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EDS.306.2

13th December 2024

Circular to all Chief Executives of Commercial Banks

Request for Self-Assessment and Submission of Recovery Plans

In April 2017, Bank of Uganda issued a circular requiring all supervised financial institutions to prepare and maintain Recovery Plans to ensure preparedness for restoration of viability during financial and operational challenges. These Recovery Plans were to be reviewed by Bank of Uganda. A guidance note on drafting Recovery Plans was provided as an attachment to facilitate compliance.

Following the review of Recovery Plans submitted over the past three years, Bank of Uganda has observed gaps in the appreciation, preparation, and maintenance of these plans. To address these gaps, Bank of Uganda has revised the Recovery Planning Guidelines to enhance clarity and improve adherence. The revised guidelines are hereby attached for your reference.

In this regard, All Commercial Banks are requested to conduct a comprehensive self-assessment of their compliance with the revised guidelines and submit the self-assessment report together with an updated Recovery Plan to the **Office of the Undersigned** by **28th February 2025**. The self-assessment should evaluate all key areas of the guidelines, highlighting any compliance gaps and steps taken to address them.

Please do not hesitate to contact us should you require any clarification or support during this process. You may also send an email to **Mr. Stephen Lukwago** - silukwago@bou.or.ug.

Yours faithfully,

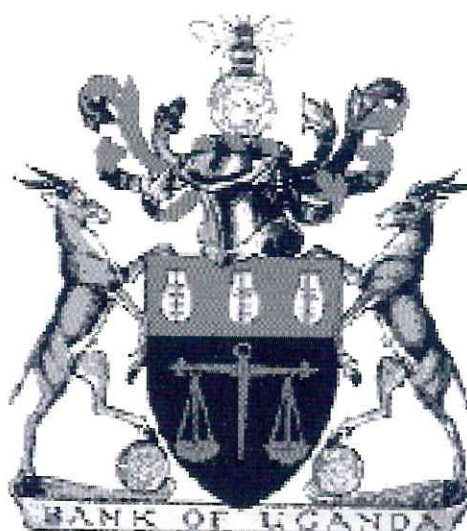
David L. Kalyango

Executive Director Supervision

Copy to: General Counsel, Bank of Uganda

Attach...

BANK OF UGANDA



Recovery Planning Guidelines for Supervised Financial Institutions

Issued on 13th December 2024

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1.0. Introduction

In line with the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes), Bank of Uganda issued a circular to all commercial banks on 27 April 2017, requiring all commercial banks to develop and maintain recovery plans. Consequently, Bank of Uganda has developed a policy framework to implement recovery and resolution planning for supervised financial institutions in Uganda. The framework is envisaged to improve the recoverability and resolvability of supervised financial institutions by incorporating essential elements of Key Attribute 11 of the FSB's Key Attributes.

2.0. Purpose

2.1. The purpose of this Guideline is to provide guidance to Supervised Financial Institutions (SFIs) on key elements of effective recovery planning and to set out Bank of Uganda's approach to and expectations in reviewing recovery plans. The Guideline is heavily drawn from the Financial Stability Board's guidance on Recovery and Resolution Planning.

2.2. The guideline sets out key principles, requirements and supervisory expectations on the development and maintenance of recovery plans. A recovery plan is an overarching "playbook" that is developed, maintained, and when necessary, executed by a SFI to manage severe stress events that threaten to undermine the financial institution's viability.

2.3. As part of recovery planning, SFIs should identify and plan for the execution of a suite of recovery options to restore long-term viability under a range of idiosyncratic and system-wide stress events, without calling on any policy intervention such as financial support from Bank of Uganda.

3.0. Scope and Coverage

3.1. The guideline applies to all SFIs, in a proportionate manner, having regard to their size, structure and business mix and the systemic risks associated with their activities.

3.2. For smaller SFIs with relatively fewer and simpler business lines, the stress scenarios, recovery options, recovery triggers and communication plan will likewise tend to be less complex and potentially easier to develop and implement. Nevertheless, all SFIs should demonstrate that their recovery plans cover the key elements set out in this Guideline.

4.0. Application

4.1. Recovery plans are prepared and "owned" by SFIs. It is the responsibility of each SFI to develop and maintain a recovery plan that it considers to be the optimal approach for covering its operations and related entities and for stabilizing and restoring its financial resources and viability if it comes under severe stress.

