

Safety and Soundness

Capital
Adequacy
(C)

Asset
Quality
(A)

**Management
(M)**

Earnings
(E)

Liquidity
(L)

Sensitivity to
Market Risk
(S)

Other
Activities
(O)

Recovery Planning

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Introduction

The Office of the Comptroller of the Currency’s (OCC) *Comptroller’s Handbook* booklet, “Recovery Planning,” is prepared for use by OCC examiners in connection with their examination and supervision of covered banks.¹ Pursuant to 12 CFR 30, appendix E, “OCC Guidelines Establishing Standards for Recovery Planning by Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches” (recovery plan guidelines), a covered bank means any bank² with average total consolidated assets³

- equal to or greater than \$50 billion;
- of less than \$50 billion if the bank was previously a covered bank, unless the OCC determines otherwise; or
- less than \$50 billion, if the OCC determines that the bank is highly complex or otherwise presents a heightened risk as to warrant the application of the recovery planning guidelines pursuant to paragraph I.C.1.a. of 12 CFR 30, appendix E.

Each covered bank is different and may present specific issues. Accordingly, examiners should apply the information in this booklet consistent with each covered bank’s circumstances.

Historical, large-scale financial crises demonstrate the destabilizing effect that severe stress events at large, complex banks can have on the U.S. economy, capital markets, and the overall financial stability of the federal banking system. During the 2007–2009 financial crisis, banks faced additional challenges because of their complex organizational structures, shared service models, technology frameworks, and wide geographic operations. Many banks were forced to take significant actions quickly without the benefit of well-developed plans. In response to the lack of advance planning, the OCC published the recovery plan guidelines in 12 CFR 30, appendix E.⁴ Large-scale stress events highlight the need for large, complex banks to plan how they will respond. Large-scale stress events include the following:

- Significant financial losses
- Fraud
- Portfolio shocks

¹ The guidelines have a phased-in compliance period: covered banks with at least \$750 billion in average total consolidated assets as of January 1, 2017, are required to comply by July 1, 2017; covered banks with at least \$100 billion and less than \$750 billion are required to comply by January 1, 2018; and covered banks with at least \$50 billion and less than \$100 billion are required to comply by July 1, 2018.

² The term “bank” includes insured national banks, insured federal savings associations, and insured federal branches.

³ “Average total consolidated assets” means the average total consolidated assets of the bank or the covered bank, as reported on the bank’s or the covered bank’s Consolidated Reports of Condition and Income for the four most recent quarters. (12 CFR 30, appendix E, I.E.1.)

⁴ Refer also to OCC Bulletin 2016-30, “Enforceable Guidelines for Recovery Planning: Final Guidelines.”

- Material litigation or counterparty actions
- Severe changes in debt or equity valuations
- Destructive cyber attacks
- Business interruptions
- Leadership vacancies
- Destruction caused by hurricanes and other natural disasters
- Liquidity events (e.g., a run on the bank)

A recovery plan's purpose is to provide a covered bank with a framework to effectively and efficiently address the financial effects of severe stress events and avoid failure or resolution. A recovery plan's components should generally draw from and should align with other risk management processes, such as those governing capital, liquidity, stress testing, business continuity, or resolution planning. An effective recovery plan helps the management of a covered bank identify when the covered bank is or may be encountering a severe stress event that threatens or may threaten its financial strength and viability. In such event, the recovery plan should prompt management to take appropriate actions to restore the bank's financial strength and viability. The recovery plan is important to the bank's resilience, should be integrated into the bank's risk governance framework, and should play an important role in crisis management. The recovery plan should recognize the bank's transitions from business as usual to early warning of severe stress to severe stress, and it should be linked to the resolution plan in the event that financial deterioration is not rectified.

The covered bank's recovery planning process should be ongoing. The process should complement the covered bank's risk governance functions and support its safe and sound operation. The process of developing and maintaining a recovery plan should cause the covered bank's management and board of directors to enhance their focus on risk governance with a view toward lessening the financial impact of future unforeseen events.

OCC examiners assess the appropriateness and adequacy of the covered bank's recovery planning process and the integration of that process into the covered bank's overall risk governance framework. Examiners also assess the quality and reasonableness of the covered bank's recovery plan.

The Financial Stability Board (FSB)⁵ has been coordinating efforts to establish recovery and resolution plans for the largest global banks. The FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions" report identifies recovery planning as a core element for an effective resolution regime and establishes high-level criteria for the contents

⁵ The FSB is a member-driven international body that promotes global financial stability by coordinating the development of regulatory, supervisory, and other financial sector policies. The FSB brings together senior policy makers from ministries of finance, central banks, and supervisory and regulatory authorities for the G20 countries; plus four other key financial centers—Hong Kong, Singapore, Spain, and Switzerland; and international bodies like the European Central Bank and European Commission. FSB policies are not legally binding. Instead the FSB acts as a coordinating body and operates by moral suasion and peer pressure to set internationally agreed policies and minimum standards that its members commit to implement at a national level.

of recovery plans. Under the direction of various regulatory agencies, financial entities on a global basis are developing triggers or metrics along the continuum of business as usual, early warning, recovery, and resolution so they are able to respond quickly to and recover from the financial effects of severe stress events.

The Board of Governors of the Federal Reserve System has issued supervision and regulation letters to clarify its supervisory expectations with regard to recovery and resolution preparedness.⁶ The Federal Reserve Board's guidance on recovery planning is similar, but not identical, to the OCC's recovery plan guidelines for large, complex banks. Key differences are that the Federal Reserve Board's guidance

- applies to the holding company (not the bank).
- states that the holding company should consider potential effects on the stability of the U.S. financial system if a recovery option is exercised.

A covered bank should coordinate its recovery plan with any recovery and resolution planning efforts by its holding company, so that the plans are consistent with and do not contradict each other.

Although not expressly addressed in the recovery plan guidelines, when a covered bank takes actions pursuant to its recovery plan or in response to stress events, it should comply with all applicable laws and regulations. Accordingly, a covered bank should evaluate compliance with all applicable laws and regulations, as appropriate, in its recovery planning process.

Resolution Planning

Many covered banks are developing resolution plans, including those required by the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank).⁷ Resolution plans, sometimes referred to as living wills or Title I plans, are intended to provide for an orderly resolution of a financial firm through bankruptcy and liquidation under the U.S. bankruptcy code in a manner that does not present systemic risk or shock to the financial system. Banks that are required to develop a resolution plan pursuant to Dodd–Frank submit their resolution plans for review by the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC). The FDIC requires a separate resolution plan, called a covered insured depository institution (CIDI) resolution plan, for certain large, insured depository institutions.⁸ The purpose of CIDI resolution plans is to enable the FDIC, as receiver, to

⁶ Refer to SR 14-1, “Heightened Supervisory Expectations for Recovery and Resolution Preparedness for Certain Large Bank Holding Companies—Supplemental Guidance on Consolidated Supervision Framework for Large Financial Institutions” (January 24, 2014), and SR 14-8, “Consolidated Recovery Planning for Certain Large Domestic Bank Holding Companies” (September 25, 2014).

⁷ Refer to 12 USC 5365, “Enhanced Supervision and Prudential Standards for Nonbank Financial Companies Supervised by the Board of Governors and Certain Bank Holding Companies.”

⁸ Refer to 12 CFR 360.10, “Resolution Plans Required for Insured Depository Institutions With \$50 Billion or More in Total Assets.”

resolve the CIDI in the event of its insolvency under the Federal Deposit Insurance Act if not resolved under the holding company resolution plan.

Recovery planning and resolution planning are complementary and may be developed using similar processes, management oversight, operational frameworks, and financial tools. Recovery plans assume severe stress that, if not addressed, could lead to the covered bank's failure and require the bank to consider how it would respond to the stress to avoid failure. Resolution planning assumes failure and requires the bank to plan its resolution in a rapid and orderly manner. Substantial progress made by covered banks in developing resolution plans, including CIDI plans, should help covered banks develop their recovery strategies.

Recovery Plan Guidelines

The recovery plan guidelines consist of three sections:

- **Section I:** Describes which banks the recovery plan guidelines apply to and defines important terms.
- **Section II:** Sets forth the standards for the design and execution of a covered bank's recovery plan.
- **Section III:** Provides the standards for management's and the board's (or appropriate board committee's) responsibilities in connection with the recovery planning process and the recovery plan.

Section I: Introduction and Applicability

The recovery plan guidelines apply to covered banks as defined earlier in this booklet.

Unless the OCC determines otherwise, a covered bank remains subject to the recovery plan guidelines, even if the bank's average total consolidated assets subsequently fall below the \$50 billion threshold. The OCC generally makes the determination that compliance with the guidelines is no longer required if a bank's operations are no longer highly complex or no longer present a heightened risk.⁹ The recovery plan guidelines reserve the OCC's authority to apply the guidelines to a bank with average total consolidated assets less than \$50 billion if the OCC determines the bank's operations are highly complex or otherwise present a heightened risk that warrants application of the recovery plan guidelines. The OCC expects to infrequently use its authority to require covered banks under \$50 billion to comply with the guidelines as the OCC does not intend to apply the recovery plan guidelines to community banks.

