



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1158 Series of 2022

Subject: Guidelines on Recovery Plan of Banks

The Monetary Board, in its Resolution No. 1506 dated 13 October 2022, approved the amendments to the guidelines governing the submission of recovery plans of banks as well as the prudential measures under the Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process.

Section 1. Section 156 and Appendix 150 (*Annex A of this Circular*) of the Manual of Regulations for Banks (MORB) shall be created to provide the guidelines governing the recovery plan of banks. Annex D of Appendix 110 of the MORB on the Guidelines on Recovery Plan of a Domestic Systemically Important Bank (D-SIB) shall be deleted accordingly.

156 GUIDELINES ON RECOVERY PLAN OF BANKS

Policy Statement. Recovery planning is an important process to reduce the potentially significant risks posed by a bank's distress or disorderly failure to the stability of the financial system and the economy. Recovery planning is a fundamental element of a risk management framework as it enables banks to respond quickly, effectively, and credibly to situations of financial stress to protect depositors and other customers as well as to promote viability and maintain shareholder value.

In this regard, the Bangko Sentral expects all banks to undertake recovery planning and to develop a concrete and reasonable recovery plan that is linked to their risk management framework, internal capital adequacy assessment process or capital planning, liquidity plans, and business contingency plans. Recovery plans should be informed by a bank's risk appetite statement and results of its stress testing. The recovery plan shall set out the governance arrangements, recovery options, and communication strategies in periods of extreme stress scenarios to maintain or restore the viability of banks and ensure continuity of operations.

Banks are expected to adopt a recovery plan that is commensurate to their size, nature and complexity of operations, overall risk profile, and systemic importance.

Scope of Application. All banks, including government-owned banks, shall maintain a recovery plan on a solo and group-wide basis, as applicable. The group-wide recovery plan shall cover the parent bank and all its material entities, including subsidiary banks.

Foreign bank branches may refer to the recovery plan developed by their respective Head Offices and adopt relevant policies and strategies that are consistent with applicable provisions of this Section and commensurate to the scale of operations in the Philippines.

Definition of Terms. For purposes of this Section, the following definitions shall apply:

- a. *Control* of an enterprise shall refer to the definition under Item “d” of Section 131 (*Definition of Terms*).
- b. *Material entities* shall refer, at a minimum, to the bank’s subsidiaries and affiliates, as defined under Sec. 131 (*Definition of Terms*), which represent a significant portion of the balance sheet or business activities of the parent bank.
- c. *Critical functions* shall refer to activities performed by a bank or banking group for its clients, where failure to carry out the same would have a material negative impact on a significant number of its depositors and other clients. Critical functions may include retail and commercial banking, trading, payment and settlement, and asset management, among others.
- d. *Critical services* shall refer to internally and externally provided services needed to enable the performance of critical functions and management of the bank. Critical services may include but not limited to internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts, and outsourced services.

Guiding Principles and Components of the Recovery Plan. The detailed guiding principles and components of the recovery plan are provided in Appendix 150. The recovery plan shall contain the following:

- a. An *executive summary* which provides a brief overview of the recovery plan covering the governance arrangements, summary of triggers and indicators, key recovery strategies and the corresponding operational plan for its implementation, among others. In the case of D-SIBs, the summary shall also indicate the material changes in the recovery plan from the last submission to the Bangko Sentral;
- b. *Governance arrangements* which cover the responsibilities of the board of directors, senior management, business units and self-assessment functions encompassing the entire recovery planning process, including the activation and implementation of recovery options and communication strategy, among others;
- c. *Critical functions and services* which cover the critical activities of the bank and services enabling the performance of such critical activities;
- d. *Triggers and early warning indicators* which discuss the set triggers and indicators as well as the procedures related to monitoring, escalation, and approval process;
- e. *Restoration points* which specify the identified financial indicators relating at a minimum to capital and liquidity as well as the timeline for restoration for such indicators;
- f. *Recovery options* which describe the menu of feasible and credible options based on exogenous and entity-specific assumptions;
- g. *Stress scenarios* which cover entity-specific and system-wide scenarios and a combination thereof as well as the recovery strategies for each scenario, drawing from the menu of recovery options;
- h. *Preparatory measures* which set out the operational and legal pre-positioning needed to implement recovery options;

- i. *Testing and simulation exercises* which set out the areas that should be covered in the exercise and the type of assessments that may be conducted, including reporting and corrective mechanisms; and
- j. *Review of the recovery plan* which includes its elements, relevance and applicability.

