Frequently Asked Questions

Banking (Special Provisions) Act, Direction No. 01 of 2024 on Data Templates for Resolution Planning for Licensed Banks

1. **Do the Licensed Banks (LBs) need to have a separate plan for Resolution**?

   No. LBs do not need to create their own resolution plans. Instead, they are required to submit the necessary information as requested by the Central Bank of Sri Lanka (CBSL). Based on such information, CBSL, in its role as the Resolution Authority, will draft the resolution plans for LBs.

2. **How does resolution planning differ from recovery planning?**

   Recovery planning focuses on actions a bank takes to restore its financial position during stress, while resolution planning outlines CBSL's approach to handling a failing bank in a way that minimizes disruptions to the financial system, protects depositors and ensures minimal cost to taxpayers.

3. **Does the recovery plan need to be updated?**

   Yes. Every LB must update its recovery plan at least annually. Additionally, updates are required if requested by CBSL due to significant changes in the LB's organizational structure, legal structure, business activities or financial situation that may impact the effectiveness of the recovery plan or where it requires modifications.

4. **Do LBs need to set up resolution and recovery triggers?**

   Resolution triggers are compiled by the Deposit Insurance and Resolution Department (DIRD) of CBSL. Hence, LBs need not maintain a separate set of warning signals for resolution triggers, as they are managed by DIRD. However, LBs need to identify risk tolerance levels, categorizing them as low, moderate and high, and develop their own recovery triggers.

5. **Should audited details be included in the data templates?**

   While it is not mandatory to include audited details, it is advisable to do so, if they are available. Audits are typically completed by March 31st, so it is important to consider the timing when submitting the data templates. Including audited information can enhance the accuracy and credibility of the submission.

6. **What is a critical function/ critical shared service?**

   A critical function is a key activity provided by an LB to third parties, where its failure would disrupt essential banking services needed for the real economy or financial system stability. A critical shared service is a service that supports critical functions of an LB and is essential for the continued delivery of those functions. These services may be performed internally by the bank or outsourced to third parties. Interpretations for both critical functions and critical shared services are in section 93 of the Banking (Special Provisions) Act, No.17 of 2023 (BSPA).

7. **Is the definition of a critical function in a resolution plan the same as in a recovery plan?**

   The definitions for critical functions and critical shared services are provided in section 93 of the BSPA. These definitions are aligned with those used in the recovery planning process. All the functions identified as critical in the recovery plan should come into the resolution plan.

8. **If there are functions related to a group of companies or related companies, do those need to be mentioned in the Schedules as well?**

   All the functions identified as critical with respect to branches, groups and related companies, need to be considered separately and mentioned in the relevant schedules accordingly.

9. **How frequently should banks submit data templates for resolution planning?**

   LBs are required to submit the data templates annually on or before 31st of March of the following year. However, CBSL may request additional updates if there are significant changes in the bank's organizational structure, business or its financial condition that could impact resolution planning.

10. **What is meant by the Legal Entity/ Department under the schedules?**

    In some cases, an entire department within the entity may be identified as a critical function or critical shared service, while in other cases, a single department may have several critical functions. Therefore, it is important to identify the critical functions or critical shared services relevant to the legal entities within the group including subsidiaries and associates, if any.

Table 1: FAQs on Data Templates Schedules

Schedule No. 01	
Is this similar to the Quarterly FINNET Return on Capital Adequacy Requirements under Basel III?	Yes. However, please make a note on the last 02 rows, which require additional information about subordinated debts.
Schedule No. 02a and Schedule No. 02b	
Should foreign assets and liabilities be reported in LKR or in their respective currencies in Schedules 02a and 02b?	Foreign assets and liabilities should be reported in LKR, with the respective currency indicated in the relevant column.
Can employees be recognized as assets?	No. This schedule should include balance sheet assets only.
Should employee-related payables be mentioned?	If they are linked to a critical function, they should be included. (Ex: Retirement benefits, EPF & ETF Payables)
Schedule No. 03a	
How should the number of accounts and the number of customers be allocated relative to the coverage limit of the Sri Lanka Deposit Insurance Scheme (SLDIS), if a single customer holds multiple accounts?	To segregate the number of accounts to fill columns 4 and 5, consider each account independently, without associating it with a particular customer, and divide it according to the coverage limit of the SLDIS (i.e., above or below). When calculating the number of customers to be reported in columns 6 and 7, the SLDIS coverage limit should be applied separately to each type of deposit a customer holds such as savings, demand, time and other deposit types. Customers should be counted based on the cumulative amount within each deposit type, rather than the total across all deposit types. In this case, the same customer may be counted multiple times. If there are joint accounts, consider the customers separately as per their deposit amount and separate as below or above the SLDIS coverage limit. (Pls mention the exact number of the customers at the bottom of the table).
How should market share of each type of deposit be estimated?	The market share should be calculated based on the total banking industry deposits. Since CBSL publishes aggregate figures (quarterly) on the CBSL official website, LBs may be able to arrive at a reasonable estimate based on the latest available information. Please refer to the link below to access the data published by CBSL. https://www.cbsl.gov.lk/en/statistics/statistical-tables/financial-sector

