



# **RULE AND STATEMENT OF GUIDANCE**

## **Recovery and Resolution Planning**

**January 2025**



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## List of Acronyms

<b>CIMA</b>	Cayman Islands Monetary Authority
<b>EWI</b>	Early Warning Indicator
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>MAA</b>	Monetary Authority Act
<b>RSOG</b>	Rule and Statement of Guidance on Recovery and Resolution Planning

FOR CONSULTATION



# Rule and Statement of Guidance on Recovery and Resolution 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 and Resolution 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) *Rule on Risk Management for Insurers;*
- g) *Regulatory Policy on Consolidated Supervision;* and
- h) Any other relevant acts and regulatory instruments issued by the Authority from time to time.

### **Background**

1.2. A comprehensive crisis management framework aims to prepare, prevent and respond to financial distress within a regulated entity or broader financial system. It encompasses structured procedures and strategies designed to prepare regulated entities to handle periods of financial distress effectively. This includes recovery planning, which outlines steps an entity will take to restore its financial health, and resolution planning, which ensures an orderly resolution process should the entity become non-viable.

1.3. Such a framework is crucial to the financial system of a jurisdiction as it mitigates systemic risks, maintains the continuity of critical financial services, protects stakeholders, and reduces the likelihood of public-funded bailouts. By ensuring regulated entities are resilient and capable of managing crises, a comprehensive crisis management framework, including recovery and resolution planning, fosters financial stability, investor confidence, and overall economic health.

## 2. Statement of Objectives

2.1. To set out the Authority's rules and guidance on the requirements and key elements of effective recovery and resolution planning; and to set out the Authority's approach to, and expectations in, reviewing recovery and resolution

plans and the manner in which the Authority's powers relating to recovery and resolution planning requirements are to be exercised.

- 2.2. The Authority recognises that recovery and resolution planning may vary from one Regulated Entity to another; hence, the development of a recovery and resolution plan should be guided by the principle of proportionality. The recovery and resolution plan should be commensurate with the size, complexity, structure, nature of business and risk profile of the operations of the regulated entity.

### 3. Statutory Authority

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

- 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 and resolution 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. Scope of Application: Recovery Plans

The Rule and Statement of Guidance section regarding recovery plans apply to:

- a) All banks incorporated 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) Development bank of the Cayman Islands supervised by the Authority;

- d) Class A and Class D insurers (Section 4(3) of the *Insurance Act*) incorporated in the Cayman Islands regulated by the Authority under the Insurance Act; and
- e) Any other regulated entity which may pose a financial stability risk as determined by the Authority.

#### 4.2. Scope of Application: Resolution Plans

The Rule and Statement of Guidance section regarding resolution plans apply to all Regulated Entities designated by the Authority as Domestic Systemically Important Deposit Taking Institutions and any other regulated entity which may pose a financial stability risk as determined by the Authority.

#### 4.3. Other Considerations

- 4.3.1. For local branches of banks incorporated outside of the Cayman Islands, the Authority may request evidence of how that entity is covered by the parent entity's recovery plan consistent with the Authority's consolidated supervision framework.
- 4.3.2. The Authority recognises that there will be variations in approaches to the trigger events, stress scenarios, and recovery and resolution options of regulated entities. In assessing whether the recovery and resolution plan of a regulated entity meets the requirements of this Rule and Statement of Guidance, appropriate consideration will be given to the size, complexity, structure, nature of business, and risk profile of the entity.
- 4.3.3. Notwithstanding the applicability of the rules and guidance highlighted above, the Authority deems the guidance of the RSOG for recovery and resolution planning to be a critical consideration for all regulated entities.
- 4.3.4. References to any act or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time.

## 5. **Definitions**

5.1. The following definitions are provided for the purpose of this Rule:

- 5.1.1. **"Recovery Plan"** refers to 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 recover from crises, to ensure the institution can continue to operate and provide critical services without requiring external intervention or threatening the broader financial system or economy.