Reporting and Notification Requirements. The recovery plan shall be submitted to the appropriate supervising department of the Bangko Sentral every 30 June of each year. The recovery plan shall be distinct and separate from the ICAAP document as prescribed under Sec. 130.

In cases of breach of an internally-set trigger level, the bank shall notify, within 24 hours from the discovery of the said breach, the appropriate supervising department of the Bangko Sentral. The notification shall indicate the nature of the breach and other information relevant to the breach.

The bank shall also notify the appropriate supervising department of the Bangko Sentral of its decision on whether or not to activate the recovery plan, within 24 hours from the date of the decision by the designated authority, as defined in the recovery plan. The notification shall include, at the minimum, the events and circumstances leading to the breach of the recovery threshold or triggers, and management actions that have been taken and/or intended to be taken, including the implementation of recovery options or reasons for the decision not to activate and implement measures under the recovery plan.

In case the recovery plan was activated, the bank concerned shall submit a monthly progress report to the appropriate supervising department of the Bangko Sentral which shall commence one (1) month after the activation of the recovery plan, and monthly thereafter or more frequently, as necessary, until the bank reaches the identified levels of restoration points. The monthly progress report shall be submitted within ten (10) banking days from the end of the reference month.

Bangko Sentral Review of the Recovery Plan. The Bangko Sentral shall review the recovery plan, at least annually, as part of the overall supervisory process, focusing on assessing the recovery plan's robustness, credibility, and feasibility of effective implementation. Banks shall be required to adopt appropriate measures should the Bangko Sentral find the submitted recovery plan inadequate. The activation of the recovery plan earlier than expected may be required by the Bangko Sentral when warranted.

Section 2. Section 128 of the MORB is hereby amended, as follows:

128 DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs)

It is the thrust of the Bangko Sentral to ensure that its capital adequacy framework is consistent with the Basel principles. x x x

x x x

The framework for dealing with D-SIBs including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the HLA requirement are shown in *Appendix 110*. The guiding principles and components of the recovery plan of banks are provided in *Appendix 150*.

Section 3. Section 126-Q and Appendix Q-68 of the MORNBFBI are hereby deleted. Moreover, the Report on Selected Accounts and Activities for the Banks (Consolidated Basis) as indicated in Appendix Q-3 of the MORNBFBI is hereby deleted. All references to Section 126-Q and Appendix Q-68 of the MORNBFBI shall be changed to Section 156 and Appendix 150 of the MORB, respectively.

Section 4. Section 130 and Appendix 95 of the MORB on Internal Capital Adequacy Assessment Process and Supervisory Review Process are hereby amended, as follows:

130 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS AND SUPERVISORY REVIEW PROCESS

A bank's board of directors and senior management are ultimately responsible for ensuring that the bank maintains an appropriate level and quality of capital commensurate with its risk exposures. Hence, a bank must have in place an internal capital adequacy assessment process (ICAAP) that takes into account risks covered by the Risk-Based Capital Adequacy Framework and all other material risks.

The guidelines on banks' ICAAP and Bangko Sentral's supervisory review process (SRP) are shown in *Appendices 94, 95, and 96*, respectively.

The ICAAP guidelines shall apply x x x.

The Bangko Sentral may implement any of the following supervisory actions if it considers that a bank's ICAAP does not adequately reflect its overall risk profile, or does not result in the bank having adequate capital:

- a. Requiring the bank to improve its internal control and risk management frameworks;
- b. Requiring the bank to reduce the risk inherent in its activities, products, and systems;
- c. Restricting or limiting the business, operations, or network of the bank;
- d. Limiting or prohibiting the distribution of net profits and requiring that part or all of the net profits be used to increase the capital accounts of the bank; and
- e. Requiring the bank to increase or hold capital beyond the minimum capitalization requirements under Section 121 or minimum capital ratios under Sections 125 and 127, as may be required by the Monetary Board.

