



# Recovery Plan Assessment Criteria

November 2024

## INTRODUCTION

Pursuant to section 444(m) of *The Credit Union Act, 1998* and section 16-15(2) of the *Credit Union Central of Saskatchewan Act, 2016*, the Corporation is the resolution authority for provincially regulated credit unions and SaskCentral (collectively, Provincially Regulated Financial Institutions or PRFIs). As the resolution authority, the Corporation is responsible for developing, maintaining and executing a credible resolution framework. The responsibility for development, implementation, and execution of recovery plans resides with designated institutions.

On January 1, 2019, the Regulatory Directive and Prudential Standard Provincial Systemically Important Financial Institutions (P-SIFI) came into effect. This Directive/Prudential Standard issued by Credit Union Deposit Guarantee Corporation (the Corporation) outlines the enhanced regulatory requirements that those institutions designated as systemically important within the Saskatchewan credit union system are subject to; one of which is the expectation to have a credible recovery plan in place. This recovery plan is intended to restore stakeholder confidence in the financial soundness of the institution following an extreme stress event. The submission of the recovery plan occurs annually and, as part of the supervisory process, the Corporation will review it, assess the credibility and the ability for it to be effectively executed.

This document outlines the Corporation's expectations for designated institution recovery plans and includes principles, assessment criteria, performance benchmarks, and a reporting guide (refer to Appendix A). For additional information on recovery plans, refer to Appendix 2 of the Corporation's Provincial Systemically Important Financial Institutions Regulatory Directive and Prudential Standard.

## BACKGROUND

As a result of previous financial crises, many international and national changes and regulatory reforms were introduced for systemically important financial institutions to strengthen the resilience of financial institutions. These reforms include a capital surcharge, more intense supervision, and enhanced requirements for recovery and resolution planning.

Recovery planning:

- is an important governance and risk management tool
- improves the ability of a troubled financial institution to recover from an extreme but plausible event and return operations to business-as-usual
- reduces the risk of failure
- serves as a guide for a distressed financial institution in a situation where it has not met the conditions for resolution or entered the resolution regime, but contingency plans have failed to return to normal operations
- sets out how the institution will monitor negative developments (i.e., early warning indicators and accompanying triggers or thresholds)
- sets out how it would manage the impacts of severe stress using predefined recovery strategies (options)

The main benefit of recovery planning is the increase in understanding the institution receives of its critical functions and critical shared services as well as its key vulnerabilities and risks, interdependencies that exist, and the effects of a crisis. Recovery planning is intended to result in improved accuracy of information and analytical capability while

enhancing the institution's ability to generate relevant and timely information for decision-making. All of these components lead to enhanced decision-making processes, strategic focus, risk management, business continuity processes, and operational efficiencies.

## OBJECTIVES

The key objectives of recovery planning are as follows:

- to demonstrate the institution is able to take prompt action to manage a progressively deteriorating financial position
- to identify institution-specific strategies available to respond to a crisis
- to assess whether those strategies are sufficiently robust to address a range of differing shocks
- to determine whether the strategies are capable of restoring financial strength and viability to the institution (or institution's group) during a period of distress at a magnitude that takes the institution to the point of non-viability, but not past

## RECOVERY PLAN PRINCIPLES

### Accountability

While significant interaction is expected between the institution and the Corporation, the institution owns the recovery plan and is responsible for its development and implementation. Clear accountabilities are defined for the institution's board and senior management.

### Relevance

The recovery plan reflects the nature, size, and complexity of the P-SIFI. It appropriately considers both the legal and business line structures of the institution as well as external stakeholder relationships.

### Comprehensiveness

The recovery plan is comprehensive and reflects the P-SIFI's key strategic, business, and operational activities. Those activities considered crucial to the institution's success should be a critical component of the recovery plan. Expected elements are described in enough detail and are inclusive of the organization in its entirety that the recovery plan can serve as an effective playbook for stakeholders in a time of crisis.

### Flexibility

The recovery plan is sufficiently adaptable and flexible to respond to a range of stress events, including both P-SIFI specific (idiosyncratic) and market-wide (systemic) events, as well as combination type events.

### Focus

The recovery plan synthesizes information, develops critical assessments, and drives meaningful conclusions. It contains plausible, sufficiently severe scenarios designed with the institution's vulnerabilities in mind and contains recovery options that address the needs of

the institution in a crisis. These options cover a variety of contingent funding, capital recovery and operational actions that will enable a timely return to normal business operations and have consideration for the impact to the overall financial system. A reasonable prospect of recovery is expected if appropriate institution-actioned recovery measures are taken.

### **Readiness**

To meet the readiness for use test, the recovery plan and any supporting processes and practices need to be operational and effective. The plan reflects the actual capabilities of the P-SIFI and is in an executable form after having been tested to ensure it works as intended. Gaps in capabilities or impediments to recovery have been identified and reasonable action plans to address them are created. These action plans consider potential obstacles and options and provide a realistic sense of the timeline required to operationalize the options and operationalize the plan.

### **Informative**

The recovery plan validates the P-SIFI's capability to deliver accurate and relevant information promptly and effectively. A defined process for timely data collection during a severe stress event is included and describes how the institution's data needs, and reporting requirements would be impacted as it moves into a recovery mode of operations. Considerations include both internal and external additional data and reporting requirements during a stress event.

### **Evergreen**

The recovery plan is a living document that reflects the current state of the P-SIFI. The plan and assumptions are reviewed and updated at regular intervals, and upon the occurrence of events that materially change the P-SIFI's structure, operations, strategy, or aggregated risk exposure.

## **ASSESSMENT CRITERIA**

The following assessment criteria should be read in conjunction with the Corporation's P-SIFIs Regulatory Directive and Prudential Standard and interpreted within the context of the institution (i.e., credit union versus SaskCentral).

### **RECOVERY PLAN ASSESSMENT CRITERIA**

#### **1. Governance and Integration**

The extent to which the recovery plan has been reviewed and approved at an appropriately senior level and integrated into the P-SIFI's strategic, operational and governance framework.

- a) extent to which recovery planning is integrated and aligned with the institution's strategic direction, risk management including risk appetite framework, stress testing, and includes a description of relevant triggers, metrics and assumptions
- b) extent to which recovery planning, including both preparation and execution, is discussed and challenged at board and senior management levels and therefore integrated within the institution's corporate governance and has clear delineation of responsibility and oversight

**RECOVERY PLAN ASSESSMENT CRITERIA**

- c) extent to which the recovery plan, and results of testing, are incorporated in board reporting and require regular review and approval by the board
- d) extent to which there is a degree of clarity in the institution's crisis management and decision-making process, including the role of the board of directors
- e) extent to which data and reporting required in a severe stress event have been identified and addressed, including consultation with external stakeholders and review of service agreements where applicable, as well as how the data and reporting needs may change from normal operating times
- f) extent to which playbooks or operational plans to execute recovery strategies/options are adequate
- g) extent to which an independent recovery plan review by internal audit or an external third-party is adequate

**2. Scenarios, Indicators, and Recovery Strategies/Options**

The extent to which the recovery plan encompasses sufficiently broad scenarios that are aligned to risk management and the P-SIFI's capabilities and are inclusive of early warning indicators and triggers that provide sufficient time to react and implement the documented strategies.

