



BANK OF ENGLAND

July 2019

The Bank of England's approach to assessing resolvability

A Policy Statement



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Introduction

Why we need a resolution framework

1.1 To ensure an efficient, competitive banking system which supports growth, banks¹ should be allowed to fail. And, if they do, the authorities need to be able to let them fail in an orderly way, reducing risks to depositors, the financial system and public finances – a process known as resolution.

1.2 Resolution imposes losses on failed banks' shareholders and investors, not taxpayers. It ensures larger firms' services can continue to operate for a sufficient period, allowing authorities or new management to restructure them or wind them down.

1.3 By ensuring losses will fall on a failed bank's investors, resolution can reduce the risk of bank failures by encouraging more responsible risk-taking. This can limit the impact of bank failures when they do occur, by placing the cost of failure on shareholders and investors, not public finances.

1.4 Managing failing banks effectively is a key element in delivering the Bank of England's mission to maintain financial stability. The financial crisis demonstrated the importance of an effective resolution regime, as disorderly bank failure is disruptive and costly. The Bank committed to Parliament that major UK banks will be resolvable by 2022.²

1.5 The Resolvability Assessment Framework (RAF) builds on the work done since the financial crisis and sets out the next step in implementing the resolution regime: ensuring that firms are, and are able to demonstrate that they are, resolvable. This will require firms to have the capabilities necessary to support their resolution. To this end, it clarifies firms' responsibilities concerning resolution and sets out how the Bank and PRA will increase transparency and accountability.

1.6 The importance of an effective resolution regime is reflected in the Financial Policy Committee's (FPC) judgement on the optimum level of system wide capital for the UK banking system. In its *Supplement to the December 2015 Financial Stability Report: The framework of capital requirements for UK banks*³ the FPC judged that effective arrangements for resolving banks that fail will materially reduce both the probability and costs of financial crises. In 2015 Bank of England analysis, these arrangements were assessed to reduce the appropriate equity requirement for the banking system by about 5% of risk-weighted assets.

The Resolvability Assessment Framework

1.7 The RAF has three main components:

- (i) how the Bank, as resolution authority, will **assess** resolvability, building on work that both firms and the Bank have already done. The Bank's Statement of Policy: *The Bank of England's Approach to Assessing Resolvability (Approach to Assessing Resolvability SoP)*, outlines the **outcomes** it considers necessary to support resolution. These outcomes are supported by existing policies as well as new statements of policy that set out the objectives and principles that firms are expected to meet in order to avoid a determination that they have insufficient capabilities and arrangements

¹ This framework also applies to building societies and certain investment firms but for the sake of simplicity, these are hereafter referred to as 'banks' or 'firms'.

² Bank of England (2017) 'The Bank of England's response to the Treasury Committee's enquiry into capital' available at: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/capital-and-resolution/written/69208.html>.

³ Bank of England (2015) 'Supplement to the December 2015 Financial Stability Report: The framework of capital requirements for UK banks' available at: <https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2015/supplement-december-2015.pdf>.

to remove these identified barriers to resolvability. This will also involve thinking more broadly about what firms can do with reference to a **stylised timeline** for a bail-in resolution to ensure the Bank's execution of a firm's preferred resolution strategy is successful;

- (ii) a new Resolution Assessment Part of the PRA Rulebook¹ which requires certain firms to **perform an assessment** of their preparations for resolution, in which firms should identify any risks to successful resolution and the plans in place to address them, **submit a report** of that assessment, and **publish a summary** of their most recent report (public disclosure). The PRA Supervisory Statement SS4/19 *Resolution assessment and public disclosure by firms*² sets out the PRA's expectations on how firms should comply with the new Part of the PRA Rulebook and sets out the PRA's expectations regarding the importance of senior management **accountability** within firms;³ and
- (iii) the Bank's intention to make a **public statement** concerning the resolvability of each firm in scope of the new Resolution Assessment Part of the PRA Rulebook. In so doing, the Bank would identify any shortcomings where it believes there is more work to do.

1.8 Together, these components are designed to make resolution more transparent, better understood, and more successful. By holding firms accountable to regulators, the public and their investors, the RAF helps to ensure that firms would be able to fail in an orderly fashion without causing excessive disruption to the UK financial system.

Who does the RAF apply to?

1.9 The **Bank Approach to Assessing Resolvability SoP** applies to firms where:⁴

- (i) the Bank, as home resolution authority, has notified them that their preferred resolution strategy is bail-in or partial-transfer; or
- (ii) the Bank has notified them as host resolution authority, that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL.