APPENDIX 95

GUIDELINES ON THE BANGKO SENTRAL'S SUPERVISORY REVIEW PROCESS

(Appendix to Sec. 130)

A. Introduction

x x x

D. Guidelines on prudential measures

If the Bangko Sentral considers that a bank's ICAAP does not adequately reflect its overall risk profile, or does not result in the bank having adequate capital, then consideration should be given to applying prudential measures.

1. The measures available to the Bangko Sentral include those enumerated under Sec. 130.
2. The choice of prudential measures should be determined according to the severity and underlying causes of the situation and the range of measures and sanctions available to the Bangko Sentral. Measures can be used individually or in combination. x x x

x x x

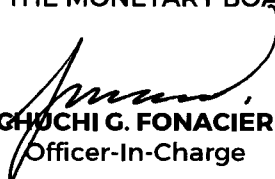
Section 5. Transitory Provision. The following provision shall be incorporated as a footnote to Section 156 of the MORB on the guidelines on recovery plan of banks.

Non-Domestic Systemically Important Banks (Non-D-SIBs), including subsidiary banks of D-SIBs that are required to submit the recovery plan for the first time, shall be given a transition period of two (2) years to develop the same. The first recovery plan of said banks shall be submitted to the appropriate supervising department of the Bangko Sentral on or before 30 June 2024.

Meanwhile, D-SIBs that are already required to submit a recovery plan shall submit the same consistent with the new guidelines on or before 30 June 2023.

Section 6. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


GHUCHI G. FONACIER
Officer-In-Charge

18 October 2022

**GUIDING PRINCIPLES AND COMPONENTS OF THE RECOVERY PLAN OF BANKS
(Appendix to Sec. 156)**

The supervisory expectations in the preparation of the recovery plan, including its components are provided in the following sections:

A. Governance Arrangements

1. The board of directors is primarily responsible for the adoption and approval of the recovery plan, and for overseeing the implementation thereof.
2. The board of directors shall ensure that the recovery planning process is supported by a robust governance structure and adequate resources. The board of directors shall likewise ensure that:
 - a. Responsibilities of the board of directors, the senior management, business units, and the self-assessment functions are clearly defined both in normal times and during a crisis. The recovery plan shall also specify the following:
 - 1) Responsibilities of the board of directors or appropriate board-level committee, or equivalent management committee in the case of branches of foreign banks, in relation to the review and approval of the recovery plan and any updates thereon. These include the responsibility to vet and challenge the assumptions used in the document;
 - 2) Responsibilities of the senior management in the preparation, maintenance, and updating of the recovery plan. These include the responsibilities of the designated officer/s, who is/are the lead owner/s of the recovery plan. The officer/s to be designated must have sufficient stature and authority (e.g., President/Chief Executive Officer/Chief Risk Officer) within the organization;
 - 3) Responsibilities of the self-assessment functions and the board-level audit committee or its equivalent in the independent review or assessment of the recovery plan; and
 - 4) Responsibilities of the board of directors, senior management, including the designated officer/s who are the lead owner/s of the recovery plan, and relevant business units in the activation of the recovery plan and implementation of the appropriate recovery options as well as the implementation of the communication plan.
 - b. Recovery planning process is fully integrated into the bank's business-as-usual risk management framework. This is to ensure that the recovery plan shall be designed as a comprehensive document that will complement the existing capital, liquidity, and business contingency plans but shall have an end view of the bank recovering from extreme stress situations. The plan shall also cover the established contingency arrangements that would allow the bank to continue to operate and maintain critical functions and services as it implements the recovery measures. The

recovery plan shall be consistent with the bank's existing stress testing exercises as required under Sec. 151 and other risk management guidelines covering specific risk areas; and

- c. Adequate Management Information Systems (MIS) are maintained and capable of generating necessary information on a timely and accurate basis to enable the board of directors and the senior management to effectively discharge their respective responsibilities.