Schedule No. 03b	
How should the market share of total deposit liabilities of each financial institution be estimated?	The market share should be estimated as follows: $$\frac{\textbf{Respective bank's Deposit Liability}}{\textbf{Total Deposits in the Banking Industry}} * 100\%$$ Since CBSL publishes aggregate figures (quarterly), LBs can arrive at a reasonable estimate based on the latest available information by referring to the link below. https://www.cbsl.gov.lk/en/statistics/statistical-tables/financial-sector
Schedule No. 03c	
What data is considered under this schedule?	All the debt obligations of the bank, including corporate bonds, debentures, borrowings (local and foreign), overdrawn nostro accounts and deposits should be included. If the bank does not have any rated deposits, please leave that section blank.
What should be mentioned under the Fair Value column?	The Fair Value column should reflect the time value of money. Under SLFRS 07, instruments will be measured at their current value. However, in the short term, you can assume the carrying value to be the Fair Value.
What is meant by "investment grade credit ratings" and does the schedule require information about deposits as well?	Investment grade credit ratings refer to the ratings assigned to debt obligations by agencies such as Fitch, S&P, etc., indicating the creditworthiness of the issuer. This schedule specifically requests information related to the bank's other liabilities, excluding deposits.
Schedule No. 03d	
What is the meaning of Total Committed Facilities?	Total Committed Facilities represents the maximum amount of money the bank is willing to lend to its clients, though they may not necessarily utilize the entire amount.
Schedule No. 04a and 04b	
Are off-balance-sheet exposures short-term?	Off-balance-sheet exposures can be both short-term and long-term. Therefore, it is essential to disclose all such exposures comprehensively, regardless of their maturity period. Limiting the disclosure to only short-term exposures would provide an incomplete picture of an entity's financial obligations and risks.

Schedule No. 05	
What type of data should be included in Schedule 5?	It will cover the economic hedges even though the bank is not following hedge accounting. The forwards issued to your customers are not applicable in this context.
Schedule No. 06	
What type of data should be captured?	Contracting counterparty details, excluding IT-related counterparties, as these will be captured under Schedule 11.
Do LBs need to capture all the suppliers in the schedules?	Only the suppliers associated with critical functions and critical shared services need to be captured in the schedules.
What should be mentioned under the commencement date of a contract when it is a renewal contract?	For a renewal contract, the date of the last renewal should be entered. Additionally, include remarks clearly indicating that the contract is a renewal to ensure clarity and proper documentation.
What should be mentioned under the column 'Termination affecting Resolution'?	The impact on the outsourced party due to the resolution. A 'Yes' or 'No' response will be sufficient.
Schedule No. 07	
Who are the contracting counterparties that should be recognized under this schedule?	The contracting counterparties to be recognized are those identified in Schedule 6.
How to estimate the total revenue of the main contracting counterparty?	The total revenue can be estimated by extracting the information from the audited financial statements. Additionally, since the procurement department will confirm the bidding party’s revenue and asset balance during the bidding process, they may already have this data. Otherwise, banks are encouraged to develop their databases for the procurement processes and provide details at the next submission.