- a) extent to which scenarios are comprehensive, cover a full range of stresses inclusive of events that are extreme but plausible (i.e., institution-specific, market-wide, and a combination of these), and model simultaneous impacts to capital, liquidity, and operations
- b) extent to which early warning indicators and triggers, both qualitative and quantitative have been calibrated to the institution's operations and cover a full range of stress scenarios with clear linkages to escalation processes
- c) extent to which early warning indicators and triggers provide sufficient time for the institution to react and implement the documented strategies
- d) extent to which the institution's indicators and triggers are linked to its risk aggregation and reporting, and are reported with enterprise level risk reporting to senior management and board committees on a regular basis
- e) extent to which the institution has the capacity to change reporting frequencies or other data requirements and continue to provide timely data aggregation and reporting
- f) extent to which identified recovery strategies/options are comprehensive meaning they document all assumptions, cover all triggers, and are included within scenarios and stress testing
- g) extent to which stress testing includes recovery analysis for those scenarios that are identified to severely impact the institution's solvency and liquidity

**3. Credibility**

The extent to which the recovery plan is credible with appropriate options identified, considered and selected and that the documented strategy is supported by sufficient information, analysis, and preparation to provide comfort that the implemented outcome implemented would be delivered as intended.

- a) extent to which recovery strategies/options are timely, practical, plausible, and provide sufficient recovery capacity
- b) extent to which recovery plan response actions address a variety of stresses (i.e., institution-specific, market-wide, and a combination of these)
- c) extent to which the institution has incorporated lessons learned from testing in its recovery plan including impediments and actions to overcome them

## RECOVERY PLAN ASSESSMENT CRITERIA

- d) extent to which the institution is prepared to execute its recovery strategies/options, including the establishment of a crisis management team comprised of key management personnel with roles and responsibilities clearly articulated
- e) extent to which the institution is prepared to execute its recovery strategies/options including an assessment of the institution's crisis management capabilities (i.e., personnel, business and IT systems, and information availability)
- f) extent to which assessments and assumptions used to evaluate recovery strategies/options, including their impacts and impediments, have been documented
- g) extent to which the recovery plan includes a comprehensive crisis communication plan with appropriate key messages tailored to the execution of specific recovery strategies/options
- h) extent to which the recovery plan is maintained to account for ongoing changes, including the impact of change initiatives and operational improvements and how these change initiatives are tracked

### 4. Coverage

The extent to which the recovery plan is sufficiently detailed and covers all business lines, relevant geographies, critical functions, and shared services all while considering the comprehensive legal structure of the P-SIFI.

- a) extent to which the recovery plan identifies the institution's corporate structure and key stakeholders and includes all material subsidiaries and/or substantial investments
- b) extent to which core business lines, critical functions and critical shared services have been identified, described, mapped to legal entities and analyzed strategically
- c) extent to which the implementation of each recovery option has been evaluated to determine the impact (support or endanger) to these critical functions and critical shared services
- d) extent to which the identification/determination and assessment of critical functions and critical shared services is appropriate and comprehensive, including any challenges to continuity of services and how the risk of business interruption will be minimized

## PERFORMANCE BENCHMARKS

This Assessment Criteria document sets out general performance benchmarks to evaluate the quality of the recovery plan and the recovery planning process.

The quality of the recovery plan is demonstrated by its comprehensiveness, credibility, coverage, and integration with strategic management, risk management and other significant corporate decision-making processes. The quality of the recovery planning process is demonstrated by having appropriate governance structures and procedures in place to maintain and test the plan, as well as providing relevant reporting to the appropriate key stakeholders, including the institution's board and senior management.

The Corporation will look to recovery plan indicators to guide its judgement during its supervisory activities.

## RECOVERY PLAN GUIDE

This section is intended to provide additional information and guidance for the development and maintenance of recovery plans. **The information contained within the blue boxes is expected to be included within the institution's recovery plan submission.**

The recovery plan must contain sufficient information to provide a basis for analyzing recovery options and the institution's ability to maintain critical operations during a crisis severe enough to invoke recovery actions. Where appropriate, the institution should include the summarized contents of other corporate documents in the plan (e.g., crisis communication plan, business continuity plan). It is expected that each submission includes a high-level substantive summary of key recovery strategies and material changes to both the institution and the plan.

The Corporation expects an annual assessment and approval by the institution's board and senior management prior to each submission.

### 1. Profile

The profile section provides an overview of the institution and identifies the critical functions and shared services that support those functions. These functions and services have a recovery goal to minimize disruption and preserve institution value. The profile maps these functions and services to the appropriate legal entities and/or business lines that perform them.

#### PROFILE REQUIRED ELEMENTS:

- An outline of the legal entity structure and geographical locations, branches, core and non-core products, and services along with their strategies and objectives.
- A description of the business model and strategic priorities.
- A description of the business and risk management framework including risk appetite, risk profile, and related metrics.
- An overview of the activities, functions and services that must be preserved (i.e., critical functions or critical shared services) in the event of a crisis.
- A determination for both business lines and legal entities of criticality:
  - discuss business line components of the balance sheet
  - identify any off-balance sheet obligations
  - discuss profitability drivers by business line for the income statement
  - discuss any other factors used in the assessment and determination of critical functions or critical shared services
- An identification, description, and quantification of the institution's key vulnerabilities, under both normal and stress circumstances and how they may change.

#### a) Business Overview

There should be identifiable inclusion of the alignment between the institution's enterprise risk management framework and the recovery plan. Higher rated risks along with the corresponding risk appetites must be included and considered within scenario development and option strategies. For example, credit risk has the potential to negatively impact a credit union's profitability, capital and liquidity. The identification of vulnerabilities is a key component of the recovery plan.

Vulnerabilities arise due to the institution's specific circumstances and characteristics and should form the basis for scenario development. Identified vulnerabilities can either contribute to the onset of stressed conditions or exacerbate existing difficulties.

## b) Legal and Financial Structures

An integral component of the recovery plan is the identification of core business lines and those functions critical to the execution of the institution's mandate. The isolation of those lines and functions deemed core identifies the elements that need to remain intact during a crisis to ensure the institution is a stable and functioning organization and supports the institution-wide understanding of specific individuals or skill sets necessary for the successful execution of plan options as well as the need for appropriate backup expertise and capacity.

The strategic analysis for critical functions, critical shared services, and core business lines provides the foundation for other sections within the recovery plan.

## c) Strategic Separability Analysis of Operations

### CRITICAL FUNCTIONS/SERVICES/BUSINESS LINES REQUIRED ELEMENTS:

- Identification, description strategic analysis, and assessment of:
  - **Critical functions:** Any structured set of activities, services, or operations of the institution that the discontinuance of is likely to lead to the disruption of services that are essential to the broader economy and/or for preserving financial stability. Refer to Appendix B – Section 2.
  - **Critical shared services:** The underlying operations, activities, or services performed for one or more business units or legal entities (shared services) within the institution or institution's group (group) which are required to provide one or more critical functions. The disruption or failure of these critical services can present a serious impediment or completely prevent the performance of functions essential to the economy. Refer to Appendix B – Section 3.
  - **Core business lines:** Business lines and associated services that represent material sources of revenue, profit, or franchise value for the institution or group. Although the principal criterion is materiality based on quantitative indicators (e.g., revenues, profits, assets, market share), institutions should guard against relying solely on quantitative indicators. Consideration should be given to the institution in its entirety, including new and emerging businesses with significant growth potential or unprofitable businesses that contribute substantially to the institution's franchise value.
- A map of the critical components to legal entities and business lines with relevant summary information as applicable (e.g., key financials - assets, liabilities, income and expenses - capital and liabilities structure/capital flows, inter-group exposures or funding relationships, etc. as applicable).
- An organization chart of the institution's legal entity structure with a clear depiction of critical functions, critical shared services and core business lines and their interconnectedness. Refer to Appendix B – Section 4.
- The institution's enterprise risk management framework with a clear depiction of how higher-rated risks and their impediments and vulnerabilities are aligned with recovery scenarios.