B. Critical Functions and Services

3. In developing the recovery plan, the bank shall identify core information, which is necessary for recovery planning purposes, namely:

- a. Critical functions and services

The bank shall identify and describe the critical functions and services that shall be mapped to the entities or units that perform such functions or provide such services and set out the actions necessary to operate and maintain them in case the recovery plan is activated.

The bank shall ensure that it complies with any additional requirements to which it may potentially be subject during crisis situations in order to maintain its membership in financial market infrastructures, (e.g., as regards prefunding or collateralizing of positions). It shall also identify options for addressing the additional requirements.

- b. Material entities together with a description of the activities of each material entity in more detail. The bank shall also provide the criteria adopted to determine the materiality of these entities.

- c. Core business lines and operating model

The bank shall include an overview of the business model of its material entities, and identify the business lines which are core to the material entities' operations, profitability, and franchise value. It shall explain the activities conducted by these material entities in the Philippines or abroad.

It shall include an assessment of the viability of any business lines, which may be subject to separation in a recovery scenario, as well as the impact of such separation on the remaining group structure and its viability.

The bank shall also identify processes for determining the value and marketability of the material business lines, operations, and assets.

- d. Dependencies

The bank shall provide an overview of the key dependencies of material entities, explain the criteria and assessment used to identify these key dependencies, and describe the governing contractual arrangements.

Key dependencies (internal and external) shall refer to support or services, the sudden and disorderly failure of which would present a serious impediment to the performance of critical functions and services by the bank and its material entities.

The bank shall also identify linkages¹ between and/or among its parent company (if applicable) and its material entities, and operational data, such as the extent of asset encumbrance, amount of liquid assets, off-balance sheet activities, etc.

4. In relation to MIS, the bank shall:
 - a. Maintain a detailed inventory, including description and the location of the key MIS used in its material entities, mapped to its critical functions and services.
 - b. Identify and address legal constraints on the exchange of management information among the material entities within the group; and
 - c. Maintain specific information at a legal entity level, including, for example, information on intra-group guarantees and intra-group trades booked on a back-to-back basis.
5. The bank shall maintain up-to-date details of financial contracts entered into by the bank, including records of counterparties. Similarly, the bank shall maintain up-to-date details of non-financial contracts pertaining to its critical functions and services.
6. The bank shall establish appropriate contingency arrangements that will enable its critical functions and services to continue to operate while recovery measures are being implemented. Such arrangements may include, but are not limited to arrangements that would enable the continuous functioning of internal processes, IT systems, clearing and settlement facilities, and supplier and employee contracts; and ensure continued rights of use and access to operational assets such as property and office space.
7. The bank shall put in place adequate measures such that outsourcing arrangements, which support critical functions and services can be maintained in crisis situations and in the recovery process. The underlying contracts should include provisions that prevent termination from being triggered by recovery events and facilitate the transfer of the contract to a bridge institution or a third-party acquirer where necessary should some form of the resolution be required in the bank cannot restore itself to viability.

C. Early Warning Indicators and Triggers

8. The recovery plan shall enable a bank to take preemptive actions at an early stage of stress to avoid breach of minimum regulatory requirements.
9. The recovery plan may be activated when a bank breaches any of the identified triggers relating to capital, liquidity, asset quality, profitability, or credit rating. The triggers shall be set above the minimum regulatory requirements but below or at more severe levels than the triggers applicable in activating the capital and liquidity contingency plans.
10. Banks shall notify the Bangko Sentral in case of a breach in any of the internally set triggers. Said breach shall prompt senior management to evaluate the situation and decide whether to take action under the recovery plan or refrain from taking such action. This preparatory mechanism, including the operational

¹ For continuous functioning of internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts, etc.

procedures, monitoring, escalation, and approval process, should be clearly defined in the recovery plan.

11. The recovery plan shall utilize early warning indicators (EWIs) with specific levels relating to each trigger (i.e., quantitative indicators which may be supplemented with qualitative indicators). EWIs should be designed to provide early-stage indicators of stress which shall be set above the triggers for activating the recovery plan and shall not necessarily cause the recovery plan to be activated. A breach of EWIs shall enable a bank to take remedial actions outside of the scope of the recovery plan, such as adjustments to minimum risk tolerance, modifications of risk behavior, tightening of risk controls, and preparation for the possible future activation of recovery options. EWIs shall be regularly calibrated to ensure that indicators remain robust to alert the bank of stress or adverse circumstances and enable the bank to undertake appropriate recovery options.

