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Communication

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Recovery plans – Specific guidelines for central securities depositories (CSDs) and institutions providing support to CSDs authorized in Belgium.

Scope

This Communication applies to Belgian credit institutions and Belgian parent undertakings of credit institutions which also have the regulatory status of CSD or institution providing support to CSDs authorized in Belgium and for Belgian CSDs which do not have the regulatory status of credit institution.

Summary/Objective

The present Communication provides information regarding our expectations with respect to the recovery plan. It is meant as a user friendly tool both for credit institutions and parent undertakings which also have the regulatory status of CSD or institution providing support to CSDs authorized in Belgium and CSDs which do not have the regulatory status of credit institution for the drafting of recovery plans in accordance with the requirements of the Bank Recovery and Resolution Directive, the EBA Final Draft Regulatory Standards on the content of recovery plans[1], the EBA Guidelines on the range of scenarios to be used in recovery plans[2], the new EBA Guidelines on recovery plan indicators [3], the EBA Recommendation on the coverage of entities in a group recovery plan[4], the CPMI-IOSCO Principles for financial market infrastructures (PFMIs)[5], and the guidelines of the CPMI-IOSCO report on recovery of FMIs[6]. Reference is also made to the EBA Technical Advice on the delegated acts on critical functions and core business lines[7].

This Communication replaces and modifies the previous Communication of 3 August 2016 by incorporating the recently published EBA Guidelines on recovery plan indicators. The changes in part 4.2 relate to the list of recovery plan indicators, the calibration of the thresholds for the recovery plan indicators and the actions and notificatons upon a recovery plan indicator breach.

This Communication includes templates to be used in the drafting of the recovery plan.

1 EBA/RTS/2014/11 July 18, 2014 on the content of recovery plans under Article 5(10) of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms.

2 EBA/GL/2014/06 July 18, 2014 on the range of scenarios to be used in recovery plans.

3 EBA/GL/2021/11 November 9, 2021 on recovery plan indicators.

4 EBA/REC/2017/02 November 1, 2017 on the coverage of entities in a group recovery plan.

5 Principles for Financial Market Infrastructures, Bank for International Settlement and International Organization of Securities Commissions (April 2012), http://www.bis.org/cpmi/publ/d101a.pdf.

6 Recovery of Financial Market Infrastructures, Bank for International Settlements and International Organization of Securities Commissions (October 2014, revised July 2017), www.bis.org/cpmi/publ/d162.pdf.

7 EBA/Op/2015/05, 6 March 2015, technical advice on the delegated acts on critical functions and core business lines.

Structure

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Dear Madam
Dear Sir

1 General overview and motivation

1. A recovery plan is a management strategy aimed at preventing a credit institution, a banking group or a CSD from failing when faced with severe stress[8]. This strategy must exclude from consideration any extraordinary form of state or central bank support. The objective of the recovery plan is to aid institutions in preparing their responses to potential shocks, so as allow them to act more rapidly and effectively. The recovery plan, as laid out in these guidelines, contains seven modules:

   (a) *Summary of the recovery plan*: the summary of the recovery plan offers a rapid overview of the key sections of the plan and summarizes the institution's own assessment of its overall recovery capacity;
   (b) *Governance:* This module describes the development and activation process of the recovery plan. The first section of the module describes the extent of involvement of senior management. This section is an essential component of the recovery plan, which helps to understand how and by whom the recovery plan has been developed. The second section of the module describes how and when the plan can be activated. The interests of all stakeholders who are likely to be affected by the recovery plan should be considered by the institution's board when the plan is being developed and implemented[9];
   (c) *Strategic analysis:* The strategic analysis is divided into two parts. The first part aims at providing a complete picture of the institution's activities and of their relevance from a systemic point of view with the aim to identify the critical functions of the institution, taking into account the participants base and the markets it underpins. In the second part, the institution is expected to describe the most appropriate recovery tools[10] for addressing an extreme solvency shock, liquidity shock and/or accumulation of business losses/sudden deterioration of business. The appropriateness of the tools should be analysed based on a specific set of criteria. The tools should not only include actions to bolster capital or liquidity but also more radical measures such as disposing of some activities and business lines[11], selling subsidiaries, or restructuring debt;
   (d) *Communication and disclosure plan.* In addition, as part of the recovery plan, the institution must devise a communication and disclosure plan outlining how it intends to communicate within and outside the institution;
   (e) *Preparatory measures*: The section on preparatory measures describes the measures that the institution has taken or plans to take in order to facilitate the recovery plan activation or execution;

8 Except where an explicit distinction is made between a group recovery plan and the recovery plan of an institution in the group, all references in this document to (the recovery plan of) an institution or entity should be interpreted as meaning (the recovery plan of) either a credit institution, a parent undertaking of a credit institutions which also has the regulatory status of settlement institution or support institution or a CSD which does not have the regulatory status of credit institution.

9 See Key Consideration 7 of Principle 2 of the PFMIs.

10 The "recovery tools" are to be understood as "recovery options" in the wording of the Bank Recovery and Resolution Directive.

11 Disposing of activities and business lines is subject to maintaining the continuity of the critical functions in the appropriate regulatory framework.

(f) *Structural weaknesses*: In some cases, structural weaknesses (e.g. weaknesses in the business model) can be the underlying cause of the financial problem. This module identifies such underlying causes and potential corrective actions. The module comprises a remediation plan that will help identifying and preparing the institution for potential material impediments to the effective and timely execution of the corrective actions. The aim is to address structural weaknesses and to identify the value and marketability of material business lines that the institution could sell[12];

(g) *Links between FMIs*: The institution should assess the impact of the design and implementation of its recovery plan on links it has with FMIs, as well as the impact of such links on the effectiveness of its recovery plan. If there are any, the relevant parts of their respective recovery plans should be coordinated.

2. The effectiveness of any given measure cited in a recovery plan will obviously depend on the scenario in which that measure is applied. We leave the specification of scenarios open; however, we expect you to consider several extreme but plausible scenarios, including at least one scenario which would simultaneously comprise an idiosyncratic and a systemic component. The events specified in the scenario should threaten the failure of the institution or the parent entity of the group or of one or several material legal entities within it, unless recovery measures are successfully implemented in a timely manner.

3. The scenarios should adequately take account of all relevant risk exposures that the institution faces, taking into account, among other relevant factors, its business model, its activities and structure, its size or its interconnectedness to other institutions or to the financial system in general, its participants base and the markets it underpins, and, in particular, any identified vulnerabilities or weaknesses of the institution. Each of the scenarios specified should be clearly described in the plan. The NBB may also request the addition of specific scenarios, in line with its assessment of the institution's weaknesses.

