

Guideline

Recovery Plan Guideline – Consultation Draft

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TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND INFORMATION	2
APPROACH.....	2
RECOVERY PLAN	3
Governance.....	3
Documentation	4
Triggers	5
Risk Governance.....	5
Scenarios	6
Liquidity and Capital Considerations	6
Recovery Options.....	7
Impediments to Recovery Identified	7
Data Requirements	8
Communication Plan	8
Testing	8

INTRODUCTION

This guideline outlines expectations for all financial institutions that are incorporated in BC (hereafter referred to as PRFIs) in developing an effective recovery plan following a significant financial stress event (Recovery Plan). PRFIs are expected to develop and maintain a Recovery Plan which will guide the PRFI back to viability. It is activated in situations where the PRFI may be approaching but has not yet reached the point of non-viability.

The Recovery Plan will be drafted and maintained by the PRFI and should contemplate a broad but plausible range of scenarios which would impact its viability; the scenarios should be customized to each PRFI's specific characteristics and operations. It should also have a comprehensive strategy that outlines the PRFI's plans to respond to and recover from each of these categories of stressors. A robust Recovery Plan will ultimately increase the resiliency of the PRFI, while also protecting its members, related third parties and the community.

BACKGROUND INFORMATION

A Recovery Plan is expected of all PRFIs, and should cover all of a PRFI's activities including those undertaken through subsidiaries and affiliates. B.C.'s PRFIs vary in their size, scope, risk profile and complexity. Some PRFIs present a smaller risk to the overall financial system, and these organizations may not be complex or intricately tied to the larger financial market. In recognition of this variation, the application of proportionality will be utilized in order to ensure that all PRFIs comply with the expectations set out in this guideline, without posing undue burden on smaller institutions which present relatively less risk to the system.

Proportionality ensures foundational adherence to legislative and supervisory expectations for sound governance and risk management while tailoring regulatory requirements given the size, systemic importance, complexity and risk profile of each individual PRFI. This also facilitates the efficient allocation of supervisory resources and activities to a PRFI according to its risk profile and/or systemic impact.

APPROACH

A Recovery Plan is intended to complement, enhance and strengthen a PRFI's existing risk management practices, which includes capital and liquidity contingency plans, and may also include Business Continuity Plans ("BCPs") and Disaster Recovery Plans ("DRPs"). The Recovery Plan will help to identify any existing impediments and weaknesses so that they can be addressed and mitigated. PRFIs are encouraged to incorporate their liquidity and capital contingency plans into the Recovery Plan and build upon them to meet the Recovery Plan expectations. This also provides continuity between utilizing these plans when addressing less severe liquidity and capital deficiencies, through to a potential transition into the Recovery Plan. It also ensures consistency and alignment with the PRFI's overall risk management plan and may simplify the organization's oversight of the plans.

Some PRFIs may also have a BCP and/or a DRP. The purpose of a BCP is to ensure the PRFI remains operational during an unplanned business interruption while the purpose of a DRP is to restore normal operations following an unplanned business interruption impacting critical technology infrastructure, data and system applications.

While BCPs and DRPs are both considered operational documents intended to keep the PRFI functional due to a business interruption event, the Recovery Plan is a comprehensive document with a longer-term strategic focus and is invoked when the ongoing viability of a PRFI is threatened. All of these plans however are intended to guide the PRFI to resuming business-as-usual operations. Due to the shared objectives of resuming normal operations, BCP's and DRP's will both contain some components which can be leveraged when the drafting the Recovery Plan.

The suitability of the Recovery Plan will be assessed proportionately to the PRFI's size, scope, risk profile and complexity. BCFSA will evaluate the Recovery Plan based on whether it fulfills the expectations for each of the specific criteria outlined in this guideline. Once these criteria have been met, the Recovery Plan will be deemed satisfactory.

Once the Recovery Plan has been deemed satisfactory by BCFSA, it should be reviewed regularly to ensure that it remains current. Senior management and the board of directors (the "Board") should review the Recovery Plan at least annually, and more frequently as needed to respond to material operational changes or significant internal and external events.

