



RULE AND STATEMENT OF GUIDANCE

RECOVERY PLANNING

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List of Acronyms

CIMA	Cayman Islands Monetary Authority
D-SIDTI	Domestic Systemically Important Deposit Taking Institutions
EWI	Early Warning Indicator
ICAAP	Internal Capital Adequacy Assessment Process
MAA	Monetary Authority Act
RSOG	Rule and Statement of Guidance on Recovery Planning



Rule and Statement of Guidance on Recovery Planning

1. Introduction

1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") *Rule and Statement of Guidance on Recovery Planning* ("RSOG"). The RSOG was developed in accordance with international standards issued by the Financial Stability Board and should be read in conjunction with the following:

- a) *Rule on Domestic Systemically Important Deposit Taking Institutions;*
- b) *Regulatory Policy on Domestic Systemically Important Deposit Taking Institutions;*
- c) *Statement of Guidance on Business Continuity Management;*
- d) *The Supervisory Review Process (Pillar 2) Rules and Guidelines;*
- e) *Stress Testing Principles and Scenario Analysis Guidance;*
- f) *Regulatory Policy on Consolidated Supervision;*
- g) *Statement of Guidance – Internal Audit - Banks;*
- h) *Rule and Statement of Guidance – Internal Controls for Regulated Entities; and*
- i) any other relevant laws and regulatory instruments issued by the Authority from time to time.

2. Statement of Objectives

2.1. Recovery Planning is a core component of a crisis management framework and aligns with CIMA's mission to protect and enhance the integrity of the financial services industry of the Cayman Islands. It is also recommended as one of the *Key Attributes for Effective Resolution of Financial Institutions* issued by the Financial Stability Board¹. Conforming to these standards is consistent with the principal functions of the Authority as set out in Section (6)(3)(c) of the MAA.

2.2. This RSOG establishes the Authority's rules and guidance on the requirements and key elements of effective Recovery Planning, the Authority's assessment of Recovery Plans, and the manner in which the Authority's powers relating to Recovery Planning requirements are to be exercised.

3. Statutory Authority

3.1. The measure is consistent with the Authority's statutory objectives as prescribed in:

¹[Key Attributes of Effective Resolution Regimes for Financial Institutions](#), 25 April 2024.

- a) section 6(2) (a and b) of the Monetary Authority Act, 2020 ("MAA"), which provides that, in performing its functions and managing its affairs, the Authority shall —
 - i. *act in the best economic interests of the Islands; and*
 - ii. *promote and maintain a sound financial system in the Islands.*
 - b) section 34(1) of the MAA, which provides that, after private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may —
 - i. *issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply.*
- 3.2. To highlight the Authority's rules for Recovery Planning within this document, a rule is written in light blue and designated with the letter "R" in the right margin.

4. Scope of Application

4.1. The RSOG applies to:

- a) All banks² licensed in the Cayman Islands, together with their local or overseas branches and subsidiaries;
- b) All cooperative societies, such as credit unions or building societies, that are supervised by the Authority;
- c) The development bank of the Cayman Islands, supervised by the Authority; and
- d) Any other Regulated Entity which may pose a financial stability risk as determined by the Authority.

4.2. Other Considerations for Financial Groups

- 4.2.1. For a Regulated Entity that is a part of a financial group, the Authority's supervisory assessment of the Recovery Plan will be consistent with the Authority's consolidated supervision framework and based on the significance of the Regulated Entity's operations to the Cayman Islands' financial system.
- 4.2.2. For a Regulated Entity that is a part of a financial group, the scope of the Recovery Plan should consider coverage "upwards" to the parent entity level and "downwards" to its subsidiaries and branches in proportion to materiality and risk.

² Banks refer to Regulated Entities carrying on banking business as defined in the *Bank and Trust Companies Act*. Guidance on Recovery Planning for branches and subsidiaries is noted under *Section 4.2. Other Considerations for Financial Groups*.

- 4.2.3. For a Regulated Entity that is a local branch of a bank incorporated outside of the Cayman Islands, the Authority may accept considerable reliance on the parent entity's Recovery Plan, provided the Regulated Entity can demonstrate how its operations are covered by the parent entity's Recovery Plan. The Authority expects that in cases where there is considerable reliance on the parent entity's Recovery Plan, the local branch should demonstrate that any risks posed to the Regulated Entity's local operations, including but not limited to risks that may affect the feasibility of discrete recovery options, have been adequately considered and incorporated in the Recovery Planning process at both the local and parent levels.
- 4.2.4. For a Regulated Entity that is a local subsidiary incorporated in the Cayman Islands, the Recovery Plan should be prepared on a consolidated basis, consistent with that of its parent entity's Recovery Plan such that material interconnections and interdependencies between the parent entity's Recovery Plan and the Recovery Plan of the local subsidiary take into account its subordinate operations, activities, or branches in or outside of the Cayman Islands.
- 4.3. The Authority recognises that Recovery Planning may vary from one Regulated Entity to another; hence, the development of a Recovery Plan should be guided by the principle of proportionality. The Recovery Plan should be commensurate with the size, complexity, structure, nature of the business, and risk profile of the Regulated Entity's operations.
- 4.4. The Authority recognises that there will be variations in approaches to the trigger events, stress scenarios, and recovery options of Regulated Entities. In assessing whether the Recovery Plan of a Regulated Entity meets the requirements of this RSOG, appropriate consideration will be given to the size, complexity, structure, nature of its business, and its risk profile.
- 4.5. References to any act or regulation shall be construed as references to those provisions as commenced, amended, modified, re-enacted or replaced from time to time.