1.10 The **Resolution Assessment Part of the PRA Rulebook** applies to UK banks and building societies with retail deposits equal to or greater than £50 billion on an individual or consolidated basis, as at the date of their most recent annual accounts.⁵

1.11 This Policy Statement sets out:

- feedback on the main themes raised in consultation responses and provides additional information on the Bank's approach where relevant;⁶

¹ PRA PS15/19 'Resolution assessment and public disclosure by firms' at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

² PRA SS4/19 'Resolution assessment and public disclosure by firms' at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/resolution-assessment-and-public-disclosure-by-firms-ss>.

³ The PRA is consulting a proposal to amend the prescribed responsibility (PR) for recovery plans and resolution packs that forms part of the Senior Managers and Certification Regime (SM&CR) for strengthening individual accountability. PRA Consultation Paper 12/19 'Strengthening individual accountability: Resolution assessments and reporting amendments', June 2019 <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2019/cp1219>.

⁴ Bank of England (2019) 'The Bank of England's approach to assessing resolvability' available at: <https://www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability>.

⁵ PRA PS15/19 'Resolution assessment and public disclosure by firms' at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

⁶ Bank of England (2018) 'Consultation Paper - The Bank of England's approach to assessing resolvability' <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/bank-of-englands-approach-to-assessing-resolvability-cp.pdf?la=en&hash=8B0357C32E2C7D6CF5E6C295BD1F2FA16928CBEF> and PRA Consultation Paper 31/18 'Resolution assessment and public disclosure by firms', December 2018 <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

- The Approach to Assessing Resolvability SoP, setting out how the Bank proposes to assess resolvability, consistent with its statutory obligation to conduct an assessment of resolvability for UK firms and groups;
- how the Bank proposes to increase transparency over the resolvability of individual firms by making a public statement on resolvability;
- an indicative stylised resolution timeline for a bail-in resolution to assist firms in developing the capabilities and arrangements necessary to achieve the resolvability outcomes; and
- four Statements of Policy (SoP) setting out the objectives and principles that firms are expected to meet in order to avoid a determination that they have insufficient capabilities and arrangements to support effective resolution and that these constitute an impediment to resolvability.

Resolvability Outcomes

1.12 The Approach to Assessing Resolvability SoP sets out how the Bank will assess resolvability. It builds on *The Bank of England's approach to resolution* (the Purple Book).¹

1.13 The authorities have to be confident that, if needed, it would be feasible from a practical point of view and credible given the wider circumstances to use their powers to resolve a firm, while protecting public funds, avoiding significant adverse effects on the financial system, and ensuring continuity of banking services or critical functions. In turn, firms need to have the capabilities to carry out their preferred resolution strategy, as set for them by the authorities.

1.14 To be considered resolvable, a firm must, as a minimum, be able to achieve these outcomes:

(i) Have adequate financial resources in the context of resolution:²

Ensure that it has the resolution-ready financial resources available to absorb losses and recapitalise without exposing public funds to loss. This includes resources to meet its financial obligations in resolution. This is necessary to allow the authorities to keep the firm operating as described below. This means that firms must:

- meet the 'minimum requirements for eligible liabilities' (MREL) appropriately distributed across its business;
- be able to support a timely assessment of its capital position and recapitalisation needs; and
- be able to analyse and mobilise liquidity in resolution.

(ii) Be able to continue to do business through resolution and restructuring:

Ensure that the firm's activities can continue while the authorities take charge and begin to restructure the firm in such a way that the business can be reshaped, including any parts of it being sold or wound down (as appropriate). This includes ensuring that the resolution does not result in the firm's financial and operational contracts being materially disrupted or terminated, and that direct or indirect access to services delivered by financial market intermediaries is maintained. This is essential to having a continuing business that can be returned to long-term viability through restructuring. It also means building on recovery planning work so that the operational and support services needed for a viable business can be identified, separated, and reorganised to support restructuring options.

¹ Bank of England (2017) 'The Bank of England's approach to resolution' available at: <https://www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution>.

² Appropriate minimum levels will be determined by the relevant authorities.

