



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 June 2021

BANKING ACT DIRECTIONS

No. 09 of 2021

**RECOVERY PLANS
FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

In terms of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act No. 30 of 1988, as amended, the Monetary Board hereby issues these Directions on the requirement of maintaining Recovery Plans (RCP) for licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks).

- 1. Empowerment**
 - 1.1 In terms of Sections 46(1) and 76J(1) of the Banking Act, the Monetary Board is empowered to issue Directions to all licensed banks, regarding the manner in which any aspect of the business of such bank or banks is to be conducted.

- 2. Scope of Application**
 - 2.1 RCP shall identify the full range of recovery options available to a licensed bank to deal with shocks to capital, liquidity and all other aspects that may arise from institution-specific stresses, market-wide stresses, or a combination of both.
 - 2.2 Each licensed bank shall have an RCP in place and the RCP shall include the following:
 - (a) Scope of RCP formulated considering the nature, scale, complexity, and interconnectedness of the licensed bank.
 - (b) Entities of the banking group covered under the recovery framework.

- 3. Critical Functions and Critical Shared Services**
 - 3.1 Critical functions and critical shared services shall be clearly identified and defined in RCP.
 - 3.2 Critical functions and critical shared services shall be organised in a way that ensures the continuous availability of shared services to the entire bank under the possible recovery and resolution options.



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 June 2021

BANKING ACT DIRECTIONS

No. 09 of 2021

**4. Recovery Triggers
and Indicators**

- 4.1 Each licensed bank shall identify recovery indicators, recovery triggers, recovery actions and conditions for activation of resolution measures.
- (a) The recovery plan shall include appropriate indicators, triggers, and procedures to ensure the timely implementation of recovery actions.
 - (b) Identified indicators and triggers shall comprise a range of quantitative and qualitative triggers.
 - (c) Quantitative indicators and triggers should be set at levels above the associated supervisory requirements, wherever applicable.
 - (d) In addition to such triggers, early warning indicators shall be used to identify negative trends for monitoring.

5. Recovery Options

- 5.1 An RCP shall identify the full range of credible and flexible recovery options available to a bank to deal with shocks to capital, liquidity and all other aspects that may arise from institution-specific stresses, market-wide stresses, or a combination of both, and shall include the following as a minimum:
- (a) The anticipated impact or result of the option in terms of capital, liquidity and/or any other area, if any.
 - (b) Time and resources required to implement the option.
 - (c) Potential impediments to implementation of the option.
 - (d) Actions being taken to remedy the impediments.
 - (e) Details on costs of implementation.
 - (f) Details on option-specific communication planning.
- 5.2 Recovery options of a bank shall be capable of being executed within a reasonable timeframe and sustainability and viability of the options must be evaluated intensely.



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 June 2021

BANKING ACT DIRECTIONS

No. 09 of 2021

**6. Board of Directors
and Management**

- 5.3 RCP shall take into account any legal, reputational, and operational impediments on recovery and formulate processes to ensure timely implementation of recovery options.
- 5.4 Each licensed bank shall appropriately include Business Continuity Planning (BCP) arrangements when formulating RCPs.
- 6.1 Each licensed bank shall appoint a member of the senior management to oversee its RCP process and shall put in place a robust governance structure and sufficient resources to support RCP process. The roles and responsibilities of each person involved in RCP process should be clearly assigned within the bank and specified in RCP.
- 6.2 RCP shall be approved or endorsed by the Board of Directors for a locally incorporated licensed bank and the regional/global head office for a licensed bank incorporated outside Sri Lanka.
- 6.3 RCP shall be a dynamic process and be updated at least annually and must be integrated with the existing risk management framework and processes.
- 6.4 Clear responsibilities of key management personnel, respective departments / divisions, and other relevant officers for formulating, maintaining/regularly reviewing, executing, and activating the RCP shall be assigned and documented.
- 6.5 Licensed banks incorporated outside Sri Lanka shall inter alia include the following in their RCP:
- (a) The manner in which the local operations are integrated to the recovery and resolution framework of the parent bank.
 - (b) Brief description of the submissions made to the home regulator on RCP, if any.



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 June 2021

BANKING ACT DIRECTIONS

No. 09 of 2021

(c) A copy of the written undertaking supported by a resolution of the Board of Directors of the head office or parent body, under section 3 (2) (c) (i) of the Banking Act No. 30 of 1988 as amended, stating that such bank as the case may be, shall on demand by the Central Bank, provide funds as may be necessary to meet all obligations incurred in or in connection with its business in Sri Lanka.

**7. Management
Information and
Communication
Planning**

- 7.1 Each licensed bank shall maintain information within the prevailing management information systems that are capable of producing information necessary for recovery process of the bank.
- 7.2 Each licensed bank shall maintain up to date information on following areas, but not limited to:
- (a) List of depositors including, account number, deposit type, deposit balance, contact details and any other relevant details.
 - (b) Information on all contracts of the licensed bank.
 - (c) Information on intra-group transactions.
- 7.3 A communication plan shall be in place to ensure timely communication with internal and external stakeholders on RCP.

**8. Regulatory
Submissions**

- 8.1 Commencing 2022, licensed banks with assets above Rs. 1 Trillion shall formulate and submit RCPs to Director of Bank Supervision (DBS) annually, by 30 June of each year or whenever the recovery plan is significantly amended.
- 8.2 Commencing 2022, licensed banks with assets below Rs. 1 Trillion shall maintain RCPs from 30 June 2022 and such



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 June 2021

BANKING ACT DIRECTIONS

No. 09 of 2021

RCPs will be subjected to review during the statutory examination of the respective bank.

