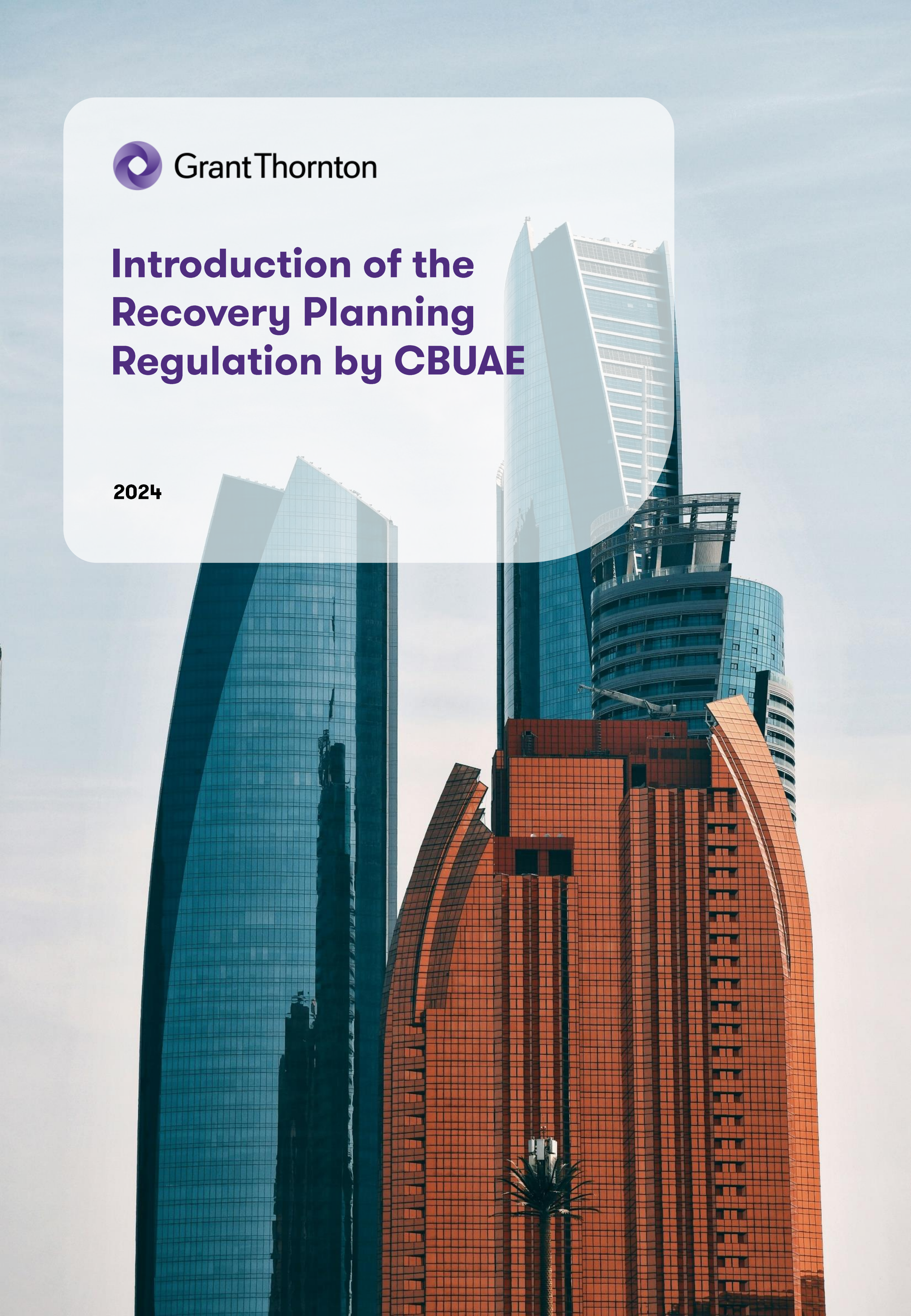


Grant Thornton

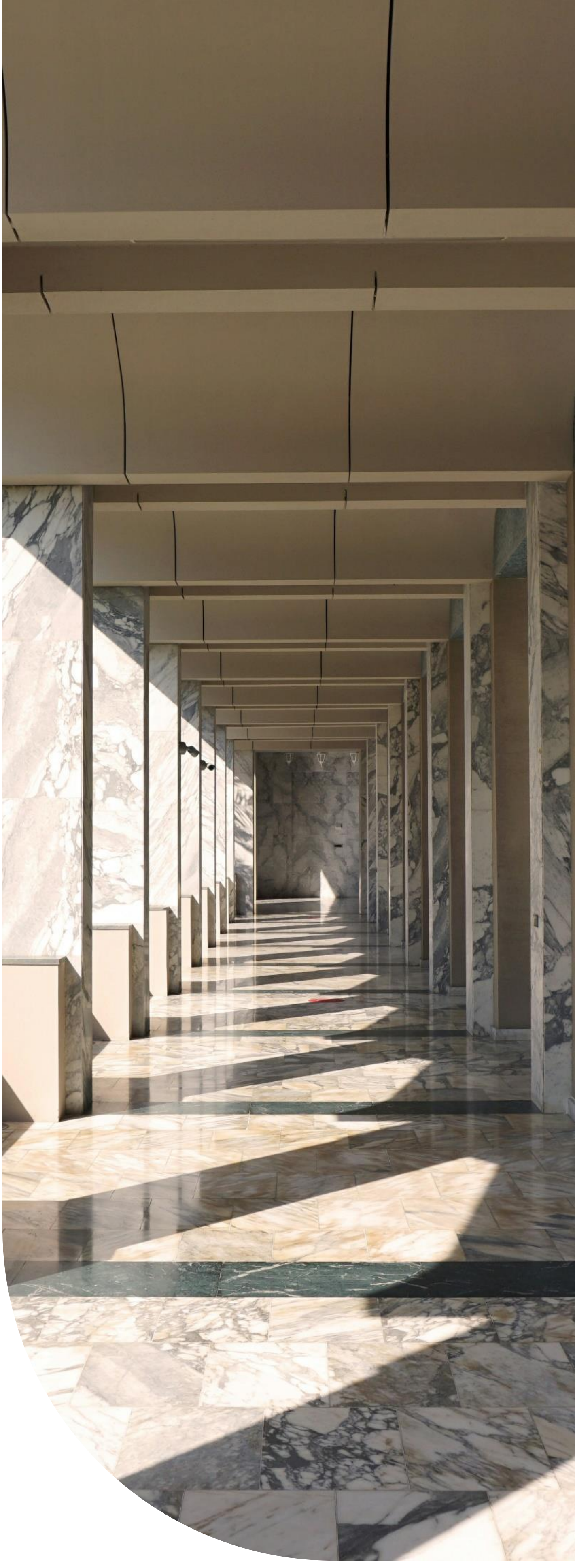
Introduction of the Recovery Planning Regulation by CBUAE

2024

Introduction

As economic development continues to be a key pillar in the UAE's journey, regulatory authorities are constantly introducing new robust measures to the market for the purpose of maintaining financial stability and fostering growth. The introduction of the Recovery Planning Regulation by Central Bank of the UAE ("CBUAE") brings forward another milestone by the regulator, where compliance with international standards and adoption of good practices is put at the forefront. The regulation requires financial institutions to have credible recovery options in place which can be implemented quickly under a range of distinctive and market wide stress scenarios.

CBUAE regulated banks, insurance companies, branches of foreign banks and branches of foreign insurance companies and any other licensed financial institution designated by the Central Bank, at its discretion are under the scope of application of this regulation. Financial Institutions are to take the necessary measures to ensure adequate compliance with the mandates of the Recovery Planning regulation and to have a recovery plan in place by 30 June 2024.



The regulation focuses on all aspects of recovery planning and stresses the importance of effective governance in financial institutions when creating, producing, and approving the recovery plan. The regulation also covers recovery mechanisms such as capital issuances, liquidity facilities, restructuring, and other measures that financial institutions can adopt during situations of stress. Other key elements of recovery planning highlighted include the need to adopt a group-wide approach where financial institutions house material subsidiaries and the need to ensure the application of the recovery plan to all members of the group. In addition, institutions must have in place tailored recovery indicators based on their size and complexity. These indicators may be based on capital, liquidity, profitability and asset quality measures. Lastly, institutions must highlight their actual and potential recovery capacity taking into account the appropriate scenario testing to help evaluate the adequacy of arrangements in place.

For benchmarking purposes, other leading regulators such as the Bank of England, the European Banking Authority and the Office of the Comptroller of the Currency (OCC) in the US provide examples of quantitative and qualitative recovery indicators such as portfolio distress signals, increase in non-performing asset ratios and unstable trends of liquidity positions.

In addition, some examples of recovery options described by other regulators include asset sales, business disposals, equity issuance, deposit raising and cost cutting. As per CBUAE guidelines, banks and insurance companies in the UAE must ensure that such recovery options are practically implementable and not only theoretical considering the unique business nature of each institution individually.