4. While the recovery plan is to be drafted exclusively by the institution, it does not represent a commitment by the institution or its management to take any particular action. Each crisis is specific and requires a response that is tailored to the circumstances. The objective of the recovery plan is to increase the number of available measures that may be taken in response to a severe shock and to facilitate their swift implementation should they be judged necessary. The effectiveness of specific measures would obviously need to be assessed in light of the particular shock before being implemented.

5. The recovery plan is a strategic document with highly sensitive contents. Throughout the process, the recovery plan will remain the institution's property and will only be transmitted to the NBB for assessment. Where the institution is systemically important to multiple jurisdictions or is subject to the authority of multiple regulators, supervisors or overseers, cooperation among the authorities in line with Responsibility E of the PFMIs is needed to conduct this assessment effectively, and relevant information with respect to the recovery plan will be shared with other authorities subject to adequate arrangements on confidentiality. The information contained in the plan will be subject to confidentiality restrictions.

[12] Disposing of activities and business lines is subject to maintaining the continuity of the critical functions in the appropriate regulatory framework.

2 Process of developing a recovery plan

6. The drafting of a recovery plan is a flexible, iterative process, often requiring repeated interaction between the institution and the NBB. The objective of the current communication is to facilitate the development of a plan that analyses in depth the feasibility and potential impact of each of the envisioned recovery options.

7. Sections 4 – 8 of this document provide templates for the drafting of the recovery plan. These templates are general. They cover the essential issues to be addressed in a recovery plan and provide a non-exhaustive guide to the information we expect to receive at a minimum. We expect the institution to build on these templates to develop its own unique recovery plan and to provide any additional information judged to be useful.

8. During the process the NBB may make requests for clarification, formulate new questions and templates, and specify additional requirements if deemed necessary. At the same time, we stand ready to answer any questions you might have or discuss any difficulties you may encounter in the drafting of your recovery plan.

9. Because the recovery plan is a strategic document, we expect active involvement of the higher decision organs of your institution. In particular, whereas the recovery plan may be drafted by senior staff members, its final version should be presented to and formally endorsed by the management committee and the legal management body (for a SA: the Board of directors). The plan should be accompanied by a submission letter signed by the legal management body stating that the recovery plan is owned, understood, and fully supported by the legal management body.

10. The recovery plan is also an evolving document, requiring regular review and updates. In line with Article 111 of the Banking Law and the CPMI-IOSCO guidance on recovery of FMIs, we require an annual update and an update after each significant change in the legal or organisational structure or in the activities or the financial position of the institution.

11. We ask that you designate a single point of contact in your institution for all communication from the NBB relating to recovery plans. Your point of contact should be a senior staff member who, in addition to centralizing the communication with the NBB, will co-ordinate the formulation of the recovery plan and initiate updates of the plan on an ongoing basis.

3 Summary of the recovery plan

12. The first section of the recovery plan must offer a summary of the main sections of the plan, as well as a general overview of the main conclusions of the recovery plan in a readable way, easily accessible to an uninitiated reader. It should, in particular, offer a discussion of the assessment of the overall recovery capacity of the entities covered by the plan, i.e. the extent to which the recovery tools allow the entities concerned to recover in a range of severe macroeconomic and financial stress situations.

13. In addition to drawing the main conclusions from the recovery plan, the summary should also highlight the key assumptions that have been made in the estimation of the impacts of scenario and of recovery tools.

4 Governance

4.1 Development, approval and updates of the plan

14. The objective of this section of the recovery plan is for the institution to provide an overview of the process of drafting the plan. In Table 1 the institution is expected to provide information:

    (a) on the process, so as to document that the development of the recovery plan is well integrated in the risk management system and the corporate governance of the institution; including a description of the measures and arrangements taken within the group to ensure the coordination and consistency of recovery options at the level of the group and of individual subsidiaries[13];
    (b) on the approval of the plan, so as to document that the plan has been explained to, and approved by, the highest decision-making bodies of the institution; and
    (c) on future updates of the plan, so as to show that the plan will remain accurate over time.

Table 1. Development, approval and updates of the plan

Questions	***Answers***
Development of the plan	
Describe the process undertaken to develop the plan, including the key departments and people involved in the development of the plan and their function.	
What existing processes and tools has the drafting of the recovery plan relied upon?	
What new processes and tools have been created following the drafting of the recovery plan?	
Describe which stakeholders (e.g. participants, linked FMIs, etc.) and how, are consulted during the drafting and the implementation of the plan. What are the mechanisms to involve the relevant stakeholders in the board decisionmaking process?	
Approval of the plan	
Describe the policies and procedures for verification and validation of the plan. Please identify the name(s) of person(s) or committee(s) with review, acceptance and/or approval responsibilities.	
Has the plan been presented to and approved by the legal management body (for a SA the Board of Directors) of the institution?	
Has the internal audit, risk committee (where relevant) or external audit been involved in the verification of the plan? If yes, please provide their opinion.	
Update of the plan	
Describe the process in case the recovery plan needs to be updated to respond to material changes affecting the institution or its environment. Please provide the name, functions and coordinates of the persons responsible for deciding on updates to the plan going forward.	

[13] For more detail on group recovery plans, EBA/REC/2017/02 November 1, 2017 on the coverage of entities in a group recovery plan.

4.2 Activation of the plan

15. The objective of this section of the recovery plan is for the institution to explain the process by which the recovery plan is activated. In table 2 the institution is expected to provide information on the activation of the plan, so as to demonstrate that the plan will be implemented early enough, when problems are still manageable. The indicators activating the escalation decision-making process to activate the recovery plan should be centrally monitored by the institution. A monitoring framework with indicators designed to detect stress at a sufficiently early stage should be included in the recovery plan. Institutions are expected to describe the early warning system in the monitoring framework and the points at which the recovery plan escalation process should be activated, in order to determine whether the triggering of recovery options is appropriate.

16. Institutions may have also identified certain measures that could be taken in early phases of stress but that would no longer be appropriate or feasible in a recovery phase and, therefore, cannot be included in the recovery plan as recovery tools. Such "business tools" could nevertheless be included in the monitoring framework, together with a description of the points, prior to the triggering of the recovery plan, at which the business tools would be considered.

4.2.1 Framework of indicators and thresholds

17. The choice of indicators should be adapted to the business model and strategy of the institution and be adequate to its risk profile. It should identify the key vulnerabilities most likely to impact the institution's financial situation. The recovery plan indicators may be of a qualitative or quantitative nature, and should include forward-looking indicators.