When making these determinations, the OCC applies notice and response procedures in the same manner and to the same extent as those in 12 CFR 3.404, "Procedures." In accordance with these procedures, the OCC provides a bank or covered bank with written notice of the OCC's proposed determination. The bank or covered bank has 30 days to respond in writing. The OCC considers a bank's or covered bank's failure to respond within this time frame a waiver of any objections. At the conclusion of the 30 days, the OCC provides the bank or covered bank a written notice of its final determination.

⁹ In determining whether the bank or covered bank's operations are highly complex or present a heightened risk, the OCC considers the bank or covered bank's risk profile, size, activities, scope of operations, and complexity, including the complexity of its organizational and legal entity structure.

Section II: Recovery Plan

The OCC assesses the covered bank's recovery plan and recovery planning process as part of its supervisory oversight. A covered bank may share its plan with other regulators or supervisors without consulting or obtaining the OCC's permission, provided that the plan does not include confidential supervisory information.

A recovery plan as defined in the guidelines is a plan that identifies triggers and options for responding to a wide range of severe internal and external stress scenarios to restore a covered bank to financial strength and viability in a timely manner. The term recovery is defined as timely and appropriate action that a covered bank takes to remain a going concern when it is experiencing or is likely to experience considerable financial or operational stress. A covered bank in recovery has not yet deteriorated to the point when liquidation or resolution is imminent.

A recovery plan should include measures, referred to as options or recovery options, to reduce the risk to the covered bank's financial strength and viability once a trigger is breached. These measures include restructuring the balance sheet, conserving capital and liquidity, terminating activities or business lines, or taking other operational or capital actions. The recovery plan may not assume or rely on any extraordinary government support.

The recovery plan guidelines state that each covered bank should develop and maintain a recovery plan that is specific to that covered bank and appropriate for its size, risk profile, activities, and complexity, including the complexity of its organizational and legal entity structure. A recovery plan must meet all the requirements stated in the recovery plan guidelines but there is no required method to develop a recovery plan.

Example 1: Differences in Recovery Plan Content for Specific Bank Circumstances

- A smaller, less complex bank may have a shorter, less complex recovery plan.
- The stress scenarios, triggers, and recovery options appropriate for a covered bank that engages primarily in retail and commercial banking are likely to be different from those for a covered bank that engages in significant trading or capital market activities.
- The recovery plan appropriate for a covered bank that engages primarily in domestic activities is likely to be different from that of a covered bank with extensive foreign operations.

Having a recovery plan is an important part of a covered bank's resilience and should include options to be considered once a trigger is breached. A recovery plan is a tool to help a covered bank identify and address negative situations that can cause significant adverse financial conditions (including failure) if not addressed. A covered bank should, however, be prepared to act if it is at risk, regardless of whether a trigger has been breached or the recovery plan includes options that specifically address the problems the bank faces. Recovery planning should be a business-as-usual activity, integral to the covered bank's risk governance framework. In developing its recovery plan, bank management should consider the continuum of business as usual, early warning, stress, recovery, and resolution. Management should coordinate the plan with other risk planning activities and the plan's triggers should be aligned with the covered bank's other early warning and risk appetite

metrics. The plan should provide management with a roadmap for how to restore the covered bank's financial strength and viability in a timely manner once a trigger is breached.

Elements of a Recovery Plan

There are eight elements of a recovery plan. Many of the elements of the recovery plan will influence one another. For example, impact assessments are conducted after developing recovery options but should also be used to revise and refine those options. In addition, while stress scenarios facilitate identifying triggers and, subsequently, recovery options, stress scenarios can also be used to evaluate the effectiveness of those triggers and recovery options, thereby enhancing the impact assessment.

Overview of the Covered Bank

The recovery plan should provide a detailed description of the covered bank's overall organizational and legal entity structure, including its

- material entities (e.g., subsidiaries and affiliates).
- critical operations.
- core business lines, identified by contributions to revenue, profit, market share, strategic importance, franchise value, growth, or other similar metrics.
- core management information systems.

The plan should explain interconnections and interdependencies¹⁰

- across business lines within the covered bank.
- with affiliates in a bank holding company structure.
- between the covered bank and its foreign subsidiaries.
- with critical third parties.

The plan should address whether (and how) a disruption of these interconnections or interdependencies would materially affect the covered bank.

Example 2: Interconnections and Interdependencies

Relationships with respect to

- deposit sweep accounts, credit exposures, investments, or funding commitments.
- guarantees (e.g., an acceptance, endorsement, or letter of credit issued for the benefit of an affiliate during normal periods, as opposed to a crisis).
- payment services, treasury operations, collateral management, information technology, human resources, or other operational functions.

Rationalizing legal entities or critical operations may be appropriate before recovery options can be designed and assessed. This involves identifying the covered bank's material entities and mapping them to, for example, core business lines, human resources, and operational

¹⁰ These terms are meant to be consistent with FDIC and Federal Reserve Board resolution plan regulations.

systems. Some material entities may be deemed critical to the covered bank as a whole or to a particular region or business line.

The detailed description and mappings help the covered bank's management understand the impact one entity or activity may have on another part of the bank, inform the covered bank's impact assessment, and protect against negative outcomes from exercising a recovery option. For example, without a sufficient understanding of interconnections and interdependencies, a recovery option that involves selling an operating subsidiary, while not considered material to the covered bank, may be detrimental if the option provides a critical service (e.g., booking trades, access to financial market infrastructures, or technology) to the covered bank's core business lines. Most covered banks use and draw on the mapping and identification processes that they incorporate in their resolution planning.

Triggers and Stress Scenarios

Triggers

Triggers serve as alarms warning that severe stress is happening, has happened, or may happen to the financial strength and viability of the covered bank. The recovery plan should contain triggers that, when breached, will assist the covered bank in identifying the risk or existence of severe stress.

A trigger is defined in the recovery plan guidelines as a quantitative or qualitative indicator of the risk or existence of severe stress, the breach of which should always be escalated to senior management or the board (or an appropriate board committee), as appropriate, for the purpose of initiating a response. The breach of any trigger should result in timely notice accompanied by sufficient information to enable management of the covered bank to take corrective action.

Triggers should be well defined, plausible, and tailored to the risks faced by the covered bank. Triggers should be aligned to other early warning indicators within the covered bank's existing risk governance framework. The recovery plan should identify triggers that appropriately reflect the covered bank's particular vulnerabilities. The number and nature of triggers should be appropriate for the covered bank's size, risk profile, activities, and complexity. The nature of the trigger should inform the response.

Triggers should be designed to provide the covered bank with notice of a continuum of increasingly severe stress, ranging from warnings of the likely occurrence of severe stress to the actual existence of severe stress. Triggers should provide a covered bank with notice of such events as the loss of critical operations and macroeconomic or market stresses, as well as an array of financial stress indicators broader than just capital and liquidity stress.

Triggers should be appropriately calibrated to leading indicators to allow the covered bank time to activate recovery options as well as provide sufficient notice to management of the situation. For example, falling below regulatory minimum capital levels may not be an appropriate trigger, as the covered bank may not be able to implement timely corrective

action after breaching these levels. Development of triggers should consider the covered bank's risk appetite and the covered bank's particular vulnerabilities, operational needs, activities, and resources. Triggers should also consider the covered bank's short-term and longer-term needs.

Triggers may include the following:

- Changes to the covered bank's financial position (both point-in-time and projected changes) with respect to the following:
 - Profitability (e.g., return on assets and return on equity)
 - Revenue sources
 - Funding sources or business activities
 - Liquidity ratios
 - Capital ratios
- Other changes:
 - Credit rating downgrades
 - Increased collateral requirements
 - Asset quality
 - Significant market share or operational losses
 - Stock price or market valuation
 - Default of significant counterparties
 - Economic trends, such as interest rate changes

Although most triggers are quantitative, there may be qualitative triggers that, if breached, will have a financial impact on the bank.

Management should review and update recovery plan triggers, as necessary, when conducting the annual review of the recovery plan and when reviewing it in response to a material event. In addition, management should consider the regulatory or legal consequences that may be associated with the breach of a particular trigger.

Triggers identified in other plans, such as liquidity or capital plans, may be helpful in crafting triggers for recovery plans, but management should evaluate these triggers in the context of the recovery plan and consider whether different or additional triggers are appropriate.

As noted above, the nature of the trigger should inform the potential response. The breach of a particular trigger, however, does not necessarily correspond to a single recovery option. More than one option may be appropriate when a particular trigger is breached. During a period of severe stress, a covered bank should use its judgment to determine the most appropriate option(s) for the bank to take. In addition, the covered bank should be prepared to act if it is at risk, regardless of whether a trigger has been breached or the recovery plan includes options that specifically address the problems the bank faces.

Example 3: Appropriate Response to a Trigger Breach

The appropriate response to a trigger breach could be enhanced monitoring, activating a more specific recovery option set forth in the plan, or taking other corrective action.

FAQ 1

Do all or several of the triggers need to be breached before activating the recovery plan and options?