D. Restoration Points

12. The recovery plan shall specify minimum restoration points and the timeline for restoration for key indicators, which shall at least cover capital (e.g., CET1, Tier 1 capital, or capital adequacy ratios) and liquidity (e.g., ratio of high-quality liquid assets, Liquidity Coverage Ratio). The minimum restoration points refer to the level to which the selected key indicators shall be restored post-recovery. As applicable, restoration points may also be considered in terms of profitability (e.g., a target return on assets and return on equity), as well as restoration levels relating to asset quality (e.g., a maximum tolerable level of non-performing loans, non-performing assets or restructured loans ratios). Restoration points may also include reference to a target credit rating (if applicable), defined measures of market confidence in the bank, depositor and other stakeholder's satisfaction, and resumption of business-as-usual operation of all critical functions and services.

The restoration points shall guide the extent and nature of the recovery actions. These shall be determined in relation to the desired risk appetite for each key indicator and shall be set above the defined quantitative EWIs in order to provide a reasonable assurance that future breaches of triggers are prevented and to maintain stakeholder confidence in the bank.

E. Recovery Options

13. A bank shall adopt a menu of feasible and credible recovery options based on underlying exogenous and entity-specific assumptions that it can take in a timely manner in a range of stress scenarios to stabilize and restore its financial resources and viability. The range of possible recovery measures may include, but not be limited to the following:
 - a. Measures to strengthen or conserve the bank's/group's capital position, e.g., recapitalization, issuance of capital instruments, suspension of dividends and discretionary payments of remunerations, and reduction of high risk-weighted credit exposures;
 - b. Sale of assets, subsidiaries, and spin-off of business units;
 - c. Voluntary restructuring of liabilities through debt-to-equity conversion; and
 - d. Measures to secure adequate liquidity or funding while ensuring sufficient diversification of funding sources and adequate availability of collateral.

14. Each recovery option should be comprehensively described, including the maximum time needed to implement such an option, the level of authorization and actions required for each recovery option to be implemented, the maximum amount that the recovery option could contribute to capital and/or liquidity restoration and the probability of success or effectiveness to address the stress scenario. The recovery plan shall also specify the intended sequencing of recovery options.
15. Recovery options shall at all times include actions to address capital and liquidity shortfalls. The menu of options would vary among banks. The selection of which recovery option to implement will depend on the type and severity of the stress scenario. The following shall be laid down and discussed for each recovery option:
 - a. Estimated benefits² or outcomes that would be derived from the recovery option, any assumptions made to quantify the benefits, and the reasonable time frame within which the bank is able to restore its financial strength and viability;
 - b. Negative effect if any, on the financial condition, franchise value, credit ratings, as well as relevant stakeholders or associated risks (e.g., potential disruption to its normal business operations and services) brought by the deployment of the recovery options³;
 - c. Long-term impact on the viability of the bank/group to ensure that the recovery option does not only offer a short-term “quick fix” response to a stress situation;
 - d. Preparatory actions to ensure that the recovery options can be implemented effectively and in a timely manner;
 - e. Process to implement or carry out the recovery option, including the escalation, level of authorization, and decision-making process, indicating the owner/s of the process to instill responsibility and establish accountability, which is crucial in times of stress;
 - f. Circumstances or factors that could render the recovery option unavailable/ infeasible or could hinder the effectiveness of the recovery option, as well the remedial measures to be undertaken to overcome these impediments including the time frame to accomplish the remedial measures. This is to ensure the timely and effective implementation of remedial measures that will improve the credibility of the recovery plan; and
 - g. For the option to dispose of assets or business, the conditions for execution and steps to be taken should be specified; and the bank should be mindful that the disposal may take place under unfavorable conditions where it may be pressured to dispose below market value; thus, assumptions should be made in a highly conservative manner.