5. Definitions

- 5.1. The following definitions are provided for the purpose of this RSOG:
- 5.1.1. **"Action Plan"** refers to a high-level roadmap of the Recovery Plan, which outlines the steps to take in response to specific stress scenarios to achieve a recovery objective in a concise, practical, action-oriented format that supports rapid decision-making during a stress situation. It focuses on strategic decisions and the sequencing of recovery actions for use by Senior Management, the Board, and governance committees, as relevant.

- 5.1.2. **“Core business lines”** refer to the main business lines and associated services that represent material sources of revenue, profit, or franchise value for a Regulated Entity or for the group to which it belongs.
- 5.1.3. **“Control Functions”** mean properly authorised functions, whether in the form of a person, unit or department, serving a control or checks and balances function from a governance standpoint and which carry out specific activities, including strategy setting, risk management, compliance, actuarial matters, internal audit, and similar functions.
- 5.1.4. **“Critical functions”** refer to activities, services, or operations performed by a Regulated Entity that, if disrupted, would cause a significant negative impact on financial stability, market confidence, or the functioning of the wider economy.
- 5.1.5. **“Disruptive event”** refers to any financial incident that significantly impairs the ability of a Regulated Entity to operate normally and deliver critical functions and may trigger the Recovery Plan.
- 5.1.6. **“Fire drill”³** refers to a structured live simulation exercise conducted by Regulated Entities to test the efficacy of the Recovery Plan in response to a stress scenario.
- 5.1.7. **“Financial distress”** refers to an actual condition, typically marked by breaches of capital/liquidity thresholds, insolvency indicators or failing viability.
- 5.1.8. **“Financial group”** refers to a group of entities under common control⁴ that provide a range of financial services through multiple legal entities, including branches of such legal entities, typically confining their activities to a given sector.
- 5.1.9. **“Material”** refers to any entity, function, exposure or change that is significant enough to affect the viability, credibility or feasibility of its Recovery Plan, or the continuity of critical functions in the jurisdiction(s) it operates.
- 5.1.10. **“Point of Near Failure”** refers to a severe stress scenario but one that is still within the realm of recovery and acts as a trigger for the activation of recovery actions as outlined in a Regulated Entity’s Recovery Plan.

³ The term “Fire-drill” should be interpreted as defined and guided within this RSOG and not to be confused with an operational health and safety risk of a literal fire incident which should be considered under the Regulated Entity’s Business Continuity Planning.

⁴ Under Common Control means two or more entities under common, direct or indirect, ownership or management with the power to direct or cause the direction of management or policies of the group of entities.

- 5.1.11. **“Regulated Entity”** refers to any natural or legal person or arrangement that has been given authorisation by the Authority, pursuant to the regulatory acts, also known as Regulated Person(s) or Authorised Person(s), which include Licensee(s), Licence-Holder(s) and Supervised Person(s) as defined in the *Regulatory Handbook*⁵.
- 5.1.12. **“Recovery Capacity”** refers to the total financial benefits that could be realised by implementing the most effective and sufficiently credible combination of recovery options across various stress scenarios.
- 5.1.13. **“Recovery Plan”** refers to a document explaining the planning undertaken by a Regulated Entity to restore its financial health and stability in the event of Severe Stress or Financial Distress. It includes details on the triggers, steps, and resources necessary to restore viability, ensuring the institution can continue to operate and provide critical services without requiring government assistance or threatening the broader financial system or economy.
- 5.1.14. **“Senior Management”** includes the most senior staff of the Regulated Entity, including heads of divisions, and any person who fulfils the functions of a senior manager, by whatever name called. Such functions include actively participating in the daily planning, supervision, administration and execution of a Regulated Entity’s objectives and strategy.
- 5.1.15. **“Severe Stress”** refers to hypothetical, but extreme, plausible scenarios that pose serious threats to the viability of the Regulated Entity and would activate its Recovery Plan.

6. General Recovery Planning

- 6.1. Regulated Entities must develop functional and usable Recovery Plans commensurate with their size, complexity, structure, nature of business and risk profile. R
- 6.2. A Recovery Plan, which is not to be confused with a Business Continuity Plan⁶, is a document explaining the planning undertaken by a Regulated Entity to restore its financial health and stability in the event of Severe Stress or Financial Distress. It is a response framework used by a Regulated Entity to restore viability without threatening the broader financial system or economy or requiring assistance from the Cayman Islands Government (“CIG”).