5.1.2. **“Resolution Plan”** refers to collaborative planning between a systemic regulated entity and the Authority to minimise the adverse impact of an entity’s non-viability on the financial system or economy, protect critical services, and avoid the need for public funding. It includes steps to ensure the continuity of essential services, management of the assets and liabilities of the entity, and coordination with regulatory authorities, domestic and cross-border, during the resolution process.

## 6. Enforcement

6.1. Whenever there has been a breach of the rules included in this document, the policies and procedures of the Authority contained in its Enforcement Manual will apply, in addition to any other powers provided in the regulatory acts and the MAA.

## 7. Effective date

7.1. The Rule and Statement of Guidance will come into effect within one year of the date that it is published in the Gazette.

## 8. Recovery Planning

8.1. Recovery Planning is a core component of the 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 listed as one of the *Key Attributes for Effective Resolution of Financial Institutions* issued by the Financial Stability Board<sup>1</sup>.

8.2. Regulated entities must develop useable Recovery Plans that are commensurate with their nature, complexity, business model and risk profile. The internal exercises required to complete a Recovery Plan must 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.

8.3. The Recovery Plan must be a functional and useable document that Senior Management of a regulated entity can use as a step-by-step action plan during stress events. To ensure it can be used in this manner, the Recovery Plan should consider 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.

8.4. The development and maintenance of a Recovery Plan is the responsibility of the Board and Senior Management Team of the Regulated Entity.

<sup>1</sup>[Key Attributes of Effective Resolution Regimes for Financial Institutions, 15 October 2014.](#)

## Components of a Recovery Plan

- 8.5. The Recovery Plan must contain the following components at a minimum:
- A. *Overview of the Regulated Entity* - A high-level substantive summary of the key recovery strategies and an operational plan for implementation. R
  - B. *Governance* – Responsibilities of both Senior Management and the Board of Directors in the execution of a recovery plan. R
  - C. *Scope* – Regulated Entities must identify their core subsidiaries, business lines, and services<sup>2</sup> which will inform the coverage of its recovery plan. R
  - D. *Triggers and Indicators* – Stipulates the conditions necessitating a recovery action. R
  - E. *Stress Testing* – Stress scenarios and how testing of these scenarios will be conducted. R
  - F. *Recovery Options* – All available options to a Regulated Entity, enabling it to realise its total recovery capacity. Regulated Entities are not to expect any form of government support as an option. R
  - G. *Communication* – Internal and external communication approach if a recovery option is taken by the regulated entity. R
- A. Overview of the Regulated Entity
- 8.6. The recovery plan must include a detailed account of the overall economic and legal structure of the Regulated Entity. This also includes the following: R
- 8.6.1. A description of the governance structure, including the members of the Board and the various sub-committees of the Board; R
  - 8.6.2. Identified critical operations performed by the Regulated Entity; and R
  - 8.6.3. A description of the core business lines, identified by contributions to revenue, expense, profit, market share, strategic importance, and any other similar metrics. R

<sup>2</sup> [Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Identification of Critical Functions and Critical Shared Services, 16 July 2013.](#)





**B. Governance**

- 8.7. The Recovery Plan must detail 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 managers to be involved in developing, implementing, and maintaining the plan. R
- 8.8. The Recovery Plan must describe the governance framework surrounding its implementation. This includes the committee structure, escalation process and ownership of different actions. R
- 8.9. The Recovery Plan should document any changes to governance upon the trigger of indicators (as detailed below), including the formation of special committees, board meetings or risk management groups.
- 8.10. The Recovery Plan must include evidence that the board has provided sufficient challenge on the recovery plan and reviewed and approved it. The board is required to set out its view of the extent to which the Recovery Plan is credible and executable in severe stress and an explanation of that view. The Board must also review and approve any material changes to the Recovery Plan made by senior management. R
- 8.11. The Authority requires that the internal audit function of the Regulated Entity reviews the Recovery Plan prior to submission to the Authority and the relevant internal audit report should be submitted with the Recovery Plan. R
- 8.12. As part of the board's oversight of the Regulated Entity, it should ensure 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.
- 8.13. Where the regulated entity is part of a larger financial group, the board must ensure the Recovery Plan is coordinated and consistent with the parent entity, so far that acting in the interest of the group is not detrimental to the Cayman Islands regulated entity. If disposal of the Cayman Islands regulated entity, or any of its business lines, is a recovery option of the parent entity, it must ensure the Authority is informed and proper prior approval is received based on the requirements of the regulatory acts and other relevant legislations. R
- 8.14. The regulated entity should be prepared to discuss the Recovery Plan at a meeting with the Authority, if requested.