- 4.2.** The Guideline shall apply to SFIs on a consolidated basis and shall include all financial and non-financial subsidiaries.
- 4.3.** For a financial group comprising multiple financial institutions operating in Uganda, the financial holding company registered in Uganda shall prepare a consolidated group recovery plan, which shall be submitted to Bank of Uganda.
- 4.4.** For SFIs that are part of a multinational group, the Recovery Plan shall take into account the wider business of the group i.e. the impact on the SFI of actions taken by other subsidiaries within the group and the implications of relevant market development that may pose a risk to the SFI's viability.

5.0. Reporting Requirements

- 5.1.** SFIs shall submit revised recovery plans to Bank of Uganda within 6 months from the date of issuance of the Guidelines.
- 5.2.** SFIs shall ensure that recovery plans are updated and notify Bank of Uganda as and when there are material changes in the following:
- (a) corporate, shareholding, or governance structure;
 - (b) financial position, risk profile, or business strategy and operations; or
 - (c) any other circumstances that may significantly affect its recovery plan. In this regard, a financial institution shall submit to the Bank an updated recovery plan within 14 days from the date such changes are internally approved.

6.0. Implementation

- 6.1.** This Guideline will take effect from the date of its issuance. Bank of Uganda will monitor SFI's progress in complying with relevant requirements during ongoing supervision.

7.0. Recovery Planning Process

- 7.1.** The Recovery planning process shall involve the identification of, and planning for the activation of recovery options which a SFI could reliably execute under severe stress to restore its financial strength and viability without the involvement of Bank of Uganda.
- 7.2.** Therefore, recovery planning shall form an integral part of a SFI's risk management framework and be incorporated in the institution's risk management processes and decision-making mechanism.
- 7.3.** The Board shall clearly assign the responsibility for the development, review, and maintenance of a SFI's recovery plan. In particular, the Board should designate a key senior executive from risk or finance functions the

responsibility for delivering an effective recovery plan and to act as a key point of contact with Bank of Uganda.

7.4. The Board of Directors shall retain the responsibility of approving the recovery plan of the SFI.

7.5. The recovery plan should include measures to reduce the risk profile of a firm and conserve capital, as well as strategic options, such as the divestiture of business lines and restructuring of liabilities.”

8.0. General Requirements

8.1. A SFI shall prepare a recovery plan that consists of the following components –

- (a) Executive summary;
- (b) Strategic analysis;
- (c) Governance structure and oversight;
- (d) Recovery triggers;
- (e) Recovery options;
- (f) Impact and Feasibility assessment of recovery options;
- (g) Disposal options;
- (h) Scenario analysis;
- (i) Communication +plan; and
- (j) Preparatory measures.

8.2. A SFI shall ensure that the level of detail and depth of analysis in the recovery plan is proportionate to –

- (a) its size, nature and structure of business;
- (b) the complexity and substitutability of its activities (including the scale of cross border operations); and
- (c) the degree of intra-group and external dependencies and systemic interconnectedness with the economy and core components of the financial system (e.g. financial markets and FMIs).

8.3. The analyses conducted must be supported by robust quantitative metrics, qualitative evidence supplemented by realistic and evidence-based projections.

8.4. A SFI must integrate the recovery planning process into its overall risk appetite, strategic planning and risk management frameworks which shall form an integral part of its enterprise-wide risk management activities. Such integration is essential for timely identification of stress events, and the formulation of actionable and credible recovery options to ensure a financial institution is well-positioned to respond to viability threats, regardless of their origin.

9.0. Structure of a Recovery Plan

9.1. Executive Summary

9.1.1. The summary of the recovery plan must contain the following:

- (a) an assessment of the overall recovery capacity of the SFI, with sufficient justification for the assessment;
- (b) a description of any material changes made, or preparatory measures taken since the previous submission, if any; and
- (c) an assessment of the interlinkages between recovery plans prepared by the SFI and related entities (if any), including how such plans would affect the overall recovery capacity of the financial institution.

9.1.2. In the executive summary, a SFI shall outline the main findings and interoperability of all recovery plan components, which includes:

- (a) a clear and concise mapping of core business lines, critical functions, and critical shared services to, and material intra-group and external dependencies and systemic interconnectedness of significant entities;
- (b) an overview of the recovery indicator and governance frameworks that ensures an effective and efficient recovery planning process, highlighting key considerations for the calibration of recovery indicators and thresholds, and the interlinkages with existing governance and risk management frameworks;
- (c) an overview of the suite of actionable and credible recovery options, including a brief assessment of the likely effectiveness of each recovery option (by highlighting the financial impact and key material impediments);
- (d) a broad narrative of stress scenarios, including the impact and feasibility of the preferred recovery strategy for each selected scenario;
- (e) description of communication, disclosure and stakeholder engagement strategies to support effective implementation of the recovery plan, taking into account potential reputational risks that may undermine public confidence in the SFI; and
- (f) an assessment of preparatory measures that will improve the likelihood of successful implementation of each preferred recovery strategy.

