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EDS.306.2

April 27, 2017

Circular to all Chief Executives of Commercial Banks

Recovery Planning for Banks

In an effort to strengthen the bank resolution regimes, the Financial Stability Board Key Attributes of Effective Resolution Regimes for Financial Institutions recommend that banks prepare specific Recovery Plans. A Recovery Plan identifies options to restore financial strength and viability when a bank comes under severe stress. The responsibility for developing and maintaining, and where necessary, executing the recovery plan lies with the bank's senior management.

The purpose of this circular, therefore, is to request all commercial banks to prepare Recovery Plans. Bank of Uganda will review the Recovery Plan for each bank, as part of the overall supervisory process. We have accordingly attached, for ease of reference, an annex giving guidance for preparing Recovery Plans.

Please do not hesitate to contact the Director Financial Stability Department, **Dr. Charles Abuka**, on **Tel No. 0414-255-383** should you have any questions regarding the preparation of the Recovery Plan. You may also send an email to either Mr. Ronnie Alinda - ralinda@bou.or.ug or Mr. Ivan Amagaragariho - iamagaragariho@bou.or.ug.

J. Bagyenda (Mrs.)

Executive Director Supervision

Annex: Guidance on drafting Recovery Plans for banks in Uganda, 2017

These considerations are for guidance in development of recovery and resolution plans in line with the Financial Stability Board's Essential Elements of Recovery and Resolution Plans set out in Annex III to the Key Attributes of Effective Resolution Regimes for Financial Institutions 2014.

A recovery plan identifies options to restore financial strength and viability when a bank comes under severe stress. The recovery plan serves as a guide to the recovery of a distressed bank and must be proportionate to the scale and complexity of the bank's activities. The recovery plan should include measures to reduce the risk profile of a firm and conserve capital, as well as strategic options, such as the divestiture of business lines and restructuring of liabilities.

These plans should include:

- i) **Capital Contingency Plan:** This covers possible actions to strengthen the capital situation during situations of extraordinary losses. The actions could include; recapitalization measures like voluntary restructuring of liabilities through debt-to-equity conversion and capital conservation measures such as suspension of dividends and payments of variable remuneration.
- ii) A plan detailing options of possible disposal of business lines, business units and legal entities. For each disposal option, a possible purchaser (at least by type) should be identified and why they would be interested in the purchase. Banks should be conservative in their valuations of disposals and detail any approvals needed and tax implications of such disposals.
- iii) **Liquidity Contingency Plan:** This details the steps to be taken when the liquidity position is very weak. This could include; plans for accessing central bank liquidity facilities and money markets including details of alternative collateral that can be offered when eligible collateral is encumbered.
- iv) Details of how the Capital and Liquidity Contingency plans are integrated into the bank's risk management framework and the triggers that define the implementation of the recovery plan in relation to especially Management Information Systems, and corporate governance procedures like Board approvals.
- v) The Liquidity and Capital Contingency plans should detail the risks and hurdles anticipated to hinder successful implementation, and the dependencies and assumptions for the successful implementation of the recovery option highlighting any key regulatory and legal issues.