- 8.15. Senior management is responsible for implementing the Recovery Plan and ensuring it is reviewed at least annually or earlier in the event of a disruptive event such as a material market event or change in the business model. This review must include, at a minimum:
- 8.15.1 Consideration of the ongoing relevance of the stress scenarios. R
- 8.15.2 Confirmation of the stress indicators included in the Recovery Plan and if the options to respond to breaches of the indicators are still calibrated effectively. R
- 8.15.3 If the organisational structure of the regulated entity is of maximum effectiveness to facilitate a recovery. R
- 8.15.4 The Board must be updated on amendments to the recovery plan and confirm approval. R
- 8.16. Senior management is required to implement ongoing monitoring processes for trigger events and potential activation of recovery options. The monitoring process must include regular monitoring of specified indicators and their trigger events to ensure action can be taken as quickly as possible. Periodic reports, at least annually, on the performance of the specified indicators must be submitted to the Board. R
- 8.17. The Board must identify 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. R
- 8.18. The Regulated Entity is required to perform a live simulation exercise on the Recovery Plan, known as a 'fire-drill', within the first two years of the Rule and Statement of Guidance being issued and every three years thereafter unless there is an earlier change to the business model or risk factors of the Regulated Entity. It must involve the Board and senior managers that would be included in the execution of the recovery plan in a real stress scenario. Findings or lessons learnt from the live simulation must be included in updated iterations of the recovery plan. R
- C. Scope
- 8.19. Regulated entities must prepare the Recovery Plan at the consolidated level and capture recovery options and scenarios relevant to each of the discrete regulated segments and business lines of the consolidated regulated entity. R
- 8.20. Where a regulated entity is the Parent of an entity that operates in a jurisdiction outside the Cayman Islands, the Recovery Plan must clearly state how that R

entity is covered by the Recovery Plan. This is especially required where the other entities perform a critical function of the group or is a core business line.

- 8.21. The Recovery Plan must demonstrate how any branches of the regulated entity are covered within the Recovery Plan. R
- 8.22. The Recovery Plan must be specific to the business model of the regulated entity and be appropriate for its size, complexity, structure, nature of business and risk profile. R
- 8.23. The regulated entity must identify material dependencies across the financial group or holding company and assess the level of disruption to these dependencies in the event of severe stress. R
- 8.24. A Recovery Plan should provide the regulated entity with a framework to identify and address the impacts of severe stress events and avoid failure or resolution.
- 8.25. 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.
- 8.26. The Recovery Plan should be initiated by senior management to take actions to restore the regulated entity's financial viability and avoid failure. Its core components should align with other risk management processes, such as those governing capital, liquidity, stress testing, business continuity, and resolution planning.
- 8.27. Where applicable, there must be coordination between the Recovery Plan and other regulatory documents (such as ICAAP within The Supervisory Review Process (Pillar 2) Rules and Guidelines) and the indicators and trigger events of the plan must be aligned with its other early warning and risk appetite metrics. R
- 8.28. A regulated entity must identify domestically systemically important functions, that is, only functions that are critical to the Cayman Islands economy, and demonstrate how it will maintain them during a recovery. This will include how those functions will be funded and any actions necessary for their maintenance. R
- 8.29. Regulated entities should not treat recovery planning as a compliance exercise. When the Authority assesses a Recovery Plan, it will focus on evidence that the plan could be used; whether the regulated entity has quantified the impact and timelines of specific recovery options; and whether the regulated entity's board and senior management can demonstrate how they would execute the plan.