⁵ The Regulatory Handbook and its respective volumes can be found on the Authority’s website.

⁶ This refers to a documented plan, guided by an enterprise-wide Business Continuity Management Framework, that is implemented by a Regulated Entity to respond and adapt to operational disruptions, as defined in CIMA’s *Rule and Statement of Guidance – Business Continuity Management for Regulated Entities*.

- 6.3. The internal exercises required to develop a Recovery Plan should prepare a Regulated Entity for periods of financial stress, enhancing its ability to stabilise and recover its financial position without significant disruption to the financial system and economy.
- 6.4. To ensure a Recovery Plan can be used for its purpose, Regulated Entities should evaluate operational aspects such as expected timelines and ordering of management actions, key individuals and their expected roles, governance changes and committee formation, and a key decision matrix.

7. Components of a Recovery Plan

- 7.1. The Recovery Plan must contain the following components at a minimum:

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|----|---|---|
| A. | <i>Overview of the Regulated Entity and Recovery Plan</i> – This must entail a succinct, high-level substantive summary of the key recovery strategies and an operational plan for implementation. | R |
| B. | <i>Governance</i> – This section must detail the responsibilities of the Board of Directors, Senior Management, Internal Audit, and any other senior governance committee or persons in Control Functions in the creation and execution of a Recovery Plan. | R |
| C. | <i>Scope & Strategic Analysis</i> —This section must identify the Regulated Entity’s core subsidiaries, business lines, and critical functions, which will inform the scope of coverage of its Recovery Plan. It must also demonstrate a strategic analysis of how these will be maintained during a financial stress event. | R |
| D. | <i>Triggers and Indicators</i> – An Early Warning Indicator (“EWI”) framework must contain triggers that include a mix of qualitative and quantitative metrics that are most relevant to the Regulated Entity and stipulate the forward-looking conditions that necessitate recovery action(s). | R |
| E. | <i>Stress Testing</i> – This section must include the following: <ol style="list-style-type: none"> (1) tests of the Recovery Plan against a minimum of three (3) stress scenarios that cover both fast-moving and slow-moving risk events: (i) market-wide scenario, (ii) idiosyncratic scenario, and (iii) a combination of both; and (2) a clear description of the Point of Near Failure. | R |
| F. | <i>Recovery Options</i> —This section must include all the options available to a Regulated Entity and the specific time needed to execute each option, highlighting the time needed to realise the total Recovery Capacity and restore viability. | R |

- G. *Communication Plan*— If the Regulated Entity chooses a Recovery option, it must implement a usable communication plan that details the internal and external communication approach.

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- 7.2. These components are to be considered without limiting the application of the proportionality principle in Rule 6.1 above.

7A. Overview of the Regulated Entity

- 7.3. This component of the Recovery Plan includes the following:

- 7.3.1. A summary of the overall economic and legal structure of the Regulated Entity, including any material changes to the Regulated Entity or group, as applicable, a description of the core business lines, identified by contributions to revenue, expense, profit, franchise value, strategic importance, and any other similar metrics;
- 7.3.2. A summary of the governance structure, including the members of the Board and the various sub-committees of the Board;
- 7.3.3. A summary of the Recovery Plan's strategic analysis, including an assessment of the adequacy of Section E (Stress Testing) and the effectiveness of Section F (Recovery Options) below;
- 7.3.4. A summary of the critical functions performed by the Regulated Entity; and
- 7.3.5. A summary of the Recovery Plan's communication plan.

7B. Governance

- 7.4. The Board must be responsible for:

- 7.4.1. the approval of the Recovery Plan; and
- 7.4.2. ensuring the identification of the person(s) who will be responsible for the implementation of the Recovery Plan of the Regulated Entity and who will be the main point of contact with the Authority regarding its Recovery Plan.

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- 7.5. The Governance component of the Recovery Plan surrounding Board involvement should document and include:

- 7.5.1. Details on the governance surrounding its creation, including ownership of the Plan and Board involvement. The Recovery Plan is ultimately the responsibility of the Board; however, CIMA expects relevant Senior Management to be involved in developing, implementing, and maintaining the plan.
- 7.5.2. A description of the governance framework surrounding its implementation. This includes the committee structure, escalation process and ownership of different actions.
- 7.5.3. Any changes to governance upon the trigger of indicators (as detailed below), including the formation of special committees, board meetings or risk management groups.
- 7.5.4. Evidence that the Board or other appropriate senior governance committee or persons in Control Functions has provided sufficient challenge on the Recovery Plan and reviewed and approved it. They, as applicable, are required to set out their view of the extent to which the Recovery Plan is credible and executable in severe but plausible scenarios, and an explanation of that view. The Board or other appropriate senior governance committee or persons in Control Functions should also review and approve any material changes to the Recovery Plan made by Senior Management.
- 7.5.5. Appropriate involvement of the risk management function in developing and executing the Recovery Plan. This should include details in the plan on how the preparation of the Recovery Plan links to the existing risk management framework of the Regulated Entity and how it is integrated into risk management processes and management information systems.
- 7.5.6. Where the Regulated Entity is part of a financial group and a Recovery Plan is developed at the group level, the Regulated Entity must submit the Recovery Plan of its parent entity at the request of the Authority. R
- 7.5.7. The Board of the Regulated Entity must ensure that the development of its Recovery Plan is coordinated and consistent with the parent entity's recovery options. R
- 7.5.8. The Authority expects and may assess the Recovery Plan of the Regulated Entity in relation to its parent entity, to examine whether the parent entity's recovery options that have been developed in the interest of the financial group are not detrimental to the Regulated Entity's operations in the Cayman Islands. The parent entity's recovery options should include a clear description of the measures and arrangements to be taken within the financial group if its Recovery Plan is activated.

