

RRP playbooks

Our seven-step approach and
practical insights

RRP Viewpoint

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RRP playbooks

This Recovery and Resolution Planning (RRP) Viewpoint provides our view and practical insights on RRP playbooks (also referred to as ‘runbooks’) – a concept that is gaining importance as the RRP paradigm shifts more and more from regulatory compliance to ‘usable/executable’ plans. Playbooks will likely become the core of those plans as they are the basis for the most advanced form of testing (also referred to as a ‘dry run’), ultimately to demonstrate that a feasible and executable Recovery and Resolution Plan is in place.

Taking a holistic view by identifying dependencies within as well as across the playbooks allows us to

identify the critical path for recovery and/or resolution, which we consider a key aspect in providing evidence for credible plans.

This Viewpoint outlines that developing RRP playbooks, as such, is not a complex undertaking. However, we recommend you follow a well structured approach that adopts a long-term view of the requirements regarding playbooks to ensure the efforts invested today can be leveraged in the future.

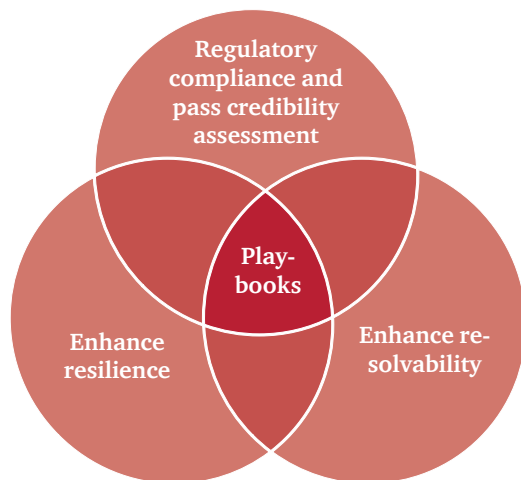
The illustration below provides an overview of our seven-step approach to the development of playbooks and their subsequent testing:

Playbook development and testing process



1 Define playbooks' purposes and priorities

Robust and effective playbooks are one of the major enhancements that turn Recovery and Resolution Plans from a regulatory-driven initiative into **executable plans that can be used to prepare for – and even manage – real crises**. The benefits of playbooks are mainly realised in three areas:



- **Regulatory compliance and pass credibility assessment** – Regulators have started to define their expectations in terms of playbooks (and they are expected to expand them in future). Playbooks are a core element to demonstrate the ability to execute RRP operationally.

- **Enhance resilience** – The intrinsic motivation is to make your Systemically Important Financial Institution (SIFI) more robust in severe crises by analysing and optimising the key processes for recovery.
- **Enhance resolvability** – By this, we mean your personal or political ambition to position the SIFI in the top tier in terms of RRP and to solve an intellectual challenge by analysing and optimising the key processes with regard to resolution.

Practical insights

- ▶ Playbooks are now a regulatory requirement and an industry standard for all SIFIs: they are no longer considered an optional element of an RRP.
- ▶ Playbooks help SIFIs develop useable and executable plans.
- ▶ SIFIs typically develop the first iterations of playbooks after the RRP have been submitted to and discussed with the regulator(s).
- ▶ RRP testing is gaining momentum and playbooks are deemed one of the key actions to prepare for successful RRP testing.



2 Define processes to be covered by playbooks

Playbooks typically cover **processes considered as critical success factors from an RRP perspective**.

Depending on the playbooks' purposes and priorities, different processes might be selected. Examples of playbooks include (but are not limited to):

Overarching topics

- Activation of the RRP
- Governance during recovery and resolution, including governance of entities and conflicts of interest
- Communication (including ad-hoc public announcements)

Financial topics

- Financial close process (deriving the intra-month balance sheet)
- Exposure measurement and management (including hedging)
- Valuation in resolution (including No Creditor Worse Off than in Liquidation [NCWOL] test)
- Recovery options (including [partial] solvent wind-downs; typically one playbook per option)
- Resolution tools (including bail-in and internal Loss Absorbing Capacity [LAC])
- Emergency liquidity (beyond recovery options)

Operational topics

- Employee retention, headcount savings, etc.
- Access rights for buildings, IT applications, clients, etc.
- Continuation of inter-entity service provisioning (including services provided by service companies)
- Continued access to financial market utilities (FMUs), i.e. payment, clearing and settlement activities

Legal topics

- Temporary stay of financial contracts
- Licences and memberships

Practical insights

- ▶ Activities that are not common under BAU are also worth evaluating for documentation in a playbook.
- ▶ Processes covered by playbooks typically reflect key topics discussed with regulators and/or areas in which SIFIs aim to demonstrate the feasibility of a proposed approach (if this has been challenged, for instance).
- ▶ Overlaps in the scoping of playbooks should be avoided.