9.2. Strategic Analysis

9.2.1. The purpose of this section is to provide in-depth information about a SFI's structure, strategy, business model, financial situation, risk profile, intra-group and external dependencies and systemic interconnectedness. This section forms the foundation of the recovery plan by informing the

appropriate scope, granularity and context to calibrate all recovery plan components.

9.2.2. For instance, the calibration of recovery options, thresholds, and stress scenarios is contingent upon an understanding of where core business lines, critical functions, material operational services or risk drivers reside across covered entities and the resulting intra-group dependencies. Information from the strategic analysis will critically also be used by the Bank of Uganda to inform the development of resolution plans.

9.2.3. The strategic analysis shall comprise the following components:

- (a) group structure and significant entities;
- (b) business model and core business lines;
- (c) critical functions and critical shared services; and
- (d) intra-group and external dependencies, and systemic interconnectedness.

9.3. Group structure and significant entities

9.3.1. A SFI shall describe the overall group structure and provide a comprehensive overview of all covered and related entities (e.g. associates, joint ventures, minority interests, branches in foreign jurisdictions), including the following:

- (a) legal and shareholding structure including voting and non-voting shares;
- (b) structure of the SFI's operations; and
- (c) jurisdiction(s) of incorporation or operations.

9.3.2. A SFI shall identify significant entities of the financial group that meet any of the following criteria:

- (a) Contribute materially to the SFI's profit, assets, capital, liabilities, risk profile, reputation or franchise value;
- (b) Perform core business lines or critical functions;
- (c) Have material intra-group dependencies, e.g. perform key operational services that support core business lines and/or critical functions;
- (d) Could threaten the viability of the financial institution in the event of the entity's failure, liquidation, or the disposal of all or part of its business;
- (e) Deem to be systemically important to the jurisdiction they operate in.

9.3.3. A SFI may also rely on other qualitative or quantitative criteria beyond those listed to identify SEs. The criteria used should best reflect the SFI's group structure, risk profile, business model, intra-group and external dependencies and systemic interconnectedness.

9.3.4. A SFI financial institution shall provide a comprehensive description of each significant entity in the recovery plan. At minimum, this includes:

- (a) factors, criteria and assumptions used to determine the significance of the entity;
- (b) nature of business conducted/services provided, key business metrics and relevant income and balance sheet information;
- (c) material liability components, identifying types and amount of short-term and long-term liabilities, secured and unsecured liabilities, and subordinated liabilities;
- (d) funding, liquidity and capital needs of, and the resources available to the entity, under 'business-as-usual' ("BAU") conditions and in the event of material stress or failure; and
- (e) off-balance sheet exposures of the entity that are material to the SFI, including guarantees and contractual obligations.

9.4. Business model and core business lines

9.4.1. A SFI shall provide an overview of its business model which provides a high-level description of the activities conducted by the institution, including business lines which are significant to the SFI ("core business lines").

9.4.2. The identification of core business lines is essential to inform the development of preferred recovery strategies. In particular, a SFI must ensure that recovery options that affect core business lines will not adversely affect its long-term viability.

9.4.3. A SFI must consider the following in identifying core business lines:

- (a) contribution of the business line to the SFI's profit, assets, capital, liabilities, or risk profile;
- (b) strategic significance of the business line in relation to:
 - (i) customer base, geographic reach, and branch network;
 - (ii) market potential and growth outlook;
 - (iii) indicative franchise value under the current operating environment, taking into account the provision of market access or international linkages to the SFI;
 - (iv) operational synergies with other business lines; and
 - (v) attractiveness to competitors as a potential acquisition target; and
- (c) other factors that contribute to the business line's significance to the SFI.

9.5. Critical functions and critical shared services

9.5.1.A SFI shall identify its critical functions, which refer to underlying operations, activities or services that are performed by the institution for third parties where the failure or discontinuance of such function would likely lead to the disruption of services that are essential for the functioning of the real economy and financial stability.