18. Institutions should describe the links and consistency between the recovery plan indicator framework, the institution's risk management framework and the existing liquidity or capital contingency plan indicators, as well as business continuity plan indicators. The recovery plan indicator framework should allow for regular monitoring and be integrated into the institution's governance and within the escalation and decision-making procedures.

19. Institutions shall include the following indicators in their recovery plan, divided into six categories, unless they demonstrate that these indicators are not relevant to the legal structure, risk profile, size and/or complexity of the institution. Where possible the institution should then replace it with another indicator from the same category which is more relevant for this institution (e.g., growth rate of impairments on financial assets). As a minimum, institutions should include at least one indicator in each of the categories 1 through 4. More information on each of these categories is provided under 4.2.1.1 through 4.2.1.6. Institutions may also include other indicators deemed more useful. To that end, the Annex contains a non-exhaustive list with examples of additional recovery plan indicators. The number of indicators should be sufficient to alert the institution of deterioriating conditions in a variety of areas. At the same time, this number of indicators should be adequately targeted and manageable by the institutions.

Category 1: Capital indicators
a) Common Equity Tier 1 ratio
b) Total Capital ratio
c) Leverage ratio
d) MREL and TLAC (where relevant)
Category 2: Liquidity indicators
a) Liquidity Coverage Ratio (LCR)
b) Net Stable Funding Ratio (NSFR)
c) Cost of wholesale funding
d) Available central-bank eligible unencumbered assets
e) Liquidity position: other liquidity metrics used for internal monitoring
Category 3: Profitability indicators
a) Return on Assets or Return on Equity
b) Significant operational losses
Category 4: Asset quality indicators
a) Growth rate of gross non-performing loans
b) Coverage ratio [Provisions / (Total non-performing loans)]
Category 5: Market-based indicators
a) Rating under negative review or rating downgrade
b) CDS spread
c) Stock price variation
Category 6: Macroeconomic indicators
a) GDP variations
b) CDS of sovereigns

20. While setting the quantitative recovery plan indicator thresholds the institution should use progressive metrics ('traffic light approach') in order to inform the institution's management body that such indicator thresholds could potentially be reached. For each of the quantitative indicators that are included in the monitoring framework the institutions should specify at least two threshold values: (1) an early warning threshold and (2) a "recovery plan threshold". Early warning threshold values should be calibrated so that they signal emerging stress well before a recovery plan would be expected to be activated, to increase the chances of a successful implementation of the recovery options.

21. The institution should be able to provide the NBB with an explanation of how the calibrations of the recovery plan indicators have been determined. For the calibration, the institution should consider the overall recovery capacity of the available options, the complexity of the options, and the time needed to implement them.

22. The appropriateness of the calibrations of the recovery plan indicators' thresholds should be regularly monitored and updated at least annually or more frequently where the update, is needed due to a change in the financial and business situation of the institution.

23. The NBB, in its supervisory capacity, and the resolution authority could decide to implement temporary relief measures in the case of a systemic crisis with the aim of alleviating the regulatory burdens that could adversely impact the institutions' ability to continue supporting the real economy. Considering the temporary nature and the specific objective of those relief measures, their granting should result in no automatic change to the calibration of recovery plan indicators' thresholds by the institutions.

4.2.1.1. Capital indicators

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

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

26. The capital indicators should also be integrated into the institution's Internal Capital Adequacy Assessment Process (ICAAP).

27. The thresholds for indicators based on regulatory capital requirements should be calibrated by the institution at adequate levels in order to ensure a sufficient distance from a breach of the capital requirements applicable to the institution (including minimum own funds requirements as specified in Article 92 of Regulation (EU) 575/2013 and additional own funds requirements applied pursuant to Article 149 of the Banking Law).

28. In line with the objective of the recovery process and the flexibility given to the institution to act independently when breaching indicators, thresholds for regulatory capital indicators should be set at a level higher than those that will allow supervisory intervention.

29. Generally, the thresholds for regulatiry capital indicators should be calibrated above the combined capital buffer requirement[14]. Where an institution calibrates its capital indicators within the buffers, it should clearly demonstrate in its recovery plan that its recovery tools can be implemented in a situation where the buffers have been totally or partially used.

[14] Defined in article 96 of the Banking Law: the capital conservation buffer extended by, if applicable, the institution-specific countercyclical capital buffer, the capital buffer for systemically important institutions and the capital buffer for systemic or macroprudential risks.

30. The thresholds for indicators related to the requirements set out in Articles 45c and 45d of Directive 2014/59/EU (minimum requirement for own funds and eligible liabilities – MREL) and Article 92a or 92b of Regulation (EU) No 575/2013 (TLAC), expressed as percentages of the total risk exposure amount (TREA) and total exposure measure (TEM), should be aligned with the calibration of the thresholds of the regulatory capital indicators and they should be set at a level above the one allowing the resolution authority's intervention in accordance with Article 16a of Directive 2014/59/EU [as amended by Directive (EU) 2019/879] and Article 128 of Directive 2013/36/EU [as amended by Directive (EU) 2019/878].

31. The threshold should be generally calibrated by the institution above the combined buffer requirement when considered in addition to (i) the TLAC minimum requirement and (ii) the final MREL or the binding intermediate target levels of MREL (if different) expressed as percentages of TREA. The institution should also take into account any additional element considered relevant when determining those requirements, including a subordination requirement, as applicable. If an institution should decide to calibrate indicators related to MREL and TLAC within the buffers, it needs to clearly demonstrate in its recovery plan that its recovery options can be implemented in a situation where the buffers have been totally or partially used.

32. The indicator threshold should take into account the maturity profile of eligible liabilities and the institution's ability to roll them over. For groups with an MPE (Multiple Points of Entry) resolution strategy, where the prudential and resolution scopes might differ, the institution should calibrate the consolidated level MREL/TLAC indicators for each of the resolution entities/groups.

33. The threshold calibration for MREL should be agreed by the NBB, in its supervisory capacity, in consultation with the resolution authority when making their assessment of the recovery plan.

4.2.1.2. Liquidity indicators

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

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

36. The liquidity indicators should be integrated with the strategies, policies, processes and systems developed by each institution pursuant to Article 94 of the Banking Law and its existing risk management framework.

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

38. The thresholds should be calibrated on the basis of the institution's risk profile and should take into account how quickly the liquidity situation may change, given the institution's individual circumstances. The thresholds should be calibrated taking into account the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures.

39. The thresholds for liquidity indicators should be calibrated by the institution at adequate levels in order to be able to inform the institution of potential and/or actual risks of not complying with those minimum requirements (including additional liquidity requirements pursuant to Article 151 of the Banking Law, if applicable)

40. The thresholds for indicators based on regulatory liquidity requirements (LCR and NSFR indicators) should therefore be calibrated above the minimum requirements of 100%.