3 Establish framework and template for playbooks

Consistency and the broad **involvement of functional subject matter experts (SMEs)** have proven to be two key success factors for passing the regulators’ review of playbooks. A centralised RRP team and the use of a structured playbook framework concept helps to address any consistency issues. The involvement of SMEs is key to the successful preparation of testing activities, such as management simulations.

A playbook framework concept is primarily required to ensure the adequate capture of dependencies both within a single playbook as well as between different playbooks. A playbook framework concept should also address the handling of alternative paths and optional steps.

The main dimension of a playbook is the chronological sequence. We believe that best-practice playbooks – including any templates used to derive those playbooks – should cover at least the aspects (A to L) outlined in the illustration below.

Criteria may be defined to indicate when a step should be divided into multiple 'sub-steps'. Examples of such criteria are a change in process ownership, if alternatives exist, a critical milestone or a trigger event and whether the dependencies on a specific step relate to a single element only.

Please refer to the appendix for an illustrative example of a playbook.

Practical insights

- ▶ Capturing dependencies within and between playbooks is a key aspect of the playbook framework concept as it helps interlink the playbooks.
- ▶ SIFIs that are more advanced in using playbooks expand the framework concept to cover the capture of alternative paths and optional steps.
- ▶ Defining a 'master template' before developing a first 'pilot' playbook (and updating the master as the pilot progresses) is an efficient approach, which helps filter key processes along multiple dimensions (e.g. team roles, timeline, etc.).



Illustrative example – Activation of the Group Recovery Plan

ID	Step		Resources		Stakeholder			Dependency		Timing (dd:hh:mm)	
	Keyword	Description	Required	Impediment	Lead	Other active	Passive	From	To	Start	End
P01_001	Crisis event	A crisis event occurs	N/A	N/A	-	-	-	-	P01_002	Tx	Tx + 00:00:00
P01_002	Trigger breach	Early warning indicator triggers	Daily RRP monitoring	N/A	Finance reporting	-	-	P01_001	P01_003	Tx + 00:00:00	Tx + 00:01:00
P01_003	...	...	...	...	...	...	...	...	...	...	...

- A ID** – Define unique ID for each step (e.g. ID of playbook combined with step ID)
- B Keyword** – Use keyword(s) to describe step
- C Description** – Describe performed step with minimal repetition of information provided in other columns
- D Required** – Specify resources (e.g. a specific report or tool) required to perform this step
- E Impediment** – Highlight any barriers/impediments in sourcing the resource required; information can also be combined with the field on required resources
- F Lead** – Specify primary stakeholder in the lead for the step
- G Other active** – Specify additional actively involved stakeholder (if applicable) for the step
- H Passive** – Specify any passively involved stakeholder (e.g. executive board, regulator, etc.)
- I From** – Specify ID(s) to highlight the upstream ('From') dependency on the step
- J To** – Specify ID(s) to highlight the downstream ('To') dependency on the step
- K Start** – Cumulative time required to begin the activity (since playbook inception at Tx)
- L End** – Cumulative time required until end of activity (since playbook inception at Tx)

4 Collect and refine data for playbooks

One of the major success factors in developing credible playbooks is to **consider the RRP context**. Our proposed approach is to take a BAU process as a starting point, where applicable, and to adjust and refine the process for the RRP context. Other playbooks on topics that do not necessarily occur under BAU (such as governance in recovery and resolution, continued access to FMUs, bail-in, etc.) present greater challenges and require a more interactive approach.

For any given playbook, we generally recommend a seven-step approach to collect and refine data:

1. Agree on the BAU process and activities.
2. Add further stakeholders involved in the RRP context (e.g. regulators or restructuring agents).
3. Add other activities required in the RRP context (e.g. approval requests or communication).
4. Omit the activities presumably skipped in the RRP context (e.g. due to time constraints).
5. Evaluate the dependencies on individual steps of the playbook as well as between playbooks.
6. Validate the ownership of each activity taking into consideration the governance aspects in an RRP context.
7. Validate the time required for each activity in an RRP context in order to identify the critical path.