RECOVERY PLAN

Recovery plans are designed to address a broad range of financial stress scenarios that could result in significant disruption and threaten the viability of a PRFI. An effective Recovery Plan serves as an actionable playbook to mitigate the stress events and to help return a financially stressed PRFI to normal operations. An effective Recovery Plan also minimizes disruption to depositors and other stakeholders, and prevents the possibility of a disorderly failure which may impact the system as a whole.

Recovery Plans must comply with the expectations outlined in each of the major categories listed below:

- Governance
- Documentation
- Triggers
- Risk Governance
- Scenarios
- Liquidity and Capital Considerations
- Recovery Options
- Impediments to Recovery Identified
- Data Requirements
- Communication Plan
- Testing

Each of the major categories is discussed in detail below.

Governance

A PRFI is expected to have governance structures that allow for sufficient oversight and timely implementation of the Recovery Plan. Roles and responsibilities of all relevant stakeholders should be appropriately documented.

A PRFI's Board is accountable for the stewardship of the PRFI it governs. BCFSa relies on the Board, as a core oversight function, to take all reasonable steps to ensure the safety, stability and sustainability of the PRFI. To that end, the Recovery Plan should include a clear explanation of the role of the Board with regards to decision-making and the plan's execution. The Recovery Plan, and the results of testing it, should be reviewed and approved by the PRFI's Board on an annual basis.

While the Board provides stewardship and guidance as the Recovery Plan is developed, the Recovery Plan itself should be management-driven. This means that the PRFI's senior management team is ultimately responsible for the development, maintenance, and testing of the Recovery Plan. The senior management team should ensure the Recovery Plan is an important and ongoing component of the PRFI's overall risk management program.

The PRFI should form a Crisis Management Team, made up of key members of management, to streamline decision-making and oversight in the event the Recovery Plan is activated. The Recovery Plan should list the executives and clearly articulate their individual and collective responsibilities under both business-as-usual and stressed conditions, including responsibilities for invoking and executing the Recovery Plan. Participation in any other relevant committees should also be noted. The PRFI should consider the overall level of experience of its current senior management team, and how well equipped it is to manage the PRFI during a recovery event. Where gaps in expertise and/or experience are identified, a plan to address these gaps should be outlined.

As the PRFI develops and updates the Recovery Plan, it should ensure that all facets of its operations are adequately addressed. However, to promote accountability, there should be a single individual (position) charged with steering the development of the Recovery Plan.

The Recovery Plan should identify and provide contact information for all employees essential to its successful execution. Also needed is a description of these employees' specific responsibilities as they relate to the Recovery Plan. The Recovery Plan should also outline a strategy to ensure that these employees, or backup employees with the same level of authority, are available during a recovery event.

Documentation

A PRFI is expected to document the nature, structure, and operations of the PRFI.

The Recovery Plan should contain sufficient information about the PRFI to provide a basis for analyzing the recovery options described, as well as to assess the PRFI's ability to maintain critical operations during the event.

Each of the categories of information that should be presented in the Recovery Plan are as follows:

A description of business lines (both core and non-core) including their strategies and objectives

Identifying the core businesses, those that are crucial to the PRFI executing on its mandate, is a critical component of the Recovery Plan. Identification of core and non-core business activities provides the PRFI the information necessary to execute the Recovery Plan on a prioritized basis. That is, having core and non-core business activities identified ensures the Recovery Plan actions focus on the key business activities core to the PRFI's mandate and will contribute to its ongoing viability through the stress event. The PRFI should explain on what basis it determined its core businesses.

The Recovery Plan should also identify all of the functions and critical services that are key to maintaining the PRFI's ongoing operations, and if applicable, those that are critical to maintaining the viability of the entire financial system.

The legal entity structure with mapping to the main business lines and shared services

A map identifying the PRFI's core business lines, critical functions, and shared services should be mapped to legal entities.