41. To calibrate the thresholds of the liquidity position, the institution should consider liquidity metrics used for internal monitoring, reflecting its own assumptions on the liquidity that could realistically be derived from sources not taken into account in the regulatory requirements. For this, the institution could consider the amounts of the counterbalancing capacity (CBC), other liquidity sources (e.g. deposits with other credit institutions) and any other relevant adjustments. When establishing forward-looking indicators, the institution should assess which maturity to consider, according to the institution's risk profile, and then take into account the estimated inflows and outflows.

4.2.1.3. Profitability indicators

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

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

4.2.1.4. Asset quality indicators

44. 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.

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

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

4.2.1.5. Market-based indicators

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

    (a) 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;
    (b) debt-based indicators, capturing expectations from wholesale funding providers such as credit default swaps or debt spreads;
    (c) portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each institution (e.g. real estate);
    (d) rating downgrades (long term and/or short term) as they reflect expectations of the rating agencies that can lead to rapid changes in the expectations from market participants of the institution's financial position.

4.2.1.6. Macroeconomic indicators

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

49. The macroeconomic indicators should be based on metrics that influence the performance of the institution in specific geographical areas or business sectors that are relevant for the institution.

50. The macroeconomic indicators should include geographical macroeconomic indicators, relating to various jurisdictions to which the institution is exposed, giving also consideration to risks stemming from potential legal barriers.

4.2.2 Monitoring of indicators

51. Recovery plan indicators shall be defined so that they are easily monitored. The points at which the recovery plan escalation process must be triggered and the institution has to decide whether or not to activate a recovery tool should be clearly defined. Institutions should have appropriate arrangements for the regular monitoring of the indicators. Institutions should be able to provide the Bank with an explanation of how the calibrations of the recovery plan indicators have been determined and to demonstrate that the threshold would be breached early enough to be effective. In this context, the magnitude and speed of the breach of the threshold should be taken into account.

52. The management information systems of the institution should ensure an easy and frequent monitoring of the indicators by the institution and allow for the timely submission of the indicators to the competent authorities upon request.

53. The monitoring of recovery plan indicators should be undertaken on a sufficiently continuous basis to ensure the institution can take appropriate measures in a timely manner to restore its financial position following a significant deterioration.

54. When requested by the NBB, the institution should be able to provide it with values for its full set of recovery plan indicators (breached or not) at least on a monthly basis. The NBB could even request such information with an increased frequency, in particular in crisis situations or where one or more recovery plan indicators have been breached, having regard to the nature and speed of the crisis (fast or slow moving) and the type of indicator (e.g. liquidity indicators).

4.2.3 Actions and notifications upon breaching an indicator

55. Indicator breaches do not automatically activate a specific recovery option but indicate that an escalation process should be started to decide whether to take action or not. In the context of that escalation process institutions should at the latest:

    (a) within one business day after observing the breach alert the institution's management body; and
    (b) within one additional business day notify the breach to the competent authority.

56. Where a recovery plan indicator has been breached, the management body of the institution should assess the situation, decide whether recovery actions should be taken and notify its decision promptly to the NBB.

57. The decision taken by the institution referred to in the previous paragraph should be based on a reasoned analysis of the circumstances surrounding the breach. Where that decision is for the institution to take action in accordance with the recovery plan, the NBB should be provided with an action plan based on a list of potential credible and feasible recovery options for use in this stress situation and a timeline to remediate the breach. If no action has been decided, the explanation provided to the NBB should clearly articulate the reasons why and, where appropriate, demonstrate how the restoration of specific types of indicators and their breaches is possible without the use of recovery measures.

58. Any action or option taken or considered by the institution following an indicator breach, even if previously not included in the recovery plan, should be deemed relevant for the communication with the NBB. Indicatively, for that purpose, recovery options should include measures which are extraordinary in nature as well as measures that could also be taken in the course of normal business as referred to in Article 8 of Commission Delegated Regulation (EU) 2016/1075 (e.g. from contingency measures to the more extreme and radical recovery options).

Table 2. Activation of the plan

Questions	*Answers*
Activation of the plan	
Describe your monitoring framework for potential trigger events and your escalation decision-making processes to consider and determine which recovery tool may need to be applied (including a discussion of the procedure for informing the NBB about the breach of indicator threshold values). Describe which stakeholders (e.g. FMIs, key vendors, etc.) and how, should be consulted when an indicator is breached. The description of the monitoring framework should include a description of the indicators that are included and identify their threshold values. These indicators should include the minimum list of recovery plan indicators specified abve. Additional indicators should reflect additional possible vulnerabilities, weaknesses or threats to, as a minimum, the capital position, liquidity situation, profitability, asset quality and risk profile of the institution.	
Describe the consistency of the monitoring framework with the risk management framework, including a description of early warning signals, which are part of the institution's regular internal risk management process, where these benchmarks are useful to inform the management that the indicators could potentially be reached.	
Please provide the name, functions and coordinates of the persons responsible for the monitoring of potential trigger events and the activation of the plan and the role, responsibilities and functions of members of committees involved.	
Describe how the institution will ensure that the information necessary for the possible implementation of recovery options can reliably and timely be made available for decision-making in stressed conditions.	

5 Strategic analysis

59. The strategic analysis consists of three parts. The first aims at providing an analysis of the group structure, where relevant, and of the main activities performed within the institution. These activities include both the core business activities of the institution and any critical functions performed by the institution. In the second part the institution is expected to list its exposures to main counterparties. The third part is at the heart of the recovery plan. Institutions must identify scenarios that would be sufficiently severe so as to threaten the failure of the institution if recovery measures are not taken. Institutions must also identify the available recovery tools and then assess the recovery tools in the context of each scenario.

60. Where relevant information has already been submitted to the resolution authority for the drafting of the resolution plan, the Bank will accept cross references to the relevant sections of the resolution plan as sufficient for the purposes of this section, unless the cross references compromise the completeness and the quality of the recovery plan as required.

5.1 Material entities of the institution and critical functions

61. The objective of this section of the recovery plan is to provide some background information on the institution and, where relevant, on the group's organizational structure. For groups, this includes a general overview of the legal structure, activities, and interdependencies between the different entities within the group. (The EBA Recommendation on coverage of entities in a group recovery plan provides detailed guidance on identifying material entities of the group.)