(iii) Be able to co-ordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

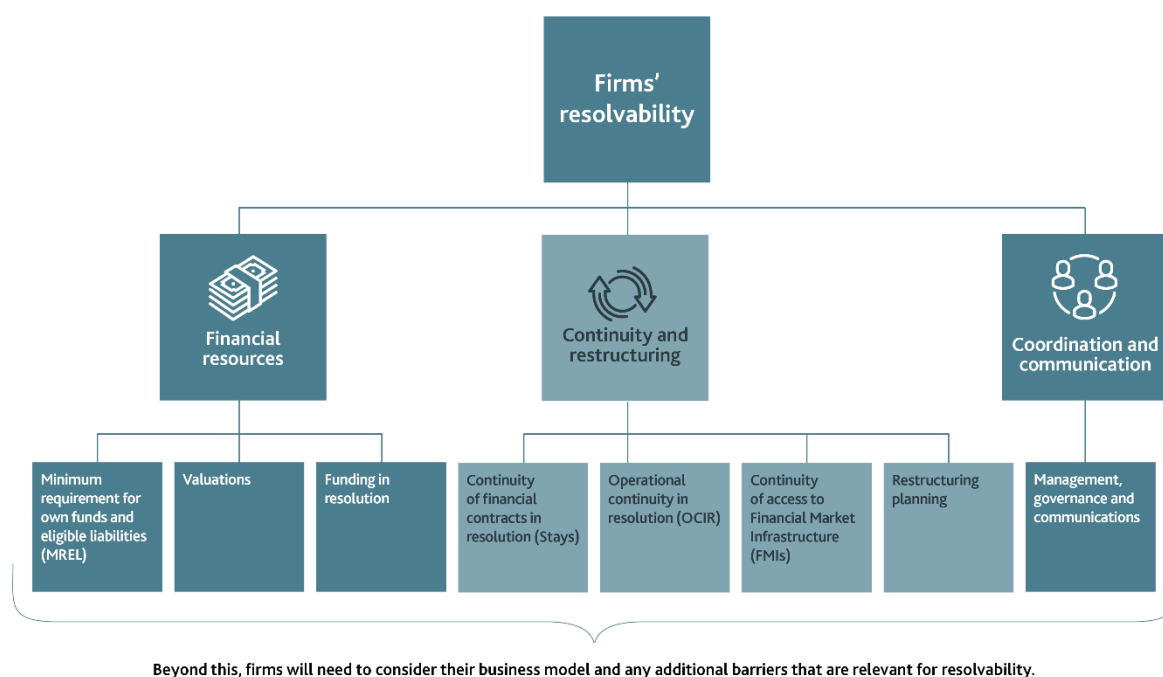
Accountability

1.15 Firms should own their progress towards being resolvable by 2022. Figure 1 explains how firms should think about the capabilities needed to achieve these outcomes. In building their capabilities, firms will need to consider their business model, structure and operations and whether there are additional measures they need to take beyond these capabilities. Firms will need to consider the capabilities they will need to build in business-as-usual and what would be needed on the approach to and during a resolution.

1.16 Resolvability should be a key focus for firms' senior management and governance bodies. The Bank and PRA co-operate to monitor firms' resolvability. If firms do not make satisfactory progress, then the Bank can, amongst other things, use its power to direct institutions to address substantive impediments to resolvability¹ and the PRA may also take action to advance the resolvability of firms.²

Figure 1: Resolvability outcomes

A firm needs to meet the resolvability outcomes, so that it can be resolved



¹ Under Section 3A of the Banking Act. Also see Bank of England (2015) 'The Bank of England's power to direct institutions to address impediments to resolvability' available at: <https://www.bankofengland.co.uk/paper/2015/the-boes-power-to-direct-institutions-to-address-impediments-to-resolvability-sop>.

² Where appropriate, and in support of its general objective to promote safety and soundness the PRA may take action to advance the resolvability of firms. The PRA's Fundamental Rule 8 states that 'a firm must prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services'. The PRA has also made a number of specific rules in relation to resolvability as set out on p. 60, Figure 2 of the Bank CP.

Benefits of transparency

1.17 Firms in scope of the Resolution Assessment Part of the PRA Rulebook will be required to publish a summary of their preparations for resolution and the Bank will make a public statement on the resolvability of these firms. This will provide more transparency to investors and the public on these firms' resolvability.

1.18 The resolvability of a firm is not binary. Whether or not a firm meets the levels of resolvability the Bank expects is a judgement based on many factors. For this reason, the Approach to Assessing Resolvability SoP sets out the outcomes that firms would need to be able to demonstrate to be deemed resolvable.

1.19 Transparency concerning these judgements about the resolvability outcomes should help market participants make more informed investment decisions based on more accurate pricing of the risks they bear in resolution, help ensure continuity of services in resolution for firm's contractual counterparties and ultimately incentivise firms in scope to be resolvable by 2022.

Feedback to responses

2.1 The Bank and PRA received 18 responses to their consultation papers *The Bank of England's Approach to Assessing Resolvability* (the Bank CP)¹ and the PRA Consultation Paper CP31/18 *Resolution assessment and public disclosure by firms* (the PRA CP)² from an academic, banks, building societies, trade bodies, consultancies and other industry participants. This section discusses the key themes from these responses and explains how the Bank has reflected this feedback in the final Statements of Policy.