No, not all triggers need to be breached in every stress event. This shows the importance of having a range of triggers. Having a range of triggers helps to increase the chances that at least one, if not more, triggers will be breached when there is risk or presence of severe stress. The breach of the trigger serves as a notification to the bank of the presence or risk of severe stress. For example, if the bank is highly sensitive to interest rate spreads in the wholesale funding market, the bank should identify potential early warning signs of interest rate fluctuations in this market and design its triggers to give the bank sufficient notice of these fluctuations so that it can address them.

Even without a trigger breach, management may implement a recovery plan option, even if it is just increased monitoring as a precautionary step in times of economic or financial uncertainty.

Stress Scenarios

Stress scenarios are a tool to help management identify, develop, calibrate, and validate the appropriateness of triggers that will alert it to the risk or presence of severe stress. Stress scenario testing simulates the impact of changes to key variables, both idiosyncratic and market-wide, and helps validate the credibility of recovery options and triggers. A covered bank should test the effectiveness of its recovery plan, including impact and feasibility against a range of stress scenarios.

The covered bank should design severe stress scenarios that would threaten its critical operations or cause it to fail if the bank did not implement one or more recovery options in a timely manner. The scenarios should range from those that cause significant hardship to those that bring the covered bank close to default but not into resolution. Scenarios vary by covered bank and may be tailored to that bank's risk profile.

Scenarios may be used to confirm that selected recovery options and interdependencies of recovery options are reasonable and broad enough to address a range of severe stress events in a timely manner. Scenarios should demonstrate the relevance of the financial risk to the bank's business model, core business lines, and material entities. The stress scenarios should be sufficient to allow the covered bank to identify triggers and recovery options that are appropriate, in number and in nature, for the covered bank's size, risk profile, activities, and complexity. The duration of the events addressed in the scenarios should relate to events or stresses that are relevant to the covered bank and should address both immediate and prolonged scenarios. The level of detail in the stress scenarios will vary but should be commensurate with the materiality or criticality of the stress scenario to the covered bank.

A covered bank's recovery plan should consider, at a minimum, at least two stress scenarios, one for bank specific risks and one for market-wide events. The scenarios should identify

both immediate and prolonged effects, specifically the financial impact to the bank's condition.

Scenarios can help validate the time the covered bank estimates it needs to bring its capital and liquidity levels, as well as other financial effects, back within risk tolerances well before failure. In a market-wide stress scenario, for example, it may be more difficult to raise capital or liquidity given that more than one institution may be seeking to implement a similar recovery action. In an idiosyncratic stress scenario, recovery options themselves may pose a threat to the covered bank's reputation (e.g., suspension of dividends) or viability (e.g., disposal of a significant revenue producing or core business line).

While stress scenarios are important tools to determine areas of vulnerability and help identify appropriate triggers, the stress scenarios need not be included in the plan itself. Stress scenarios are, however, a critical part of the planning process. OCC examiners evaluate the covered bank's reasoning for selecting triggers and review any documentation for stress scenarios as part of their overall evaluation of the plan. Management should be able to discuss with OCC examiners why particular scenarios were chosen. Documentation of stress scenarios should describe with sufficient detail the basis for, and assumptions in, the key drivers of the stress.

There are several considerations that management should take into account when designing scenarios. Such stress scenarios should

- be severe enough to affect core business lines, critical operations, and material entities in a manner that threatens the covered bank's financial strength and viability, or to cause failure if actions are not taken to address the event.
- be designed to result in capital shortfalls, liquidity pressures, or other significant financial losses.
- include bank-specific and market-wide scenarios, individually and in the aggregate, that are immediate and prolonged, which may affect prioritization of actions.
- include not just a point-in-time or static event but also a combination or sequence of events with associated impacts.

Example 4: Bank-Specific Scenarios

- Portfolio shock
- A significant cyber attack^a
- Events that may cause a reputational crisis that degrades customer or market confidence, such as may result from material fraud
- Failure of the holding company or significant affiliate
- Impact of a material adverse legal ruling
- Material operational event that affects the covered bank's ability to access critical services or to deliver products or services to its customers for a material period of time

^a An example of a significant cyber attack includes an event that has an impact on a bank's computer network(s) or the computer network(s) of one of its third-party service providers and undermines the covered bank's data or processes.

Example 5: Market-Wide Scenarios

- Failure or impairment of systemically important financial industry participants or critical financial infrastructure firms
- Economic stress
- Significant changes in debt or equity markets
- Failure of a critical third-party service provider
- Disruption of domestic or global financial markets
- Significant changes in debt or equity valuations, currency rates, or interest rates
- Widespread interruption or failure of critical infrastructure that may degrade operational capability^a

^a An example of this type of interruption includes a disruption to a payment, clearing, or settlement system that affects the covered bank's ability to access that system.

Example 6: Details Within Stress Scenario

If a stress scenario includes prolonged or severe dislocation of commercial real estate pricing in a core business line (by asset size or revenue), then the OCC would anticipate seeing financial details that include metrics and shocks to financial performance and collateral values, as well as operational details that include timing and severity of actions and decisions.

FAQ 2

A covered bank wants to use the scenarios required for supervisory stress tests (e.g., Comprehensive Capital Analysis and Review (CCAR) and Dodd–Frank Act Stress Testing (DFAST)) for its recovery plan. Is this appropriate?

Scenarios used for both CCAR and DFAST may be appropriate for the covered bank's recovery plan. The covered bank should, however, evaluate those scenarios in the context of the recovery plan guidelines and consider whether different, additional, or more severe scenarios are appropriate.

For example, management should consider the following:

- Is the scenario relevant to the covered bank (and its activities)?
- Does the scenario consider the covered bank's activities, structure, size, critical operations, or vulnerabilities?
- Is the scenario sufficiently severe to threaten the financial strength and viability of the covered bank?

Reverse stress testing is a tool that allows management to assume a known adverse outcome, such as incurring a credit loss that breaches regulatory capital ratios or suffering severe liquidity constraints that render the covered bank unable to meet its obligations, and then deduce the types of events that could lead to such an outcome. This type of stress testing may help management of the covered bank consider scenarios beyond the bank's normal business expectations and see the impact of severe systemic effects. Reverse stress testing also allows challenges to common assumptions about the covered bank's performance and expected mitigation strategies.

Reverse stress testing helps to explore so-called "break the bank" situations, allowing management to set aside the issue of estimating the likelihood of severe events and to focus more on what kinds of events could threaten the viability of the covered bank. This type of stress testing also helps management evaluate the combined effect of several types of

extreme events and circumstances, even if in isolation each of the effects might be manageable. For example, reverse stress testing may help management see that a certain level of unemployment would severely impact credit losses, a market disturbance could create additional losses and result in rising funding costs, and fraud would cause further losses and reputational impact that could threaten the covered bank's viability. In some cases, reverse stress tests could reveal to management that "breaking the bank" is not as remote an outcome as originally thought.

Given the numerous potential threats to the covered bank's financial strength and viability, management should focus first on those scenarios that have the largest impact, such as insolvency or illiquidity, but also on those that seem most imminent given the current environment. Focusing on the most prominent vulnerabilities helps management prioritize its choice of scenarios for reverse stress testing. Management should, however, also consider a wider range of possible scenarios that could jeopardize the financial strength and viability of the covered bank, exploring what could represent potential blind spots. Reverse stress testing can highlight previously unacknowledged sources of risk that could be mitigated through enhanced risk management.

Options for Recovery

The recovery plan should identify a wide range of credible options that the covered bank could undertake to restore its financial strength and viability, thereby allowing the bank to continue to operate as a going concern and to avoid liquidation or resolution. The recovery options should not be business-as-usual measures and may include steps that would not normally be considered. Recovery options may include

- equity or non-equity capital issuances.
- reduction or suspension of dividend payments.
- sale, transfer, or disposal of significant assets, portfolios, business units, or subsidiaries.
- cessation of products or services.
- reductions in, or restructuring of, the balance sheet.
- restrictions on growth.
- raising money via money markets, debt issuance, or securitization.
- restructuring of liabilities, reducing new lending, or running-off part of a business or product.
- organizational restructuring, including divesting legal entities, to simplify the bank's structure.
- implementing a succession plan.
- use of central bank liquidity facilities.

In many instances, the first option to be considered would be to look to the holding company for a capital infusion. The recovery plan should, however, have options that go beyond looking to the holding company as a source of strength.

In developing its recovery options, the covered bank should customarily evaluate and document the credibility of each option with respect to such factors as feasibility, timing,

ease of execution, expected impact, costs, dependencies or interconnections, experience implementing similar transactions, and impact to strategic or reputational risk. Recovery options should be designed to maintain the confidence of market participants.

The plan and the options should not assume or rely on any extraordinary government support (exceptions to this may exist on a limited basis with respect to support of the covered bank by a foreign government).

There are many factors the covered bank should consider when evaluating how it would invoke recovery options, an exercise that may aid the bank in assessing recovery options. Some of these factors include the size of the benefit from invoking an option or dependencies among options. The most appropriate recovery option depends on the stress event and trigger breach. Complex banks should understand the impact that their actions may have on holding companies or affiliates (e.g., disposing of a business line that provides significant shared services to affiliates).