62. The description of the institution should comprise a description of the overall business and risk strategy and of the business model and business plan of the institution. Where a group exists, the business model and plan should be included for all material entities. The institutional description should also include a list of all core business lines and critical functions. Core business lines are defined as business lines and associated services which represent material source of revenue, profit or franchise value for the institution. Critical functions are defined as those activities, services and operations for which the discontinuation would be likely to lead to disruptions of services of the real economy, disruptions of the good functioning of payment, clearing and settlement infrastructures or of the functioning of financial markets or disruptions of financial stability due to the institution's size or market share, external and internal interconnectedness, complexity or cross-border activities, including by undermining public confidence in financial stability in one or more countries[15]. The description of core business lines and critical functions should comprise a discussion of the process and metrics used for identifying them.

63. When the recovery plan concerns a group, the description of the group should comprise a diagram of the material branches or legal entities within the group and their organization. A material branch or legal entity is defined as any entity:

[15] See also the EBA Technical Advice on the delegated acts on critical functions and core business lines.

(a) that substantially contributes to the profit of the group or its funding, or that holds an important share of its assets, liabilities or capital; or
(b) that performs key commercial activities; or
(c) that centrally performs key operational, risk or administrative functions; or
(d) that bears substantial risks that could, in a worst-case scenario, jeopardize the viability of the group; or
(e) that cannot be disposed of or liquidated without being likely to trigger a major risk for the group as a whole; or
(f) that is important for the financial stability of at least one country in which it operates.

64. There is no need to provide detailed information regarding branches or legal entities that are not material.

65. Table 3 provides a list of questions that should be answered for the institution or for each material branch or legal entity of a group. For groups, the table allows i.a. to map core business lines and critical functions to material legal entities and branches and allows a detailed description of the group's financial structure.

Table 3. Presentation of material entities of the institution or group

Questions	*Answers*
In what country is the entity located?	
In what country is the entity mainly active?	
For groups: For what reasons is this entity considered to be material?	
For groups: Is the entity a branch or a subsidiary?	
For groups: Is the entity locally subject to direct prudential supervision, and if so, who is the competent authority?	
Indicate the main activities performed by the entity and their quantitative importance (e.g. settlement, asset servicing, securities lending and borrowing, collateral management services, issuer services, clearing, wholesale deposit taking, wholesale payments, debt and equity capital markets, cash services, payment services, third party services, etc.). Indicate the critical functions provided by the entity and the process and metrics used for identifying them. For groups: Does the entity provide critical functions or is it part of a core business line? Indicate the critical functions provided by the entity.	
Indicate the ancillary functions that are essential to maintain the continuity of the critical functions. Which entities provide these ancillary functions?	
For groups: Indicate the key operational, risk or administrative functions, if any, for which the entity depends on services provided either centrally or by another entity within the group (e.g. corporate treasury, back office, group's internal audit, risk management, human resources management, finance, IT, legal, etc.). Does this entity provide any key operational, risk or administrative services to other entities within the institution? How important is the contribution of this entity to the profit of the group?	
For groups: What percentage of the group's assets is booked in this entity?	
For groups: To what share of the group's funding does this entity contribute?	
For groups: What share of the group's (regulatory and accounting) capital is held by this entity? Figures should be indicated for CET1, T1 and T2.	

For groups: Describe the intra-group support from which the entity benefits as well as the support it provides to other entities within the group. When answering this question, please consider intra-group exposures arising from intra-group committed facilities, intra-group senior and subordinated loans, intra-group bond lending / repo agreements and intra-group guarantees. Please make a distinction between support intended for business as usual and that intended for crisis periods.	
For groups: Describe any other major financial or non-financial linkages between the entity and other legal entities within the group, including material legally binding agreements between entities of a group including, for example the existence of domination agreements and profit and loss transfer agreements.	
For groups: Describe how the risk management and control functions of the entity fit in the broader risk management framework of the group (management reporting, internal audit, compliance, etc.).	
How are competent authorities and stakeholders involved in the process of identifying the critical and non-critical functions of the entity?	

66. For groups, the plan should also contain information regarding the overall organization of financial, operational and legal relationships between the different legal entities of the group. This should include:

    (a) a description of the financial interdependencies, including a description of how the treasury function is organized and an overview of the funding relationships within the group;
    (b) a description of the operational interdependencies between the group entities; and
    (c) a description of the legal interconnections.

5.2 Exposures to main counterparties

67. If not already included elsewhere, the institution is expected to provide in this section information on main external interconnectedness, including:

    (a) a description of significant financial products and services which are provided by the institution for other financial market participants;
    (b) a description of significant services which third parties provide for the institution;
    (c) a description of significant exposures and liabilities to main counterparties and linked FMIs (including interbank exposures).

68. For the description of significant interbank exposures, you are expected to report, in particular, your exposure to Dexia, KBC, BNP Paribas (including a special breakdown for BNP Paribas Fortis), Belfius and ING (including a special breakdown for ING Belgium). You should then list your ten largest exposures to financial institutions. All data can be reported in Table 4. For each exposure, please indicate the internal limit on the amount of the total exposure, the largest actual exposure during the past year, and a breakdown of that exposure into the following categories (where relevant):

(a) overnight deposits;
(b) unsecured deposits:
    i. from next day to three months;
    ii. from three months to one year;
    iii. over one year;
(c) unsecured unguaranteed marketable securities:
    iv. under 3 months;
    v. from 3 months to one year;
    vi. from one year to three years;
    vii. over three years;
(d) covered bonds;
(e) ABS originated by bank;
(f) guaranteed bonds;
(g) repo exposures (and any information available on collateral);
(h) marked to market value of OTC derivatives exposures;
(i) credit and liquidity lines;
(j) other.

Table 4. Exposures to financial institutions

Name of the counterparty	*Internal limit on the size of exposure*	*Largest actual exposure over the past year*	*Breakdown of the exposure*
Dexia SA			
Belfius			
KBC			
BNP Paribas			
of which BNP Paribas Fortis			
ING			
of which ING Belgium			

5.3 Strategic analysis: scenarios and recovery tools

69. The presentation of scenarios and recovery tools is built up in three tables. The first, Table 5, consists of a description of the different scenarios developed in the recovery plan and their estimated impact. The second, Table 6, contains a description and feasibility assessment of different recovery tools. Finally, Table 7, provides an assessment of the impact of each recovery tool on the institution's financial situation, including on its solvency, liquidity, and profitability.

5.3.1 Description of scenarios

70. This section of the recovery plan develops the scenarios which the institution believes would cause it to face a severe solvency shock, liquidity shock and/or accumulation of business losses/sudden deterioration of business. We leave the identification of relevant scenarios open. This is to allow each institution to base its scenarios on events that are most relevant to the institution, taking into account factors such as the business and funding model, the activities and structure, the size or the interconnectedness to other institutions or to the financial system in general, the participants base and the markets the institution underpins and, in particular, any identified vulnerabilities or weaknesses of the institution. In general, the scenarios should take into account the various risks to which the institution is exposed. The underlying assumption should be such that the scenarios are sufficiently severe.