- 7.5.9. If disposal of the Cayman Islands Regulated Entity or any of its business lines is a recovery option of the parent entity (even in normal times), the Regulated Entity must ensure that the Authority is informed as part of the Recovery Planning process. The execution of this recovery option requires that prior approval is received pursuant to the requirements set out in the regulatory acts or other relevant legislation. R
- 7.6. Senior Management must be responsible for:
- 7.6.1. the implementation of the Recovery Plan to restore the Regulated Entity's financial viability and avoid failure;
 - 7.6.2. the implementation of ongoing monitoring processes for trigger events and potential activation of recovery options; R
 - 7.6.3. providing the Board with updates on amendments to the Recovery Plan and obtaining the Board's approval; and
 - 7.6.4. ensuring that the Recovery Plan is reviewed at least annually.
- 7.7. To support the obligations in Rule 7.6 above, Senior Management should engage in an ongoing monitoring process of the Recovery Plan that includes regularly monitoring specified indicators and their trigger events to ensure action can be taken as quickly as possible. In addition, the performance of the specified indicators or material changes to the Recovery Plan are expected to be captured in periodic reports to the Board.
- 7.8. Further, the Regulated Entity should assess the ongoing relevance of the stress scenarios to discover whether the Recovery Plan would need to be reviewed earlier than annually (as stipulated in Rule 7.6.4 above), for example, in the event of a disruptive material market event or change in the business model. This review should include, at a minimum:
- 7.8.1. confirmation of the stress indicators included in the Recovery Plan;
 - 7.8.2. if the options to respond to breaches of the indicators are still calibrated effectively; and
 - 7.8.3. if the Regulated Entity's organisational structure adequately facilitates effective recovery.
- 7.9. The Regulated Entity must ensure that the Internal Audit function reviews its Recovery Plan and includes confirmation of this review within the submission of the Recovery Plan to the Authority: R
- 7.9.1. prior to the initial submission of the Recovery Plan;

- 7.9.2. to check the implementation of remediation actions following the Authority's initial review; and
- 7.9.3. for each re-submission of the Recovery Plan as a result of updates and/or changes that adversely impact the Recovery Plan.
- 7.10. The Internal Audit function, whether internal or outsourced, should focus on the credibility and testing of the Recovery Plan, as guided by the *Statement of Guidance—Internal Audit*.
- 7.11. Senior Management who will execute the Recovery Plan in a real-stress scenario must be involved in Fire Drill exercises. R
- 7.12. Such Fire Drill exercises⁷ may include the following key elements:
- 7.12.1. Testing the implementation of specific recovery options and assessing the ability of Regulated Entities to execute multiple options simultaneously;
 - 7.12.2. Testing the communication plan and interactions with key stakeholders identified in the Recovery Plan;
 - 7.12.3. Evaluating governance arrangements, ensuring that key decision-makers understand their roles, can be convened at short notice, and can effectively utilise the plan for strategic recovery decisions; and
 - 7.12.4. Assessing the management information production capabilities to ensure they provide accurate and timely data to support effective decision-making in recovery situations.
- 7.13. Findings or lessons learnt from a Fire Drill exercise must be included in any updated iterations of the Recovery Plan and approved by the Board. R
- 7.14. The Regulated Entity should be prepared to discuss the Recovery Plan at a meeting with the Authority, if requested.

7C. Scope & Strategic Analysis

- 7.15. The Authority's assessment of a Regulated Entity's Recovery Plan will account for material dependencies across the financial group or holding company and assess the identified level of disruption to these dependencies in the event of severe stress. In addition, assessments will evaluate the interconnections and interdependencies of the Regulated Entity across business lines in its financial group structure and critical third parties, where relevant. As such, the Recovery

⁷ Timelines for Fire Drill exercises are prescribed under *Section 11: Recovery Plan Submissions*

Plan should further address whether a disruption of these interconnections or interdependencies would materially affect the Regulated Entity.