The institution should include a strategic assessment of the separability of critical functions, legal entities, core business lines and/or shared services, or any other investment/activity/etc. that may have the ability to be separated. Separability is the process of identifying and subsequently having the ability to tactically execute the disposition of assets, business lines, or entities to a third party and disposing or divesting of the line/investment/entity/etc. This analysis supports the institution in understanding what portions of the business could be disposed of during times of recovery, either to create liquidity or capital or to preserve the core business and critical functions of the institution. Consideration should be given to the ability to sell, rationalize, or exit non-core segments of the institution and also to the impacts to recovery options including timeframe, estimated value or cost recouped, and a likelihood of completion.

These assessments should be completed regularly and in conjunction with existing strategic planning processes. Options should provide flexibility across a variety of economic conditions and, if available, offer multiple disposition approaches.

- Provide the institution's strategic assessment of separability.
- Consideration should be given to a range of factors, including but not limited to, ability to sell, marketability, timeframe, estimated value (or cost recouped).
- The likelihood of completion should be identified.
- Provide assessment on the impacts of any disposition or divestiture.

#### **d) Recovery Plan Indicators and Triggers**

The recovery plan should identify institution specific qualitative and quantitative criteria which would trigger implementation of the recovery plan or documented individual measures or actions by management. These triggers should be reflective of the institution's key vulnerabilities, designed to prevent undue delays in the implementation of recovery measures and be the indicators most relevant to the institution's legal structure, risk profile, size and complexity.

Triggers should be measurable, reasonable, well-defined and tailored to the specific risks faced by the institution. Further, they should appropriately identify the points at which the escalation process would be activated as it is at these points that the institution would be expected to assess the situation and determine the appropriate, defined actions to be taken based on the recovery plan. The points at which the escalation process would be activated should provide sufficient time for the documented strategies or other preparatory activities to be implemented.

The plan should include market-based and macroeconomic indicators unless the information is not available and/or the institution is able to provide rationale for why these indicators are not relevant to its legal structure, risk profile, size and/or complexity.

In addition to triggers, early warning indicators that are monitored regularly by the institution may already be used to signal negative trends. These indicators are similar to triggers but are distinguished by their position on the recovery timeline and are to be calibrated so that the institution can be alerted of adverse circumstances and action can be taken that may prevent reaching the severity of triggering the recovery plan. For additional information on indicators and triggers, refer to Appendix C.

## 2. Recovery Options/Strategies

The recovery plan should identify a range of credible recovery options/strategies along with a list and assessment of the critical measures necessary to successfully implement them. An impact and feasibility assessment should be provided for each option/strategy.

- Provide an explanation of how recovery plan triggers have been aligned and calibrated with the institution's risks.
- Demonstrate that thresholds would be breached early enough to be effective. In this context, the magnitude and speed of the threshold breach should be considered.
- Describe in detail both recovery plan indicators and triggers, including possible vulnerabilities, weaknesses, or threats to the institution's capital position, liquidity situation, profitability or risk profile.
- Include quantitative and qualitative (detailed in Appendix C – Section 4) indicators from the categories of capital, liquidity, profitability, and asset quality.

The interplay between recovery options and the calibration of the indicators is a principal factor in ensuring early identification and timely action. Indicators need to be set with consideration of timing effects such as if the institution has only limited options available, options take an extended time to generate desired results or options have negative effects on other options.

Institutions should consider potential impediments to timely and successful execution of recovery measures as well as actions required to, and the time by, which these impediments need to be removed. In situations where rapid execution of a recovery measure is needed, it is important to address, to the extent possible, any related impediments beforehand (i.e., preparatory measures).

To the extent possible, the institution should prioritize and categorize its recovery options based on factors relevant and important to the institution. These priority factors may include the option's overall impact on the institution's financial condition, ease of execution, impact to critical functions, impact to other options, and potential confidence or reputation risk. Categorization factors may include feasibility, scenario, time to execute or other parameters that would streamline the selection of options under differing scenarios. The institution should demonstrate its understanding of what is required to operationalize the high-priority recovery options in the Operational Continuity section of the recovery plan.

Recovery options should be reliable, timely and have a sound legal basis to ensure compliance with regulatory and other requirements. They should be transparent in terms of how they would be executed, allowing any potentially impacted market participants to measure, manage and control their exposure. There should be a high degree of confidence that the outlined recovery options are able to be implemented during extreme stress events.

The institution should be able to demonstrate the availability of sufficient financial resources from its recovery options to meet its obligations as they come due throughout the recovery event, with consideration given to how these proceeds will impact the institution's balance sheet, capital ratios and liquidity, and clarity about how the potential proceeds are to be allocated.

The recovery plan should describe the institution's position following recovery, assuming the successful execution of the recovery option (e.g., fewer business lines, different legal or organizational structure, and adjusted footprint), based on the highest priority options as indicated by the priority assessment noted above.

#### **a. Identification of Recovery Options**

The exercise to identify recovery options is intended to provide a means to enhance general crisis-preparedness and assist the institution in reacting flexibly to a crisis.

The identification process should provide a range of options designed to respond to a variety of financial stress scenarios that could be reasonably expected to contribute to maintaining or restoring the viability and financial position of the institution. The options should reflect varying time horizons and consider both specific scenarios and stress testing outputs. Each recovery option should be described in a way that enables the Corporation to assess its impact and feasibility.

Recovery options should include measures which are both extraordinary in nature and that could be taken in the course of normal business.

Recovery options should include the consideration of:

- a range of capital and liquidity actions required to maintain or restore the viability and financial position of the institution with a focus on ensuring the continuity of critical functions and core business lines
- arrangements and measures that are focused on conserving or restoring the institution's own funds through external recapitalization and internal measures to improve the institution's capital position
- arrangements and measures to ensure that the institution has adequate access to contingency funding sources that support continuity of operations and meet obligations as they fall due
- where appropriate, contingent funding arrangements should include access to available liquidity from SaskCentral and all potential liquidity sources, including an assessment of available collateral and the possibility to transfer liquidity across business lines (as available)
- arrangements and measures to reduce risk and leverage or to restructure business lines including, where appropriate, an analysis of possible material divestiture of assets, legal entities, or business lines
- arrangements and measures to achieve a voluntary restructuring of liabilities without triggering an event of default or termination
- actions to strengthen the capital situation (e.g., recapitalizations after extraordinary losses, capital conservation measures - suspension of patronage or dividends, payments of variable compensation or other discretionary expenditures)
- sale of subsidiaries, joint ventures, significant investments, assets, or spin-off of business units
- increase in or renegotiation/voluntary restructuring of liabilities
- measures to secure adequate funding while ensuring sufficient diversification of funding sources and adequate availability of collateral in terms of volume, location, and quality
- transfers of liquidity and assets within the institution, if applicable
- other drastic measures that may be taken to assist in recovery (i.e., amalgamation or key personnel changes)

- Identify a range of recovery options available, including descriptions without reference to specific scenarios of financial stress.
- Provide a range of options reflecting varying time horizons that are both extraordinary in nature and that could be taken in the course of normal business.

### **b. Impact Assessment of Recovery Options**

The institution is to include a detailed impact assessment for each recovery option/strategy that is comprised of the processes applicable to that option, used for determining the value and marketability of the core business lines (if appropriate), operations and assets of the institution. The assessment should identify the quantitative and qualitative impacts that option/strategy has on the organization (operational, systemic, business model, recovery, other options, members, customers, wider market, etc.) and a feasibility assessment that demonstrates not only the potential overall recoverability, but also the institution's preparedness to address a variety of issues.