Schedule No. 08	
Do LBs need to capture all software used by the LBs?	LBs are required to submit the details of each system in which the LB carries out significant transactions in terms of the number or value, including the identification of their correspondence with legal entities and critical functions excluding the systems mentioned under Schedule 9. While some information may be provided on a one-time basis, some details are updated annually. These updates should only be made if there are changes to the agreements. If no changes have occurred, you may submit the existing details as they are.
What should be included in the Potential Consequences of Resolution?	The bank will face several significant barriers if it is required to hand over critical software to a third party for the continuation of its functions during resolution. This may include legal obstacles, operational and financial barriers.
Schedule No. 09	
What systems should be recognized under this category?	The systems should be identified based on the critical functions first, with only payment, settlement and clearing systems being recognized in this schedule including the online payment systems. This should be filled out from a group perspective.
What is meant by the manner of participation?	It refers to whether access is granted directly or indirectly to perform the transaction.
What would the transaction volume be?	This should be an approximate number related to the whole year.
What should be mentioned under the column “Replaceability”?	This should specify whether the systems have substitutes, with a simple 'Yes' or 'No' response. It is important to note that this does not refer to the Disaster Recovery site.
Schedule No. 11	
What is the scope of this schedule?	The licensing/agreements related to the systems captured under Schedules 8, 9 and 10 can be included here. If the agreement is an internal arrangement, there is no need to mention it.
What should be mentioned under the column of “Type of Service”?	Under the "Type of Service" column, you should specify the nature of continuous support provided by the supplier. This may include, but is not limited to annual maintenance, on-site or off-site support & technical support.

Schedule No.12	
Can we consider the interconnectedness and interdependencies details within the scope of the related party?	The specific details to be captured are outlined in Instruction No. 05, and related party transactions are indeed an important consideration. This may extend beyond the definition of related party transactions. This should include any significant arrangements or links among the group entities as well as with other stakeholders that interconnect your bank with others. If you have given any guarantees on behalf of your group entity that will also be included under the interconnectedness.
Schedule No. 13	
What should be the scope of this schedule?	This schedule aims to collect data on whether the bank has arrangements in place to bridge any liquidity gap in the event of a resolution and whether it can draw liquidity from external sources, including other financial institutions or on a global level. You have to exclude government funding. Liquidity arrangements covered under contingency funding plan should not be mentioned in this schedule.
Schedule No. 14	
How should the average number of transactions and their value be calculated in Figure 2?	The values should be calculated as annual averages.
What does it mean by the Amounts (Rs.) of an investment security in Figure 3?	This represents the carrying value of investment security, which can be considered as the book value of the security as recorded in the financial statements. If there are dollar investments, please convert them to rupee values as shown in the financial statements.
What does it mean by the Maturity (Rs.) of an investment security in Figure 3?	This represents the total amount that will be received at maturity, which may include both the principal and any accrued interest (if applicable).
What does it mean by the interest rate (%) of an investment security in Figure 3?	This refers to the return the LB earns through the investment security, usually expressed as a percentage per annum. Mention the Weighted Average Interest Rate.
What should be the transaction types mentioned in Figure 5?	There is no need to categorize the transactions; simply mentioning Vostro/Nostro will be sufficient.

How to specify the transaction value in Figure 5?	Insert the value of transactions as at the reporting date (e.g., 31.12.2024) as per the composition of currencies bank is holding at the date. Typically, Nostro Accounts appear as assets (e.g. Due from Banks) whereas Vostro accounts will appear as liabilities (e.g., Deposits from Other Banks). Hence, the total of Nostro accounts should be equivalent to the total of such assets in the balance sheet as at the reporting date.
How to mention the cross-currency transactions in Figure 5?	If the bank holds any cross-currency Vostro and Nostro accounts, please specify the dollar value as the base currency.
How to list the hardware details requested in Figure 8?	The hardware items related to the critical functions or critically shared services are required to be disclosed.
What data is expected under Figure 9?	You must provide the following data under each category: • **Securities Financing**: Separate data for Repos and Reverse Repos • **Wholesale Lending & Borrowing**: Provide separate data for Interbank Lending and Borrowings, as well as for foreign banks with lending and borrowings between their other branches • **Securities Lending**: Data for Regulatory Short Selling
Schedule No.15	
What type of data should come under Schedule 15?	Any contracts that may have potential consequences during the resolution process, as mentioned in Schedules 6, 8 and 9, should be included in Schedule 15.
Schedule No.16	
How to identify the Resolution Strategy?	Based on the recovery plan, LBs may have an understanding of the aspects that could trigger a resolution event. Therefore, CBSL requires the LB's opinion on the potential resolution triggers and the most suitable strategy, as outlined in section 14 of the BSPA, from their perspective.