² Impact or effect on bank's financial condition if the recovery option becomes successful, which may be on capital, risk-weighted assets/risk profile, liquidity, leverage and other measures of financial strength, as well as impact on customers, counterparties and market confidence.

³ The bank should set out how the continuity of its material services and functions can be maintained while recovery actions are being implemented.

16. The focus of recovery options should be on actions that a bank itself or the material entities within its group can directly take, otherwise, conditions to ensure execution should be specified in the recovery plan. In addition, considering that several key steps may be involved to execute a recovery option and a combination of a number of recovery options may be required to address a stress scenario, the recovery plan should include estimates of the prioritization and sequencing of recovery actions and the time needed to implement each.
17. For banks with simple operations, the range of credible options could be limited or less complex, but they should still consider an adequate range of feasible recovery options. In the case of foreign bank subsidiaries or branches, they may play a role in the recovery options in the group recovery plan and/or be impacted by their implementation; or a sudden and material deterioration in the level of regulatory capital of the Head Office/banking group could be a trigger for implementing certain recovery options at the level of the Head Office and the branch. Thus, the local recovery planning of foreign banks should consider said possible interactions and impacts as well as include appropriate recovery triggers and options to address such circumstances. It is essential that foreign banks can demonstrate that the risks posed to their local operations have been adequately considered and incorporated in the recovery planning process at both the local and group levels. This should include, but is not limited to:
 - a. Describing whether, and how, the major recovery options in the parent group recovery plan, if deployed, would impact the operations in the Philippines, either directly or indirectly;
 - b. Demonstrating how the recovery plan and actions at the parent group level may be triggered by the occurrence of severe stress events in its operations in the Philippines;
 - c. Describing the process for activating the parent group recovery plan for foreign banks, specifying the roles, authorities, and responsibilities of its officers in the recovery planning process and outlining the conditions for execution of recovery options (such as the steps, estimated time, and cross-border considerations); and
 - d. Illustrating how the recovery options are expected to restore the financial soundness and viability of the operations in the Philippines.
18. The bank's recovery plan shall also set out the types of actions that it would take, apart from recovery options, to address the underlying cause/s of the stress event/s that may have caused the bank to activate its recovery plan, which may include, but not limited to:
 - a. Establishing a process for internal review⁴ of the cause/s of the adverse event and identifying appropriate remedial measures;
 - b. Appointing an independent party to conduct a review⁵ and make recommendations; and
 - c. Reporting to the board and key stakeholders the results of the review process and the necessary actions taken or to be taken to address the underlying cause/s of the stress event/s.

⁴ The internal review may be done by the unit involved in the creation of the Recovery Plan.

⁵ The independent review may be conducted by a unit internal to the Bank but should not be involved in the creation of the Recovery Plan.

19. The recovery plan of banks, except for government banks, shall not include an assumption for any access to or receipt of government/public financial support/aid provided by the Philippine National Government and its offices, agencies, and instrumentalities to preserve or restore their viability, solvency or liquidity, which may include, among others, financial assistance in the form of loans and advances extended by the Bangko Sentral, pursuant to Sections 83 and 84 of Republic Act No. 7653 (The New Central Bank Act), as amended.

F. Scenarios

20. A bank shall identify and adopt scenarios that are plausible but sufficiently severe as to cause a breach in minimum regulatory requirements (e.g., capital or liquidity ratios). This is to ensure that the bank has considered different types of stress events that may threaten its ongoing viability. Banks shall use these scenarios to inform recovery triggers, estimate adverse impacts and cost considerations, and establish recovery actions to stress events.
21. The recovery plan shall include entity-specific scenarios (in which the bank/group has been impacted by a stress event unique to that bank/group, but the financial system is operating normally), system-wide stress scenarios (in which the financial system is assumed to be under considerable stress), and a combination thereof, considering the bank's risk profile, complexity of operations, and business strategy. Each stress scenario, including all relevant assumptions, shall be comprehensively described in the recovery plan and shall include a detailed assessment of the impact on capital, liquidity, profitability, and asset quality.
22. In designing scenarios, the bank may consider the relevance of, but not be limited to, the following events:
 - a. Entity-specific events:
 - 1) failure of significant counterparties;
 - 2) damage to the bank's or banking group's reputation;
 - 3) stress in the operations of the parent bank/head office abroad;
 - 4) severe outflow of liquidity;
 - 5) adverse movements in the prices of assets to which the bank or banking group is predominantly exposed;
 - 6) significant credit losses;
 - 7) major cyber-security breach; or
 - 8) severe operational risk event/loss.
 - b. System-wide events:
 - 1) failure of significant counterparties affecting financial stability;
 - 2) decrease in liquidity available in the interbank lending market;
 - 3) increased country risk and generalized capital outflow from a significant country of operation of the institution or the banking group;
 - 4) significant falls in financial markets;
 - 5) significant changes in the interest rate environment; or
 - 6) high-impact events (e.g., pandemic, or climate-related events) and a severe macroeconomic downturn.