For the impact assessment of recovery options, provide commentary on the following:

- a financial impact assessment which sets out the expected impact on solvency, liquidity, funding positions and profitability of the institution, where relevant
- a valuation assessment that documents all assumptions relied upon, including assumptions about asset marketability and the behaviour of other financial institutions
- an operational continuity impact assessment which evaluates internal operations (e.g., information technology systems, suppliers and human resources operations) and the institution's access to the financial market infrastructure (e.g., clearing and settlement facilities, and payment systems). In particular, the assessment of operational continuity should consider:
  - any arrangements and measures necessary to maintain continuous access to the relevant financial market infrastructure, and
  - any arrangements and measures necessary to maintain the continuous functioning of the operational processes of the institution, including infrastructure and information technology services
- an assessment of the external impact and systemic consequences on critical functions performed by the institution
- an assessment of the impacts on members, customers and stakeholders with specific focus on depositors, retail investors and counterparties, as applicable
- an assessment of actions necessary to successfully implement each recovery option
- the expected time for the implementation and success of the recovery option

### **c. Feasibility Assessment of Recovery Options**

The institution is to include a detailed feasibility assessment that demonstrates not only the potential overall recoverability, but also the institution's preparedness to address a variety of issues. For the purpose of this assessment, a material impediment includes any factor that has the potential to negatively affect the timely execution of the recovery option. Barriers may relate to interconnectedness or legal, regulatory, operational or business impediments and include legal, operational, business, financial, and reputational risks. The institution should indicate the options where board or regulatory approvals are required and the anticipated timelines for such approvals. It should also consider both the short-term market confidence in the institution and the long-term viability of its business model.

For the feasibility assessment of recovery options, provide commentary on the following:

- an assessment of the associated risk, drawing on any experience of executing the recovery option or an equivalent measure
- a detailed analysis and description of any material impediments to timely and successful execution of the recovery option as well as a description of whether and how these impediments can be effectively addressed
- where applicable, an analysis of potential impediments to the effective implementation of a recovery option which result from the structure of the institution or arrangements with SaskCentral or other third parties, including whether there are substantial practical or legal impediments to the prompt transfer of own funds or the repayment of liabilities or assets within the institution
- how potential impediments could impact timelines in both idiosyncratic and system-wide stressed events
- corrective action required to address the potential impediments identified (i.e., preparatory measures)
- a “playbook” that the institution will rely on during a crisis that includes the main phases of implementation and all steps necessary to invoke the recovery option, including documenting in detail the critical factors which might affect the timeframe for each phase

#### d. Scenario Stress Testing

Scenarios should appropriately reflect the vulnerabilities or key risks that management has previously identified through risk management processes and be sufficiently severe to threaten the institution’s viability through liquidity pressures, capital shortfalls, financial losses, or other dire circumstances.

Strategic analysis is to be provided that describes the testing process of recovery options. Testing is to be done to determine which options may be the most effective and efficient given certain circumstances and to provide a practical test of recovery option efficiency, suitability of assumptions and adequacy of established indicators.

At least one scenario should be included for each of the following types of events:

- **system-wide event:** an event with risks having serious negative consequences for the financial system or the real economy
- **idiosyncratic event:** an event where risks have serious negative consequences for a single institution, or a group of institutions and
- **a combination of system-wide and idiosyncratic events** which occur simultaneously and interactively

For each type of scenario listed:

- describe the vulnerabilities or key risks that the scenario addresses
- provide a brief description, including all assumptions made, of the scenario using a recovery timeline (include milestones for key events from the inception of the stress event to full recovery with specific reference to key indicators, triggers and impact on capital and liquidity positions and other options).
- identify appropriate recovery options
- explain the interdependencies between recovery options and clearly identify where recovery options are mutually exclusive
- discuss the potential impacts of each recovery option (feasibility, potential impediments to implementation, time required for implementation given the circumstances within the scenario, and consider positive or negative impacts on other recovery options)
  - provide an assessment of the impact of the events and the effectiveness of the recovery options on capital, liquidity, profitability, risk profile, operations, payment, clearing and settlement, reputation, or any other relevant aspects of the institution
- describe the overall recovery capacity of the institution to recover from severe macroeconomic and financial stress
- discuss in detail the set of assumptions used within each scenario; assumptions may include, but are not limited to:
  - size and timing of outflows
  - appropriate allocation of losses to different legal entities and balance sheet lines
  - size and timing of maturing off-balance sheet obligations
  - ability to rollover maturing liabilities
  - reasonable expectations of inflows from operations
  - potential credit rating downgrades (if applicable) and related impact on funding costs
  - potential proceeds from execution of recovery options
  - potential costs from the execution of recovery options

The institution should consider the risks associated with the failure of a third party to perform a critical function or support core businesses. While these events in isolation may not require the institution to execute the recovery plan, simultaneous occurrence may intensify a crisis and potentially impact the viability of recovery options.

Linkages to and escalation processes through liquidity and capital contingency plans should be clearly defined within the recovery plan as recovery planning necessitates a comprehensive analysis of the correlation between the two. Scenario testing may provide additional insight into the feasibility of these plans when considered on the contingency continuum and provide consideration to the impacts of recovery options from all perspectives, including capital and liquidity.

Capital analysis should include both an assessment of current and potential allocations of capital needs and losses associated with each of the scenarios and an outline of potential immediate steps to limit outlays to conserve capital. Liquidity analysis should include an

assessment of inflows and outflows across different time horizons that begin highly granular during initial recovery phases and become more concentrated as options are exercised<sup>1</sup>. The analysis should identify situations where there are multiple approaches to obtaining liquidity from the same assets and ensure that recovery options do not rely on conflicting approaches.

Scenarios should be regularly tested to confirm their applicability and effectiveness as well as to identify impediments to effective execution. Refer to Appendix D for additional information on stress testing.

### 3. Operational Continuity

Operational continuity is defined as the ability to continue critical shared services necessary to maintain the provision or facilitate the orderly wind-down of an institution's critical functions in recovery or resolution. To ensure continuity of an institution's critical functions, it is necessary to maintain parallel continuity of the services and contracts that underpin them as without the continuity of critical shared services, the continued provision of critical functions in recovery or resolution is unlikely to be possible.

The institution is to provide an assessment of their ability to continue operations if recovery options are implemented, all while experiencing capital, liquidity, or other shortfalls. The linkages between this section and the profile section should be evident as this section should also consider the legal, financial and operational structure and the interconnectedness of these elements as the impact of recovery options is assessed.

According to the Financial Stability Board, there are a number of arrangements that can provide continuity to stabilize the institution or support wind-down and/or restructuring efforts in resolution. These include, but are not limited to:

- **contractual provisions** – Institutions are expected to have clearly and comprehensively documented contractual arrangements and service level agreements for both intra-group and third party critical shared services, which remain valid and enforceable in resolution provided payment obligations are not in default.
- **management information systems** – All arrangements should be supported by a clear catalogue of shared services and up-to-date mapping of services to companies, businesses and critical functions. These systems should allow for timely reporting on the provision or receipt of critical shared services on a legal entity and line of business basis, including information about ownership of assets and infrastructure, pricing, contractual rights and agreements, and outsourcing arrangements.
- **financial resources** – Intra-group providers of critical shared services, including where the services are provided within the regulated institution, should have sufficient financial resources to facilitate operational continuity of critical functions in recovery or resolution. Where an institution relies on third-party critical shared services, the service recipient should have sufficient financial resources to ensure that the third-party provider continues to be paid. Communication with a third-party service provider about continued payment can help manage the risks of early termination and the necessity of continuation of service at an agreed-upon level.
- **robust pricing structures** – Cost and pricing structures for services should be predictable, transparent and set on an arm's length basis with clear links, where relevant, between the original direct cost of the service and the allocated cost. The cost structure for services should not alter solely as a result of the entry into recovery or resolution of the service recipient.