71. We first ask each institution to identify the maximum capital shocks, liquidity shocks and/or accumulation of business losses/sudden deterioration of business that the institution believes it could withstand without having to enter into resolution. A shock that goes beyond these thresholds would imply that the institution has reached the point of resolution; i.e., a situation in which the institution believes it would no longer be viable.

72. We then ask each institution to describe a sufficient number (in consultation with the NBB) of extreme but plausible scenarios which would require the triggering of recovery tools. We require that among these scenarios, the institution include a mix of scenarios with levels of sufficient severity. In particular, the scenarios should incorporate shocks that are very severe; i.e., where the events envisaged would bring the institution or the parent entity of the group or one or more material legal entities within the group to default unless recovery measures are successfully implemented in a timely manner. Reverse stress testing should be considered as a starting point for developing very severe scenarios.

73. Even though the specification of the scenario is open, we ask to consider at least one scenario based on idiosyncratic events, a scenario based on system wide events, a scenario based on business loss and a scenario in which both an idiosyncratic shock and a systemic shock occur simultaneously, taking into account the potential impact of domestic and cross-border contagion in crises, as well as of simultaneous crises in several significant markets. Scenarios should integrate both slow moving and fast moving elements. At least one scenario should have an impact on both solvency and liquidity. Finally, if the institution is part of a group, it should consider scenarios impacting different group entities simultaneously and intra as well as extra group transmissions.

74. In designing scenarios based on system wide events, the institution should assess the relevance (based on direct and indirect impacts) of the following events:

    (a) the failure of significant counterparties affecting financial stability;
    (b) a decrease in liquidity available in the interbank lending market;
    (c) the failure of one of your committed liquidity providers combined with a decrease in liquidity available in the interbank lending market
    (d) increased country risk and generalized capital outflow from a significant country of operation of the institution;
    (e) adverse movements in the prices of assets in one or several markets;
    (f) geopolitical circumstances;
    (g) increased competition;
    (h) a macroeconomic downturn.

75. In all the scenarios based on system wide events, the simultaneous impact on different group entities should be assessed.

76. In designing scenarios based on idiosyncratic events, the institution is required to assess the relevance of the following events:

    (a) the failure of significant counterparties;
    (b) the risk associated with the failure of a third party to perform a critical function for the institution;
    (c) risks transmitted by/through other entities of the group or from linked FMIs;
    (d) damage to the institution's reputation;
    (e) a severe outflow of liquidity including intraday funding loss;
    (f) severe credit losses;
    (g) general business losses;
    (h) the risk of fraud;
    (i) a severe operational risk loss.

77. In all the scenarios based on idiosyncratic events, the impact on interconnected (group) entities should be assessed.

78. The events included in the idiosyncratic scenarios should be the most relevant events for the institution.

79. In addition to describing the scenarios in Table 5, the institution should also assess the initial impact of the shock on its solvency, liquidity, profitability and on the provision of critical functions. Any other material impact should be described as well, including e.g. the impact on the business model, on payment and settlement operations and on reputation.

80. Finally, for each of the scenarios, the institution is required to identify critical assumptions in assessing the impact of the scenarios and to indicate how the scenario would differ if the assumptions were changed.

Table 5. Scenario descriptions and initial impacts

	Description	*Impact on capital*	*Impact on funding*	*Impact on liquidity*	*Impact on profitability*	*Impact on risk profile*	*Impact on operations*	*Any other material impact*	*Impact on the provision of critical services*
Scenario 1									
Critical assumptions									
Scenario 2									
Critical assumptions									
Scenario 3									
Critical assumptions									
Scenario 4									
Critical assumptions									
Scenario 5									
Critical assumptions									
Scenario 6									
Critical assumptions									

5.3.2 Recovery tools

81. Table 6 describes the potential tools that could be implemented in the case where any of the scenarios described in Table 5 materialises. These tools constitute the management's strategy for preventing a failure in case a stress scenario would materialize.

82. Institutions that (also) have the regulatory status of CSD should analyse whether loss allocation tools towards their participants and tools to transfer critical functions and/or Intellectual Property Rights (IPRs) of an entity in recovery to another viable entity of the group are appropriate tools to include in the list of recovery tools. Where appropriate, the following types of measures could be included:

   a) ex ante, rules-based tools that fully allocate, for example through loss allocations based on FMI participant's positions, any losses caused by a FMI participant default that are not otherwise covered;
   b) ex ante, rules-based tools that fully allocate any liquidity shortfalls, whether caused by a FMI participant default or otherwise, that are not covered by available resources;
   c) where the FMI is part of a group, tools to transfer the critical functions of the FMI in recovery to another viable FMI of the group;
   d) where the FMI is part of a group, tools to transfer the IPRs of the FMI in recovery to another viable FMI of the group.

83. Table 6 should include a sufficient number of potential tools. For an entity that (also) has the regulatory status of CSD, this list could also include the tools mentioned in the above paragraph. However, the list should inter alia include tools to increase capital, tools to replenish the depleted prefunded financial resources or liquidity arrangements, etc. These tools should not involve any assumption of extraordinary forms of state aid or extraordinary central bank support. They should also be implementable at very short notice and should have a tangible impact in the short run. Recovery tools shall include measures which are extraordinary in nature and which are not measures taken in the course of the institution's normal business. The institution should also assess the impact of the recovery tools on the recovery plan of the other group entities. The following types of measures will be included where appropriate:

   a) a range of capital and liquidity actions required to maintain operations of, and funding for the institution's critical functions and core business lines which have as their primary aim to ensure the viability of critical functions and core business lines;
   b) arrangements and measures the primary aim of which is to conserve or restore the institution's consolidated own funds through external recapitalisations and internal measures to improve the capital position of the institution;
   c) arrangements and measures to ensure that the institution has adequate access to contingency funding sources, including potential liquidity sources, an assessment of available collateral and an assessment of the possibility to transfer liquidity across group entities and business lines, to ensure that it can carry on its operations and meet its obligations as they fall due. For groups, these measures shall include external measures and, where appropriate, measures that aim at reorganising the available liquidity within the institution;
   d) tools to replenish any financial resources it may employ in a stress event;
   e) insurance or indemnity agreements to enable it to recover from losses from general business, custody and investment risk;
   f) tools to deal with other losses or liquidity shortfalls, in particular from those general business risks that may materialise more slowly;

g) arrangements and measures to reduce risk and leverage, or to restructure business lines including, where appropriate, an analysis of possible material divestments of assets, legal entities, or business lines[16];
h) arrangements and measures the primary aim of which is to achieve a voluntary restructuring of liabilities, without triggering an event of default, termination, or similar event;
i) where the institution considers it necessary, any other management actions or strategies the primary aim of which is to restore the financial soundness of the institution.