- 7.16. When the Regulated Entity identifies its critical functions and interdependencies, the Authority will be able to determine its importance to the Cayman Islands economy⁸ and to examine how the Regulated Entity will maintain such functions during a recovery. This includes assessing how those functions will be funded and any actions necessary for their maintenance.
- 7.17. [Where a Regulated Entity is the parent of an entity\(ies\) that operates in a jurisdiction outside the Cayman Islands, the Recovery Plan must clearly state how the Recovery Plan covers that entity\(ies\).](#) R
- 7.18. In this case, whether such an entity is a subsidiary or a branch representing an extension of the Regulated Entity, the Authority will assess the Recovery Plan at the consolidated level to review whether it captures recovery options and scenarios relevant to each distinct activity, segment, and business line of the Regulated Entity.
- 7.19. This is especially relevant when the other entity(ies) perform a critical group function or are core business lines of the Regulated Entity.
- 7.20. As part of the strategic analysis of a Recovery Plan, the Regulated Entity should consider the following in relation to the framework to identify and address the impacts of severe stress events and avoid failure or resolution:
- 7.20.1. The Recovery Plan should account for each phase of the transition of the Regulated Entity from business as usual to early warning signs of approaching stress and conditions during the actual stress event.
- 7.20.2. In implementing the Recovery Plan, Senior Management should ensure that the core components align with other strategic functions such as corporate governance, risk management processes, and those governing capital, liquidity, stress testing and business continuity.
- 7.20.3. Where applicable, the Recovery Plan's indicators and trigger events should align with other prudential requirements, such as early warning and risk appetite metrics that the Regulated Entity submits to the Authority.⁹

⁸ For general reference please refer to: [Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Identification of Critical Functions and Critical Shared Services, 16 July 2013](#). This reference includes any future amendments to update the identification of critical functions and critical shared services.

⁹ For example, consistent with the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review Process (Pillar 2) Rules and Guidelines

7.21. Regulated Entities should treat Recovery Planning as a strategic process, rather than a checkbox or compliance exercise. The Authority's assessment of the Recovery Plans will be focused on the following:

7.21.1. whether the Regulated Entity's Board and Senior Management have demonstrated how they would execute the Plan.

7.21.2. whether the Regulated Entity has quantified the impact and timelines of specific recovery options; and

7.21.3. whether it was developed as a usable document.

7D. Triggers and Early Warning Indicators¹⁰

7.22. Triggers are pre-identified threshold levels, indicators, markers, situations or certain points in time. Triggers in Recovery Planning aim to enable a Regulated Entity to take action to maintain or restore its financial strength and viability. Triggers alert Senior Management that an issue of a deterioration of the business has occurred, potentially putting the Regulated Entity on the path to a stress event.

7.23. Triggers within the framework serve to launch management actions or changes in governance. They are based on the EWIs in a Regulated Entity's existing risk management framework.

7.24. Regulated Entities should consider the following in developing their EWI framework:

7.24.1. the adaptability to the business model and strategy of a Regulated Entity and adequacy and alignment to its risk profile; since the EWI framework identifies the key vulnerabilities most likely to impact the financial situation of the Regulated Entity.

7.24.2. the suitability to the legal structure, size, risk profile and complexity of the Regulated Entity since the number of indicators should be appropriately selected to be well targeted yet manageable by Regulated Entity.

7.24.3. alignment with the overall risk management framework and with the existing liquidity or capital contingency plan indicators; and

7.24.4. allow for regular monitoring and integration with the Regulated Entity's governance processes, including escalation and decision-making procedures.

¹⁰ [Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Recovery Triggers and Stress Scenarios by the Financial Stability Board, 2013.](#)

- 7.25. The EWI framework should be formed by a range of qualitative and quantitative indicators that can identify impending stress. These should include regulatory ratios, existing indicators in the risk management framework, capital indicators, liquidity indicators, profitability indicators, and asset quality indicators. Market and macroeconomic indicators should also be included, as appropriate.
- 7.26. Recovery Plans must explain how the EWIs have been calibrated and demonstrate that the triggers have been set at a level that allows sufficient warning and time to act effectively in a stress event. R
- 7.27. For the calibration of the EWI framework, the Regulated Entity should consider the following, at a minimum:
- 7.27.1. Regulated Entities with a smaller overall recovery capacity may benefit from setting earlier thresholds or indicators to prevent undue delays in implementing the recovery options. This optimises the chances of efficient use of the limited recovery options to restore strength and viability on a timely basis.
 - 7.27.2. The timeframe for implementing recovery options with respect to: governance arrangements; required regulatory approvals; and operational impediments to execution. Regulated Entities that rely on options that are more complex to execute and likely to take longer to implement should have indicators appropriately calibrated to provide sufficient advance warning.
 - 7.27.3. The stage of the stress event at which the recovery option can realistically be used effectively, considering that for some types of options, the full benefits could be challenging to reach later in the stress situation. For example, a Regulated Entity will have more difficulty raising external capital the closer it comes to breaching its capital requirements.
- 7.28. Although a triggering event usually results in the Regulated Entity taking a recovery action, such action may not be necessary since the expected result needs to be escalated to Senior Management to implement a discretionary response in accordance with the situation. In other words, triggers generally may not be linked to specific compulsory recovery actions, but a breach of a trigger requires the attention of Senior Management and/or the Board, so that an appropriate response can be made.