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<sup>1</sup> Similar to the Net Cumulative Cash Flow liquidity monitoring tool.

- **operational resilience and resourcing** – Critical shared services should be operationally resilient and have sufficient capacity to support the restructuring phase following the failure of an institution(s) in the group. Institutions and the Corporation need to plan for the retention of critical employees necessary for the provision of critical shared services in recovery and resolution. Critical shared services should not be excessively affected by the failure or resolution of other group entities.
- **governance** – Critical shared services should have their own governance structure and clearly defined reporting lines. Where services are provided by a division of a regulated institution, this would entail some element of independent management and oversight at the board level. Critical shared services providers should have sufficient governance oversight or planning and contingency arrangements to ensure that services continue to be provided in resolution without relying on senior staff from certain business lines that may be wound down or that may no longer form part of the same group.
- **rights of use and access** – Access to operational assets by the critical shared services provider, the serviced institutions, business units and the Corporation should not be disrupted by the failure or resolution of any particular group entity. Continued access to IT, intellectual property and operational services during the restructuring period needs to be considered as part of resolution planning.

The continuity of critical shared services is a crucial part of the process of identifying and removing impediments to recovery and resolution. Some of these impediments may include:

- complex technology
- ability to retain key employees, including those deemed essential to ensure operational continuity
- termination provisions in premises leases or third-party contracts
- contractual relationships within the institution's group or with third parties, including poorly designed or inadequate service level agreements
- lack of substitutability

Impediments have the potential to cause significant disruption to the continuity of services during recovery and resolution. As a result, the impact of recovery options on the institution should be assessed by analyzing internal operations (e.g., information technology systems, suppliers, human resources) and access to payment, clearing and settlement systems. The operational continuity assessment should consider any arrangements and measures necessary to maintain the continuous functioning of the operational processes of the institution, including infrastructure and information technology systems.

As this section also serves as the foundation for the operational continuity section of the Corporation's resolution plan, it should clearly identify any external stakeholder relationships that may be impacted by the divestiture of non-core functions or other recovery actions. This includes any dependencies the institution has on third-party information technology providers or other vendors that have contractual clauses giving them a unilateral option to cancel in the event of the institution's deteriorating financial condition or other germane circumstances. It should also explain what special arrangements the institution would need to make to these contracts to ensure that the underlying products and services remain available throughout the crisis event or resolution phase. Any additional cost and how payments would be authorized, triggered and funded due to these special arrangements should also be discussed.

- Identify and describe any external stakeholder relationships that may be impacted by implementing the institution's high-priority recovery options, including:
  - any arrangements necessary to maintain continuous functioning of operational or finance-related processes of the institution that are considered to be critical shared services
  - third party IT providers or other vendors that provide critical shared services
  - any contractual relationship considered to be a critical shared service where provisions of the contract give the provider a unilateral option to terminate the contract or to alter service levels during times of stress. Reasons for alteration or termination should also be provided.
- Explain special arrangements or revisions that would need to be made to ensure that the underlying products or services remain available through recovery and resolution.
- Describe any other measures considered necessary to maintain continuous functioning of the operational and finance-related processes of the institution that are considered important to the delivery of critical functions throughout recovery and resolution.
- Provide an overall assessment of the institution's ability to continue operations if recovery options are implemented including those operations deemed critical and how that assessment was made.

Where services are provided by an intra-group company or joint venture, analysis of the actual and stressed financial condition of this company with a view to assessing the ability to continue providing services through resolution, along with supplemental information including, but not limited to:

- balance sheet, income statement, and statement of cash flows
- projected liquidity, capital, and cash flows of the service company through stressed conditions
- description of liquidity reserves including instruments, amounts, currencies, account information and custody arrangements
- description of any changes to the service level agreements if the service provider faces extreme stress conditions

Certain information related to human resources is also useful to ensure operational continuity of critical functions through the continued provision of critical shared services. This includes identifying important personnel or functions for each to ensure the delivery of the critical services, and the institution's processes for not only identifying, but also retaining these personnel. The institution should describe incentives or other retention mechanisms that may be considered during recovery and what impact these mechanisms have on the recoverability of the institution.

- Identify staff, contract employees or functions required for each critical shared service or critical function, distinguishing between service and function.
- Describe the institution's processes for identifying and retaining critical personnel.
- Identify the company that employs the staff who provide critical shared services.
- Describe the institution's contingency options in the event that these critical personnel are not available.

## 4. Governance

It is essential that the recovery plan is developed upon a sound governance structure to ensure that it can be effectively implemented. The recovery plan is to be integrated into the institution's overall corporate governance, strategic management, risk management framework, Internal Capital Adequacy Assessment Process (ICAAP) and stress testing regime. Regular risk management measurement, monitoring and reporting processes should capture the indicators and triggers associated with the recovery plan.

### a. Governance Arrangements and Frameworks

The institution should include the governance structure and information on how the recovery plan was developed.

- Identify the single owner who has overall responsibility for the development and maintenance of the recovery plan.
- Describe the role and function of individuals responsible for preparing, implementing and updating each section of the plan, especially those considered critical or perform critical functions.
- Provide schedules that indicate who was responsible for development and approval of the plan, including:
  - a schedule outlining name, job title, team/department/business area, and role in recovery plan (i.e., development, improvement, validation, and approval)
  - a schedule providing official governance bodies that reviewed the plan and approved it. Dates and names of accountable members should be noted outlining the focused board reporting and board approval.
- Identify the maintenance process/schedule of the recovery plan, including testing processes, and the process used to update the plan in response to any material changes affecting the institution or lessons learned from testing the plan.
- Describe how the plan is integrated and aligned with the institution's and/or group's corporate governance and overall risk management framework.
- Identify the schedule of independent review of the recovery plan to ensure an appropriate frequency.
- Identify the regular testing schedule (i.e., tabletop exercises, crisis simulations, or other means) intended to determine the plan's effectiveness and identify impediments to effective execution as well as provide a forum for experiential learning.
- Identify a crisis management team that includes management personnel who are well equipped (i.e., skills and experience) to guide the institution through a stress event
- Outline a strategy to address where gaps exist in experience or expertise

### b. Escalation Procedure/Processes

The recovery plan should contain an escalation process that clearly articulates and identifies the decision-making authority for crisis situations using recovery plan indicators, including approvals related to execution of recovery options/strategies. This process allows for streamlined decision-making and oversight in the event the plan needs to be executed as the activation decision-making process is an essential element of the governance structure and is crucial for assessing the feasibility of recovery options.

Since each crisis is different, the materialization of an indicator does not necessarily activate a specific recovery option automatically. Rather, indicators (and the trigger of a

predetermined threshold for that indicator) should be used to indicate that an escalation process should be set in motion and result in an analysis to determine the best way to address the situation. The institution's crisis management team should have the authority and resources necessary to support decisive responses during a crisis event.

Before indicators materialize, data and benchmarks used in regular risk management should be used to inform the institution of the risk of deterioration of its financial situation and of the indicators being triggered. While such early warning signals do not indicate entry into the recovery phase or require escalation outside business-as-usual processes, they help to ensure consistency between the institution's regular risk management processes and monitoring of these indicators.

The recovery plan should therefore contain a description of how suitable elements of the institution's risk management are connected with the indicators.

- Describe the internal escalation and decision-making process that applies when the indicators have been met or triggered
- Describe the internal process to consider and determine which recovery option may need to be applied in reaction to the situation of financial stress that has materialized, including:
  - the role and function of individuals involved in this process along with a description of their responsibilities or the role, responsibilities, and function of committee members where a committee is involved
  - the procedures to be followed
  - time limit for the decision on taking recovery options and when and how the Corporation will be informed that the indicators have been met and/or the recovery plan has been activated
- Explain how the recovery plan aligns with the institution's risk management framework, including a description of the relevant benchmarks (i.e., early warning signals/risk dashboards) used as part of the institution's or group's regular internal risk management process and risk appetite framework.
- Explain the integration with the strategic management process.
- Provide a list of management information systems along with a description of arrangements in place to ensure that the information necessary to implement the recovery option is available for decision-making in stressed conditions in a reliable and timely way.