84. The table is divided into four parts:

(a) *Description*: Each tool is briefly described, and the legal entities involved in the tool are listed. For groups, the involvement of a legal entity may result from the shareholding structure, an operational link, financial interdependence, or any other substantive relationship;
(b) *Process*: The second part of the table presents information about the decision process. The internal decision making process should also be described, including the steps to be followed, the timing, and the parties involved, up to the point of implementing the option. If the timing is uncertain, estimated ranges (best case, base line and worst case) may be provided, together with reference to factors that would affect these ranges. Finally, the information needs and potential barriers (including operational barriers) to the provision of information should be indicated;
(c) *Risk assessment*: The objective of this part of the table is to assess the feasibility of the tool and to identify the potential pitfalls in implementing it. The main assumptions relating to the tool and its feasibility should be outlined. In particular, what conditions need to be satisfied in order for the tool to be feasible? For example, it may be necessary for specific markets to be operating normally or that certain legal or operational requirements are fulfilled. The main risks associated with the tool, including financial, operational, and reputation risks, should be reported, as well as any other significant risk that may not fall into these three categories. The assessment of the risk associated with the recovery tool should draw on any prior experience relating to implementation of the recovery tool or of a similar measure. Information on potential rating downgrades, and on the profiles of possible buyers for disposals of any activities or entities, should also be provided. Finally, any potential legal or regulatory obstacles should be cited, covering at a minimum the issues of shareholder rights, competition law, tax issues, and social law.
(d) *Identification of potential consequences for the financial system*: In this part of the table any system-wide implications associated with implementation of the tool should be identified.

[16] Disposing of activities and business lines is subject to maintaining the continuity of the critical functions in the appropriate regulatory framework.

Table 6. Description of recovery tools (To be filled in separately for each tool.)

	Questions	*Answers*
Description	Describe the tool.	
	For groups: Which legal entities within the group would be involved in implementing the tool?	
	What impacts will the tool likely have on shareholders, customers, counterparties or, for groups, the rest of the group?	
	Does the entity have contractual clauses for loss allocation to the owners, participants or other potential creditors? If yes, how and where are they formulated? Are there contractual arrangements?	
	Does the tool involve loss allocation? Explain how it will be implemented.	
Process	What would trigger the implementation of the tool?	
	Describe the internal decision making process, including the timing and the different steps involved in the decision to implement the tool.	
	What information would be required in order to implement the tool? Is this information readily available? Are there any legal or operational barriers to the provision of this information?	
Risk assessment	Describe your main assumptions relating to the feasibility of the tool and to its impacts.	
	Identify the main risks associated with the tool, making a distinction between financial, operational and reputation risks.	
	Identify the main risks for the participants, linked FMIs and for the market more generally, associated with the tool.	
	Would implementation of the tool be expected to trigger a rating downgrade?	
	If the tool is a disposal, indicate the potential types of buyers.	
	Assess the constraints (legal, operational, etc.) to the implementation of the recovery tools (e.g. domestic or foreign laws or regulations). If the recovery tool involves loss allocation, identify possible impediments to the implementation of the loss allocation tool.	
	Would implementation of the tool be affected by any legal constraints? What are the key regulatory and legal issues (shareholder / third party approval, pre-emption rights, breach of contractual covenant, stopping a service line, competition law contractual obstacles, tax issues, pensions or HR issues ...)?	
Operational contingency plan	Can the continuity of operations be maintained if the recovery tool is implemented? Please describe any measures necessary to maintain continuous access to relevant financial market infrastructures, any arrangements and measures necessary to maintain the continuous functioning of the institution's operational processes, including infrastructure and IT services, and, where the tool involves the separation of an entity from the group, an explanation of how the separated entity can continue to operate without any group support.	

Negative consequences	Describe the expected impact the implementation would have on the capacity of the institution to exert critical functions.	
	Are there any potential system-wide implications associated with implementation of the tool?	

5.3.3 Impact assessment

85. The objective of this section is to provide an impact assessment for each measure proposed above in each of the scenarios described in Table 5. Where relevant, the assessment shall clearly identify the different entities of the institution which may be affected by the option or involved in its implementation. This assessment is provided in Table 7, which should be filled in separately for each scenario listed in Table 5. For any given scenario, all of the measures that could potentially be used in that scenario should be included. Then, an assessment should be made of the impact of each recovery tool on the institution's capital position/solvency, funding/liquidity, profitability on the provision of critical functions and on the group entities. Any other material impact on the institution should also be mentioned. An estimate of the likelihood of success should be provided, as well as the factors that would facilitate or complicate the implementation of the measure in that scenario. This assessment should take explicit account of the time necessary to implement the tool. Finally, a score reflecting the comprehensiveness of the measure in the specific scenario should be given, where the score ranges from 0 (not comprehensive)) to 5 (highly comprehensive).

86. The discussion of the impact of the recovery tools should identify the key valuation and other assumptions that have been made and the sensitivity of the impact estimates to these assumptions.

87. A specific assessment of a measure should be provided for each of the different scenarios. If the impact of a given measure is invariant across scenarios, you may copy-paste the same line in each of the tables. Obviously, some measures will not be feasible for some scenarios. In this case, no impact assessment is required. Nevertheless, we ask that you explain why the measure cannot be implemented in that scenario.

88. The final line of the table summarizes the combined impact of simultaneous implementation of all of the measures listed for a given scenario.

89. In addition to this table, we require the institution to identify and discuss all critical assumptions that underlie the impact assessment for each of the recovery tools. The institution should indicate how the scenario impact would differ if the critical assumptions were changed. The institution is also expected to provide a detailed description of the valuation assumptions and all other assumptions made concerning inter alia the marketability of the assets, or the behaviour of other institutions. The impact assessment will include, where relevant for the assessment of the tool, a detailed description of the processes for determining the value and marketability of the core business lines operations and assets of the institution.

90. In analysing the comprehensiveness of recovery tools, institutions are advised to consider the impacts of recovery tools during both the crisis year and subsequent years.