9.5.2.The continuity of critical functions and critical shared services is important to prevent potential systemic disruptions that could adversely impact the functioning of the real economy and financial stability, such as:

- (a) disruptions to the financial intermediation process,
- (b) disorderly market conditions, e.g. by impairing market access and liquidity for risk management and funding purposes, or impairing the price discovery process;
- (c) disorderly functioning of FMIs;
- (d) undermining of public confidence in the financial system; or
- (e) rise of cross-institution, cross-market or cross border contagion.

9.5.3. When identifying and assessing recovery options, financial institutions should ensure the continuity of such functions and services under a wide range of stress events.

9.5.4. In identifying critical functions, a SFI must consider the impact of sudden discontinuance of the functions on customers, other SFIs, financial markets, FMIs, and other relevant stakeholders that rely on the critical function, having regard to the following criteria:

- (a) concentration of the function, i.e. critical mass in terms of market share may have implications on substitutability and interconnectedness;
- (b) substitutability of the function, i.e. availability and ease of which the provision of the function can be replaced by other substitute providers with similar quality, at comparable cost, and within a reasonable timeframe; and
- (c) interconnectedness of the function, i.e. extent to which a function may be highly dependent on, or co-mingled with, other functions such that its disruption would likely cause wider contagion effects.

9.6. Intra-group and external dependencies and systemic interconnectedness

9.6.1.A SFI shall identify material dependencies and assess key risk transmission channels and the extent of potential contagion and systemic impact arising from the disruption or failure of such dependencies which may be financial, operational or legal in nature.

9.6.2. A SFI shall highlight:

- (a) intra-group dependencies, i.e. material interdependencies among covered entities, and entities related to the SFI that, if disrupted, would significantly affect the funding or operations of the SFI and/or its performance of critical functions;
- (b) external dependencies, i.e. material dependencies on third parties by the SFI that, if disrupted, would significantly affect the funding or operations of the SFI and/or its performance of critical functions; and
- (c) systemic interconnectedness, i.e. material dependencies on the SFI by third parties that, if disrupted, would likely lead to the disruption of the functioning of the real economy and financial system.

9.7. Governance structure and oversight

9.7.1. A SFI shall establish sound governance arrangements to oversee and manage the recovery planning process. At a minimum, a SFI shall establish:

- (a) well-defined roles, responsibilities and accountabilities of the board, senior management, business units and control functions; and
- (b) robust policies, procedures and management information systems to support informed decision making across the BAU, early warning and recovery phases, in order to ensure that a recovery plan is capable of being executed in an effective and efficient manner.

9.7.2. The board shall exercise effective oversight on all aspects of the development, maintenance and implementation of the recovery plan. In doing so, the board shall, at minimum:

- (a) assess and approve the recovery plan during its initial development and as and when there are material changes to the recovery plan;
- (b) designate a senior officer and an internal governing body (comprising personnel with the necessary competencies and authority) responsible for driving the overall recovery planning process;
- (c) ensure sufficient resources and adequate representation across significant entities and core organisational functions are allocated to support the development and maintenance of the recovery plan;
- (d) provide constructive challenge to the conclusions, reasoning, analysis, and assumptions underpinning the recovery plan, including risk models and quantitative risk methodologies used in the recovery indicator framework and scenario analysis;

- (e) ensure that the recovery plan is integrated with existing risk appetite and risk management frameworks and is complementary and closely linked to the SFI's strategic and contingency planning; and
- (f) promote understanding of, and involvement in, the recovery planning process, at all relevant levels across the organisation, including internal governing bodies tasked with making decisions during stress events.
- (g) ensure that the recovery plan is reviewed by an independent party, which may either be the internal audit function or an external party which is qualified and competent to conduct such review with the objective to provide independent assurance on the accuracy of data and information provided in the plan, and robustness of processes and methodology used in developing the plan.

9.7.3. The designated senior officer and the designated internal governing body shall be responsible for the development, maintenance, activation and implementation of recovery plan. In this capacity, the senior officer shall:

- (a) ensure that the recovery planning process is undertaken with the appropriate level of involvement of key personnel across core organisational functions;
- (b) ensure the robust and credible application of expert judgement and critical scrutiny in the development of the risk modelling and quantitative risk methodologies used in the recovery indicator framework and scenario analysis;
- (c) ensure that well-defined processes and management information systems are developed to provide good quality and granular data for timely risk communication within the SFI and risk reporting to the board and senior management, on an ongoing and adhoc basis; and
- (d) regularly update the board on material developments relating to recovery planning, including the status of recovery indicators, breaches of recovery thresholds, activation of the recovery plan, implementation of recovery options and its progress, and preparatory measures to be undertaken.