Generally, the benefits of a given recovery option depend on the impact of that action on the covered bank (e.g., capital and liquidity). For example, selling assets at a loss may improve the covered bank's liquidity position but may erode its capital position if the loss is greater than the resulting reduction in risk-weighted assets used in calculations. Another asset sale scenario may benefit capital ratios through a reduction in the balance sheet but negatively affect liquidity if tax implications exist.

The covered bank should not view the options in its plan as exclusive. A specific trigger in the plan should not necessitate the execution of a particular option. Rather, the covered bank should use its judgment to determine the most appropriate options for the bank to take during a period of severe stress. Options should include responses to immediate stresses and prolonged stresses. Credible options are those that can be executed within time frames that allow the options to be effective during periods of stress. The covered bank should understand that not all options may be a feasible response to every stress event, depending on whether the stress event is an idiosyncratic or a market-wide event.

The recovery plan should identify obstacles that could impede the execution of an option and set out mitigation strategies for addressing these obstacles. The recovery plan should describe any cross-effects or impacts to the covered bank of executing a particular option (e.g., tax implications, future impact of franchise value, capacity of competitors to absorb additional businesses, or number of third-party service providers capable of providing similar products or services).

Example 7: How Stress Scenarios, Triggers, and Options Relate to One Another		
Severe stress scenario	Possible triggers	Possible recovery options in response to trigger breach
<ul style="list-style-type: none"> • Idiosyncratic stress: Trading losses caused by a rogue trader 	<ul style="list-style-type: none"> • Tier 1 capital falls below 6% • Liquidity falls below internal bank policy requirements 	<ul style="list-style-type: none"> • Issue new capital • Sell nonstrategic assets or businesses • Reduce loan originations or commitments
<ul style="list-style-type: none"> • Systemic stress: Significant decline in U.S. gross domestic product, coupled with an increase in the U.S. unemployment rate and a deterioration in U.S. residential housing market 	<ul style="list-style-type: none"> • Short-term credit rating falls below A-3 • Nonperforming loans rise above a specified percentage • Market capitalization falls below a specific limit for a certain period of time 	<ul style="list-style-type: none"> • Sell certain strategic assets or businesses • Reduce certain expenses (e.g., business contractions) • Access the Federal Reserve System's discount window

FAQ 3

Do options for recovery need to resolve the stress that caused the trigger breach?

No. For example, if a cyber event causes financial stress, the options for recovery do not need to fix the cyber event but should address the financial effects of the stress.

FAQ 4

What constitutes recovery? Is it a return to the pre-stress condition of the scenario, or is it just the elimination of the trigger breach?

The recovery plan option should restore the bank's financial strength and viability to a satisfactory condition. Depending on the situation, this may or may not be a return to the bank's condition before the stress, an elimination of the stress that caused the trigger breach, or business as usual. The board (or an appropriate board committee) and management should consider the bank's current financial condition or projected metrics when determining that the bank is no longer in recovery.

The recovery plan should explain how the covered bank would carry out each option, describe the timing for each option, and identify the options that require regulatory or legal approval. The plan should describe the decision-making process for implementing each option, including the steps to be followed, and any timing considerations. It should also identify the critical parties needed to carry out each option.

Some banks may detail the viability and obstacles of each option in “playbooks.” These playbooks document what senior management and the board should consider when deciding on and executing a recovery strategy. The playbooks vary in their detail of information on options for divestiture or asset sales. When available, the covered bank should consider using its resolution playbooks for recovery planning purposes.

Example 8: Playbook or Other Guides

The recovery plan should specify actions that the covered bank can take to sell entities, assets, or business lines to restore the financial strength and viability of the covered bank. These actions may be detailed in a guide or playbook.

Supervision Tip

Resolution planning playbooks provide comprehensive data on the bank’s organizational structure, material entities, and critical operations. The data in the bank’s resolution planning playbooks can be valuable to the bank in supporting certain recovery options (such as sale of subsidiaries or business lines). Playbooks may consist of a data warehouse or electronic data files.

These playbooks can include information on

- ownership structure and reporting lines.
- booking models.
- employees and critical personnel.
- technology systems and ownership.
- shared services and other interconnections across the firm.
- legal and regulatory requirements.

Impact Assessment

Management should assess and describe how each recovery option would affect the covered bank. The impact assessment and description should specify how the bank would implement each recovery option to maintain or restore the financial strength and viability of its material entities, critical operations, and core business lines.

For each recovery option, the recovery plan’s impact assessment should address the effect (including in the immediate term and future) each option would have on the covered bank’s

- capital, liquidity, funding, and profitability.
- material entities, critical operations, and core business lines, including reputational impact.
- strategic or operational risk.
- legal or market impediments or regulatory requirements that must be addressed or satisfied to implement the option.
- internal operations (e.g., information technology systems, suppliers, human resources, operations).
- access to market infrastructure (e.g., clearing and settlement facilities, payment systems, and additional collateral requirements).

The impact assessment assists management in determining that an appropriate and sufficiently broad range of recovery options exists since some options will not be feasible in certain situations. The impact assessment should quantify the benefits of each recovery

option and confirm that the recovery option allows the covered bank to sufficiently respond to both fast- and slow-moving situations and restore financial strength and viability.

The recovery plan should specifically identify how the covered bank will obtain required regulatory or legal approvals in a timely manner. The type and expected time frames to prepare and receive approvals should be factored into the covered bank's impact assessment. The assessment should also include an estimated time to realize a recovery option. Each recovery option impact assessment should address potential consequences, including the benefits and risks of that particular option. This should include analysis from a longer term perspective to confirm that the stability of the covered bank is not put at risk by any "short-term" fix.

The impact assessment of each recovery option should consider market conditions and reflect if a stress event is idiosyncratic, systemic, or a combination of both. Different recovery options are better suited for various types of stress and realize varying levels of financial benefit. For instance, it is more plausible that the covered bank would be able to sell assets in an idiosyncratic event, such as a significant fraud or operational loss, than in a systemic or market-wide stress event. The impact assessment should assist the covered bank in determining the most appropriate recovery options to utilize in a stress event and assess the viability of a recovery option to restore financial strength and viability.

Escalation Procedures

The recovery plan should clearly outline the process for escalating decision making to senior management or the board (or an appropriate board committee), as appropriate, in response to the breach of *any* trigger. A trigger breach does not necessarily mean the covered bank is in recovery or action must be taken but senior management or the board should determine the appropriate action as a response to the breach of any trigger and should not consider a breach as business as usual.

The recovery plan should identify the departments and persons responsible for executing the decisions of senior management or the board (or an appropriate board committee). Management or the board (or an appropriate board committee) of the covered bank should take corrective action in the best interests of the covered bank. This is particularly important when management from the holding company sits on the covered bank's board.

The procedures should include the process for informing appropriate stakeholders (e.g., shareholders, counsel, accountants, and regulators) when necessary.

Management Reports

The recovery plan should require reports that provide senior management or the board (or an appropriate board committee) with sufficient data and information to make timely decisions regarding the appropriate actions necessary to respond to a trigger breach.

A covered bank should plan appropriately so that the information necessary for implementing recovery options will be available for decision making when the bank is in a stressed condition. This should include timely and reliable management information systems to provide management or the board (or an appropriate board committee) relevant information to enable them to make decisions as to the best course of action in the event of a trigger breach.

The recovery plan should identify the types of reports that would allow senior management or the board (or an appropriate board committee) to monitor progress of actions taken under the recovery plan (e.g., the reporting process should be enhanced beyond business-as-usual time frames, such as daily or weekly versus monthly or quarterly). Management should confirm that reporting and governance processes will function adequately and provide necessary data in a stressed or recovery scenario.

Communication Procedures

The recovery plan should state that the covered bank should notify the OCC of any significant trigger breach and any action taken or to be taken in response to such a breach. The recovery plan should also explain the process for deciding when a trigger breach is significant.

The recovery plan should address when and how the covered bank will notify persons within the covered bank and external parties of its actions under the recovery plan. All relevant stakeholders should be informed in a timely manner of how the covered bank has responded or is responding to a trigger breach. The communication procedures should recognize that differing levels of communication may be appropriate depending on the specific stress and action being taken. The audience, detail, and timing of information provided to stakeholders and the level and form of communication will vary. It may not be appropriate to notify all stakeholders of every action the covered bank will take under the recovery plan. In some situations, the covered bank may determine communication should be limited (e.g., to avoid receiving offers to buy a business line or subordinated entity at a “fire sale” price or causing the public to lose confidence in the bank).

The communication procedures for the various types of recovery actions should consider

- identification of key stakeholders.
- protocol for determining key messages and communication objectives.
- the procedures and preferred channel and form of communication.
- personnel or functions responsible for communication.
- how the covered bank will obtain required regulatory or legal approvals.

Covered banks may choose to utilize existing crisis or incident communication protocols or management committees or teams for informing relevant stakeholders of how the covered bank has responded or is responding to a trigger breach.

Other Information

The recovery plan should include any other information that the OCC communicates in writing directly to the covered bank regarding the covered bank's recovery plan.