Table 7. Impact assessment of the measures in the different scenarios (To be filled in separately for each scenario)

Measure	*Potential impact on capital / solvency*	*Potential impact on funding/liquidity*	*Potential impact on profitability*	*Potential impact on provision of critical functions*	*Potential impact on group entities*	*Any other material impact*	*Probability of success and factors influencing the probability of success*	*Comprehensiveness (0 = not comprehensive ; 5 = highly comprehensive) as a standalone tool*	*Comprehensiveness in combination with other tool(s) (Please indicate with which tool(s) the tool should be combined in order to form a comprehensive set of tools)*
Tool 1									
Tool 2									
Tool 3									
Tool 4									
Tool 5									
Tool 6									
Tool 7									
Tool 8									
Tool 9									
Tool 10									
Tool 11									
Tool 12									
Total									

91. The institution should assess the appropriateness of each recovery tool per scenario in Table 7bis. The institution should do this via 5 specific characteristics (comprehensive, effective, transparent, measurable, manageable and controllable, create appropriate incentives and minimise negative impact) that will help to evaluate the strengths and weaknesses of each tool so that it can choose the set most appropriate for each relevant recovery scenario, including the sequence in which they should be used. The set of recovery tools should exhibit these criteria to the greatest extent possible:

    (a) *Comprehensive*. The set of tools should comprehensively address how the institution would continue to provide critical functions in all relevant scenarios. The analysis of Table 7 can be used to assess whether the set of tools is comprehensive or not;
    (b) *Effective*. Each tool should be reliable, timely, and have a strong legal basis;
    (c) *Transparent, measurable, manageable and controllable*. Tools should be transparent and designed to allow those who would bear losses and liquidity shortfalls to measure, manage and control their potential losses and liquidity shortfalls;
    (d) *Create appropriate incentives*. The tools should create appropriate incentives for the institution's participants and other relevant stakeholders to control the amount of risk that they bring to or incur in the system and to monitor the institution's risk management activities;
    (e) *Minimise negative impact*. The tools should be designed to minimise the negative impact on participants and the financial system more broadly.

92. Institutions that (also) have the regulatory status of CSD should assess whether it is appropriate to include tools to transfer critical functions and/or IPRs to another viable entity of the group in the list of recovery tools based on Table 7bis.

Table 7bis. Assessment of appropriateness of each recovery tool

Recovery tool	***Comprehensive***	***Effective***	***Transparent, measurable, manageable and controllable***	***Create appropriate incentives***	***Minimise negative impact***
Tool 1					
Tool 2					
Tool 3					
Tool 4					
Tool 5					

93. Institutions that (also) have the regulatory status of CSD should assess whether it is appropriate to include tools to allocate losses to their participants in the list of recovery tools. In this assessment, the entity should make a distinction between the different types of risks to which it is exposed and describe the type of event for which the tool will be used (e.g. failure of linked FMI). The appropriateness assessment can be based on Table 7bis.

6 Communication and disclosure plan

94. The institution should present in Table 8 a detailed communication and disclosure plan which covers the following:

    (f) internal communication, in particular to staff, works council or other staff representatives in local and foreign entities;
    (g) external communication, in particular to shareholders, resolution or supervisory authorities, counterparties, financial markets, financial market infrastructures, investors, participants and issuers and the public in general, as appropriate. In particular, the plan will explain how any potentially negative market reaction could be managed.

95. The recovery plan will include an analysis of how the communication and disclosure plan would be implemented for each recovery tool, providing an assessment of the potential impact on the business and on the financial stability in general.

Table 8. Communication plan

Questions	***Answers***
Communication plan	
Please describe your internal communication plan. Specify each of the relevant parties that need to be informed, why they need to be informed, the stage at which they need to be informed and the channel through which they will be informed.	
Please describe your external communication plan. Specify each of the relevant parties that need to be informed, why they need to be informed, the stage at which they need to be informed and the channel through which they will be informed.	
Please specify how you intend to manage any potentially negative market reaction.	
Please specify at which stage you intend to inform supervisory authorities.	

7 Preparatory measures

96. In this section of its recovery plan, the institution is expected to present a detailed analysis of:

    (a) any preparatory measure taken to facilitate the sale of assets or business lines in a timeframe appropriate for the restoration of financial soundness;
    (b) any preparatory measure that the institution has taken or plans to take in order to facilitate the implementation of the recovery plan or improve its effectiveness, including measures necessary to enable the timely recapitalisation of the institution and to overcome obstacles to the effective implementation of recovery tools.

8 Structural weaknesses

97. In this section, the institution should conduct a current state analysis to identify any existing structural weaknesses and provide a remediation plan to address the structural weaknesses. In some cases, structural weaknesses can be the cause of the financial problem and thus lead to a recovery event. In this section, the institution should identify these structural weaknesses and describe potential corrective actions. The institution should also conduct a remediation plan that will help identifying and prepare for potential material impediments to the effective and timely execution of the corrective actions. The institution should also identify the processes to calculate the value and marketability of material business lines that it may wish to sell to correct the structural weaknesses.

Table 9. Structural weaknesses

Questions	*Answers*
Identify potential structural weaknesses that could necessitate a triggering of the plan.	
Identify potential tools to correct these structural weaknesses (e.g. selling business lines, changing management, etc.)	
Identify potential material impediments to the effective and timely implementation of these tools to address structural weaknesses.	
If the tool to address structural weaknesses is the sale of (part of) the institution's business, describe the process for determining the value and marketability of material business lines that it may wish to sell.	
If the tool to address structural weaknesses is the sale of (part of) the institution's business, identify the legal, regulatory or IT-related obstacles that would make it difficult to execute the sale in a timely manner (i.e. within the period for which it has liquid net assets funded by equity).	

9 Links between FMIs

98. The institution should assess the impact of the design and implementation of its recovery plan on links it has with FMIs, as well as the impact of such links on the effectiveness of its recovery plan. If there are any, the relevant parts of their respective recovery plans should be coordinated.

A copy of this communication is also sent to the accredited statutory auditor(s) of your institution.

Yours sincerely

Pierre Wunsch
Governor

Annex

Illustrative list of additional recovery plan indicators

Category 1: Capital indicators
a) Retained earnings and Reserves / Total Equity
b) Adverse information on the financial position of significant counterparties
Category 2: Liquidity indicators
a) Concentration of liquidity and funding sources
b) Cost of total funding
c) Average tenure of wholesale funding
d) Contractual maturity mismatch
e) Cost of wholesale funding
f) Sudden flight of participants' balances
Category 3: Profitability indicators
a) Cost-income ratio (Operating costs / Operating income)
b) Net interest margin
Category 4: Asset quality indicators
a) Net non-performing loans / Equity
b) Gross non-performing loans / Total loans
c) Growth rate of impairments on financial assets
d) Non-performing loans by significant geographic or sector concentration
e) Forborne exposures / Total exposures
Category 5: Market-based indicators
a) Price to book ratio
b) Reputational threat to the institution or significant reputational damage
Category 6: Macroeconomic indicators
a) Rating under negative review or rating downgrade of sovereigns or major participant
b) Unemployment rate