8.30. The Recovery Plan should explain the interconnections and interdependencies of regulated entity across business lines in its financial group structure, and critical third parties where relevant. It should further address if a disruption of these interconnections or interdependencies would materially affect the regulated entity.

D. Triggers and Early Warning Indicators<sup>3</sup>

8.31. A Recovery Plan requires an Early Warning Indicator (“EWI”) framework to alert the regulated entity to the deterioration of its business. It must contain triggers within the framework that launch management actions or changes in governance. R

8.32. The aim of triggers in recovery planning is to enable regulated entities to take action and maintain or restore financial strength and viability. Such triggers are a pre-identified point in time, situation or marker, which alerts senior management that an event which is potentially on the path to a stress has occurred.

8.33. Recovery Plans must explain how the EWIs have been calibrated and demonstrate that the thresholds have been set at a level that allows sufficient warning and time to act in a crisis situation. R

8.34. The regulated entity should be able to provide the Authority with an explanation of how the calibrations of the recovery plan indicators have been determined and demonstrate that the thresholds would be breached early enough to be effective.

8.35. The EWI framework should be formed by a range of qualitative and quantitative indicators that are able to identify an impending stress. This should include regulatory ratios, existing indicators in the risk management framework, capital indicators, liquidity indicators, profitability indicators and asset quality indicators. Market indicators and macroeconomic indicators should be included as appropriate.

8.36. The EWI framework must:

8.36.1 be adapted to the business model and strategy of a regulated entity and be adequate to its risk profile. It must identify the key vulnerabilities most likely to impact the financial situation of the regulated entity; R

<sup>3</sup> [Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Recovery Triggers and Stress Scenarios.](#)

- 8.36.2 be adequate to the legal structure, size, risk profile and complexity of each regulated entity. The number of indicators must be adequately targeted and manageable by regulated entities; R
- 8.36.3 be aligned with the overall risk management framework and with the existing liquidity or capital contingency plan indicators; R
- 8.36.4 allow for regular monitoring and be integrated into the governance of the regulated entity and within the escalation and decision-making procedures; and R
- 8.36.5 include forward-looking indicators. R
- 8.37. For the calibration of the EWI framework, the regulated entity must take into account the following: R
- 8.37.1 Regulated entities with a smaller overall recovery capacity must consider an earlier breach of recovery plan indicators to maximise the chances of successful implementation of their more limited recovery options. R
- 8.37.2 The timeframe for implementing recovery options, considering governance arrangements, regulatory approvals required, and operational impediments to execution. Regulated entities that rely on options that are more complex to execute and likely to take more time to implement must have indicators calibrated accordingly to allow sufficient advance warning. R
- 8.37.3 At which stage of the stress the recovery option can realistically be used effectively, considering that for some types of options, the full benefits could be difficult 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. R
- 8.38. Although a triggering event usually results in the regulated entity taking a recovery action, a recovery action may not necessarily be required. The expected result of a triggering event is an escalation to senior management in order to implement a discretionary response in accordance with the situation. Triggers generally are not linked to specific compulsory recovery actions but a breach of a trigger will require attention by senior management or the Board so that an appropriate response can be made.

E. Stress Testing

- 8.39. Stress scenario testing should be undertaken to demonstrate that the Recovery Plan is suitable for use in a range of different types of stress.

- 8.40. The purpose is to test the integrity of the plan and conclude whether the key components (listed above in section 8.5 *Components of a Recovery Plan*) interlink effectively.
- 8.41. The Authority requires Recovery Plans to include at least three stress tests. They must cover: R
- 8.41.1 A market-wide stress which considers both local and international developments that could have an impact on the operations of the regulated entity; R
- 8.41.2 An idiosyncratic stress relevant to the business model of the regulated entity; and R
- 8.41.3 A combination of 8.41.1 and 8.41.2. R
- 8.42. Stress tests should follow a clear narrative, taking the regulated entity from normal operating conditions, through a severe financial stress, and down to the point of near failure. They should set out financial indicators at each stress stage; capture when each risk management indicator is triggered; and at what point management and governance actions will be taken. It should demonstrate the effect on the ability of the regulated entity to undertake relevant recovery options, and at what point certain options would no longer be viable.
- 8.43. The Recovery Plan must clearly define what the point of near failure is and set it out through qualitative or quantitative metrics relevant to the operations of the regulated entity. R
- 8.44. 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; significant deposit withdrawal or runoff; collapse of global financial markets; rise in public debt; significant changes in currency rates; significant changes in commodity prices; bank failures; fraud; and reputational crises.
- 8.45. The Recovery Plan should 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 early warning indicators).
- 8.46. The scenario should be realistic and indicative of the business model of the regulated entity, market conditions and macroeconomic environment.