7E. Stress Testing

- 7.29. The purpose of stress testing the Recovery Plan is to substantiate its integrity and conclude whether the key components (listed above in section 7 - *Components of a Recovery Plan*) interlink effectively.
- 7.30. Stress testing should demonstrate that the Recovery Plan is suitable for use in at least three (3) stress scenarios, described as follows:
- 7.30.1. a market-wide stress which considers both local and international developments that could have an impact on the operations of the Regulated Entity;
 - 7.30.2. an idiosyncratic stress (*stress events affecting the Regulated Entity alone due to its own internal vulnerabilities or events*) relevant to the business model of the Regulated Entity; and
 - 7.30.3. a combination of both components, which should take into account the relationship between the combined scenarios.
- 7.31. Stress scenarios should follow a clear narrative, taking the Regulated Entity from normal operating conditions; through a severe but plausible financial stress; and end in the Point of Near Failure¹¹. They should set out financial indicators for each stress stage; capture when each risk management indicator is triggered; and specify the point at which management and governance actions will be taken. It should also demonstrate the effect on the Regulated Entity's ability to undertake relevant recovery options, and the point at which certain options would no longer be viable.
- 7.32. The Points of Near Failure should be set out through qualitative (based on operational, governance, legal, and reputational signals) or quantitative (based on prudential metrics) metrics relevant to the Regulated Entity's operations.
- 7.33. The Authority is not prescriptive on the components of a stress scenario. However, the following are frequently used:
- significant capital and liquidity impacts;
 - severe losses through a rogue trader;
 - rating downgrades;
 - a US dollar crisis (or other dominant currency of the Regulated Entity);
 - decreasing GDP growth rates;
 - loss of goodwill or reputational crises;
 - significant deposit withdrawal or runoff;
 - collapse of global financial markets;

¹¹ Reverse stress-testing scenarios can be a useful starting point for developing Point of Near Failure scenarios. i.e. near-default scenarios given the aim of Recovery Planning is to describe options to ensure and restore the financial strength of viability when a Regulated Entity comes under severe stress.

- rise in public debt;
 - significant changes in currency rates;
 - significant changes in commodity prices;
 - bank failures; or
 - fraud;
- 7.34. The stress scenarios within the Recovery Plan should cover both fast-moving and slow-moving risk events; and set out the speed and duration of the stress and how these would impact other components of the Plan (such as recovery options and the ability to react to EWI). Fast-moving events may represent a sudden and sharp deterioration of its operations and provisions of critical services within a stress scenario that develops over a short timeframe and would require immediate activation of recovery options to maintain its viability. On the other hand, slow-moving events represent gradual deterioration that occurs over an extended period and require early-warning monitoring and sufficient time to implement medium – long-term recovery options.
- 7.35. In addition, the scenarios should be realistic and indicative of the Regulated Entity's business model, as well as factors such as market conditions and the macroeconomic environment.
- 7.36. The Recovery Plan should evaluate the impact of the stress scenarios on key financial metrics and regulatory ratios and detail any changes during its duration. This should include capital, liquidity, assets, funding profile, risk profile, and profitability.
- 7.37. The Recovery Plan should set out the time it would take for the benefits of the options to be realised.
- 7.38. Stress testing should establish the relevant recovery options for each stress scenario and describe the following clearly:
- 7.38.1. Trigger events - at what stage of the stress scenario the recovery option would be used;
 - 7.38.2. Implementation Timeline - the expected time required to execute every recovery option; and
 - 7.38.3. Financial Impact Assessment – an analysis of the financial positions at the time of implementation, including liquidity and capital adequacy, and projected outcomes, post-recovery.
- 7.39. Regarding the financial impact assessment, comprehensive descriptions should explain the financial positions both if the action(s) were implemented and if no action was taken. Regulated Entities are not required to prepare two full sets of financial statements, but should ensure that the financial impact assessment

includes forward-looking projections of their balance sheet, income statement and key prudential measures such as liquidity and capital adequacy, before and after the implementation of the recovery options presented. This will also give the Authority insights into the Regulated Entity's risk appetite; validate the financial position associated with the recovery options presented in each scenario; and the threshold under which intervention becomes necessary.

- 7.40. The Recovery Plan should evaluate the funding requirements of the Regulated Entity for the duration of the stress. If additional funding is required, the Plan should set out how it would obtain this funding, the conditions of the funding, and any long-term impact on its financial position. Furthermore, once critical functions and core business lines are identified, Regulated Entities should establish clear strategies and processes to maintain operations and funding for critical functions.
- 7.41. The Authority may request discussions with Senior Management to understand further why stress scenarios were chosen and what lessons the Regulated Entity learned from its Fire Drill exercise.

