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News release

5 June 2018

Jon Cunliffe – "Central clearing and resolution – learning some of the lessons of Lehmans"

In a speech delivered today at the Futures Industry Association's (FIA) annual International Derivatives Expo in London, Jon Cunliffe addresses the progress that has been made in the last few years to reform derivatives' markets, how the concentration of counterparty risk in central counterparties (CCPs) is managed and explains why we need to have a resolution regime for CCPs.

He sets out why resolution for CCPs requires a very different approach to resolution for banks. The event that would require it would be "further into the tail of the probability distribution of bad events" than we require banks to withstand. But, as Jon notes, "the crisis has taught us that we do need to think about such events" and he sets out the objectives for a CCP resolution regime.

He also reflects on the development of the UK's bank resolution regime – the process by which the Bank of England can step in to make sure that a bank that is failing does so in an orderly way – and why the effective and orderly resolution of a large bank is critical to the resilience of CCPs. With much of the policy on bank resolution now finalised, the Bank is increasingly focusing on implementation of the framework to make banks resolvable.

Jon Cunliffe adds that 'for resolution to have maximum efficacy banks not only need to be able to meet the policy standards and have sufficient loss absorbing capacity. They need also to have the capabilities to be ready to implement a resolution.'

The central part of this is how to assess progress on resolvability and Jon Cunliffe announces today that the Bank of England intends to consult later this year on a reporting and assurance framework. Key elements of this were previously introduced in the Bank's response to the Treasury Select Committee's Capital Inquiry and the Bank's revised 'Approach to Resolution' (Purple Book) published in October 2017.

Focusing first on the major systemic UK firms, this is the next step in the natural evolution of the resolution regime in the UK. The framework will build on the significant body of policies and standards already in place. We intend that firms should build on their existing systems and the work they have already done.

Additionally, the Bank envisages requiring major UK banks to conduct a self-assessment of their resolvability – measured against the policies and standards we, both nationally and in international fora, have established. This would make sure that they have and are able to demonstrate the systems, documentation, assurance and controls necessary to support their resolvability.

In line with a commitment to the Treasury Select Committee, the Bank would then publish our assessment of resolvability for the major UK banks, providing greater transparency over the key judgments of the Bank as Resolution Authority. In a similar vein the Bank envisages we may require that elements of firms' self-assessments are made public – this would enable their progress on resolvability to be made more transparent.

It is anticipated that firms would submit the first round of self-assessments from 2020. The timing is intended to allow full consultation on the framework and for the first assessments to reflect changes to firms' structures that are required for EU withdrawal and ring-fencing.

Finally, he highlights that the Independent Evaluation Office have today published a report which reviews the Bank's work so far to put in place the UK resolution framework. It notes the international leadership the Bank has given on resolution policy and that the Bank is leading the way in implementation. A management response has also been published.

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