9.8. Monitoring process for triggering a recovery plan

9.8.1. A SFI shall establish an adequate monitoring process to ensure the effective operation of the trigger framework in its recovery plan.

9.8.2. A SFI shall have reliable management information systems in place which enable management to monitor, in a timely fashion, a series of indicators which provide information of such a nature that may credibly serve to

prompt discussion of potential recovery action and, at certain pre-defined levels or points, to trigger activation of the recovery plan.

The monitoring process should be embedded within the SFI's risk management framework.

9.9. Activating a recovery plan

- 9.9.1. A trigger event shall lead to the activation of the recovery plan, with some form of action being immediately required. However, it should not necessarily lead to an automatic deployment of the recovery options within the plan. Instead, there should be a clear process, for escalation, upon the occurrence of any trigger event to senior management and/or the Board to assess the scale of the threat to the SFI's viability, and to agree on an appropriate course of action.
- 9.9.2. The decision-making mechanism for determining the appropriate course of action shall be clearly and comprehensively documented in the plan, including the identity of the individuals who will be involved in the process, the level of authority for deciding upon and initiating recovery actions, and any guiding principles or strategies for driving decision-making in a crisis.
- 9.9.3. A SFI shall inform Bank of Uganda in advance of its intentions to activate its recovery plan and also submit the status to Bank of Uganda within 24 hours upon the activation of the recovery plan. The process of informing Bank of Uganda should be documented in the recovery plan.

9.10. Recovery Triggers

- 9.10.1. A SFI should be able to demonstrate that it is able to identify when it needs to implement the individual recovery options detailed in its recovery plan. Therefore, a SFI shall establish a recovery trigger framework that sets out clearly defined criteria, thresholds, procedures and governance arrangements to facilitate timely monitoring, escalation, activation and implementation of the recovery plan. Such framework shall:
 - (a) enable risk monitoring and management across BAU, early warning, and recovery phases in a cohesive manner;
 - (b) facilitate prompt identification and escalation of key vulnerabilities and stress events which could adversely affect the SFI;
 - (c) ensure early discussion and timely activation of potential management actions by senior management; and
 - (d) minimise delays in implementation of management actions and/or recovery options.

9.10.2. A breach of recovery trigger should not necessarily be aligned with an automatic deployment of recovery actions. Instead, it is expected to activate the escalation procedures to alert the Board or senior management to implement a discretionary response in accordance with the specificities of the situation.

9.10.3. In addition, SFIs shall promptly notify Bank of Uganda of an actual or likely breach of a recovery trigger.

9.11. Selection of recovery triggers

9.11.1. A SFI shall develop a suite of quantitative and qualitative recovery triggers that are:

- (a) tailored to the size and complexity of its business model/operations, and its inherent risk drivers and strategy;
- (b) clearly defined, forward looking and suitable for close monitoring of evolving stress events, taking into consideration the intrinsic characteristics and quality of triggers (e.g. reliability, sensitivity and ease of monitoring);
- (c) aligned with existing triggers used for risk monitoring, escalation and decision-making; and
- (d) diverse to capture an extensive range of stress scenarios of varying nature and severity.

9.11.2. At minimum, a SFI shall include at the consolidated level recovery triggers from the following categories:

- (a) Capital-related indicators, that capture an actual and/or a potential material deterioration in the quantity and quality of capital on a going concern basis, including via increasing leverage and/or risk exposures; and
- (b) Liquidity-related indicators, that capture actual or potential funding and liquidity risks, including those stemming from intra-group funding needs and off-balance sheet exposures (e.g. potential drawdowns on commitments and contingencies), that may hamper the ability of the SFI to meet its short- and long-term obligations.
- (c) Asset quality indicators, that measure and monitor the asset quality evolution of the SFI. More specifically, they should indicate when asset quality deterioration could lead to the point at which the SFI should consider taking an action described in the recovery plan.
- (d) Profitability indicators that capture any income-related aspect that could lead to a rapid deterioration in the SFI's financial position

through lowered retained earnings (or losses) impacting on the own funds of the institution.

- 9.11.3. A SFI may wish and is encouraged to consider additional categories of triggers beyond capital and liquidity.

9.12. Recovery Options

- 9.12.1. A SFI shall develop and maintain a set of actionable and credible recovery options to restore financial soundness and preserve long-term viability of the financial institution, in particular significant entities that carry out core business lines, critical functions or critical shared services. Such recovery options must be substantially within its direct control, supported by a clear implementation plan, and capable of being executed within an appropriate timeframe to ensure reasonable prospect of recovery and enhance the survivability of the institution across different stress scenarios.