- 8.47. The Recovery Plan should consider the impact of the stress 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.
- 8.48. Stress testing should establish the relevant recovery options for each stress scenario. It should be clear at what stage of the stress the option would be used, the implementation time and detail the financial positions, both if the options were implemented and if no action was taken. The Recovery Plan should set out the time it would take for the benefits of the options to be realised.
- 8.49. The Recovery Plan should consider 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.
- 8.50. Senior management should be able to discuss with the Authority why scenarios were chosen and what lessons were learned from the simulation exercise.

#### F. Recovery Options

- 8.51. Recovery options are management actions 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 successfully execute the Recovery Plan and restore stability.
- 8.52. The Recovery Plan must include a wide range of options as appropriate for the size, complexity, structure, nature of business and risk profile of the regulated entity. Different options must be available for each stage of the stress and the plan should be clear on what stage of the stress event each option would be best suited. R
- 8.53. Consideration should be given to the most effective sequence of options to deal with a stress event. 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.
- 8.54. The Recovery Plan must clearly demonstrate the total recovery capacity of the regulated entity. This includes all the benefits of all options available if implemented together. It must be able to demonstrate the total recovery capacity in terms of satisfying the capital, liquidity and other financial requirements relevant to the stress event. R
- 8.55. The Recovery Plan must include all available options in order of effectiveness and documenting the benefits of each option individually and cumulatively. R

- 8.56. For entities part of financial groups, it is expected that financial support from the group would be a potential option. It should also be assumed that, if the regulated entity is experiencing stress, the parent entity will also likely be experiencing stress, and factor that into available recovery options. However, for a regulated entity that is a subsidiary, it should also be able to implement stand-alone options appropriate to its size and scale.
- 8.57. Where support from a parent entity is the main recovery option, the Authority will request formal attestation including the legal rights to impose the recovery option under the laws of the Cayman Islands from the group entity that it would be available to support the regulated entity as described. R
- 8.58. The Recovery Plan must include the timeframe during which the recovery options could be activated. It should highlight the time needed to execute an option and the time needed to realise its benefits. R
- 8.59. The Recovery Plan should consider 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.
- 8.60. The Recovery Plan should consider the credibility of options rather than giving preference to options that appear to be executable in the shortest timeframe.
- 8.61. The Recovery Plan should state if there are recovery options that were considered but dismissed, and if so, include a clear explanation as to why they were dismissed. The Recovery Plan should also set out situations where each option would not be credible, for example due to market conditions.
- 8.62. For all options, the Recovery plan must consider potential barriers to execution, which may relate to interconnectedness or legal, regulatory, operational, or business impediments. R
- 8.63. The Recovery Plan must consider the impact of macroeconomic conditions on the recovery options and include assumptions on the cost / sale price changes as appropriate. For example, it should not automatically be assumed that sale of assets would achieve market value in detrimental market conditions. R
- 8.64. In a market-wide stress, the regulated entity will need to 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.
- 8.65. Asset sale and disposal options should detail potential purchasers and the realistic discount required for a sale, taking into account potential market



conditions. The Recovery Plan should include analysis of the availability of investors and buyers and set out why they might be interested.