Practical insights

- ▶ BAU-relevant processes are generally well documented, but RRP-specific processes often need to be developed from scratch - maintaining consistent granularity in the documentation is a challenge.
- ▶ Timing is a critical aspect in every playbook: after identifying the critical path, it is crucial to distinguish both the time needed for a task and any additional time needed in the RRP context (taking into account any tasks that can run in parallel).
- ▶ A centralised RRP team that coordinates the development of playbooks and provides initial drafts with input from SMEs is more efficient than a decentralised approach and facilitates the tasks of streamlining and interlinking the playbooks.



5 Develop playbooks

Concise, structured playbooks outline, in a step-by-step plan, the key processes before, during and after a recovery and/or resolution event. A playbook is a practical document for the use of senior management, regulators and/or a restructuring agent or liquidator (if applicable).

Various approaches can be adopted to develop playbooks. Our recommended approach is to develop the playbooks for selected topics (see examples in section 2) with the functions (e.g. Finance, Operations, Legal, HR, etc.) underlying the topics. An alternative approach is to develop the playbooks for the functions with the topics underlying the functions.

We recommend the first of the two approaches outlined above in order to ensure the completeness, standardisation and consistency of the documentation across functions and the efficient identification of dependencies across playbooks.

Playbooks can be highly complex documents and developing them is a time-consuming and **iterative process**. A flexible development process is essential (especially with regard to the granularity of activities and the mapping of dependencies).

Practical insights

- ▶ A modular approach using a common template, which allows you to work with large data volumes, ensures flexibility to expand playbooks.
- ▶ Capturing dependencies and alternative paths or optional steps in playbooks is a challenge.
- ▶ Identifying the critical path should be supported by the tool and the documentation used.
- ▶ Playbook updates should be aligned with updates of the RRP documents.
- ▶ Visualising the playbook in a chart or a graph is an asset, and using appropriate software or a tool both for testing (e.g. simulations) and in a real crisis helps makes the process efficient and effective, thus enhancing the plan's credibility.



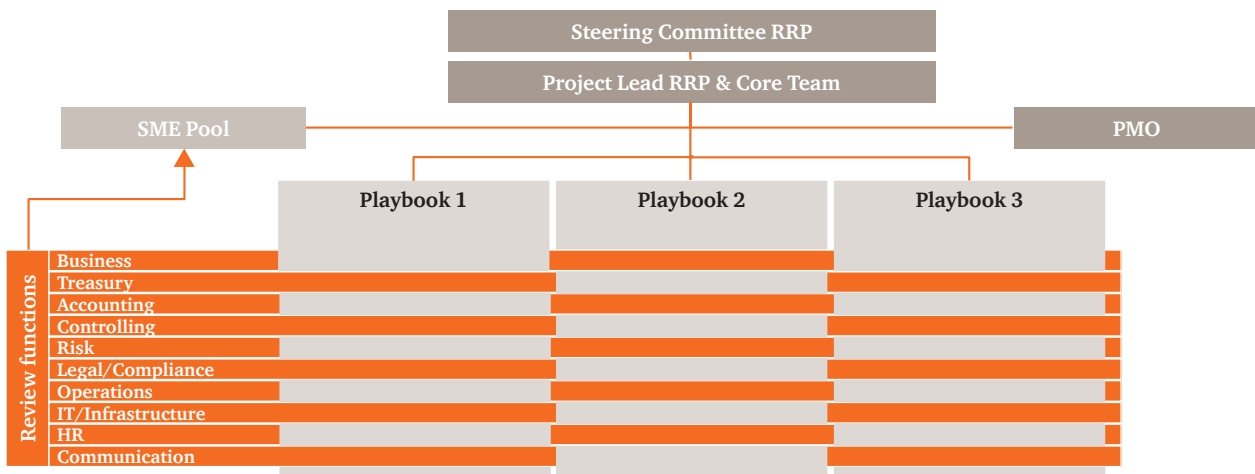
6 Syndicate and review playbooks

While the development of playbooks is ideally driven by a central RRP team, the involvement and buy-in of each function is a further key success factor.