Connections to financial market infrastructure, mapped to legal entities and business lines

Where applicable, identification of each of the legal entities and business lines that are connected to the financial market infrastructure should be mapped.

Internal shared services and interdependencies

All internal shared services and interdependencies between and within the PRFI's departments should be identified and documented.

The organizational structure

An organizational chart should be included as a component of the Recovery Plan. This includes each employee, their role in the organization and the reporting structure. The organizational chart should also identify the members that will form the Crisis Management Team, as well as their roles and responsibilities in relation to the Recovery Plan.

The Risk Management Framework, including Risk Appetite and related metrics

All relevant risks should be identified, including for example, credit and liquidity risks in addition to broader operational risks. The corresponding metrics such as capital and liquidity requirements that quantify these risks should also be identified.

Financial Statements

For both business lines and legal entities, the Recovery Plan should contain the most recent audited annual financial statements, including:

- The balance sheet, with a discussion of the business line components;
- Identification of any off-balance sheet obligations; and
- The Income Statement, with a discussion of the drivers of profitability by business line.

The financial statements should quantify the core lines of business, as well as highlight the impact of the recovery options on the balance sheet and income statement.

External stakeholder impacts

The Recovery Plan should consider all third-party stakeholders that may be affected by a deterioration in the PRFI's financial condition. It should ensure that there are established processes to escalate developing problems, including processes regarding who would assess issues and address any potential conflicts of interest (either between external stakeholders or between the PRFI and its stakeholders) that may emerge in such circumstances.

The Recovery Plan should clearly identify any external stakeholder relationships that may be impacted by the divestiture of non-core functions or other recovery actions. This includes any dependencies the PRFI has on third-party IT providers or other vendors that have contractual clauses giving them a unilateral option to cancel in the event of the PRFI's deteriorating financial condition or other pertinent circumstances. It should also explain what special arrangements the PRFI would need to make to these contracts to ensure that the underlying products and services remain available throughout the event, what the cost would be, and how the payments would be authorized, triggered and funded.

In addition to the specific categories of information listed above, the Recovery Plan should identify, describe, and quantify the PRFI's key vulnerabilities, under both normal and stressed financial conditions. These vulnerabilities arise due to the PRFI's specific characteristics and should form the basis for the PRFI's scenario development. Identified vulnerabilities can contribute to the onset of stressed conditions, or alternatively can exacerbate existing difficulties during such conditions, regardless of the initial stressor.

Triggers

A PRFI is expected to identify key measures and the associated triggers.

The PRFI should develop a series of specific qualitative and quantitative measures (sometimes called metrics) used to monitor its viability along a continuum of increasingly severe stress events, and the associated triggers for activation of the Recovery Plan. These triggers form a key monitoring tool during both business-as-usual and stressed environments and should reflect the specific vulnerabilities identified in the Recovery Plan. In addition, triggers indicating the point at which the PRFI has recovered and can therefore return to business-as-usual operations should also be established and documented within the Recovery Plan.

Triggers should be measurable, reasonable, well-defined, and tailored to the specific risks the PRFI faces. They should be calibrated to allow sufficient time for the PRFI to implement its recovery options and notify management, and other stakeholders as necessary. Monitoring and escalation processes should be specifically aligned with the PRFI's existing risk governance framework.

Risk Governance

A PRFI is expected to have formal ties to normal course governance.

The Recovery Plan should include an overview of the PRFI's risk management framework which includes a description of all material risks that the PRFI faces, and how they are currently managed. Additionally, the PRFI should explain how management under the Crisis Management Team would differ from that under business-as-usual conditions.

The recovery planning process should be formally integrated with the PRFI's risk governance processes, including its Risk Appetite and stress testing regime. Regular measurement, monitoring, and reporting processes captured in the risk governance framework should include the measures and triggers associated with the Recovery Plan.

The PRFI should also outline how it plans to wind down the Crisis Management Team and return to business-as-usual upon successful execution of the Recovery Plan. The Crisis Management Team should have the authority and resources required to execute the decisive response during a recovery event.