A bank may refer to its existing stress testing program as a foundation for building scenarios. It may adopt more than one scenario for each scenario type to test the impact of stress events particularly for systemically important banks and complex banks.

23. A bank shall test the adequacy of its recovery plan against a range of stress scenarios as its planned recovery options may depend on the nature and severity of stress events. For a system-wide scenario, the bank's recovery options should consider the possibility of multiple institutions simultaneously seeking to implement similar recovery measures, resulting in difficulties in implementation and the time needed to address capital shortfalls and liquidity pressures. On the other hand, in an entity-specific scenario, the bank may consider the impact of its recovery actions on the bank's reputation (i.e., in case of suspension of dividend payment). For combined scenario types, the bank should consider the inter-relationship between the two. Scenarios should likewise be subject to reverse stress tests, particularly those that would threaten the bank's ongoing viability and breach its minimum regulatory capital and liquidity ratios.
24. Banks with simple operations may test at least one scenario that is most relevant to their individual circumstances under each of the scenario types and may use qualitative assessment to complement scenario analyses of specific risks for recovery planning purposes.
25. In the case of foreign bank subsidiaries or branches, they may refer to the parent group recovery framework for the relevant and appropriate elements of stress-testing exercise in the context of recovery planning. However, foreign banks' management in the Philippines shall assess the suitability of the group recovery stress scenarios in the context of its local operations. Otherwise, additional recovery stress scenarios that are appropriate in the local setting must be developed and tested.
26. Banks shall keep adequate documentation of the stress-testing activity in its recovery plan (or include in the recovery plan a cross-reference to separate documentation), which should include, but not limited to:
 - a. discussion on the overall approach to stress-testing for recovery planning purposes;
 - b. identification of all relevant assumptions used under each scenario;
 - c. quantitative and qualitative methods used in the stress testing exercise;
 - d. breach of recovery triggers;
 - e. financial projections for key financial and risk indicators for a period of at least two years, including the financial and risk indicator results of recovery actions;
 - f. recovery actions assumed to be taken in respect of the scenarios;
 - g. quantitative assessment of the impact of each scenario on the bank or banking group, including capital, liquidity, profitability, and asset quality; and
 - h. qualitative assessment of the suitability of each relevant recovery option deployed under the scenarios.
27. The plan shall detail the corresponding recovery strategies for each identified scenario which may involve the implementation of several recovery options. Accordingly, the recovery capacity of each recovery option shall be assessed to determine the aggregate impact of the same under each scenario. Recovery capacity must be measured in quantitative terms by calculating the amount of capital and liquidity that can be rebuilt during or following stress.

G. Preparatory Measures/Implementation Plan

28. The recovery plan shall include information on the nature and analysis of preparatory measures necessary to implement the plan or to improve its effectiveness together with a timeline for implementing those measures.
29. Banks shall identify potential legal and operational impediments to the effective implementation of recovery options laid out in the plan. Preparatory measures shall include any measures necessary to overcome these impediments. Preparatory measures include, but are not limited to the development of indicative term sheets and documentation for capital issuance and underwriting, the sale of assets, and legal and operational procedures required to access funding and augment liquidity.
30. The recovery plan shall outline the escalation process upon the occurrence of a trigger event, including the mechanisms for decision-making process and the roles and responsibilities of key personnel involved. The level of authority with respect to the activation of the recovery plan and the determination of recovery options to be implemented shall likewise be specified in the plan.
31. The bank shall inform the Bangko Sentral on the progress of the implementation of these preparatory measures.