- 8.66. The Recovery Plan should be conservative in valuing asset disposals by including price adjustments to reflect the distressed asset.
- 8.67. The Recovery Plan should consider the options available to raise liquidity by encumbering assets in each stress scenario. It should also consider potential secondary impacts, including the cost and stability of its other sources of funding and on the credit rating of the regulated entity, 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.
- 8.68. The Recovery Plan should detail assumptions made by the regulated entity concerning foreign currency risk, including the currency of outflows.
- 8.69. The options should support the recovery of the regulated entity without making the post-recovery business model unviable.
- 8.70. The Recovery Plan should consider if there is any systemic implication of each option on the Cayman Islands financial system.
- 8.71. 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.
- 8.72. Recovery plans must consider the impact of recovery options on any subsequent resolution. This might include consideration of how recovery options would impact the existing barriers to resolution, the viability of the business model, the ability to provide or support critical functions (CFs) and the potential implications of recovery options on any post-resolution restructuring. R
- 8.73. A regulated entity must ensure that it has in place appropriate contingency arrangements (for example, functioning of internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts) that enable it to continue to operate during the implementation of any recovery option. The contingency arrangement will also be assessed in the review process of the Authority. R

#### G. Communication

- 8.74. The Recovery Plan should be useable in a stress event and presented in a way that it could be referred to by the Board and relevant senior management

during a stress event. If the document is not presented in an easy-to-navigate manner, additional documents will be required as an accompaniment.

- 8.75. To be useable in a stress event, the Recovery Plan needs to illustrate the internal and external dissemination of information. The internal component should focus on the information sharing and the decision-making requirements. The external communication component must cover the key stakeholders of the regulated entity, such as shareholders, depositors, the Authority and other regulators, and the Cayman Islands' government. R
- 8.76. A communication plan should consider how a regulated entity will manage negative market reactions to recovery options and mitigate the potential impact of recovery options on the regulated entity's reputation.
- 8.77. The communication plan should recognise that different levels of communication may be appropriate depending on the stress and action being taken. The potential audience, detail, and timing of information provided will need to be adapted. 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.

## 9. Resolution Planning

- 9.1. Resolution Planning acts as an essential pre-requisite for Authorities to achieve an orderly resolution well in advance of a regulated entity failing should its recovery measures prove to be ineffective. Resolution Planning is a core component of the crisis management framework and is also listed as one of the *Key Attributes for Effective Resolution of Financial Institutions* issued by the Financial Stability Board<sup>4</sup>.
- 9.2. All regulated entities designated by the Authority as Domestic Systemically Important Deposit Taking Institutions and any other regulated entity as determined by the Authority, must provide the information specified under the section "Resolution Plan – Information Requirements" and any other information as directed by the Authority for the purposes of resolvability assessments and resolution planning. R
- 9.3. Regulated entities must have the necessary systems in place to generate the information required to support the resolution planning process on a timely basis and enable effective reporting to the Authority. R
- 9.4. The Authority will use the information provided below to assess which financial functions should be considered critical for the purposes of resolvability assessments and resolution planning. The information will also enable the

<sup>4</sup>[Key Attributes of Effective Resolution Regimes for Financial Institutions, 15 October 2014.](#)

Authority to gain an in-depth understanding of the regulated entity’s corporate group structure, its material entities’ core business lines, and the key financial and operational interconnectedness.

- 9.5. The Authority anticipates that the information provided by the regulated entities for the purposes of resolvability assessments and resolution planning will be an iterative process in anticipation of the legislative and regulatory developments on resolution planning.

#### Resolution Planning – Information Requirements

- 9.6. The Authority requires the regulated entities to maintain and submit the following information for resolution planning: R
- A. *Overview of the Regulated Entity and Governance* - A high-level substantive overview of the regulated entity and its governance including the identities of principal officers and a description of its governance structure. R
  - B. *Operational Continuity (including Critical Functions/Services)* – This section identifies essential functions and services which are critical to financial stability, ensuring their continuity during resolution. R
  - C. *Financial and Operational Information* – This section provides a detailed overview of financial data and key operation dependencies that are critical to maintaining stability during resolution<sup>5</sup>. R
  - D. *Strategic Analysis* – This component outlines plausible resolution strategies tailored to the structure of the Regulated Entity, assessing feasibility and potential challenges. R
  - E. *Legal and Regulatory Considerations* – Details the legal structure of the Regulated Entity and ensures compliance with relevant legal and regulatory frameworks across jurisdictions. R
  - F. *Funding and Liquidity Management* – Focuses on securing and managing necessary liquidity and funding resources to support resolution actions under stress conditions. R
  - G. *Communication Strategy* – Develops internal and external communication protocols to manage stakeholder confidence and ensure transparency during resolution. R