Section III: Management's and Board's Responsibilities

The responsibilities of management and its board with respect to the recovery plan should be addressed in the bank's recovery plan. The planning process involves coordination across multiple business and frontline units and risk governance functions as well as coordination with existing strategic, operational, contingency, capital (including stress testing), liquidity, and resolution planning. Management is responsible for reviewing the covered bank's recovery plan at least annually and in response to a material event, as well as revising the plan as necessary in accordance with the recovery plan guidelines. The board (or appropriate board committee) is responsible for overseeing the recovery planning process and reviewing and approving the plan on at least an annual basis and as needed to address any changes made by management.

As part of the recovery planning process, management should evaluate the bank's organizational structure and vulnerabilities and consider available options to respond to severe stress. Recovery plans can assist management and the board in assessing the adequacy of existing risk management frameworks, legal entity structures, connectivity, separability, and possible contagion if recovery options are to be implemented. Management and the board should provide justification for the covered bank's organizational and legal structures and outline changes, as necessary or appropriate, that would enhance their ability to oversee the covered bank in times of stress. Changes to the legal structure may provide a clearer path to recovery and the operational flexibility necessary to implement a recovery plan. In recovery, strategic decisions affecting the bank, its reputation, and future profitability or viability may need to be made. The recovery plan should provide governance processes to assist in determining which option to use given various stresses, the selection process to be used, and the timing for appropriate actions to be taken.

Management and the board (or an appropriate board committee) should be reasonably confident that recovery options in the plan have enough aggregate impact to help the bank recover from severe stress events, such as by allowing the bank to absorb some losses while buying time to implement more extreme recovery options. These more extreme recovery options may include restructuring or exiting certain businesses.

The decision-making mechanism for actions to be taken in response to a trigger breach, including the persons and levels of authority responsible for decision making, should be detailed in the plan. When a trigger is breached, management or the board of the covered bank should choose recovery options that are in the best interest of the covered bank. This is particularly important when management from the holding company sits on the covered bank's board. Once the covered bank is in recovery, existing committee membership and delegations of authority may not be appropriate. Details as to appropriate or potentially appropriate changes should be included in the recovery plan.

For federal branches of foreign banks, which do not have boards, OCC examiners should consult with the branch to determine the appropriate person or committee to undertake the responsibilities assigned to the board or an appropriate board committee.

Management Responsibilities

Management should review the recovery plan at least annually¹¹ and in response to a material event. During this review, management should

- revise the recovery plan as necessary to reflect material changes in the covered bank's risk profile, complexity, size, and activities, as well as changes in external threats.
- consider the ongoing relevance and applicability of the stress scenarios.
- confirm the plan's triggers and options to respond to breaches of triggers and revise them when necessary.
- evaluate the covered bank's organizational structure and its effectiveness in facilitating recovery.
- consider the covered bank's legal structure, current number of entities, geographical footprint, booking practices (e.g., guarantees and exposures), and servicing arrangements.
- inform and educate the board on the recovery plan (e.g., arrange table top exercises or other methods).

Management may not, however, need to recommend changes to the covered bank's organizational and legal entity structure as part of every annual review of the bank's recovery plan.

Management should integrate the recovery plan and planning framework into the covered bank's risk governance framework established and maintained by the independent risk management function (second line of defense). The independent risk management function should appropriately challenge the first line of defense's assessment and management of the risks associated with frontline activities.

The recovery plan should be actionable from planning to execution at the appropriate senior management levels or board levels. Management should implement monitoring processes for trigger breaches and timely activation of recovery options when appropriate. The monitoring process should include timely and regular monitoring of triggers to allow for prompt discussions and minimize time lags for taking action.

¹¹ Covered banks may determine an appropriate time frame to review and update the recovery plan within each annual planning cycle.

Board Responsibilities

The board is responsible for overseeing the covered bank's recovery planning process.

A covered bank's board, or an appropriate board committee, should review and approve the recovery plan at least annually and as needed to address significant changes made by management.

As part of the board's oversight of the covered bank's safe and sound operations, the board should work closely with the bank's senior management to oversee appropriate involvement of the independent risk management function (second line of defense) and internal audit (third line of defense) in developing and executing the recovery plan.

The board should also ascertain that, to the extent possible, the bank's recovery plan is coordinated and consistent with other recovery and resolution plans of the covered bank's holding company and also that recovery options are appropriately focused on allowing the covered bank itself to remain viable under severe stress. Such a focus may include an evaluation and realignment of board or committee responsibilities or member composition if the covered bank invokes its recovery plan. For example, business-as-usual delegations of authority and escalation of decision-making processes to the holding company may not be appropriate if the covered bank invokes its recovery plan.

Relationship to Other Processes and Coordination With Other Plans

In developing the recovery plan, the OCC encourages covered banks to leverage their existing planning processes by incorporating or cross-referencing portions or elements of other relevant plans. The recovery plan guidelines are not intended to be needlessly burdensome or duplicative of the covered bank's other planning. If, however, the covered bank's recovery plan uses key terms interpreted elsewhere (e.g., resolution planning or heightened standards regulations), the recovery plan should indicate which key terms are drawn from other sources and identify the sources.

A covered bank's recovery plan should promote the financial strength and viability of the bank, but the plan should also be aligned with the covered bank's holding company's recovery and resolution planning efforts to the extent possible.

The covered bank should integrate its recovery planning into its risk governance functions. While the recovery plan guidelines do not dictate the format or process of developing a plan, it is anticipated that the recovery planning process will be integrated with and a component of the covered bank's ongoing operating continuum. Recovery planning should be a business-as-usual activity and an extension of current practices. For example, triggers should be aligned to a covered bank's risk appetite with appropriate monitoring and management information systems reporting. If the triggers are breached, however, heightened reporting and governance should be implemented. The analysis, tools, policies, and plans that covered banks have already developed should be considered in the development of the recovery plan. The covered bank should leverage off of and align its recovery plan with other plans, including

- strategic planning.
- operational planning (including business continuity).
- contingency planning
- capital planning (including stress testing).
- liquidity planning.
- resolution planning.

The covered bank's analysis and modeling of financial data from stress testing performed as part of DFAST or CCAR may provide a basis for analyzing stress scenarios, triggers, or options for rebuilding financial strength and viability. In addition, contingency funding or capital planning early warning indicators may assist in identifying and calibrating triggers. Business continuity plans may identify risk that could lead to severe financial stress. Resolution planning analysis may assist in identifying material entities and critical operations that have significance to the covered bank. In many cases, some or all of these plans may be interconnected and the covered bank should coordinate them.

The recovery plan may borrow from or reference the other types of planning processes noted, but it is anticipated that the recovery plan will be a separate and distinct plan.

Table 1 provides additional detail about the covered bank’s other types of planning processes and how they may be relevant to developing the covered bank’s recovery plan.

Table 1: Other Types of Planning Processes

Other Types of Planning Processes	Relevance to Recovery Planning
DFAST and CCAR	
<p>Under DFAST supervisory stress tests or CCAR, the Federal Reserve Board annually assesses whether financial firms with \$50 billion or more in total consolidated assets are sufficiently capitalized to absorb losses during stressful conditions, while meeting obligations to creditors and counterparties and continuing to be able to lend to households and businesses.</p> <p>In conducting the supervisory stress tests, the Federal Reserve Board projects balance sheets, risk-weighted assets, net income, and resulting post-stress capital levels and regulatory capital ratios over a nine quarter “planning horizon,” generally using a set of capital action assumptions prescribed in Dodd–Frank. The projections are based on three macroeconomic stress scenarios required by Dodd–Frank (baseline, adverse, and severely adverse) that are developed annually by the Federal Reserve Board. For the annual company-run stress test, the bank holding companies use the same planning horizon, capital action assumptions, and stress scenarios as those used in the supervisory stress test. Similarly, the OCC, the Federal Reserve Board, and the FDIC require company-run stress test to be conducted by certain banks in their respective jurisdictions.</p> <p>At the conclusion of CCAR, the Federal Reserve Board either does not object or objects to a firm’s capital plan.</p>	<ul style="list-style-type: none"> • DFAST supervisory stress test or CCAR stress test scenarios may be used in recovery planning. • Stress testing assesses and confirms capital adequacy under various stressful financial conditions. • The bank’s stress test results reveal varying degrees of financial deterioration but not necessarily severe financial stress.
Contingency Funding Plan^a	
<p>The contingency funding plan (CFP) sets out strategies for addressing liquidity shortfalls in crisis situations or periods of market stress. The CFP’s objective is to enhance the probability that the bank’s sources of liquidity are sufficient to fund normal operating requirements under contingent events. A CFP uses early warning indicators and contingent event triggers to monitor for potential liquidity stress events.</p>	<ul style="list-style-type: none"> • The CFPs may have key reports, metrics, and stress scenarios that may be applicable to banks’ recovery plans. • Banks can reference or copy portions of their CFPs (triggers, metrics, reports, stress scenarios) in their recovery plans. • Indicators and early warning metrics in CFPs are more closely aligned with stresses encountered in the normal course of business in contrast to recovery plan triggers which identify severe financial stress or more extraordinary situations.

^a Refer to OCC Bulletin 2010-13, “Liquidity: Final Policy Statement: Interagency Policy Statement on Funding and Liquidity Risk Management.”