## 5. Communication Plan

A comprehensive crisis communication plan specifically tailored to recovery actions is a critical component of every recovery plan. A well-planned communication strategy is essential to:

- instill confidence
- avoid actions that could hamper the recovery process
- ensure stakeholders have the information needed to continue to do business with the institution
- avoid contagion
- maintain financial stability

A crisis communication plan should provide an actionable playbook for management that allows for timely notification of all relevant stakeholders. Key elements of a communication plan include generic messages intended to reassure both internal and external stakeholders of the institution's resilience and specific messages related to execution of individual recovery options or groups of options. It is anticipated that institutions already have communication plans in place as part of existing risk or crisis management processes. These plans and key messages can be leveraged in recovery plans but the communications plan in this instance needs to be tailored to messaging specific for recovery actions.

It is important that the institution engages with external stakeholders, including the Corporation, to ascertain the degree of communication and reporting that will be required based on the severity of the crisis and the recovery option(s) chosen. Depending on the situation at hand, some communication will need to encompass the needs of all P-SIFIs or the entire credit union system. The nature, scope, and granularity of communication with the Corporation should be comprehensively documented. As part of the crisis communication plan development, any competing priorities between stakeholders should be identified and strategies documented to effectively manage these situations.

- Provide details of the process for internal communication with the institution's staff and board of directors in the event of a crisis with enough magnitude to invoke recovery.
- Provide details of processes for communication with external stakeholders, including SaskCentral (where appropriate), members, customers, the Corporation, the public, or any other external stakeholders.
- Provide an analysis of how the communication would be implemented when one or more of the recovery options contained in the recovery plan are implemented, including a list of key messages.
- Ensure the communication plan is appropriately detailed and comprehensive to address reasonably foreseeable requirements arising from the activation of the plan.
- Include message templates that have been approved by senior management in advance.

## 6. Information Requirements

Information requirements in times of crisis will differ from those of business-as-usual. The institution should have a defined process for the timely collection of data required during a severe stress event and identify where this process differs from the process during business-as-usual.

The institution is expected to describe the impact the shift from business-as-usual to recovery mode has on its data needs and reporting requirements and how they can accommodate and accomplish the additions. These impacts may include, but are not limited to:

- Frequency
- Additional data elements or reports
- Additional reliance on a third-party provider
- Service Level Agreements
- Individuals responsible for making key decisions based on the data
- The decisions expected to be made with the information

The gaps between current data aggregation and reporting and those required during recovery should be identified and assessed and a strategy to overcome those gaps in a timely manner should be developed.

- Clearly articulate the institution’s capabilities, challenges and remedial actions related to:
  - the frequency with which reliable, relevant data can be accessed
  - reporting requirements internally and how they may increase at various stages of a severe stress event
  - reporting to external stakeholders, including the Corporation
  - dependencies on external data providers or manual data input
- Clearly identify the individuals responsible for making key decisions based on the data reported and the decisions they are expected to make with the information.

## 7. Preparatory Measures and Impediments

Any identified impediments that could jeopardize a successful recovery are to be included in the recovery plan. One of the goals of preparatory measures is to reduce the implementation time for execution of recovery options. While some of these potential impediments will be identified in scenario analysis, others will become apparent through tabletop and simulation exercises. Consideration should be given to whether the implementation of one option/strategy would have significant negative impacts (i.e. unacceptably high reputation risk) that could potentially reduce the number of available recovery options.

When potential impediments are identified, the institution should endeavour to address them in a timely manner. Action plans to enhance the feasibility and reduce impediments should be included in this section.

- List and describe impediments identified in the feasibility assessment and actions planned or taken to address them.
- List and describe impediments identified through scenario analysis and actions planned or taken to address them.
- List and describe impediments identified through simulation or tabletop exercises and actions planned or taken to address them.
- Outline and describe the preparatory measures the institution has taken. Some examples may include:
  - Measures necessary to facilitate the sale of assets or business lines.
  - Structural changes to the group that are necessary to increase the credibility and effectiveness of the recovery plan.
  - Revision of contractual arrangements with intra-group entities or third-party providers for the provision of critical shared services.
  - Employees services strategy including retention clauses or backup alternatives especially critical functions.

## CRITICAL FUNCTIONS AND CRITICAL SHARED SERVICES

### 1. Examples of Critical Functions

Critical functions mean financial institution activities, services or operations the discontinuance of which is likely to lead to the disruption of services that are essential to the real economy or disrupt financial stability due to the size, market share, external and internal connectedness, or complexity of the institution, with particular regard to the substitutability of those activities, services, or operations.<sup>2</sup>



**The criticality of a function is determined by meeting two criteria: systemic importance and substitutability.**

Examples of activities, services or operations of an institution that may be considered critical functions include:

- Deposit taking – The acceptance of deposits from non-financial intermediaries and refers to the whole lifecycle of the deposit taking activity (i.e., acceptance and maintenance of deposits and accounts) and may include consumer, agricultural, commercial, transaction accounts, savings accounts.
- Lending and loan servicing – The provision of funds to non-financial counterparties such as corporates or retail customers and may include consumer, agricultural, commercial, committed credit facilities, trade finance, project finance, credit card lending.
- Payments, clearing, custody, and settlement – May include retail payment services (cash services, wire transfers, merchant and credit card services, cheques, single currency, foreign exchange, etc.), clearing and settlement services (cash, foreign exchange, debt) and custody (primary custody, other related services such as safekeeping, treasury and cash management services such as short-term investing, Financial Market Infrastructure access for financial third parties and collateral management for third parties)
- Cash services – A subset of payments, clearing, custody, and settlement, cash services suggest the operational and banking processes associated with the collection, aggregation, holding and distribution of cash as well as appropriate cash management.
- Wholesale lending/borrowing – Lending and borrowing in wholesale markets to and from financial counterparties and may include central bank/treasury lending, commercial paper, statutory liquidity deposits, money market funds, lines of credit. The reason for the criticality is the potential for contagion across the financial system.

### 2. Assessment of Critical Functions

#### a. Impact Assessment

To determine whether the first criterion (**i.e., systemic importance**) is met, an assessment of the potential impact a sudden discontinuation will have on third parties, focusing on systemic importance, should be completed.

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<sup>2</sup> Guideline on Critical Functions, Resolution Department, Bank of Albania, 2018

Impact is assessed through the following elements:

- the nature, extent, and reach of the activity in terms of the type of function (product/service)
- the size (volume/number of transactions)
- the geographic scope
- the number of market participants involved (members and customers/counterparties)
- the number of members and customers for which the institution is the only, or principal, financial partner
- the significance of the institution's market share, interconnectedness and complexity for the relevant market at a regional level
- the number and type of members and customers (corporate/retail/other financial institutions) and other stakeholders (e.g., central counterparties, public entities) affected by the function
- the potential impact of the disruption of the function on markets, infrastructure, members, customers, and public services, focusing on market liquidity with respect to:
  - disruption of the members' and customers' business and short-term liquidity needs
  - the perceptibility to counterparties, members, customers and the public
  - the structure of other markets
  - the effect on other counterparties related to the main customers and
  - the interrelation of that function to other services
  - the capacity/speed of customer reaction

The Corporation will evaluate the institution's assessment (going concern), taking into consideration the specific characteristics of the organization, the market for that function and the overall characteristics of the relevant economy and financial market. Based on the mapping and aggregation of critical functions, the Corporation should be in a position to prioritize these functions in order of criticality and design and optimize resolution strategies accordingly (gone concern).