<sup>5</sup> [Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Identification of Critical Functions and Critical Shared Services](#)

- H. *Cross-Border Coordination* – Addresses coordination with foreign regulators and resolves legal or operational barriers for Regulated Entities with cross-border operations. R
- I. *Resolution Triggers* – Defines the specific financial or operational triggers that initiate the resolution process, and the escalation steps that follow. R
- J. *Legal and Contractual Arrangements* – Reviews and aligns key contracts to support resolution actions, mitigating risks related to cross-default and early termination clauses. R
- K. *Testing, Review and Maintenance* – Requires regular testing and updating of the resolution plan to ensure its effectiveness and alignment with changing circumstances. R
- A. Overview of the Regulated Entity and Governance
- 9.7. The information provided must include a detailed description of the structure of the Regulated Entity, including legal entities, key business lines, geographic presence and critical functions. R
- 9.8. The information provided must detail the governance arrangements for resolution planning, including the roles and responsibilities of the board of directors, senior management, and key committees. R
- B. Operational Continuity (including Critical Functions/Services)
- 9.9. The information provided must identify and map the critical functions of the regulated entity, including those that are vital to the financial system or economy such as functions related to payments, deposit-taking lending and securities settlement. R
- 9.10. The information provided must outline how critical functions would continue during resolution, including strategies to ensure operational continuity, such as retaining essential staff, maintaining access to financial market infrastructures and preserving access to critical service providers. R
- 9.11. The information provided must include a developed step by step execution plan for the resolution process, including, timelines, key milestones, and decision-making processes. Detailed plans for the transfer of assets, the separation of critical functions and the wind-down of non-critical functions must also be included. R

C. Financial and Operational Information

- 9.12. There must be detailed and up-to-date financial information provided, including, where applicable, the balance sheet, capital structure, funding sources, liquidity profile and off-balance-sheet exposures of the regulated entity. This information must also include an analysis of how different resolution strategies would affect the financial position of the regulated entity. R
- 9.13. Key operational dependencies must be identified, such as IT systems, critical suppliers and third-party service providers, including plans for how these dependencies will be managed in resolution to ensure minimal disruption to operations. R

D. Strategic Analysis

- 9.14. Credible and feasible resolution strategies must be included, such as bail-in, sale of business units, bridge institution support or liquidation. Each strategy must be included in the Resolution Plan and should include the rationale for why these strategies would be effective. R
- 9.15. The regulated entity must conduct a detailed analysis of the feasibility of the proposed resolution strategies, including identifying any legal, operational or financial impediments to execution of the strategy, and outline steps to address these impediments. R

E. Legal and Regulatory Considerations

- 9.16. A comprehensive overview of the legal structure of the regulated entity must be provided, including subsidiaries, branches and intra-group dependencies. This overview must include a mapping of legal entities to critical functions and core business lines. R
- 9.17. The regulated entity should outline how the Resolution Plan complies with applicable laws and regulations in the jurisdictions in which the entity operates.

F. Funding and Liquidity Management

- 9.18. The regulated entity should identify available liquidity resources during resolution, including access to counterparty facilities (as applicable), and other secured/unsecured funding.
- 9.19. The Resolution Plan must provide a detailed plan for managing liquidity under stressed conditions, including intra-group funding arrangements. The resolution plan must also outline a strategy for securing the necessary funding to support resolution actions, such as the sale of assets or raising capital. Potential sources of emergency liquidity assistance and an assessment of the adequacy of these resources under different stress scenarios must also be included in the plan. R

G. Communication Strategy

- 9.20. Protocols must be developed for internal communication during the resolution process, including clear reporting lines and escalation procedures. R