H. Testing/Simulation Exercises

32. To ensure recovery plans are operational and options can be implemented in a timely and effective manner in a stress situation, banks shall establish a framework to regularly test the feasibility and effectiveness of their recovery plan.
33. At a minimum, the following key areas shall be covered in the testing/simulation exercises:
 - a. Availability of sufficient information for decision-making, including those which can be sourced from the bank's MIS;
 - b. Escalation and decision-making procedures, including coordination of entities within the group;
 - c. Operational aspects, such as plausibility of assumed timelines for the implementation of the most relevant options, and knowledge and proficiency of personnel involved in the implementation; and
 - d. Reliability and promptness of communication strategies, both for external and internal stakeholders.
34. Testing/simulation exercises shall be conducted on a regular basis.
 - a. *Annual desktop testing.* Banks shall undertake tabletop exercises at least annually to evaluate the feasibility and effectiveness of the recovery plan. The testing may cover a review of certain components (e.g., triggers, selection of recovery options) of the recovery plan or walkthrough tests of processes and procedures for particular scenario/s. The bank shall designate a facilitator who shall guide the participants through the discussion and analysis of scenarios in the recovery plan.

- b. *Live simulation exercise.* Banks shall undertake live simulation exercises at least once every five (5) years which shall be participated by all relevant members of senior management. The exercise may cover a full-scale live simulation to test the entirety of the recovery plan. Management shall adhere to timelines adopted that are suited to the scope of the exercise to create a realistic, stressed test environment.
 - c. *Regular independent review or assessment.* The internal audit function or other independent competent units shall perform a regular assessment of the bank's recovery plan and testing processes.
35. Adequate and timely follow-up mechanisms shall be in place to address any deficiencies identified during the testing/simulation exercises and ensure that necessary improvements are incorporated into the recovery plan.
36. Testing/simulation exercises shall take place at a period within which corrective actions can be timely incorporated during the regular recovery plan update process. Otherwise, the recovery plan shall be updated as necessary to ensure that improvements are incorporated into the recovery plan in a timely manner.
37. Banks shall engage an independent observer (e.g., units from the bank's self-assessment functions or external auditor), during testing/simulation exercises to ensure a more objective assessment of the outcome of the exercise.
38. The results of testing/simulation exercises shall be reported to the bank's board of directors and shall be incorporated in the recovery plan to be submitted to the Bangko Sentral.

I. Review and Updating of the Recovery Plan

39. The recovery plan shall be updated at least annually, and upon the occurrence of events that materially alter the bank's structure, business model or operations, strategy, or risk exposure. Updating the recovery plan shall involve:
- a. Review of the exogenous and bank-specific assumptions the recovery plan is based upon; and
 - b. Assessment of the relevance and applicability of the recovery plan.

J. Communication Strategy

40. The recovery plan shall contain a communication strategy with supervisory authorities/regulators, the public, financial markets, employees, and other stakeholders, which shall be tailored based on the specific communication needs of each recovery option.

K. Group Recovery Plan

41. In the case of group structures headed by a bank licensed in the Philippines, the parent bank and its subsidiaries and affiliates considered as material entities shall adopt a group recovery plan, which shall identify measures that may be required to be implemented at the level of the parent bank and each individual material entities.
42. The group recovery plan shall aim to achieve the stability of the group as a whole, or any entity in the group, when it is in a situation of stress. It shall address or remove the causes of the distress and restore the financial position of the group,

or the entity in question while taking into account the financial position of the other entities in the group.

43. The group recovery plan shall include arrangements to ensure the coordination and consistency of measures to be taken among the entities in the group.
44. The group recovery plan shall include a range of recovery options setting out actions to address the scenarios provided in the relevant section above.
45. For each of the scenarios, the group recovery plan shall identify whether there are obstacles to the implementation of recovery measures within the group, including at the level of individual material entities covered by the plan, and whether there are substantial practical or legal impediments to the prompt transfer of own funds or the repayment of liabilities or assets within the group.