Scenarios

A PRFI is expected to document scenarios and ensure associated assumptions are appropriate.

Scenarios selected by the PRFI should be reasonable in that they appropriately reflect the vulnerabilities that management has identified. Scenarios should be sufficiently severe to threaten the PRFI's ongoing viability and should include relevant pressures and shortfalls as well as financial losses. Each scenario then gives rise to a set of assumptions that provide additional details for the quantitative analysis. The PRFI should describe in detail the assumptions underlying the scenario analysis and stress testing results. BCFSA expects to see a number of broad and distinct scenarios based on the PRFI's specific vulnerabilities that contemplate a range of scenarios including:

- A severe but plausible idiosyncratic stress scenario;
- A severe but plausible systemic stress scenario; and
- A blended idiosyncratic and systemic scenario.

The PRFI should give due consideration to the risk associated with the failure of a third party to perform a critical function in support of the PRFI's core businesses. While these events in isolation may not require the PRFI to invoke the Recovery Plan, they may exacerbate an ongoing crisis, and could impact the viability of certain recovery options.

The scenarios should be comprehensive and incorporate the stress testing required to meet the PRFI's liquidity and capital contingency plans and risk management practices. As part of the annual review of the Recovery Plan, scenarios and related assumptions should be assessed for continued relevance, as the business environment or the PRFI's own circumstances may have changed.

Liquidity and Capital Considerations

A PRFI is expected to consider liquidity and capital requirements.

Linkages to the PRFI's liquidity contingency plan¹ and the capital contingency plan² as appropriate, together with operational contingency options, should be clearly defined and articulated within the Recovery Plan. The PRFI's scenario testing may provide additional insight into the feasibility of these plans when considered as a whole. Recovery planning necessitates a comprehensive analysis of the correlation between liquidity and capital, and the impact recovery actions targeting one may have on the other.

Capital analysis should include an assessment of current and potential allocations of capital needs and losses associated with each of the scenarios and outline some immediate steps to conserve capital and limit outlays. Liquidity analysis should likewise include an assessment of inflows and outflows in different time buckets. The time buckets should be highly granular during the initial phase of the recovery and become more

¹ Expectations for credit union Liquidity Contingency Plans are outlined in BCFSA's Liquidity Management Guideline.

² Expectations for credit unions Capital Contingency Plans are outlined in BCFSA's Internal Capital Adequacy Assessment Process Guide.

concentrated as the options are exercised. The analysis should also identify situations where there are multiple approaches to obtaining liquidity from the same assets and ensure that the recovery options do not rely on conflicting approaches.

Recovery Options

A PRFI is expected to have reasonable and actionable recovery options.

The recovery options should reflect varying time horizons as well as the specific scenarios considered, and the stress testing outputs.

The PRFI should develop several recovery paths that encompass a variety of credible options that would enable it to recover from a range of stress scenarios and ensure an orderly return to business-as-usual operations. There should be recovery options that consider the disposition of non-core businesses to de-risk the PRFI, as well as the impact that the disposition of any core business lines would have on the PRFI's future operations.

To the extent possible, the PRFI should prioritize its recovery options. This prioritization should be based on such factors as the options' overall impact on the PRFI's financial condition, ease of execution, and reputational risk. Options should also be categorized by feasibility, scenario, time to execute, or any other parameter that would streamline the selection of options under both idiosyncratic and systemic stress scenarios. In particular, the PRFI should demonstrate its understanding of what it will need to operationalize its high-priority recovery options. The Recovery Plan should also describe:

- Potential impediments to applying recovery tools effectively and strategies to address such impediments; and
- The impact of a major operational disruption.

The PRFI should indicate the options where Board or regulatory approvals are required and the anticipated timeline for such approvals. It should also consider the impact of executing these options on both the short-term market confidence in the PRFI and the long-term viability of its business model.

