

Response to Feedback Received

Recovery Planning

In finalising the requirements, the Bank has considered feedback received during the consultation period and has incorporated them where appropriate into the final policy document. Comments that are of wider interest have been set out in this document, together with the Bank's responses. The Bank would like to thank all respondents for the feedback and suggestions received during the consultation period.

Bank Negara Malaysia

28 July 2021

1. General requirements

Feedback received:

Some respondents requested for the Bank to consider reviewing or approving recovery plans developed by financial institutions. Some also suggested for the Bank to allow locally-incorporated foreign financial institutions to leverage on group-wide recovery plans developed by their respective parent institution abroad.

The Bank's view:

- 1.1 The Bank would like to emphasise that the recovery plan required under the policy document is a financial institution's "playbook" to facilitate quick responses to severe stress events that could undermine the financial institution's viability. Hence, a financial institution must take ownership of the recovery plan and ensure that it is well-developed and kept up-to-date. While recovery plans will not be subject to the Bank's approval, the Bank shall review the recovery plan as part of our on-going supervisory process, to ascertain whether the plan is credible and supported by sound judgement and analysis and can be effectively implemented. The Bank expects recovery planning to be an iterative process, and as such will continuously engage with financial institutions to clarify the Bank's expectations on recovery planning as part of ongoing supervision.
- 1.2 For locally-incorporated foreign financial institutions, the Bank acknowledges the importance of aligning local recovery plans with group-wide plans developed by the parent entity to ensure coherence within the group. While the policy document does not preclude banks from leveraging on group-wide recovery plans, the Bank expects financial institutions to conduct their own assessment to ensure group-wide recovery plans are credible and feasible in the local context, and meet the requirements set out in this policy document.

2. Reporting requirements

Feedback received:

Majority of respondents viewed the 12-month timeframe for development of the first iteration of the recovery plan as insufficient, especially for financial institutions with little to no experience in preparing recovery plans.

The Bank's view:

- 2.1 Recognising the amount of time and resources required to develop recovery plans, the Bank has agreed to extend the timeline for submission of recovery plans by an additional 6 months, i.e. from 12 to 18 months. The extension of timeline has been reflected accordingly in paragraph 9.1 of the PD. The request for the submission of recovery plans will be conducted in phases, during which financial institutions will be individually notified by the Bank.

3. Strategic Analysis

Feedback received:

Some respondents enquired if activities that are currently categorised as critical business functions in both the Business Continuity Management (BCM) and Operational Risk Integrated Online Network (ORION) policy documents be automatically considered as critical functions in the Recovery Plan. Some requested to allow foreign financial institutions to leverage on assessments conducted by the group on critical functions and critical shared services.

The Bank's view:

- 3.1 The term critical functions as defined in this policy document is a broader concept than the term critical business functions defined in the BCM and ORION policy documents. Paragraphs 11.10 and 11.11 of the policy document provide guidance on the identification and classification of critical functions, whereby failure or discontinuance of such functions could adversely impact the functioning of the real economy and financial stability. Meanwhile, critical business functions defined in the BCM policy document may affect a financial institution's performance of critical functions as defined in this policy document and in such cases, should be included in the recovery plan. However, a financial institution cannot solely rely on critical business functions defined in the BCM policy document for recovery planning purposes. The definition of critical business functions in the BCM policy document is also currently under review with proposed refinements to be covered in an upcoming Business Continuity Management exposure draft pending issuance in 2H 2021.
- 3.2 While locally-incorporated foreign financial institutions may leverage on the group-wide assessment of critical functions and critical shared services as a starting point, the Bank expects financial institutions to also assess the criticality of such functions and services in relation to the potential impact of their discontinuance to the Malaysian financial system and economy.

4. Governance structure and oversight

Feedback received:

Some respondents requested for more clarity on the Bank's expectation relating to model methodologies and validation.

The Bank's view:

- 4.1 Consistent with the requirement set out in paragraph 8.2 of this policy document, the Bank expects that models used for the purposes of scenario analysis/stress testing are conceptually sound, fit for purpose and remain relevant on an ongoing basis for the smooth implementation of the recovery planning process.
- 4.2 While the policy document does not prescribe the level of sophistication of the model methodologies, financial institutions may be guided by paragraphs 27 to 29 of the Risk Governance policy document on minimum expectations relating to usage of models.

5. Recovery Indicators

Feedback received:

Respondents proposed for monitoring of indicators to be conducted at entity level, given the compensating effects of stronger entities in the group. Respondents also requested for flexibility to be given in terms of monitoring of indicators, proportionate to size and complexity of entity.

The Bank's view:

- 5.1 The Bank requires the recovery planning process to be conducted at a consolidated group level, to facilitate a holistic assessment of the recoverability of a financial institution, while ensuring that intragroup dependencies are well-understood. In line with this, group-level recovery indicators are important to surface stress events that could threaten the viability of the entire financial group. Nonetheless, the monitoring of recovery indicators at the group level does not preclude financial institutions from also monitoring the indicators at an entity-specific level, where appropriate. Rather, it aims to ensure that financial institutions establish an internally consistent recovery indicator framework within the group. As such, while paragraph 13.3 of this policy document requires development of indicators at a consolidated group level, paragraph 13.5 encourages financial institutions to supplement these with entity-level recovery indicators, where such indicators serve to capture specific vulnerabilities faced by significant entities within the group.
- 5.2 The Bank agrees with the industry on the need for flexibility in the selection of recovery indicators for monitoring. In this regard, the Bank has revised paragraph 13.3 which stipulates the minimum categories of recovery indicators to be developed by financial institutions.

6. Recovery Options

Feedback received:

For recovery options which entail regulatory approval prior to execution, respondents sought guidance on how such approvals should be incorporated into the implementation timeframe.

Respondents also requested for additional clarity on whether certain exceptional rulings against Shariah Advisory Council's (SAC) resolutions can be made by the financial institution's Shariah Committee (SC), such as the application of Darurah and Hajah principles for crisis situations.

The Bank's view:

- 6.1 In determining the relevant timeframe, financial institutions will be expected to identify the requisite documents and information required, laws and regulations to be met, and internal governance processes involved. In this regard, early engagement with the relevant authorities during the development of recovery plans is especially crucial to ensure such considerations are adequately accounted for.
- 6.2 As specified under IFSA, Islamic financial institutions (IFIs) must adhere to SAC rulings. In the case where the SC's opinion differs from the ruling made by the SAC, the IFI shall refer the matter to the SAC in accordance with the Manual Rujukan Institusi Kewangan Islam kepada Majlis Penasihat Shariah.

7. Scenario Analysis

Feedback received:

Some respondents requested the Bank to prescribe minimum stress scenarios to be used by financial institutions.

The Bank's view:

- 7.1 Scenario analysis within the recovery planning process is intended to incorporate significant risk factors across all portfolios and business lines of a financial institution under appropriately severe forward-looking scenarios in order to test the effectiveness of recovery options to restore financial strength and viability when the financial institution comes under severe stress. Given the varied risk profile and business mix of financial institution, the Bank is of the view that specific parameters of the stress scenarios should be institution-specific but guided by the broad expectations prescribed in paragraphs 15 of the policy document.