- 9.12.2. The set of recovery options shall include measures that may have permanent structural or strategic implications on the SFI and would likely be contemplated only in extremely stressed circumstances. This includes but is not limited to:

- (a) sale, transfer or disposal of part or the whole of assets, business lines or legal entities; and
- (b) measures to strengthen the capital position, e.g. recapitalisations after extraordinary losses and issuance of capital instruments at short notice;
- (c) measures to secure additional liquidity from existing or new sources while ensuring sufficient diversification of funding sources and adequate availability of collateral (in terms of volume, location and quality) that may be required for funding purposes;
- (d) debt exchanges and voluntary restructuring of liabilities;
- (e) capital conservation measures such as the lowering or suspension of dividends and payments of variable remuneration; and
- (f) restricting new business activities.

- 9.12.3. In developing the set of recovery options, the SFI must:

- (a) consider measures that:-
 - (i) restore or improve capital and liquidity positions;
 - (ii) de-risk and reduce leverage;
 - (iii) secure adequate and diverse funding sources (with due consideration to availability of eligible collateral in terms of

volume, quality and location and its potential drawing capacity), including possible intra-group financial support; and

- (iv) allow for voluntary restructuring of liabilities e.g. via debt-to-equity conversion where relevant;
 - (b) ensure options are sufficiently diverse to deal with an extensive set of severe stress events that may threaten viability of the SFI;
 - (c) disregard the possibility of policy intervention by Bank of Uganda, or access to any exceptional financial support from public funds;
 - (d) seek to minimise potential contagion effects associated with recovery options, including those involving intra-group financial support; and
 - (e) provide for measures necessary to preserve the SFI's business continuity capabilities to support operations and implementation of recovery options.
- 9.12.4. SFIs shall include recovery options involving assistance from parents and/or foreign related entities but only if such assistance is;
- (a) contractually committed by the relevant entity; or
 - (b) explicitly provided for in the group's recovery plan that has been submitted to the home supervisory authority.

9.13. Impact and Feasibility Assessment of Recovery Options

- 9.13.1. A recovery plan should conservatively estimate how far each recovery option might help restore a SFI's financial soundness and viability. This includes an estimation of its impact on capital and liquidity positions as well as profitability and franchise value.
- 9.13.2. Therefore, for each recovery option identified, a SFI shall undertake the following:
- (a) impact assessment to measure the probable success and potential benefits of the recovery option in ensuring the long-term viability of the SFI without jeopardising the continuity of critical functions and material operational services, including critical shared services; and
 - (b) feasibility assessment to assess the execution readiness of the SFI, including the identification of implementation barriers and their corresponding remediation measures.
- 9.13.3. For purposes of conducting the impact and feasibility assessments of recovery options, a SFI shall;
- (a) place more emphasis on long-term viability effects in addition to its ability to address immediate stress (short-term remedies), when ascertaining the benefits of each recovery option;

- (b) consider the interdependencies and interactions between recovery options, as well as any anticipated impact on the resolvability of the SFI, particularly the creation of potential barriers for orderly resolution following the implementation of specific recovery options; and
 - (c) apply rigorous and conservative assumptions to avoid overestimating the effectiveness and credibility of the recovery options.
- 9.13.4. For a SFI that is part of a wider banking group, impact considerations should include any effects due to its intra-group connections, the effect on the SFI of a group recovery plan being triggered in other parts of the group, and any other interdependence that may give rise to spillovers.
- 9.13.5. The impact and feasibility assessments undertaken by a SFI shall consider the following:
- (a) For impact assessment;
 - (i) Financial impact,
 - (ii) Strategic Impact,
 - (iii) Operational impact,
 - (iv) Stakeholder impact, and
 - (v) Systemic implications.
 - (b) For feasibility assessment;
 - (i) Assessment of the interactions and interdependencies between recovery options to identify those which are mutually exclusive or highly dependent on other options for execution;
 - (ii) Evaluation of potential risks associated with the recovery option, drawing upon any prior experience in implementing such an option or similar measures;
 - (iii) Material impediments that could potentially reduce the likelihood of successful implementation such as group structure and/or intra-group dependencies, legal and regulatory preconditions, and
 - (iv) Identification of solutions and necessary preparatory measures to remedy identified material impediments and improve overall efficacy of the recovery option