As a rule, **each function affected should review and approve the tasks assigned to it**, including all related aspects (e.g. the completeness of the documented steps, the dependencies and the duration of the tasks). The final sign-off should be provided by the owner of each activity.

Practical insights

- ▶ Defining the playbook's timing has to be performed diligently on the basis of consistent assumptions. While a bottom-up estimate helps, the assumptions about how much time can be compressed in a crisis are key. SMEs' assumptions may vary. We recommend collating and challenging such assumptions with senior management, SMEs and activity owners. To this end, BAU times can be documented as reference values.
- ▶ Setting up an efficient playbook process relies on developers and reviewers having a common understanding of the purposes and priorities of the playbooks.



7 Test playbooks

RRP testing is a multi-year journey that is relevant for the majority of SIFIs, irrespective of whether they are banks, FMUs or insurance companies. We observe an industry trend towards increasing the scope and frequency of RRP testing, along with an increase in exposure to regulators and other external stakeholders (such as FMUs), among others.

In light of the risks arising from the inefficient allocation of resources to the preparation and execution of RRP tests as well as the degree of exposure of the function in charge of the testing (e.g. when running management simulations with the executive board), we believe it is indispensable to have a proper testing concept in place for the near future.

As outlined in our RRP Viewpoint on RRP testing issued in August 2017 (www.pwc.ch/rrp), we recommend a testing concept that includes the following four elements:

- The definition of the RRP testing assumptions.
- The set-up of RRP testing governance.
- The specification of the RRP testing approaches: **desktop review, walkthrough, fire drill and management simulation**, including the description of those RRP testing approaches.
- The overall RRP testing strategy covering the interplay of the individual RRP tests.

The aim of RRP testing is to understand whether the SIFI's RRP solution is feasible and credible. Various RRP testing approaches have been adopted by the industry – all with a consistent focus on processes and playbooks. Depending on the **maturity of the aspects to be tested and the intended benefits**, specific testing approaches are preferable:

- **Desktop review and benchmarking** – Initial stage to enhance playbooks and ensure standardisation and consistency of the documentation of key processes by individual steps, including timing, responsibilities and dependencies.
- **Walkthrough** – Evidence of indications of ex-ante enhancements and their feasibility – useful for informing and engaging SMEs.
- **Fire drill** – Focused and flexible plausibilization of selected steps in a playbook.
- **Management simulation** – Turns the RRP from a more compliance-centric initiative into an operational crisis management tool for senior management and regulators – high effort, but useful for informing and engaging senior management.

Practical insights

- ▶ Playbooks and RRP testing are closely linked because playbooks provide the basis for testing.
- ▶ Investing sufficient time in developing and refining playbooks helps ensure efficient use of the time and optimal test outcomes (especially management simulations).





Outlook and conclusion

Outlook

We believe that RRP playbooks will gain further importance as the paradigm for RRP shifts more and more from regulatory compliance to 'usable/executable' plans. Playbooks are a key component to demonstrate to authorities, regulators and senior management that a feasible and executable RRP is in place.

Building on this thought, the RRP is, in essence, a single overall plan that covers and interlinks all of the key processes (which are the subject matter of the playbooks). The ability to look at this single overall plan at various levels of detail and to articulate the plan from the perspective of a selected role or function ensures a feasible and testable RRP. Existing playbooks should be fully leveraged, as they can form the basis of this 'target state'.

Conclusion

This Viewpoint outlines that developing RRP playbooks is not a complex undertaking in itself. Nevertheless, we recommend a well structured approach that takes a long-term view of what is required from playbooks to ensure the efforts invested today can be leveraged in the future.

We expect the trends described in this Viewpoint to result in the development of IT-based playbook solutions. These IT-based playbook solutions will help SIFIs develop playbooks, run management simulations as part of RRP testing and navigate successfully through real crises.

Practical insights

- ▶ Simple tools (e.g. Excel) can be used to capture or store playbook information. However, running and using playbooks requires new strategic solutions – PwC is already exploring such solutions.



About PwC's RRP Centre of Excellence in Zurich, Switzerland

PwC's RRP Centre of Excellence

The RRP Centre of Excellence is PwC's response to one of the most complex, comprehensive and costly challenges that large institutions have faced since the financial crisis.