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

In addition to selecting recovery options focused on ensuring the ongoing viability of the PRFI, and its core businesses and critical functions in particular, management should be mindful of the potential impact that implementing the recovery options may have on the financial system as a whole. Furthermore, it is important to consider how the exercise of recovery options may impact management's ability to monitor the PRFI's ongoing risk taking and risk management activities and ensure an effective default management process.

The costs, including discounts on asset sales, and time to execute the recovery options should be considered, as should the extent to which the identified recovery options are mutually exclusive and/or dependent.

The PRFI should be able to demonstrate the availability of sufficient resources from its recovery options to meet its obligations as they come due throughout the recovery event. There should be clarity regarding how the potential proceeds from the recovery options are to be allocated. Also necessary is consideration of how these proceeds will impact the PRFI's balance sheet, capital ratios and liquidity.

Impediments to Recovery Identified

A PRFI is expected to identify and address potential impediments.

The scenario analysis should identify potential impediments or obstructions to the successful execution of the recovery options outlined and describe the action plans it will employ to address such impediments, thus enhancing the feasibility of future versions of the Recovery Plan. The PRFI should also consider whether selling some of its assets would pose unacceptably high reputational risks to the PRFI, which would potentially reduce the number of available recovery options.

Data Requirements

A PRFI is expected to consider its data requirements and ensure the availability of data during a stress event.

The PRFI should describe how its data needs and reporting requirements would be impacted as it moves from business-as-usual to recovery mode. This may include the requirement for data on a more frequent basis, additional data and reporting and what would be required to accomplish this. Based on its current data aggregation and reporting procedures the PRFI should assess the gaps in data availability that would exist during a recovery event. The PRFI should then outline a strategy to overcome such gaps, prior to the potential invocation of the Recovery Plan.

The PRFI's plan should clearly articulate capabilities, challenges, and remedial actions related to:

- The frequency with which reliable, relevant data can be accessed;
- Internal reporting requirements and how they may increase at various stages of a severe stress event;
- Reporting to external stakeholders, including BCFSA; and
- Dependencies on external data providers or manual data input.

The individuals responsible for making key decisions based on the data reported should be specified, as should the decisions they are expected to make based on this information.

Communication Plan

A PRFI is expected to have clearly articulated communications plans.

A comprehensive Communication Plan should be included in the Recovery Plan. The Communication Plan should provide an actionable playbook for the PRFI to use to make timely notifications to BCFSA as well as all relevant stakeholders. The communication plan should include messages for its customers that would be released if the PRFI is likely to sustain serious harm that would impact customer interests or rights. The Communication Plan should cover both generic messages intended to reassure both internal and external stakeholders of the resiliency of the PRFI, as well as specific messages related to execution of individual recovery options or groups of options.

In the development of the Recovery Plan, the PRFI should specify the type and frequency of communication and reporting that would be required, based on the severity of the crisis and the recovery option(s) selected. The nature, scope and granularity of communication with BCFSA should be comprehensively documented.

Testing

A PRFI is expected to conduct regular testing to substantiate the robustness of its Recovery Plan.

PRFIs should regularly test their Recovery Plan to ensure that it is reflective of the PRFIs operations and the wider financial system. The effectiveness of the plan, and its ability to return the PRFI to business-as-usual operations should be evaluated on an annual basis, and more often as needed when there are material changes in operations or the external environment. Regular testing of these plans is a key component of an

effective recovery plan.

Regular testing will also help to ensure the PRFI (including its senior management team and staff) is prepared for a recovery event. It will provide awareness, training and the confidence to be able to respond efficiently and in a timely manner to a severe financial stress scenario. Testing should therefore include all of the PRFIs' staff that will be involved in executing recovery options.

The Crisis Management Team should evaluate the effectiveness of a PRFIs' Recovery Plan and provide an assessment report to the Board and senior management annually. This is especially important for those PRFIs that are larger, more complex and interconnected to the larger financial system and whose failure may pose risk to other PRFIs, stakeholders and the broader public.

The evaluation can also assist the PRFI in determining whether its Recovery Plan meets BCFSAs' expectations.