7F. Recovery Options

- 7.42. Recovery options are management actions that a Regulated Entity can take to stabilise its operations and restore its financial metrics during a stress event. If a Regulated Entity has a well-considered set of options available to it, it is more likely to effectively execute the Recovery Plan and restore viability.
- 7.43. The range of Recovery options available, as well as supporting explanations for the credibility of those both considered and those dismissed, should be appropriate to the size, complexity, structure, nature of business, and risk profile of the Regulated Entity.
- 7.44. The range of Recovery options should be presented in order of effectiveness and explain the benefits of each option, individually and cumulatively. Effectiveness takes into account the impact, timeliness, ease of execution and any associated risks that may arise from implementing the Recovery option. Each of these factors should play a role in determining the most effective sequence of options to deal with a stress event.
- 7.45. In addition, the Recovery Plan should document any impact one Recovery option could have on the effectiveness of another, and the impact of executing more than one option simultaneously, if applicable.
- 7.46. As iterated above in 7.42, the Recovery Plan should include the various Recovery options presented at each stage of a stress event and clearly state at what stage of the stress event each option would be best suited.

- 7.47. The Regulated Entity's total Recovery Capacity should demonstrate all the benefits of all options available if implemented together, in terms of satisfying the capital and liquidity requirements relevant to the stress event.
- 7.48. Financial support from the group may be a potential option for Regulated Entities that are part of financial groups. The Authority may assume that if the Regulated Entity is experiencing stress, the parent entity will also likely experience stress, and that should be factored into available Recovery options.
- 7.49. A Regulated Entity that is a subsidiary must be able to implement stand-alone recovery options appropriate to its size, complexity, structure, nature of business, and risk profile. R
- 7.50. Where support from a parent entity is the primary recovery option for a Regulated Entity, it must submit a written attestation to the Authority, to confirm that the parent entity is available to support the Regulated Entity; subject to the relevant approvals from the Authority, as applicable, pursuant to the requirements set out in the regulatory acts or other relevant legislation. R
- 7.51. The Recovery Plan should assess the stages of the Recovery option, including governance for the approval to execute Recovery options. All steps should be documented in the Plan, and factors that might affect the timeframe for each phase should be considered.
- 7.52. The Recovery Plan should assess the credibility of Recovery options rather than giving preference to options that appear to be executable in the shortest timeframe.
- 7.53. The Recovery Plan should also set out situations where each dismissed option would not be credible, for example, due to market conditions.
- 7.54. For all Recovery options, the Recovery Plan should consider the following:
- 7.54.1. the impact of potential barriers to execution, which may relate to interconnectedness or legal, regulatory, operational, or business impediments;
 - 7.54.2. the impact of macroeconomic conditions on the Recovery options, and include assumptions on the cost or sale price changes as appropriate. For example, it should not automatically be assumed that the sale of assets would achieve market value in detrimental market conditions; and
 - 7.54.3. whether appropriate contingency arrangements are in place to enable the Regulated Entity to continue operating during the implementation of any Recovery option.

- 7.55. In a market-wide stress, the Regulated Entity should also consider the potential actions of other market participants. For example, if an option is to dispose of assets and another institution is in the same position, the market value and benefit of the recovery option will be reduced.
- 7.56. Recovery options involving asset sale and disposal are recognised as carrying more uncertainty when compared to other options. As such, these options should include the availability, feasibility, and value, which could vary significantly depending on the prevailing market conditions at the time of implementation. The Regulated Entity is expected to consider the items in 7.54 above, and include, where applicable, a market assessment with assumptions about the availability of potential investors and buyers, and explain why they might be interested; and the realistic discount required for a sale.
- 7.57. The Recovery Plan should value asset disposals conservatively, including price adjustments to reflect the distressed asset.
- 7.58. For disposal options, the Recovery Plan should explain the interconnectedness of the business and method for separating them from the wider group. This should include analysis of how the business would be impacted by the separation and financial dependencies that could prevent or inhibit a disposal. It should also consider third-party consent or contractual obstacles to a disposal.
- 7.59. In relation to contingency, examples of arrangements include functioning of internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts.
- 7.60. The Recovery Plan should evaluate the Recovery options available to raise liquidity by encumbering assets in each stress scenario. The Recovery Plan should also consider potential secondary impacts, including the cost and stability of its other sources of funding and the impact on its credit rating, if applicable. In this event, the Recovery Plan should identify how the Regulated Entity will return its levels of asset encumbrance to within its risk appetite following the stress.
- 7.61. The Recovery Plan should detail the Regulated Entity's assumptions concerning foreign currency risk, including currency of outflows.
- 7.62. The Recovery options should support the recovery of the Regulated Entity without making the post-recovery business model unviable.