## **b. Supply-Side Analysis**

To determine whether the second criterion (**i.e., substitutability**) is met, an assessment of the supply-side is used to evaluate the market for the provision and substitutability of the function.

This assessment focuses on:

- the structure of the market for that function (e.g., in terms of number and relevant size of market participants, market shares and overall market capacity)
- the availability of substitute providers
- the ability of other providers in terms of:
  - capacity
  - requirements for performing the function
  - potential barriers to entry or expansion (e.g., legal and regulatory hurdles for potential new entrants or switching costs for members and customers)
- the incentive of other providers to take on these activities (i.e., the attractiveness of the business to other market participants or potential new entrants)
- the time required by users to migrate to a new provider and the costs of that move
- the time required for other market participants to take over the function, and whether that time is sufficient to prevent significant disruption

### 3. Determination of Critical Shared Services

**The designation as a critical service is based on the identification and mapping of critical functions to the units that provide that service.**

Critical services are the underlying activities, services or operations performed for one or more business units or legal entities (shared services) within the group which are needed to provide one or more critical functions. A service is only deemed to be critical when its disruption or failure would lead to the collapse of, prevent the performance of, or present a serious impediment to the performance of one or more critical functions by the user of that service. Critical services can either be performed by one or more entities (separate legal entity, internal unit, etc.) within the group (Internal Service) or be outsourced to an external provider (External Service). Critical services are inherently attached to the critical function and their identification follows the identification of a critical function.

Critical service examples may include but are not limited to the provision of information technology, facility management, administrative services, employee services, intercompany management, or the involvement with joint ventures or other partners to provide those services that support core business operations.

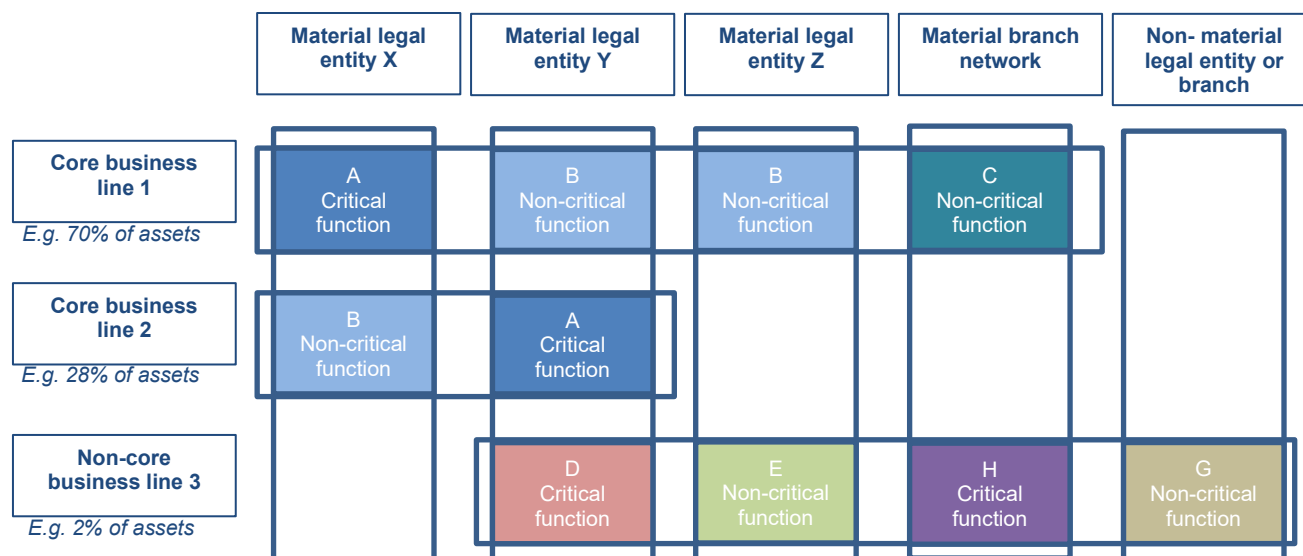
Determination of critical shared services includes:

- an analysis of the impact the failure of a particular service has on one or more critical functions (impact assessment).
- an assessment of the substitutability of that service (supply-side analysis) considering, in particular, whether or how critical functions would be adversely affected, the service would be replaced and, if so, on what terms and within what time frames.

### 4. Mapping of Legal Entities and the Branch Network

Within the institution's profile, legal entities and the branch network are understood to be entities that:

- substantially contribute to the profit of the institution or to its funding, or hold an important share of its assets, liabilities or capital
- perform key commercial activities
- centrally perform key operational, risk, or administrative functions
- bear substantial risks that could, in a worst-case scenario, jeopardize the viability of the institution
- cannot be disposed of or liquidated without triggering a major risk for the institution
- are important for financial stability



**a. Internal/Inter-Group Connectedness**

**i. Legal and Financial Interconnectedness**

The description of the institution’s legal and financial structures should include an explanation of internal/inter-group interconnectedness as it pertains to any legal entities or its branch network. The description should provide:

- relevant qualitative and quantitative information for legal entities and the branch network:
  - financial (i.e., assets, liabilities, income, and expenses)
  - capital and liability structure, including capital flows within or between entities
  - internal/inter-group exposures or funding relationship
  - internal/inter-group guarantees or other financial support mechanisms
- legal interconnectedness where legally binding agreements between internal entities other than guarantees exist

**ii. Operational Interconnectedness**

The description of internal operational interconnectedness should include centralized functions within a legal entity or in one legal entity that are important for the functioning of other legal entities within the group (e.g., centralized information technology, treasury, risk and administrative functions).

**b. External Connectedness**

**i. Legal and Financial Interconnectedness**

The description of any external interconnectedness should include key quantitative information including:

- significant exposures and liabilities to main counterparties
- products or services provided to other financial market participants and
- significant services provided to the institution by third parties
- any legally binding agreements between the institution and external entities or third parties that exist with specific reference to the financial market infrastructure (for SaskCentral)

- any legally binding agreements between the institution and external entities or third parties that exist with specific reference to SaskCentral (for credit unions)

### **ii. Operational Interconnectedness**

The description of external operational interconnectedness should include functions that are important for the functioning of the institution (e.g., information technology, treasury, risk, and administrative functions).

The description of external operational interconnectedness related to financial market infrastructure and SaskCentral (for credit unions) should be provided in separate subsections.

## RECOVERY PLAN INDICATORS AND TRIGGERS

### 1. Calibration of Triggers

An institution's triggers should be calibrated so that they provide the institution with sufficient notice to take corrective action. They should also allow for the Corporation to begin appropriate contingency planning and assess the need to take early intervention measures. Regardless of how the triggers are calibrated, they should not be linked to inherently lagging metrics.

The institution should include both qualitative and quantitative early warning indicators and triggers which consider its viability along a continuum of increasingly severe stress events and identifies levels that would place the institution into recovery. When setting quantitative recovery plan indicators and triggers, the institution should consider using progressive metrics, similar to a traffic light approach, to inform management where early warning thresholds would be set early on and trigger points calibrated closer to the end of the severity spectrum.

### 2. Integration into Existing Risk Management Framework

Triggers for recovery planning should be incorporated into an institution's overall risk management framework<sup>3</sup>. Recovery triggers are to be aligned with, but not be limited to, existing triggers for liquidity or capital contingency plans, early warning indicators and the institution's risk appetite.