Other Types of Planning Processes	Relevance to Recovery Planning
Resolution Planning	
<p>165(d) plans: Dodd–Frank mandates resolution plans under section 165(d). Bank holding companies with total consolidated assets of \$50 billion or more must periodically submit resolution plans to the Federal Reserve Board and the FDIC. Each resolution plan must describe the firm’s strategy for rapid and orderly resolution, without severe consequences for the financial system or the U.S. economy, under the Bankruptcy Code in the event of material financial distress or failure. The Federal Reserve Board and FDIC are required to review the resolution plans to jointly determine if the resolution plan is credible or would not facilitate an orderly resolution under the bankruptcy code. The Federal Reserve Board has issued regulations at 12 CFR 243, “Resolution Plans,” to implement section 165(d) of Dodd–Frank; the FDIC has identical regulations at 12 CFR 381, “Resolution Plans.”</p> <p>CIDI plans: The FDIC has issued regulations at 12 CFR 360.10, “Resolution Plans Required for Insured Depository Institutions With \$50 Billion or More in Total Assets,” (CIDI rule) requiring CIDs (defined as insured depository institutions with \$50 billion or more in assets) to submit to the FDIC a plan for the resolution of the CIDI under the Federal Deposit Insurance Act.</p>	<ul style="list-style-type: none"> • 165(d) resolution plans focus on the holding company in its entirety at the time of failure. The plans address orderly bankruptcy, reorganization, or liquidation to minimize consequences to the financial system. • CIDI plans focus on the insured bank at the time of failure. • Recovery plans identify severe stress situations and options to return the covered bank to financial strength and viability and avoid failure.

In most cases, it is unlikely that a plan prepared for another purpose would fully satisfy the OCC’s recovery plan guidelines. The reason is that the purpose of the OCC’s recovery plan guidelines is to provide a comprehensive framework for evaluating how severe stress would financially affect the covered bank and the recovery options that would allow that bank to remain viable under severe stress. A covered bank that wants to use other plans should make sure that the stress scenarios and triggers the bank wants to incorporate into its recovery plan address potential stresses that could affect the bank’s financial strength and viability. The stress scenarios and triggers may include negative trends or problems with the covered bank’s material entities, critical operations, critical third-party service providers, or reputation risks that may affect the covered bank’s financial condition.

To the extent possible, the covered bank should coordinate its recovery plan with any recovery and resolution planning efforts by the bank’s holding company, so that the plans are consistent with and do not contradict each other. Some inconsistency may be unavoidable because recovery planning and resolution planning differ. Recovery planning addresses a bank as a going concern. Resolution planning starts from the point of an entity’s non-viability. Covered banks are, however, an integral part of bank holding company recovery and resolution plans. Consequently, the covered bank may be able to leverage certain elements of these plans into its recovery plan.

Example 9: Use of Resolution Planning

The resolution plan typically requires the covered bank to map its critical operations. The bank may find this resolution planning mapping exercise useful in describing interconnections and interdependencies in the bank's recovery plan.

FAQ 5

Can the covered bank share its recovery plan with the FDIC, Federal Reserve, or other prudential regulators? Can the OCC share the covered bank's recovery plan?

A recovery plan is the property of the covered bank, provided it does not include confidential supervisory information. Therefore, the covered bank can provide its recovery plan to any person or entity, including any of its regulators.

The OCC routinely shares information with the FDIC and Federal Reserve and, therefore can share a covered bank's recovery plan with these regulators with certain caveats. For example, if the OCC wants to share the covered bank's recovery plan directly with these agencies the OCC should include transmittal language indicating that the information is subject to the provisions in any applicable information sharing agreement and the restrictions in 12 CFR 4, "Organization and Functions, Availability and Release of Information, Contracting Outreach Program." If there is holding company information in the bank's recovery plan, the OCC should confirm with the bank that it has no objection to the OCC sharing the plan with the FDIC.

Enforcement

The OCC issued the recovery plan guidelines pursuant to section 39 of the Federal Deposit Insurance Act.¹² Section 39 authorizes the OCC to prescribe safety and soundness standards in the form of a regulation or guidelines.¹³ Section 39 prescribes different consequences depending on whether the standards are issued by regulation or guidelines. Pursuant to section 39, if a bank¹⁴ fails to meet a standard prescribed by regulation, the OCC must require it to submit a plan specifying the steps it will take to comply with the standard. In contrast, if a bank fails to meet a standard prescribed by a guideline, the OCC has the discretion to decide whether to require the submission of a plan.¹⁵

¹² Refer to 12 USC 1831p-1. Section 39 was enacted as part of the Federal Deposit Insurance Act, Pub.L. 102-242, section 132(a), 105 Stat. 2236, 2267-70.

¹³ Each appendix in 12 CFR 30, "Safety and Soundness Standards," of the OCC's rules was issued as guidelines under section 39 of the Federal Deposit Insurance Act. In addition to the recovery plan guidelines, also refer to appendix A, "Interagency Guidelines Establishing Standards for Safety and Soundness," appendix B, "Interagency Guidelines Establishing Information Security Standards" (issued under section 39 of the Federal Deposit Insurance Act and under sections 501 and 505(b) of the Gramm–Leach–Bliley Act of 1999); appendix C, "OCC Guidelines Establishing Standards for Residential Mortgage Lending Practices"; and appendix D, "OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations and Insured Federal Branches."

¹⁴ Section 39 of the Federal Deposit Insurance Act applies to "insured depository institutions," which includes insured federal branches of foreign banks. While this booklet does not specifically refer to these entities, it should be read to include them.

¹⁵ Refer to 12 USC 1831p-1(e)(1)(A)(i) and (ii).

By issuing the recovery plan standards as guidelines rather than as a regulation, the OCC has the flexibility to pursue the course of action that is most appropriate given the specific circumstances of a bank's noncompliance with one or more of the recovery planning standards and the bank's self-corrective or remedial responses.

For example, when the OCC determines, by examination or otherwise, that a bank failed to meet the standards set forth in the recovery planning guidelines,¹⁶ the OCC may request, in writing, that the bank submit a compliance plan to the OCC detailing the steps the bank will take to correct the deficiencies and the time within which it will take those steps. This request is termed a Notice of Deficiency. Upon receiving a Notice of Deficiency from the OCC, the bank must submit a compliance plan (Safety and Soundness Plan) to the OCC for approval within 30 days, unless the OCC specifies a different time frame.¹⁷

If a bank fails to submit an acceptable Safety and Soundness Plan or fails in any material respect to implement a Safety and Soundness Plan approved by the OCC, the OCC shall issue a Notice of Intent to Issue an Order pursuant to section 39 (Notice of Intent). The bank then has 14 days to respond to the Notice of Intent, unless the OCC specifies a different time frame. After considering the bank's response, the OCC may issue the order, decide not to issue the order, or seek additional information from the bank before making a final decision. The OCC notifies the bank in writing if it decides not to issue an order. Alternatively, the OCC may issue an order without providing the bank with a Notice of Intent. In such a case, the bank may appeal after-the-fact to the OCC, and the OCC has 60 days to consider the appeal. Upon the issuance of an order, a bank is deemed to be in noncompliance with 12 CFR 30, "Safety and Soundness Standards." Orders are formal, public documents, and they may be enforced by the OCC in federal district court.

The OCC may also assess a civil money penalty, pursuant to 12 USC 1818, "Termination of Status as Insured Depository Institution," against any bank that violates or otherwise fails to comply with any final order and against any institution-affiliated party who participates in such violation or noncompliance.

Nothing in section 39 or the recovery plan guidelines in any way limits the authority of the OCC to address unsafe or unsound practices or conditions or other violations of law or regulation.¹⁸

¹⁶ The procedures governing the determination and notification of failure to satisfy a standard prescribed pursuant to section 39, the filing and review of compliance plans, and the issuance, if necessary, of orders currently are set forth in the OCC's regulations at 12 CFR 30.3, 30.4, and 30.5.

¹⁷ Refer to OCC Bulletin 2017-48, "Bank Enforcement Actions and Related Matters: Updated Guidance."

¹⁸ Section 39 preserves all authority otherwise available to the OCC, stating, "The authority granted by this section is in addition to any other authority of the Federal banking agencies." Refer to 12 USC 1831p-1(g).

Examination Procedures

This booklet contains expanded procedures for examining specialized activities that warrant extra attention beyond the core assessment contained in the “Large Bank Supervision” and “Federal Branches and Agencies Supervision” booklets of the *Comptroller’s Handbook*. Examiners determine which procedures to use, if any, during examination planning or after drawing preliminary conclusions during the core assessment. Seldom will every objective or step of the procedures be necessary.

Objective of the examination: Evaluate and determine the bank’s compliance with 12 CFR 30, appendix E, which provides that a covered bank should establish a recovery plan to respond to severe stress events in a manner that restores its financial strength and viability.

Scope

These procedures are designed to help examiners tailor the examination to each bank and determine the scope of the examination of recovery planning. This determination should consider work performed by internal and external bank auditors, independent risk control functions, and by other examiners on related areas (e.g., capital, liquidity, business continuity, and strategic management). Such coordination can reduce burden on the bank, prevent duplication of examination efforts, and be an effective crosscheck of compliance and process integrity.

