



South African Reserve Bank

From the Office of
the Registrar of Banks

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To: All banks, controlling companies, branches of foreign institutions, eligible institutions and auditors of banks or controlling companies

Guidance Note 4/2012 issued in terms of section 6(5) of the Banks Act, 1990

Further guidance on the development of recovery and resolution plans by South African banks

Executive summary

With reference to Guidance Note 3/2012, dated 16 February 2012, this note serves to provide further guidance to banks on the development of recovery and resolution plans (RRPs).

1. Introduction

- 1.1 The Financial Stability Board (FSB), in terms of the “Key Attributes of Effective Resolution Regimes”, requires member countries to have in place RRP for all systemically significant financial institutions. Consequently, the Bank Supervision Department (BSD) has identified RRP as one of its three flavour-of-the-year topics for 2012.

2. Recovery and resolution plans

- 2.1 RRP comprise two separate components, namely, the recovery plan and the resolution plan. Both these components form an integral part of various stages of banks’ risk management programmes. Banks’ normal risk management processes, and the prudential supervision conducted by the BSD, are aimed at crisis avoidance. However, banks may still at times experience severe stress due to risk management failures, exogenous shocks or contagion effects. Recovery plans therefore serve as a guide to a bank’s management and board of directors (the board) on how its risk profile would be reduced in such circumstances to ensure its survival without being required to enter the resolution process. Banks are not obligated to closely follow recovery plans in the event of stress: recovery plans should rather help to plan ahead and structure possible strategies for recovery by taking into account all relevant information.

- 2.2 However, should the recovery attempts fail and a distressed bank enter the resolution process, the resolution authorities would need adequately detailed information on the bank to enable them to resolve it. The purpose of a resolution plan is not only to minimise the cost of failure of a bank, but also to minimise the actual use of public funds in its resolution, even in the case of a systemically significant bank.

3. Approach adopted by the BSD

- 3.1 The concept of RRP is new to banks and regulators worldwide and, as indicated in Guidance Note 3/2012, banks will not be expected to present a final RRP to the BSD in the first round of presentations during 2012. In order not to overburden banks with requirements that will be fully developed over time, the BSD intends to follow a phased approach in its requirement for banks to develop RRP, and it regards the process of developing such plans as useful and important. The initial focus for 2012 will be to start with the development of recovery plans. Banks will be responsible to develop these plans themselves and will have to refine them over the next two to three years, with sustained guidance and input from the BSD. Over time, the updating and review of recovery plans will become a standard element of the BSD's supervisory process.
- 3.2 The development of resolution plans will primarily be the responsibility of the resolution authority, and will be postponed until the strengthening of South Africa's resolution framework in line with international standards has been finalised. Banks' roles in the development of resolution plans are likely to be confined to the provision of detailed information, as requested by the resolution authority.

4. Key elements of recovery plans for 2012

- 4.1 Banks' recovery plans for 2012 should include a liquidity recovery plan, a capital recovery plan and a business continuity plan. The key elements of these plans are set out below:
- The liquidity recovery plan should identify scenarios that could lead to severe liquidity strain for a period of at least one month, and the strategies that the bank would follow in each identified scenario, depending on the source of the liquidity stress. Banks should also indicate under which circumstances they would have to request emergency liquidity assistance from the South African Reserve Bank. Liquidity recovery strategies should take into account the specific limitations of the South African financial markets.
 - The capital recovery plan should contain descriptions of events or scenarios that could lead to severe strain on the bank's capital adequacy. Recovery options should include possible actions that could be taken to strengthen the amount and quality of capital including, but not limited to, sales or spin-offs of assets, restructuring of liabilities, and raising capital in adverse circumstances. The options should take into account intra-group dependencies, legal structures, business structures and approvals that would be required from shareholders, the BSD or other regulators.

- The business continuity plan should identify the core functions, products and services that should continue operating during times of stress, and strategies to ensure such continuity. Critical functions should include both those that are crucial for the survival of the individual bank, and those necessary to avoid any disruption of the financial system. The business continuity plan should highlight the key contingency measures and plans that would enable the bank to continue operating as recovery measures are being implemented.

4.2 Cognisance should be taken of the following common elements when designing each of the above-mentioned three parts of the recovery plan:

- The identification of criteria that would trigger the internal recovery plan, the escalation procedures, and the names of key managers and executives who would be responsible for the various stages of executing the plan.
- The point at which management and the board would regard the bank as non-viable.
- An indication of how and to what extent provision has been made for the recovery of foreign branches and subsidiaries, as well as any other significant entities within the group.
- A communication plan with various stakeholders, including domestic and foreign regulators and authorities, counterparties, investors, clients, staff, shareholders, the media and the general public.
- Any particular obstacles to recovery that the bank can identify specifically within the South African context, and elements of the bank's recovery plan that need further development.

4.3 Please note that your bank's initial recovery plan should focus only on idiosyncratic stress situations. Situations relating to systemic disruption would be addressed in future stages of developing recovery plans. The key elements of this initial recovery plan should be presented to the BSD at its annual meeting with the board of your bank. The presentation should be supported by documentation containing more detailed information that would be used to assess your bank's recovery plan, its likely effectiveness and the practicality of its implementation.

5. Acknowledgement of receipt

5.1 Two additional copies of this guidance note are enclosed for use by your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



René Van Wyk
Registrar of Banks