Indicators are not generally linked to specific compulsory recovery actions and typically do not automatically activate a specific recovery option but will typically require attention by senior management or the board so that an appropriate response can be made on a case-by-case basis. It may also require the institution to discuss with the Corporation whether a particular recovery action set out in the recovery plan should be implemented. When the Corporation assesses the recovery plan, it reviews the suitability of indicators and thresholds set to trigger the escalation process.

### 3. Monitoring Indicators and Triggers

Recovery plan indicators should have processes in place that provide for regular monitoring and review. The Corporation expects these indicators to be integrated with the institution's risk aggregation and reporting and be included in management information systems. This ensures early warning signals can be readily identified, and appropriate measures can be taken in a timely manner to restore the institution's financial position following a significant deterioration. This also allows for timely submission of the indicators to the Corporation. It is recognized that the risks faced by institutions vary significantly depending on business and funding models, activities and structures, size and interconnectedness to other institutions or to the financial system.

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<sup>3</sup> Triggers should be incorporated in the appropriate policies and risk management practices and consider their relationship to risk appetite/tolerance/capacity statements

## 4. Quantitative Indicators

The following triggers are listed as options for the institution to consider but the list is not considered exhaustive. Triggers can be substituted if not relevant for the institution.

**Additional triggers are optional.**

### a. Capital Indicators

- Should identify any significant actual and likely future deterioration in the quantity and quality of capital as a going concern.
- Should be integrated into the institution's Internal Capital Adequacy Assessment Process (ICAAP), and its existing risk management framework.
- The thresholds should:
  - be calibrated to the institution's risk profile and to the time required to activate recovery measures
  - consider the recovery capacity resulting from those measures
  - consider the velocity of the changing capital situation, given the institution's individual circumstances
  - be calibrated to ensure a sufficient cushion from a breach of capital requirements (including minimum requirements without taking into consideration buffer requirements)
- Capital indicators may include:
  - Eligible Capital ratio
  - Borrowing Multiple
  - Leverage ratio
  - Additional indicators such as:
    - Tier 1 Capital/Eligible Capital
    - Adverse information on the financial position of significant counterparties

### b. Liquidity Indicators

- Should inform the institution of the potential for, or actual deterioration of, the capacity to meet its current and future liquidity and funding needs.
- Should refer to both short-term and long-term liquidity and funding needs of the institution.
- Should capture the institution's dependence on wholesale market/brokered deposits (if applicable) and retail deposits, distinguishing among material foreign currencies.
- Should be integrated with the strategies, policies, processes and systems developed by the institution and its existing risk management framework.
- Should cover other potential liquidity and funding needs, such as those stemming from off-balance structures.
- Should be calibrated on the basis of the institution's risk profile and should consider how quickly the liquidity situation may change, given the institution's individual circumstances.
- Should be calibrated based on the time needed to activate recovery measures.
- Should consider the recovery capacity resulting from the recovery measures.
- Should be calibrated at adequate levels to inform the institution of potential and/or actual risks of not complying with minimum regulatory requirements.

- Liquidity indicators may include:
  - Liquidity Coverage Ratio (LCR)
  - Net Cumulative Cash Flow metric
  - Cost of wholesale/brokered deposits
  - Additional indicators such as:
    - Loans to Deposits ratio
    - Concentration of liquidity and funding sources
    - Cost of total funding
    - Average tenure of retail and wholesale/brokered deposit funding
    - Contractual maturity mismatch
    - Available unencumbered assets

#### **c. Profitability Indicators**

- should capture any source of income that could lead to a rapid deterioration in the institution's financial position through lowered retained earnings (or losses) impacting the institution's funds.
- should include indicators pertaining to operational risk-related losses which may have a significant impact on the income statement, including, but not limited to, conduct-related issues, external and internal fraud, cyber concerns, or other relevant events.
- Profitability indicators may include:
  - Return on Assets
  - Net Interest Margin
  - Significant operational losses
  - Additional indicators such as:
    - Operating Costs to Operating Income ratio
    - Efficiency ratio

#### **d. 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.
- May include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.
- Should consider off-balance sheet exposures and the impact of non-performing loans on the asset quality.
- Asset quality indicators may include:
  - Growth rate of non-performing loans
  - Coverage ratio (Provisions/Total non-performing loans)
  - Additional indicators such as:
    - Net Non-Performing Loans/Tier 1 Capital
    - Gross Non-Performing Loans/Total Loans
    - Growth rate of impairments on financial assets
    - Non-performing loans by significant sector concentration

**e. Market-Based Indicators**

- Aim to capture the expectations of market participants of a rapidly deteriorating financial condition of the institution that could potentially lead to disruptions in access to funding and capital. In accordance with this objective, the framework of qualitative and quantitative indicators should refer to the following types of indicators:
  - 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.
  - Debt/liability-based indicators, capturing expectations from wholesale funding/brokered deposit providers such as credit default swaps or debt spreads.
  - Portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each institution (e.g., real estate, commercial, agriculture).
  - Rating downgrades (long term and/or short term) as they reflect expectations of rating agencies that can lead to rapid changes in expectations of market participants of the institution's financial position.
- Qualitative indicators may include:
  - Difficulty attracting deposits at current market rates
  - An unexpected loss of senior management or key personnel
  - Adverse court rulings
  - Negative market press
  - Significant reputational damage

**f. Macro-Economic Indicators**

- Should capture signals of deterioration in economic conditions in regions where the institution operates or has concentrations of exposures or funding.
- Should be based on metrics that influence the performance of the institution in specific business sectors that are materially relevant.
- Macroeconomic indicators may include:
  - Geographical macroeconomic indicators relating to the regions to which the institution is exposed and also considering risks stemming from potential legal barriers
  - Sectoral macroeconomic indicators relating to major specific sectors of economic activity to which the institution is exposed (e.g., real estate, commercial, agriculture)

**Market-based** and **macro-economic indicators** are optional if information is not readily available and/or they are not relevant to the institution.

## DESIGNING STRESS SCENARIOS

The objective of a recovery plan is not to forecast the factors that could prompt a crisis, rather it is to identify the potential recovery options available to counter those factors, and to assess whether the options are robust enough or their nature sufficiently varied to cope with a wide range of differing shocks.

Scenarios of severe macroeconomic and financial distress should be designed in a way that would threaten the failure of the institution if recovery measures were not implemented in a timely manner. However, given that the goal of a recovery plan is to prove the institution's capacity to restore its viability, these scenarios should be designed as near-default events. That is, they should bring the institution to the point of non-viability/failure, but no further.

Scenarios should be designed with the following in mind:

- They are based on events most relevant to the institution and should consider, among other relevant factors:
  - its business and funding model
  - its activities and structure
  - its size
  - its interconnectedness to other institutions (financial or otherwise) or to the financial system in general
  - any identified vulnerabilities or weaknesses of the institution
- They would threaten to cause the failure of the institution, unless recovery measures are implemented in a timely manner.
- They are based on events that are extraordinary, but plausible.
- The nature of the business including the institution's group, size, interconnectedness, financial system and funding models should commensurate the number of scenarios.
- The range of scenarios should include both **slow-moving** and **fast-moving** adverse events.
- Consider reverse stress testing as a starting point when developing scenarios that are near default.

### 1. System-wide events

When designing scenarios for system-wide events, the institution should consider the relevance of:

- the failure of significant counterparties affecting financial stability
- a decrease in liquidity available from SaskCentral or other market sources
- adverse movements in the price of assets in one or several markets
- a macroeconomic downturn

### 2. Idiosyncratic events

When designing scenarios for idiosyncratic events, the institution should consider the relevance of:

- the failure of significant counterparties
- damage to the institution's reputation
- a severe outflow of liquidity
- adverse movements in the prices of assets to which the institution is predominantly exposed
- severe credit losses
- a severe operational risk loss