Objective: To determine the scope of the examination of recovery planning and identify the examination objectives and activities necessary to meet the needs of the supervisory strategy for the bank.

1. Review the following sources of information and note any previously identified issues related to recovery planning requiring follow-up:
 - Supervisory strategy
 - Scope memorandum
 - Any written correspondence from the OCC regarding the bank’s recovery plan
 - The OCC’s supervisory information system
 - Previous reports of examination, supervisory letters, and, as necessary, work papers
 - Internal and external audit reports and, as necessary, work papers
 - Bank’s risk governance reviews
 - Bank management’s responses to relevant previous reports of examination, supervisory letters, or audit reports
2. Obtain and review the bank’s policies, procedures, plans, and reports related to recovery planning. Consider the
 - depth of the covered bank’s policies and procedures related to recovery planning.
 - holding company or affiliates’ recovery plans or strategies.

- covered bank or holding company's resolution plans.
 - covered bank's risk appetite and key risk or early warning indicators.
 - covered bank's contingency funding and capital plans.
3. Review or perform a gap assessment of required recovery planning components.
 4. Determine if there have been any significant changes at the covered bank (e.g., changes in organizational structure, recovery planning processes, strategic or capital plans, business activities, products and services, risk management, or liquidity and funding structures) since the previous examination.
 5. Select from the following examination procedures the necessary steps to meet examination objectives and the supervisory strategy.

Recovery Plan Elements

Conclusion: The recovery plan (does/does not) include the required elements.

Objective—detailed description of covered bank: Determine whether the recovery plan captures and describes the covered bank’s organizational and legal structure, material entities, critical operations, core business lines, core management information systems, and interconnections and interdependencies across business lines, affiliates, foreign subsidiaries, and critical third parties.

1. Does the recovery plan identify and describe the covered bank’s overall organizational and legal structure, including its
 - material entities (e.g., subsidiaries and affiliates)?
 - critical operations?
 - core business lines?
 - How are core business lines identified (e.g., by contributions to revenue, profit, market share, strategic importance, or franchise value or growth)?
 - core management information systems?
2. Does the recovery plan provide sufficient details of the covered bank’s strategy and business model and provide appropriate mapping of core business lines and critical operations to legal entities?
3. Does the recovery plan identify and describe interconnections and interdependencies
 - across business lines within the covered bank?
 - with any affiliates in a bank holding company structure?
 - between the covered bank and any foreign subsidiaries?
 - with critical third parties?

Determine whether the recovery plan addresses whether (and how) a disruption of these interconnections or interdependencies would materially affect the covered bank, including its funding or operations.

4. Evaluate the use of other plans and data sources in the recovery plan and ascertain if the information is appropriately incorporated or referenced (e.g., holding company recovery or resolution plan, contingency funding plan, disaster recovery plan, capital plan). The plan should identify the source of key terms documented elsewhere.

Objective—triggers: Evaluate the development of recovery plan triggers and determine whether the triggers will likely identify severe stress events that could affect the financial strength and viability of the covered bank if not addressed. Determine how the covered bank uses triggers

to consider which specific recovery options (if any) should be applied to address the severe stress event.

1. Assess the adequacy of the rationale for determining the current set of triggers, thresholds for each trigger, and their relationship with other financial metrics used in business as usual, early warning, contingency funding, or capital planning (e.g., crisis or stress continuum).
2. Determine if the selected triggers are integrated with the bank's overall risk management framework, clearly relate to the bank's risk appetite, and are appropriate to alert management to deteriorating conditions and increasing severe stress. Consider whether
 - the triggers link to key vulnerabilities by incorporating items such as
 - changes in the covered bank's financial position (both point-in-time and projected changes) with respect to
 - profitability.
 - revenue sources.
 - funding sources or business activities.
 - liquidity ratios.
 - capital ratios.
 - other changes:
 - Credit rating downgrades.
 - Increased collateral requirements.
 - Asset quality.
 - Significant market share or operational losses.
 - Stock price or market valuation.
 - Default of significant counterparties.
 - Changes in economic trends, for example, interest rate changes.
 - triggers are calibrated to be forward looking to allow time to activate recovery options.
 - each trigger breach corresponds to at least one recovery option.
 - there are quantitative triggers that include, but are not limited to, capital or liquidity.
 - there are qualitative triggers that may indicate the emergence of financial stress.
 - how often triggers are reviewed and updated.
 - there is any documentation considering the regulatory or legal consequences that may be associated with the breach of a particular trigger.
3. Determine if the number and nature of the triggers appropriately link to key vulnerabilities based on the covered bank's size, risk profile, activities, and complexity.
4. Determine how triggers are utilized in the escalation process. For example, does the breach of each one of the triggers invoke one or more options in the recovery plan? Are some triggers merely informative?

5. Review and assess the appropriateness of policies, procedures, and management reports related to reporting on trigger breaches and escalation of any trigger breach to senior management or the board as appropriate.

Objective—stress scenarios: Evaluate the stress scenarios used in the recovery planning process. Stress scenarios should be used to confirm the effectiveness, impact, and viability of the recovery plan triggers and options to restore financial health in both idiosyncratic and systemic (or market-wide) severe stress events.

1. Assess the methodology used to determine appropriateness of the stress scenarios chosen. Confirm the number of stress scenarios utilized (there should be, at a minimum, at least two scenarios, one for bank-specific risks and one for market-wide events).
2. Evaluate the duration of the stress scenarios and whether the duration relates to events or stresses that are relevant to the covered bank (the duration of the scenarios should involve both immediate and prolonged financial stress).
3. Determine if the stress scenarios
 - are severe enough to affect core business lines, critical operations of the bank, material entities and threaten the bank’s financial strength and viability if the bank did not implement one or more recovery options in a timely manner.
 - range from those that cause significant hardship to those that bring the covered bank close to default, but not into resolution.
 - are institution-specific.
 - result in capital shortfalls, liquidity pressures, or other significant financial effects.
 - contain a range of bank-specific and market-wide scenarios, individually and in the aggregate, that are immediate and prolonged, and that may affect prioritization of recovery options.
 - do not consist of just one event but are a combination or sequence of events with associated impacts.
 - are relevant to the bank addressing particular vulnerabilities, core operations, business lines, or entities.
 - support the rationale for triggers and recovery options.
4. Evaluate how management has used stress scenarios to assist it in identifying recovery options that may not be realistic in certain environments and in determining the appropriate choice(s) and order of recovery options.
5. Determine if the stress scenarios are used to test the recovery plan options, including the adequacy of triggers, and overall plan effectiveness and viability.

Objective—options for recovery: Determine whether the recovery plan identifies a wide range of credible recovery options that the bank could undertake to restore financial strength and viability.

1. Determine if the recovery plan has a variety of actionable and feasible recovery options that can be taken in severe stress events to restore financial strength and viability. The recovery plan should include options that go beyond looking to the holding company as a source of strength. Recovery options may include
 - recapitalization.
 - reducing or ceasing dividends.
 - divesting of assets, business units, or subsidiaries.
 - ceasing of products or services.
 - restructuring or shrinking the balance sheet.
 - restricting growth.
 - augmenting liquidity.
2. Assess the adequacy of the bank’s methodology of determining the credibility of its recovery options (for example, by identifying past experience implementing the types of options and considering potential risk and impediments, time frames, and mitigating actions).
3. Determine whether the recovery plan includes recovery options that can be taken in varying time horizons (e.g., for either immediate or prolonged periods of stress).
4. Determine whether management has appropriately supported the reasonableness of the time frames. Consider whether
 - the bank should be able to reasonably execute the options within time frames in the plan.
 - the time frames are reasonable to be effective during periods of stress.
5. Assess the decision-making process for implementing each option (e.g., salability or timelines). Are options prioritized?
6. Determine whether the recovery plan explains how the bank would carry out each option or specifies the procedures the bank would use.
7. Assess how the recovery plan addresses the timing for recovery options involving the sale, transfer, or disposal of significant assets, portfolios, or business lines. Is there documentation that the covered bank considered
 - length of time to identify potential buyers?
 - the market capacity to absorb the sale of business lines or subordinate entities?
 - timelines and documentation needed for due diligence?

8. Determine if the recovery plan identifies any recovery options that require regulatory or legal approval. If so, evaluate how the covered bank has determined it will be able to obtain such approval.
9. Determine if the recovery plan identifies the critical parties needed to carry out each option.
10. Evaluate whether the recovery plan identifies obstacles that could impede the execution of a recovery option and sets out mitigation strategies for addressing these obstacles (e.g., operational, staff, or infrastructure).

Objective—impact assessments: Determine whether the covered bank has assessed and described how each recovery option would affect the covered bank, including its capital, liquidity, profitability, funding, material entities, critical operations, and core business lines.