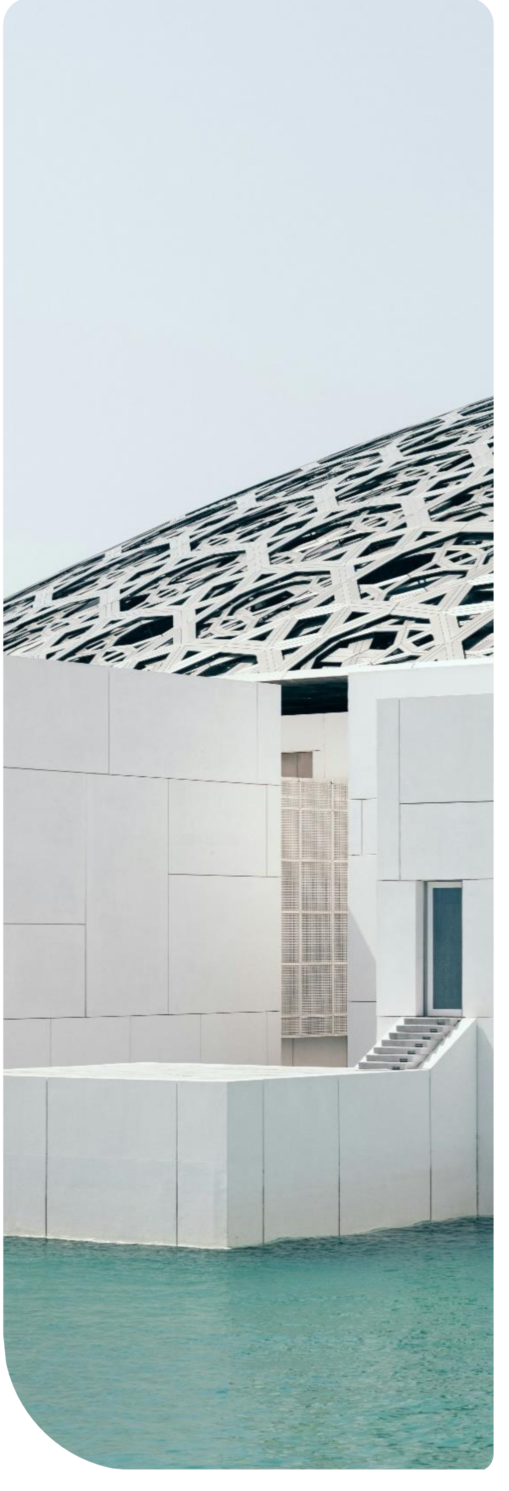
Hence, the aim of the recovery plan regulation in the UAE is not only to address immediate recovery needs but also to lay the groundwork for long-term economic stability. It highlights the commitment to creating a resilient economic ecosystem that can withstand external shocks, promote innovation, and propel the UAE towards sustained prosperity.

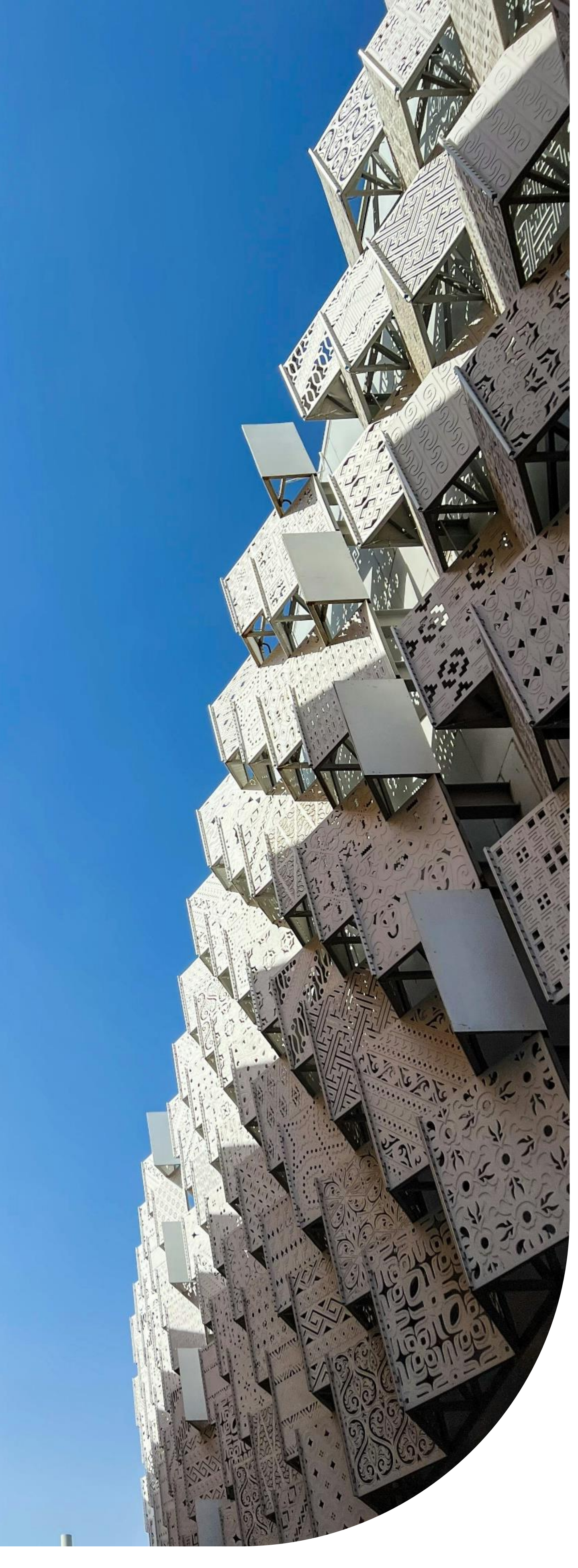
What should UAE Financial Institutions consider when drafting the plan?

