessary to mitigate these risks.
- xvii. SBP liquidity facilities may be included as one of the last recovery options, while adhering to the requirements laid down in the Section 17G of the SBP Act, 1956 and 'Regulations for Lender of Last Resort Facility' issued by the SBP from time to time. In case the banks consider the use of SBP liquidity facilities as recovery option, banks should:
 - a) familiarize themselves with the purpose of those facilities;
 - b) consider the circumstances in which they would need to access those facilities and discuss options with the SBP at an early planning stage;
 - c) test the operational aspects of their plan for accessing SBP facilities (including by carrying out periodic test transactions with SBP where required, internal testing of the speed of collateral processing and taking actions to address any specific central bank requirements and to remove any other hurdles);
 - d) undertake an analysis of eligible assets and the drawing capacity against these; and
- xviii. In the recovery plan, the bank should identify the range of recovery options (other than central bank liquidity support) that, over time, would allow the bank to repay any central bank liquidity support received.
- xix. The banks should include in their recovery plans the impact of taking recovery options and groups of recovery options on subsequent resolution (if applicable). The banks should consider any foreseeable impact on resolvability, particularly how recovery options would impact the existing barriers to resolution, the viability of the business model, the ability to provide or support critical functions (CFs) and the potential implications of recovery options on post-resolution restructuring.

2.4. Recovery Capacity

- i. It is important that the banks understand the total financial benefits they could credibly realize in a range of stresses if they need to do so (i.e., their 'recovery capacity'). The total recovery capacity should include the benefits of all options that could be realized together under different types of stress.
- ii. In order to quantify recovery capacity, following methodology is suggested:
 - a) total recovery capacity is determined individually for each stress scenario included in the bank's recovery plan;
 - b) in order to assess the bank's existing total recovery capacity for a scenario, the banks should first identify all currently available recovery options that could credibly be used to respond to the scenario. The depth of analysis included should be proportionate to the size and complexity of the bank;
 - c) the banks should establish expected impact and its timeline against each of the credible options, while also considering the likely actions of peers during the stress;
 - d) the banks should define the most impactful and credible combination of the options

that could be invoked to respond to the stress. The credibility of the combination of options should consider the dependencies between options (including operational dependencies) and the viability of the post-recovery business model;

- e) the banks should sum up the expected impact of each of the options that feature in its combination in order to arrive at the bank's existing total recovery capacity for the specific scenario. The banks should show how the recovery capacity accumulates over time.

2.5. Testing, Feasibility and Revision of Plans

- i. In order to ensure the operational effectiveness of recovery plans and timely implementation of recovery options during stress situations, banks must establish a set of procedures for regular testing of the feasibility and effectiveness of their recovery plans.
- ii. The testing/simulation exercises should comprehensively cover the following key areas:
 - a) Escalation and decision-making procedures, ensuring effective coordination among functions/ entities within the bank and the group.
 - b) Availability of adequate information in Management Information Systems (MIS) and the banks' ability to produce the essential information needed to implement recovery plans within a short period of time.
 - c) Operational aspects, assessing the reasonability of assumed timelines for implementing the most relevant recovery options, and evaluating the knowledge and proficiency of personnel involved in implementation.
 - d) Effectiveness of communication strategies, encompassing both external and internal stakeholders.
- iii. Scenario testing is important for demonstrating that the recovery plan is suitable for use in a range of different types of stress scenarios, and testing how different elements of the plan (such as indicators, governance and options) would interact in these scenarios.
- iv. The banks need to define a set of stress scenarios (idiosyncratic, systemic and a combination of the two) under which the efficiency of the different recovery options can be assessed by reference to their impact on Capital, Liquidity, Balance Sheet, Profitability and Operations. The scenario generation for the recovery plan will build on instructions issued by the SBP from time to time and the 'Advanced Approaches' requirements communicated earlier under FSD Circular No. 01 of 2020 (Guidelines on stress testing).
- v. With respect to Scenario Testing, SBP expects that:
 - a) The banks should use scenarios that are relevant to the bank's business model and are sufficiently severe and adequate to test the plan. The banks should define and justify their point of near failure and scenarios should be sufficiently severe to take the bank to this point (i.e., reverse stress test).
 - b) The banks should consider how the scenario relates to risk appetite and the depth, duration and speed of stress. The banks are required to clearly demonstrate which indicators are triggered in the scenarios and at what point they would be triggered.
 - c) The banks should clearly set out the details of each scenario to explain the size of the impact on the bank and relevant context (e.g., macroeconomic environment) that might impact the bank's ability to execute or affect the benefits of recovery options needed to respond to the stress.