8.3 Licensed banks shall immediately inform the Director of Bank Supervision when a bank reaches a trigger point activating RCP actions or when a licensed bank is experiencing a high level of stress.

8.4 A model format providing a broad template for licensed banks to draft RCPs is attached in Schedule I. However, a fair degree of variation in the depth and presentation of RCPs is expected, based on the size, banking business model, complexity, interconnectedness, risk profile and systemic importance of each bank.

9. Interpretations

9.1 Critical functions shall mean activities performed for third parties where failure would lead to disruption of services vital for the functioning of the real economy and for financial stability due to size or market share, external and internal interconnectedness, and complexity or cross-border activities of the banking group.

9.2 Critical shared services shall mean activities performed within the firm or outsourced to third parties, where failure would lead to the inability to perform critical functions and, therefore, to disruption of services vital for the functioning of the real economy or for financial stability.

9.3 Third parties shall include all entities or individuals that have entered into a business relationship with the licensed bank.

Prof. W D Lakshman

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*



Banking Act Directions No. 09 of 2021
Recovery Plans for Licensed Commercial Banks and Licensed Specialised
Banks

SCHEDULE I

Template for Recovery Plans of Licensed Banks

1. Executive Summary

- (a) Summary of key elements in the Recovery Plan (RCP).

2. Introduction

- (a) Objectives of the RCP and to provide a broad outline of the RCP.
- (b) Linkages between the sections of RCP.

3. Scope of the RCP

- (a) The Scope of RCP to be defined considering the banking business model, risk profile, scale, complexity, and interconnectedness of the licensed bank.
- (b) The entities of the Group covered under the recovery framework including an organisational structure.
- (c) Description of the licensed bank and other entities covered by RCP.

4. Material Changes

- (a) List of all material changes since the last recovery plan submission / major update to be summarised and presented under this section (Not applicable in the first submission).

5. Critical Functions and Critical Shared Services

- (a) Identification of the core business lines critical functions and critical shared services of the licensed bank.
- (b) Description of how critical functions and shared services are to be organised in a way that ensures the continuous availability of shared services.
- (c) Description of the impact on critical shared services of implementing the option and assessment of how the continuity of operations can be maintained if the recovery option is implemented.
- (d) Description of any measures necessary to maintain continuous access to relevant financial market infrastructures to preserve the continuous functioning of the bank's operational processes (including infrastructure and IT services)

6. Governance Framework

- (a) Describe bank's/group's governance arrangements and governance structure in relation to RCP.
- (b) RCP shall be approved or endorsed by the Board of Directors for a locally incorporated licensed bank and the regional/global head office for a licensed bank incorporated outside Sri Lanka.
- (c) The roles and responsibilities of each person involved in the Governance process of the RCP should be clearly assigned under this section.
- (d) Clear responsibilities of key management personnel, business units and executives for formulating, maintaining/regularly reviewing, executing, and activating the RCP shall be assigned and documented.
- (e) Licensed Banks incorporated outside Sri Lanka shall include their arrangements with the parent bank including the following:
 - The manner in which the local operations are integrated to the recovery and resolution framework of the parent bank;
 - Brief description of the submissions made to the home regulator on RCP, if any;
 - A copy of the written undertaking supported by a resolution of the Board of Directors of the head office or parent body.

7. Recovery Triggers¹ and Strategy/Options²

- (a) List and describe all identified recovery triggers and possible recovery options³.
- (b) The risks associated with each of the recovery options and the anticipated impact or result of the option in terms of capital and/or liquidity.
- (c) Description of the expected impact of implementing the option on the capacity of the bank to perform critical functions as well as on its core business lines, franchise value/reputation and business model.
- (d) Time and resources required to implement the option.

¹ Recovery triggers shall cover a range of customised qualitative and quantitative factors, such as, capital and liquidity ratios, reductions in revenue and profitability, withdrawal of deposits and other funding, rise in public debt, adverse GDP forecasts, changes in market interest rates, requests from counterparties for early redemption of liabilities, difficulties in raising funds at current market rates, adverse court decisions etc.

² Recovery options are defined as the measures that a bank can take in order to restore its financial position in a crisis / high stress situation.

³ When identifying recovery options, a bank should consider a range of severe macroeconomic and financial stress scenarios relevant to the bank specific conditions in line with the nature of its business, size and interconnectedness to the financial system.

- (e) Details on costs of implementation.
- (f) An analysis of any material impediments to the effective and efficient execution of the RCP and respective strategies to overcome them.
- (g) Details on option-specific communication planning.
- (h) Description of the main assumptions relating to the feasibility of the option and its impact including the impact of the option on external stakeholders.

8. Recovery Indicators

- (a) In this section licensed bank may list and explain the recovery plan indicators (both qualitative and quantitative recovery plan indicators to be considered).
- (b) Early warning indicators can be used by banks to identify potential stress situations and for monitoring.
- (c) Procedures to ensure the timely implementation of recovery actions to be included in this section.
- (d) Licensed banks should explain how recovery indicators are monitored.

9. Implementation Strategy

- (a) Details of any preparatory measures the licensed bank has taken or plans to take, to implement the RCP. The RCP is expected to be carried out promptly and effectively in situations of financial stress to avoid to the maximum extent possible, any significant adverse effects.
- (b) How Business Continuity Planning (BCP) arrangements are linked to the implementation of RCP.
- (c) Overview of preparatory measures that could be taken for the successful implementation of the option, including specific follow-up actions.

10. Additional Material Information

- (a) Include any other information that may be material to the licensed bank when carrying out the RCP.

11. Undertaking of the Board of Directors and Management

- (a) The signatures of the Board of Directors claiming the overall responsibility of RCP and for reviewing RCP.
- (b) The signatures of respective Key Management Personnel on the role played and the accountability towards the RCP.