PwC's RRP Centre of Excellence is a specialised team based in Zurich, Switzerland. Since 2011, it has provided an interdisciplinary service offering in all areas of RRP, including bank restructuring. The team takes a holistic view to encompass the financial, legal, operational and IT aspects of RRP.

The team operates out of a country that has spearheaded the regulatory developments relating to TBTF since the 2007/2008 financial crisis. Positioned in the centre of Europe and home to banks whose assets are four times the country's gross domestic product, Switzerland is uniquely positioned with regard to RRP.

The team has a global track record of serving global as well as local SIFIs in EMEA, APAC and the US.

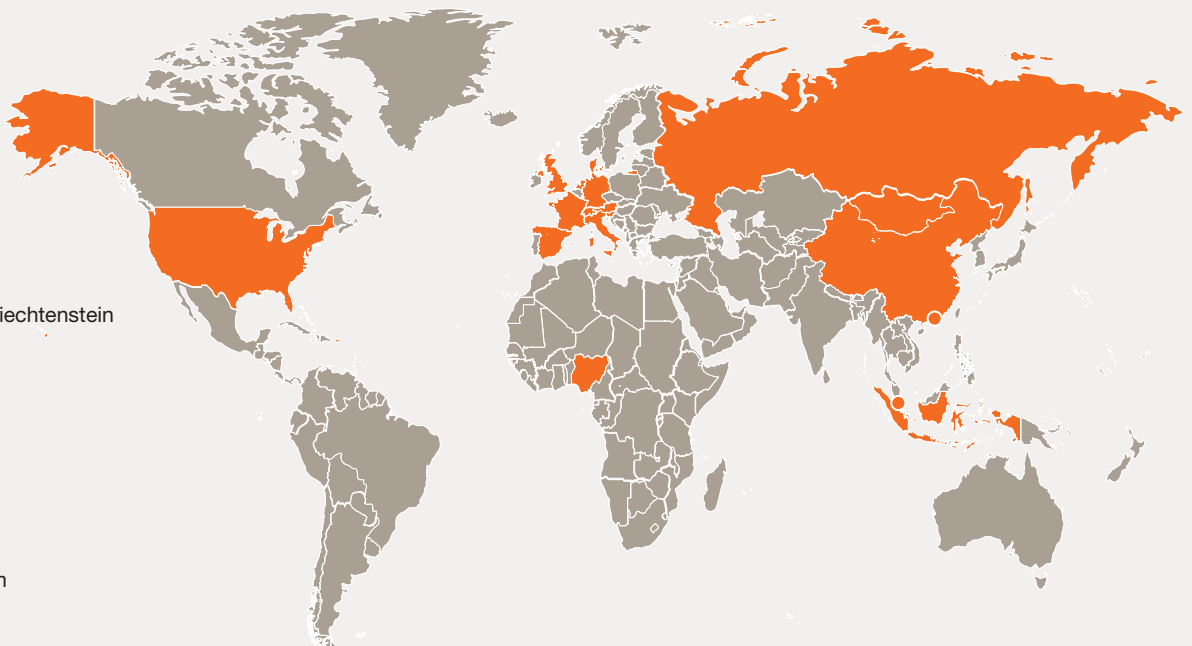
Supporting you in RRP playbooks

While our services encompass the full suite of RRP, the team has specific experience in RRP playbooks and testing. We can support you in areas such as:

- Defining the processes to be covered by playbooks.
- Designing a flexible but robust framework concept for playbooks, which anticipates future testing purposes, including management simulations.
- Developing, reviewing or auditing individual playbooks (including preparatory activities, such as data collection and refinements).
- Developing a testing framework and strategy, which enables the alignment of the RRP testing approach of SIFIs and regulators in the coming years.
- Conceptualising and/or developing software applications to support the development, testing and execution of playbooks (e.g. playbook visualisations highlighting the critical path and alternative process flows, progress along the individual playbook steps and links to further information).

Global footprint of the Zurich RRP Centre of Excellence

- Switzerland
- Austria
- China
- Denmark
- France
- Germany
- Hong Kong
- Indonesia
- Italy
- Principality of Liechtenstein
- Mongolia
- Netherlands
- Nigeria
- Russia
- Singapore
- Slovenia
- Spain
- United Kingdom
- United States



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