Recovery planning can be viewed as an extension of an institution's current processes when managing capital and liquidity under stress. While elements of recovery planning are currently addressed within current mandates such as Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Business Continuity Plans, Risk Management Frameworks among others, the Recovery Plan will need to focus on an additional in-depth analysis of stress scenarios and potential critical situations taking into account the risk appetite, strategy and the business model.

The requirements of the recovery planning regulation also bring forward an opportunity to UAE financial institutions to take a fresh look at related requirements of other CBUAE regulations and standards such as Corporate Governance, Enhanced Data Protection , Major Acquisitions among others.

In addition, the regulation touches upon particular considerations for Islamic Financial Institutions to take into account while applying the recovery plan, such as sale of debt in the banking sector and transferability of assets and liabilities in the insurance sector. This can open an opportunity for Islamic Financial Institutions to test their recently implemented controls around these areas in light of compliance with the relevant mandates by the Higher Shari'ah Authority with respect to debt, asset and liability treatment.





What's next?

Upon successful implementation of Recovery Planning across the UAE financial sector, it is natural to assume that the regulator may introduce measures around resolution planning with specifications related to exit events.

Regulators require clarity of reporting, ensuring orderly resolution or wind down, dependant on the circumstances, and recognise that recovery measures may not be feasible or viable. Thus, CBUAE has ensured that financial institutions have clarity on the expectations of the regulatory reporting framework, by setting out the minimum reporting standards. These standards will provide a level of consistency and manage expectations for institutions, which will also serve as an early warning indicator for resolution measures to be activated.

Financial institutions should consider a number of key areas when setting the recovery and resolution strategies, which include the robustness of the plans, how they are embedded within the risk appetite and defining a trigger framework that strategically aligns with viable options. The institution also needs to consider if they are vulnerable to counterparty failure or indirect exposure from market infrastructures. Critical elements also include the impact on resources, premises, and technology infrastructures, combined with internal service provisions.

How Grant Thornton can help

Our people possess the right level of expertise domestically and internationally and can share appropriate insights to help financial institutions navigate through the process of demonstrating adequate recovery measures to the regulators. This is a result of our deep understanding of UAE banks, insurance companies and other financial institutions along with our international expertise in markets where recovery and resolution regulatory regimes have existed for decades.

Get in touch with our experts

Samer Hijazi
Senior Partner
Head of Financial Services

T +971 2 666 9750
E samer.hijazi@ae.gt.com

George Stoyanov
Senior Partner
Head of Advisory

T +971 4 388 9925
E george.stoyanov@ae.gt.com

Mazin Khalil
Director
Regulatory & Financial
Crime Compliance

T +971 2 666 9750
E mazin.khalil@ae.gt.com

Abu Dhabi

Unit 2, Floor 14
Sila Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

T +971 2 666 9750
F +971 2 666 9816

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691
F +971 6 525 9690

Dubai

The Offices 5
Level 3, Office 303
One Central, DWTC
PO Box 1620
Dubai, UAE

T +971 4 388 9925
F +971 4 388 9915

Grant Thornton

grantthornton.ae