- d) Scenario testing should be used to improve the consistency of different parts of the recovery plan (i.e., options, indicators, governance arrangements, etc.) and demonstrate that the plan is credible as a whole. The scenario testing should help assess the range of financial and non-financial factors that could impact the bank's ability to recover from different types of stresses.
 - e) The banks should explain which recovery options would be used in each of the scenarios and demonstrate that the recovery options are appropriate for restoring the bank to viability.
 - f) The banks should model the capital and liquidity profiles (over time) under each stress scenario, showing these both in the absence of and with the recovery options deployed in the scenario. Banks should include a granular breakdown of liquidity needs, where appropriate by currency, in each stress over time.
 - g) The banks should identify the point at which they consider themselves out of recovery and explain the viability of the business model post-stress.
 - h) The banks are encouraged to ensure their approach to scenario testing is consistent with their recovery planning and leverage their existing stress testing capabilities.
- vi. The simulation exercises include annual desktop testing, where Senior Management conducts tabletop exercises to assess the feasibility and effectiveness of the plan. Additionally, fire drill exercises are 'live' simulation-type exercises where the banks act out key parts of a response to a designed scenario. This is a useful way to test the effectiveness of the recovery plan in a 'live' situation.
 - vii. The banks are encouraged to carry out at least one testing/simulation exercise on its recovery plan prior to each submission of the recovery plan to the SBP, subject to a minimum of one testing/simulation exercise taking place every three years. The senior management should oversee testing/simulation exercises and involve the people who would be required to use the relevant parts of the plan and make decisions in actual stress.
 - viii. An effective follow-up mechanism must be in place to promptly address any deficiencies identified during testing/simulation exercises. These exercises should be conducted within a timeframe that allows for the timely incorporation of corrective actions into the regular update process of the recovery plan.
 - ix. The banks are required to involve an independent observer, such as units from the bank's control functions or external auditors, during testing/simulation exercises to ensure a more objective assessment of the outcomes.
 - x. The results of testing/simulation exercises must be reported to the bank's Board of Directors and incorporated into the recovery plans to be submitted to the SBP.

2.6. Governance Framework

- i. The board of directors shall bear the primary responsibility for the approval, and oversight of the recovery plan and its implementation. To support this, the board shall establish a robust governance structure and allocate sufficient resources to ensure the comprehensive preparation, regular review, ongoing maintenance, and effective implementation of the recovery options available in the recovery plan.
- ii. Regarding the governance framework, the recovery plan shall, at a minimum, specify the following:

- a) Roles of the board of directors or an appropriate board-level committee, and for branches of foreign banks, the head office or designated regional office, for review and approval of the recovery plan.
 - b) Roles and responsibilities of senior management in developing, maintaining, updating and implementing the recovery plan (when warranted).
 - c) Level of authority required to activate each recovery option and overall recovery plan.
 - d) Roles and responsibilities of independent control functions for audit or assessment of the recovery plan along with the responsibilities of the board-level audit committee for oversight of such assessments.
 - e) Identification of officer with lead responsibility or ownership of the entire recovery plan including its ownership for preparation, communication and implementation (when required). The officer shall have sufficient stature and authority to take decisions during normal course of business and time of crisis (i.e. President or Chief Risk Officer or any other key executive).
- iii. The banks should include in their recovery plans a sufficiently clear description of escalation and decision-making processes relevant to the recovery plan, as part of the bank's wider risk management framework. This should ensure effective action is taken in a timely manner and should include procedures to be followed during recovery, including identification of the key people involved and their roles and responsibilities. A bank's recovery plan should clearly state at what point the SBP would be informed of the bank's situation.
 - iv. The banks should maintain Management Information Systems (MIS) that are able to produce information on a timely basis, both in normal times or during recovery. Information should be available at the group level and the legal entity level, and should identify and address legal constraints on the exchange of information among the constituent entities of a group.
 - v. The banks should detail in the plan how the preparation of the recovery plan links to the banks' existing risk management framework and how it is integrated into risk management processes (including MIS) and/or the bank's crisis management framework.
 - vi. The banks should provide evidence that the board of directors, or other appropriate senior Management committee or group, has, reviewed and approved the recovery plan. The board should set out its view of the extent to which the recovery plan is credible and executable in a severe stress and an explanation of that view.

2.7. Communication Strategy

- i. The recovery plan should include a communication strategy for dissemination of timely and appropriate information to stakeholders (both internal and external) during the bank's recovery process. In particular, banks should consider how they will manage any negative market reaction to recovery options, mitigate the potential impact of recovery options on the bank's financial position and franchise, and detail how the approach seeks to minimize the impact on the financial system more widely.
- ii. The communication strategy should delineate the roles and responsibilities of individuals involved in stakeholder communication and provide templates for streamlined messaging where appropriate.