1. Assess the adequacy of the bank's impact assessment process. Consider
 - who is responsible for performing the impact assessments.
 - how the impact assessments are reviewed.
 - how frequently the impact assessments are updated.
 - if projections are provided for a point in time as well as over multiple time frames.
 - if projections vary based on economic assumptions (e.g., idiosyncratic or systemic scenarios).
 - if appropriate controls are in place to review, approve, or challenge assumptions and financial analysis.
2. Determine if the impact assessment addresses, for each recovery option, the effect (including reputational impact) each option would have on the covered bank's
 - capital, liquidity, funding, taxes, and profitability.
 - material entities, critical operations, and core business lines.
 - internal operations (e.g., information technology systems, suppliers, human resources, operations).
 - access to market infrastructure (e.g., clearing and settlement facilities, payment systems, additional collateral requirements).
 - interaffiliate or group connections.
 - growth, products, business lines, or future strategy.
 - risk profile.
3. Evaluate any description in the recovery plan of effects or impacts to the covered bank of executing a particular option (e.g., tax implications, future impact of franchise value, approval requirements, capacity of competitors to absorb additional businesses, or number of third-party service providers capable of providing similar products or services).

4. Determine if the impact assessment addresses any legal or market impediment or regulatory requirement that must be addressed or satisfied in order to implement the option.

Objective—escalation procedures: Determine whether the recovery plan clearly outlines the process for escalating the breach of any trigger to senior management or the board (or an appropriate board committee).

1. Confirm that the breach of each trigger begins the recovery plan’s escalation process.
2. Evaluate the adequacy of the process the covered bank uses to escalate the trigger breach to senior management, the board, or an appropriate board committee. Consider whether the process differs from the business-as-usual or early warning process (e.g., are there some severe stress events when existing reporting, decision making, or board committee membership should be evaluated so that recovery options taken will be in the best interest of the bank)?
3. Evaluate the adequacy and timeliness of management information system reports.
4. Determine if the recovery plan identifies the departments and persons responsible for executing the decisions of senior management or the board (or an appropriate board committee).

Objective—management reports: Determine whether the recovery plan requires reports that provide senior management or the board (or an appropriate board committee) sufficient data and information to make timely and appropriate decisions regarding the appropriate actions necessary to respond to the breach of a trigger.

1. Evaluate the types of reports the recovery plan provides to senior management or the board (or an appropriate board committee):
 - Are the reports provided in the event of a trigger breach?
2. Determine if the reports contain sufficient data and information for senior management or the board (or an appropriate board committee) to make timely decisions regarding appropriate actions necessary to respond to the trigger breach.
3. Determine whether management has reviewed the covered bank’s current reporting capabilities and determined whether management information systems and processes would be adequate in a severe stress event.

Objective—communication procedures: Determine whether the covered bank’s recovery plan includes appropriate communication procedures.

1. Determine if the recovery plan addresses when and how the covered bank will notify persons within the organization and other external parties of its actions under the recovery plan. Does the recovery plan
 - identify key stakeholders (stakeholders may vary depending on a recovery option)?
 - include a process for determining the level of detail and timing of information appropriate for stakeholders?
 - include a process for determining the strategy or form of the communication?
2. Determine if the recovery plan states that the covered bank will notify the OCC of any significant trigger breach and any action to be taken in response to the breach. Does the recovery plan include an appropriate process for the bank to determine if a breach of a trigger is significant?

Objective—coordination with other plans: Determine whether the bank’s recovery plan is integrated into its risk governance functions.

1. Assess the recovery plan’s alignment with the bank’s other plans, such as the bank’s
 - strategic plan.
 - operational plans (including business continuity).
 - liquidity and contingency funding plans.
 - capital plan.
 - stress testing, including DFAST and CCAR.
 - resolution plans.
2. Review management’s use of “recovery playbooks” or other available tools (e.g., databases) that complement the recovery plan and provide additional guidance on deciding and executing the recovery strategy.
3. Assess how the bank has coordinated its recovery plan with any recovery and resolution planning efforts by the bank’s holding company, so that the plans are consistent and not contradictory.

Management and Board Responsibilities

Conclusion: The recovery plan (does/does not) adequately address management's and the board's responsibilities.

Objective: Determine whether the recovery plan adequately addresses management's and the board's responsibilities.

1. Determine if management has implemented clear governance for reviewing the recovery plan at least annually and in response to material changes or events.
2. Determine if management, during its review,
 - considers the covered bank's current number of entities, geographical footprint, booking practices (e.g., guarantees and exposures), and servicing arrangements to factor into the recovery planning framework.
 - engages the appropriate personnel and departments within the bank and more broadly across the holding company or affiliates as necessary to appropriately integrate with other planning processes.
 - revises the recovery plan as necessary to reflect material changes in the covered bank's risk profile, complexity, size, and activities as well as changes in external threats.
 - evaluates the covered bank's organizational and legal structure and its effectiveness in facilitating recovery.
 - considers the ongoing relevance and applicability of the stress scenarios used to identify the plan's triggers and options and revises the plan when necessary.
3. Evaluate the appropriateness of the review and challenge process and the inclusion of the appropriate lines of defense (e.g., risk management and internal audit) as described in "Heightened Standards" (12 CFR 30, appendix D) in the development, review, and approval processes. Are identified shortcomings or weaknesses tracked and remediated on a timely basis?
4. Determine if the bank's board (or an appropriate board committee) reviews and approves the recovery plan at least annually and as needed to address significant changes made by management.
5. Determine whether the bank has identified situations that could pose fiduciary duty conflicts in a recovery scenario, including
 - senior management or directors of the holding company who are also directors of the bank.
 - senior management or committee decision-making structures that may pose potential fiduciary conflicts.

6. Determine whether the bank has policies and procedures to evaluate and address potential conflicts?

Conclusions

Conclusion: The bank's recovery plan (does/does not) meet the standards in 12 CFR 30, appendix E.

Objective: To determine, document, and communicate overall findings and conclusions regarding the examination of the covered bank's recovery planning.

1. Determine preliminary examination findings and conclusions and discuss with the examiner-in-charge, including
 - preliminary concerns regarding the bank's recovery plan or recovery planning process.
 - nonconformance with 12 CFR 30, appendix E.
2. Discuss examination findings with bank management, including nonconformance with 12 CFR 30, appendix E, and conclusions about the bank's recovery planning. If necessary, obtain commitments for corrective action.
3. Compose conclusion comments, highlighting any issues that should be included in the supervisory letter or report of examination. If necessary, compose matters requiring attention.
4. Update the OCC's supervisory information system.
5. Update, organize, and reference work papers in accordance with OCC policy.
6. Ensure any paper or electronic media that contain sensitive bank or customer information are appropriately disposed of or secured.

References

Laws

- Dodd–Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111–203, 124 Stat. 1376 (July 21, 2010)
- 12 USC 1818, “Termination of Status as Insured Depository Institution”
- 12 USC 1831p-1, “Standards for Safety and Soundness”
- 12 USC 5365, “Enhanced Supervision and Prudential Standards for Nonbank Financial Companies Supervised by the Board of Governors and Certain Bank Holding Companies”

Regulations

- 12 CFR 3.404, “Procedures”
- 12 CFR 4, “Organization and Functions, Availability and Release of Information, Contracting Outreach Program, Post-Employment Restrictions for Senior Examiners”
- 12 CFR 30, “Safety and Soundness Standards”
- 12 CFR 30.3, “Determination and Notification of Failure to Meet Safety and Soundness Standards and Request for Compliance Plan”
- 12 CFR 30.4, “Filing of Safety and Soundness Compliance Plan”
- 12 CFR 30.5, “Issuance of Orders to Correct Deficiencies and to Take or Refrain From Taking Other Actions”
- 12 CFR 30, appendix A, “Interagency Guidelines Establishing Standards for Safety and Soundness”
- 12 CFR 30, appendix B, “Interagency Guidelines Establishing Information Security Standards”
- 12 CFR 30, appendix C, “OCC Guidelines Establishing Standards for Residential Mortgage Lending Practices”
- 12 CFR 30, appendix D, “OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches”
- 12 CFR 30, appendix E, “OCC Guidelines Establishing Standards for Recovery Planning by Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches”
- 12 CFR 243, “Resolution Plans”
- 12 CFR 360.10, “Resolution Plans Required for Insured Depository Institutions With \$50 Billion or More in Total Assets”
- 12 CFR 381, “Resolution Plans”

Comptroller’s Handbook

Examination Process

- “Federal Branches and Agencies Supervision”
- “Large Bank Supervision”

OCC Issuances

OCC Bulletin 2010-13, “Liquidity: Final Policy Statement: Interagency Policy Statement on Funding and Liquidity Risk Management” (March 22, 2010)

OCC Bulletin 2016-30, “Enforceable Guidelines for Recovery Planning: Final Guidelines” (September 29, 2016)

OCC Bulletin 2017-48, “Bank Enforcement Actions and Related Matters: Updated Guidance” (October 31, 2017)

Other

Federal Reserve SR 14-1, “Heightened Supervisory Expectations for Recovery and Resolution Preparedness for Certain Large Bank Holding Companies – Supplemental Guidance on Consolidated Supervision Framework for Large Financial Institutions” (SR letter 12-17/CA letter 12-14) (January 24, 2014)

Federal Reserve SR 14-8, “Consolidated Recovery Planning for Certain Large Domestic Bank Holding Companies” (September 25, 2014)

Financial Stability Board, “Key Attributes of Effective Resolution Regimes for Financial Institutions” (October 15, 2014)