9.14. Scenario Analysis

- 9.14.1. A SFI shall test the effectiveness, impact and feasibility of its recovery plan against a range of stress scenarios, including idiosyncratic and market-wide scenarios, as well as a combination of both, taking into account the SFI's specific situation, strategy and positions.
- 9.14.2. The aim of scenario analysis is to:
- (a) ensure the SFI has thoroughly identified different types of shocks that may threaten its ongoing viability;

- (b) assess the adequacy of the recovery trigger framework to detect impending stress and enable timely activation of the recovery plan; and
- (c) assess the efficacy and feasibility of recovery options to restore viability. This part provides a structured framework for SFIs to identify preferred recovery strategies and gauge the overall recovery capacity of the financial institution.

9.14.3. To conduct the analysis, a SFI shall develop a set of stress scenarios, incorporating adverse events that are:

- (a) relevant to the SFI's size, risk profile, complexity of its activities, intra-group and external dependencies, and systemic interconnectedness;
- (b) severe enough to threaten the viability of the SFI unless recovery options are successfully capable of being implemented in a timely manner, i.e. near non-viability; and
- (c) exceptional yet plausible in order to ascertain whether available recovery options are realistic, impactful and implementable to address potential viability threats.

9.14.4. The set of stress scenarios must be sufficiently diverse to ensure the relevance of the recovery plan under a range of adverse conditions. At minimum, a SFI shall develop three stress scenarios, including:-

- (a) a system-wide stress scenario, incorporating events that materially affect the functioning of the real economy and financial system;
- (b) an idiosyncratic stress scenario, incorporating events that are institution-specific and could directly threaten the business and operations of specific significant entities, core business lines or the entire SFI; and
- (c) a combined stress scenario, in which the system-wide and idiosyncratic stress events interact and occur simultaneously.

9.14.5. Notwithstanding this, Bank of Uganda will have the discretion to require SFIs to assess additional scenarios.

9.14.6. A SFI may consider leveraging on the scenarios and their corresponding impact analysis developed under its existing stress-testing programme as appropriate. However, the scenarios suitable for recovery planning purposes will generally be of a particularly severe nature and perhaps in most cases more severe than some of the scenarios typically used under existing stress-testing programmes for assessing capital and liquidity needs.

- 9.14.7. A SFI shall address any deficiency or impediment in its recovery plan identified from testing the plan against stress scenarios. This exercise should, in turn, strengthen the credibility and the robustness of the SFI's recovery framework.
- 9.14.8. For each stress scenario, a SFI shall assess the financial and operational impact of the scenario to the institution. The assessment must be supported by robust quantitative metrics/models and sound qualitative evidence/expert judgement.
- 9.14.9. Based on the set of feasible recovery options as identified, the SFI shall then assess the applicability of such recovery options under each stress scenario.
- 9.14.10. The SFI shall then conduct the impact and feasibility assessments on each feasible and applicable recovery option to determine the preferred recovery strategy.
- 9.14.11. The SFI shall document adequate details of the scenario analysis in its recovery plan, covering at least:
- (a) an explanation of the overall approach to stress-testing for recovery planning purposes;
 - (b) the assumptions used under each scenario;
 - (c) a high-level description of the (quantitative and qualitative) techniques used for conducting the stress tests;
 - (d) the breach of specific recovery triggers;
 - (e) quantification of the impact of each scenario on the SFI, including capital, liquidity and other metrics (e.g. profitability); and
 - (f) qualitative assessment of the suitability of, and quantification of the benefits derived from, each relevant recovery option deployed under the scenarios.

9.15. Disposal options

- 9.15.1. Options involving the disposal of a part, an/or the whole of the SFI or its business or assets shall be included in the SFI's menus of recovery options. A SFI shall be expected to plan and prepare ahead in order to ensure that a disposal is feasible. This shall include, at a minimum:
- (a) possible options for disposal, specifying which part of the (or the entire) institution or its business or assets may be considered for disposal/sale that will not jeopardize the continued operations or business model of the SFI;
 - (b) decision-making process for determining disposal options;

- (c) process and a prudent methodology for determining the value of a disposal option;
- (d) due diligence information necessary for the disposal, and the expected time for retrieving the information necessary for executing the disposal;
- (e) operational issues (e.g. staff, infrastructure issues);
- (f) any legal or regulatory issues (e.g. requirement for approval/change of control/notifications);
- (g) profile of potential purchasers and the market capacity to absorb additional businesses;
- (h) the worst-case scenario whereby the disposal option is no longer desirable or helpful; and
- (i) for partial disposal options, a feasibility assessment of separating the part intended for disposal from the rest of the SFI's operations.