- iii. There should be a clear implementation plan for communications related to recovery options which may also cover the aspects/ process of seeking required legal and regulatory approvals for implementation of various recovery options. Scenario testing should explain how the communications strategy would mitigate the risks associated with implementing recovery options.

3. Submission, Reporting and Implementation of Recovery Plans

- i. The recovery plan shall be updated at least annually, and upon occurrence of events that materially alter the bank's structure, business model or operations, strategy or risk exposure.
- ii. The banks shall develop and submit their Board approved recovery plans to the relevant Supervision Department of the State Bank of Pakistan by June 30 of each year based on the latest audited financial statements or within 15 days of Board approval in case of revision in the document based on material changes during the year. The banks should also include a description of any material changes, reasons for any such changes and any action taken by the bank on the plan since the last recovery plan (if any).
- iii. In the event of a breach of an internally-set trigger level or any other event that may necessitate the implementation of its recovery plan, the banks shall notify SBP (relevant Supervision Department) immediately.
- iv. The intimation shall include, at a minimum, the nature of the breach and the business functions or specific systems involved. This notification shall also include the details of activation date and available recovery options as per approved recovery plan.
- v. The intimation shall also include an explanation of the events and circumstances leading to the breach of the trigger levels. Additionally, it should outline the management actions taken or intended to be taken, including the implementation of recovery options.

4. SBP Recovery Planning Review Process & Actions

- i. The SBP will review, on a regular basis, the effectiveness and credibility of a bank's recovery plan, the extent to which the plan reflects and is aligned with regulatory requirements applicable to the bank, during its off-site reviews and/or on-site examinations of the bank. In conducting its review, SBP will have regard to the following:
 - a) the degree of integration of the recovery planning process into the bank's risk management framework
 - b) the robustness of the bank's governance framework, including the level of understanding and involvement of the bank's Board and/or senior management in the recovery plan;
 - c) the comprehensiveness and clarity of the escalation process and decision-making mechanism upon activation of a recovery plan, and the notification arrangements and communication plan with stakeholders, including the SBP;
 - d) the capability of the bank's management information system to enable timely monitoring of recovery triggers, and to provide full sets of information in a timely manner;
 - e) the appropriateness of recovery triggers, stress scenarios and recovery options

- developed in respect of the recovery plan;
 - f) the credibility of the assumptions underpinning the recovery plan;
 - g) the comprehensiveness of the recovery plan, in particular whether a suitably broad range of recovery options has been considered;
 - h) the execution readiness and feasibility of each recovery option; and whether the recovery planning process is adequately resourced by the bank in terms of staffing and expertise, with sufficient Board and senior management ownership and oversight.
- ii. In order to arrive at a comprehensive assessment of a bank's recovery planning, the SBP may request additional information from the bank, where necessary, which may include relevant materials presented to the bank's Board for the review and sign off of the recovery plan, or in respect of information for monitoring the status of the bank's trigger framework.
 - iii. As part of the supervisory assessment process, the SBP may engage in discussions with the Board and/or senior management of the bank on its recovery planning and the governance framework, and policies and processes supporting it.
 - iv. SBP will review the execution readiness and the feasibility of each recovery option. SBP may ask the bank to test its recovery options against scenarios determined by the SBP and remove impediments (if any) to the execution of recovery options/plan. In case, the menu of recovery options is assessed to be incomplete, the bank may also be advised to explore additional recovery options not considered in its recovery plan submitted to SBP.
 - v. Following the review of a bank's recovery plan, SBP may advise the bank to make revisions in the recovery plan and address any shortfalls / gaps in a timely manner. The bank should set out a remedial plan to lay out the necessary remedial actions along with an indicated timeframe for their completion. In the event that a bank has failed to take effective and timely corrective actions voluntarily, SBP may take appropriate supervisory actions, taking account of the individual circumstances of the case. These may include, but are not limited to monetary penalties, increase in supervisory intensity in respect of the bank, exercise of the SBP's powers of direction to require that appropriate remedial action is taken.

5. Playbooks and Structure of Recovery Plans

- i. The recovery plans are required to be structured so that they are readily usable by both the board and the specific business areas of banks that would need to use them. It is important that the board can quickly navigate and understand the recovery plan as they will be taking the key decisions in a stressed situation.
- ii. The banks should produce a concise implementation guide or 'playbook' for implementing their recovery plan. It should serve as an accessible document that could be easily used, enabling recovery options to be quickly implemented in a stress.