H. Cross-Border Coordination

- 9.21. Regulated entities should identify key foreign jurisdictions where it operates and outline how cross-border resolution issues, such as the recognition of foreign resolution actions, will be addressed.
- 9.22. Any legal or operational barriers to cross-border resolution must be identified, such as differences in insolvency regimes or regulatory requirements, including outlining plans to overcome these barriers and ensure seamless coordination across jurisdictions. R

I. Resolution Triggers<sup>6</sup>

- 9.23. Financial and operational triggers that would initiate the resolution process must be clearly defined. These triggers should be based on specific metrics, such as capital adequacy, liquidity ratios or other indicators of financial distress. R
- 9.24. The Resolution Plan must include detailed escalation procedures that outline the steps to be taken when resolution triggers are met. This must include clear decision-making authority and a timeline for escalating the resolution process. R

J. Legal and Contractual Arrangements

- 9.25. A review of key contracts must be provided to ensure that they support resolution actions. R
- 9.26. Regulated entities should ensure that this review includes contracts related to derivatives, secured funding, third-party services and other financial instruments. Reviews should also ensure that contracts do not include clauses that could be triggered during resolution, such as cross-default or early termination clauses.
- 9.27. Regulated entities should identify any cross-default clauses in financial agreements that could be triggered during resolution and outline plans to manage or renegotiate these clauses to prevent unintended consequences during the resolution process.

K. Testing, Review and Maintenance

- 9.28. There must be regular testing of the plan, including scenario analyses, stress tests and simulation exercises. The testing must assess the effectiveness of the resolution strategies under different scenarios, including severe market disruptions. R
- 9.29. There must be procedures in place for the regular review and updating of the resolution plan to reflect changes in the structure, business model or external environment. A timeline for the submission of updated plans to the Authority should be considered, in line with requisite regulatory requirements/guidance. R

<sup>6</sup> Resolution triggers should be considered along with *Triggers and Early Warning Indicators* as outlined within the Recovery Plan section of this measure.

## 10. Supervisory Assessment of Recovery and Resolution Plans

- 10.1. All regulated entities captured within the scope of this document must submit a Recovery Plan and Resolution Planning information (as applicable) within 12 months of the effective date of this Rule and Statement of Guidance and annually thereafter. R
- 10.2. Within six (6) months of the submission of its Recovery Plan, regulated entities must submit a board-approved action plan for the implementation and testing of the Recovery Plan. R
- 10.3. After the Authority has received the first Recovery Plan, a regulated entity will be allowed to submit a Board-approved annual attestation that there has been no change to the operations of the regulated entity or the operating environment adversely impacting the Recovery Plan. R
- 10.4. The Authority will complete periodic reviews of the Recovery and Resolution Plan as part of its supervisory process to ensure the rules and guidance within this document are appropriately implemented. The Authority will assess the Recovery and Resolution Plan of the regulated entity for its credibility under the stressed scenarios and its ability to be effectively implemented.
- 10.5. 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 SOG on D-SIDTIs, and on a risk-based approach for regulated entities not designated as a D-SIDTI.
- 10.6. The Authority, as part of its review process of the Recovery and Resolution Plan, will communicate with the home/host regulators, wherever necessary, to ensure that the Recovery and Resolution Plan is appropriate for the regulated entity.

## 11. Actions following Supervisory Assessment

- 11.1. Following our review, CIMA may exercise powers to require regulated entities to:
- 11.1.1 Revise the Recovery and Resolution Plan to address identified deficiencies;
  - 11.1.2 Review and modify its business strategy or organisation;
  - 11.1.3 Reduce its risk profile or specific risks that cannot adequately be addressed by recovery options (for example, by reducing its activities in particular areas or by asset sales);



- 11.1.4 Comply with higher capital and liquidity requirements to compensate for its lower resilience to stress;
  - 11.1.5 Improve operational preparedness to support the implementation of recovery and resolution options; and
  - 11.1.6 Make changes to its governance structure to improve effective oversight or decision-making in relation to recovery planning and recovery actions.
- 11.2. The actions listed in the above section are not exhaustive and 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.

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