9.15.2. For any assumptions around marketability within its disposal options, a SFI should be mindful that, the disposal will take place under unfavourable conditions when the SFI is likely to be pressured to conduct a "fire sale". Therefore, any assumptions should be made in a highly conservative manner.

9.16. Communication plan

9.16.1. Managing communications, both internally and externally, will be a key element to the successful implementation of recovery planning. As part of the recovery plan, SFIs shall develop a communication plan that, at a minimum, takes into account the following –

- (a) any regulatory notification requirements applicable to the SFI in the circumstances
- (b) the identification of key stakeholders which may vary under each recovery option;
- (c) the strategy or approach to communication, including the preferred channel and form of communication and information on relevant contact points; and
- (d) the assignment of the personnel responsible for communication.

10.0. Consideration for Emergency Liquidity Assistance (ELA)

10.1.1. A SFI shall not consider public funding as one of the recovery options in the recovery plan. Nevertheless, Bank of Uganda may at its discretion make available Emergency Liquidity Assistance (ELA) to a SFI facing

extraordinary liquidity stress under specified circumstances and against collateral.

10.1.2. Therefore, in order to help both the SFIs and Bank of Uganda plan ahead and prepare for a swift application for and decision making on the provision ELA, SFIs should include the following information in their recovery:

- (a) give consideration to the circumstances in which SFIs may require access to ELA;
- (b) undertake and maintain a stock-take of eligible collateral, along with an analysis of potential drawing capacity;
- (c) have in place the key information and documentation that may be required for accessing ELA;
- (d) estimate the time required to prepare relevant documentation for Bank of Uganda to conduct any due diligence examination;
- (e) outline the steps to be taken before applying for access to ELA (e.g. how SFIs may go about using liquidity-related recovery options to seek funding from other sources before seeking access, and how SFIs will estimate the level of liquidity support needed); and
- (f) identify credible potential sources of repayment of ELA.

10.1.3. However, SFIs should note that this preparation in and of itself should not be regarded as any form of “ex-ante” application for, or approval of ELA.

11.0. Testing of the Recovery Plan

11.1.1. A SFI shall establish a framework to periodically test the efficacy of the recovery plan. These tests would serve to identify potential shortcomings in the plan, demonstrate how the arrangements set out in the plan would work in practice and ultimately improve overall crisis preparedness.

12.0. Preparatory measures

12.1.1. A SFI shall identify preparatory measures that have been undertaken to improve the overall efficacy of the recovery plan. This includes but is not limited to measures aimed at overcoming the barriers to the efficacy of identified recovery options and preferred recovery strategies.

13.0. Supervisory assessment of recovery plans

13.1.1. Bank of Uganda shall review, on a regular basis, the effectiveness and credibility of an SFI’s recovery plan, the extent to which the plan reflects and is aligned with the guidance in this module, and compliance with regulatory requirements applicable to the SFI, during its off-site reviews

and/or on-site examinations of the SFI. In conducting its review, Bank of Uganda will consider the following:

- (a) the degree of integration of the recovery planning process into the SFI's risk management framework;
- (b) the robustness of the SFI's governance framework, including the level of understanding and involvement of the Board and/or senior management in the recovery plan;
- (c) the comprehensiveness and clarity of the escalation process and decision-making mechanism upon trigger of a recovery plan, and the notification arrangements and communication plan with stakeholders;
- (d) the capability of the SFI's management information system to enable timely monitoring of recovery triggers, and to provide full sets of information in a timely manner;
- (e) the appropriateness of recovery triggers, stress scenarios and recovery options developed in respect of the recovery plan;
- (f) the credibility of the assumptions underpinning the recovery plan;
- (g) the comprehensiveness of the recovery plan, in particular whether a suitably broad range of recovery options has been considered;
- (h) the execution readiness and feasibility of each recovery option; and
- (i) whether the recovery planning process is adequately resourced by the SFI in terms of staffing and expertise, with sufficient Board and senior management ownership and oversight.

13.1.2. Bank of Uganda will expect SFIs to submit their recovery plans for its review regularly, and whenever Bank of Uganda deems it necessary.

13.1.3. Bank of Uganda expects any shortfalls and gaps identified in the review of recovery plans to be addressed by the SFI in a timely manner. Therefore, the SFI shall submit to Bank of Uganda a remedial actions matrix/report.