7G. Communication Plan

- 7.63. The Recovery Plan includes a communication plan usable in a stress event and presented in a way that the Board and relevant Senior Management could refer to during such a stress event. The communication plan should aim to manage stakeholder expectations and, where necessary, elicit and restore confidence. A communication plan should consider how a Regulated Entity will manage adverse market reactions to Recovery options and mitigate the potential impact of Recovery options on the Regulated Entity's reputation.
- 7.64. It is a proactive, pre-approved roadmap explaining how the Regulated Entity will communicate with all relevant stakeholders during a stress event or in a Recovery situation.
- 7.65. The internal communication plan component focuses on information sharing and decision-making requirements. In contrast, the external component covers communication with the Regulated Entity's key stakeholders, such as shareholders, depositors, CIMA, other regulators, and the Cayman Islands Government.
- 7.66. The communication plan should recognise that levels of communication may vary depending on the stress and action being taken; hence, the potential audience, details, and timing of information should be adapted.
- 7.67. In some situations, the Regulated Entity may determine that communication should be minimal; for example, to avoid causing the public to lose confidence in the Regulated Entity.
- 7.68. If the communication plan is not presented in a comprehensive yet easy-to-navigate manner, the Authority may request additional documents from the Regulated Entity.

8. Supervisory Assessment of Recovery Plans

- 8.1. This section sets out the Authority's approach to, and expectations in, the review of the Recovery Plans of Regulated Entities.
- 8.2. Review of Recovery Plans by the Authority
- 8.2.1. The Authority will complete periodic reviews of the Recovery Plan as part of its supervisory process to ensure that the rules and guidance within this document are appropriately implemented. The Authority will assess the Recovery Plan of the Regulated Entity for its credibility under the stressed scenarios and its ability to be effectively implemented.
- 8.2.2. The frequency of the review will be on a periodic basis for a Regulated Entity designated as a D-SIDTI, in accordance with the *Rule and Policy*

on *D-SIDTIs*, and on a risk-based approach for Regulated Entities not designated as a D-SIDTI.

- 8.2.3. The Authority, as part of its review process of the Recovery Plan, will communicate with the home/host regulators, wherever necessary, to ensure that the Recovery Plan is appropriate for the Regulated Entity.

9. Actions following Supervisory Assessment

- 9.1. Following the review of the Recovery Plan, the Authority may exercise powers to require Regulated Entities to:
- 9.1.1. Revise the Recovery Plan to address identified deficiencies;
 - 9.1.2. Review the risk profile or specific risks of recovery options commensurate with the size, complexity, structure, nature of business and risk profile of the operations of the Regulated Entity;
 - 9.1.3. Comply with higher capital and liquidity requirements to compensate for its lower resilience to stress;
 - 9.1.4. Review operational preparedness to support the implementation of recovery options; and
 - 9.1.5. Review its governance, risk management or internal controls to improve effective oversight in relation to Recovery Planning and recovery actions.
- 9.2. The actions listed in the above section are not exhaustive and any shortfalls and gaps identified should be remediated by the Regulated Entity without undue delay, or within such timeframe prescribed by the Authority. The Authority may impose other requirements on a Regulated Entity or a combination of various requirements, if the Authority is of the opinion that such requirements are necessary to protect depositors or the soundness of the Cayman Islands' financial system.
- 9.3. The Authority notes the recovery planning process as iterative and will update this RSOG as appropriate.
- 9.4. The Authority will be guided by a risk-based approach based on the Supervisory Assessment outlined in Sections 8 and 9 within this RSOG, in consideration of necessitating subsequent submissions of Recovery Plans by the Regulated Entity.

10. Recovery Plan Submissions

- 10.1. All Regulated Entities within the Scope of this RSOG must submit a Recovery Plan to the Authority: R
- 10.1.1. within twelve (12) months of its [Effective Date](#)¹²;
 - 10.1.2. whenever there are updates and/or changes that adversely impact the Recovery Plan; and
 - 10.1.3. whenever the Authority deems it necessary thereafter.
- 10.2. A Regulated Entity must submit a Board-approved [annual](#) attestation, in a manner prescribed by the Authority, confirming that there have been no material changes that adversely impact the Recovery Plan. R
- 10.3. A Regulated Entity must submit a Board-approved Action Plan simultaneously with its Recovery Plan within twelve (12) months of the Effective Date of implementation of this Rule and Statement of Guidance and for every revised Recovery Plan thereafter. R
- 10.4. A Regulated Entity must conduct Fire Drill exercises within the timelines prescribed below:
- 10.4.1. Within the first eighteen (18) months of the [Effective Date](#) of this Rule and Statement of Guidance; and R
 - 10.4.2. every three (3) years thereafter unless there is an earlier change to the business model or risk factors of the Regulated Entity.

11. Effective date

- 11.1. The Rule and Statement of Guidance will come into effect within twelve (12) months of the date that it is published in the Cayman Islands Gazette.

12. Enforcement

- 12.1. Whenever there has been a breach of the Rules included in this document, the Authority's policies and procedures contained in its [Enforcement Manual](#) will apply in addition to any other powers provided in the MAA and other regulatory acts.

¹² The Effective Date of this RSOG is 12 months from the date it is published in the Gazette, which gives the Regulated Entity a total of 24 months to develop and submit a Recovery Plan to the Authority.



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