2.2 Some respondents replied to the Bank and the PRA in a single response, others replied to the Bank and the PRA in separate responses. The Bank has worked with the PRA in considering all responses. Feedback concerning the PRA's proposals made in the PRA's consultation can be found in its Policy Statement PS15/19 *Resolution assessment and public disclosure by firms*.³

Policy objectives

2.3 The proposals in the Bank CP alongside those in the PRA CP, were designed to support the Bank, as resolution authority, making resolution more transparent, better understood and thereby more successful. The proposals were intended to increase the accountability of firms for their resolvability to ensure they develop the capabilities necessary to enable them to fail in an orderly fashion without causing excessive disruption to the UK financial system.

2.4 Respondents highlighted the importance of a credible resolution regime for enhancing the UK's financial stability, and were supportive of the Bank's policy objectives to provide greater transparency and accountability. Respondents recognised the Bank's continued progress to making the resolution regime operable and the clarity of its approach to supporting firms' work on implementation of resolution capabilities.

Outcomes-based approach

2.5 Respondents were supportive of the Bank providing greater clarity and transparency around how it will assess firms' resolvability. Respondents noted that the Bank's outcomes-based approach would enable firms to leverage existing capabilities to meet the resolvability outcomes proposed in the CP and avoid unnecessary compliance costs for firms. An outcomes-based approach also ensures that the Bank can be proportionate in its assessment approach.

2.6 Whilst recognising the benefits of an outcomes-based approach, respondents requested further clarity on certain policy features of the RAF. The Bank has retained this outcomes-based approach and sets out its feedback to the responses to specific points raised in the consultation in the relevant section below.

Resolvability Outcomes

2.7 The Bank's CP set out that to be considered resolvable a firm must, as a minimum, be able to achieve these outcomes:

1 Bank of England (2018) 'Consultation Paper - The Bank of England's approach to assessing resolvability' <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/bank-of-englands-approach-to-assessing-resolvability-cp.pdf?la=en&hash=8B0357C32E2C7D6CF5E6C295BD1F2FA16928CBEF>.

2 PRA Consultation Paper 31/18 'Resolution assessment and public disclosure by firms', December 2018 <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

3 PRA PS15/19 'Resolution assessment and public disclosure by firms' at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

(i) Have adequate financial resources in the context of resolution:¹

Ensure that it has the resolution-ready financial resources available to absorb losses and recapitalise without exposing public funds to loss. This includes resources to meet its financial obligations in resolution. This is necessary to allow the authorities to keep the firm operating as described below. This means that firms must:

- meet the 'minimum requirements for eligible liabilities' (MREL) appropriately distributed across its business;
- be able to support a timely assessment of its capital position and recapitalisation needs; and
- be able to analyse and mobilise liquidity in resolution.

(ii) Be able to continue to do business through resolution and restructuring:

Ensure that the firm's activities can continue while the authorities take charge and begin to restructure the firm in such a way that the business can be reshaped, including any parts of it being sold or wound down (as appropriate). This includes ensuring that the resolution does not result in the firm's financial and operational contracts being materially disrupted or terminated, and that direct or indirect access to services delivered by financial market intermediaries is maintained. This is essential to having a continuing business that can be returned to long-term viability through restructuring. It also means building on recovery planning work so that the operational and support services needed for a viable business can be identified, separated, and reorganised to support restructuring options.

(iii) Be able to co-ordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

2.8 Respondents were supportive of the Bank's description of resolvability above. Respondents agreed with the approach in the Bank CP that firms should consider their specific business model and whether there are any additional barriers that are relevant for their resolvability. The Bank notes that firms should not consider the list of identified generic barriers an exhaustive 'check-list' that would necessarily result in a firm being considered resolvable if met.

2.9 One respondent challenged the Bank's approach, stating that the Bank CP would have been more usefully framed had the Bank articulated areas where firms' existing capabilities do not deliver the resolvability outcomes. A central principle of the Bank's approach is that firms should take ownership of their progress towards being resolvable by 2022. Accordingly, the Bank has retained its approach of describing outcomes and principles that will inform the Bank's assessment of firms' resolvability and which should be used by firms to assess resolvability in the context of their business models.

Removing barriers to resolvability

2.10 In the CP, the Bank identified eight generic barriers to resolvability. These are consistent with the barriers identified by the Financial Stability Board (FSB).² The CP explained how existing Bank and PRA policy and guidance relating to four of the barriers interacted with the RAF and proposed a draft Statement of Policy in relation to removing four further barriers to resolvability.

2.11 Most respondents supported the Bank's identification of the eight generic barriers to resolvability, noting that any further such barriers were likely to be firm-specific and would also be captured under

¹ Appropriate minimum levels will be determined by the relevant authorities.

² FSB (2018) 'Resolution Report: "Keeping the pressure up" 'Removing Remaining Obstacles to Resolvability' available at: <https://www.fsb.org/wp-content/uploads/P151118-1.pdf> The Bank uses the term 'barriers' as a more common usage term for 'impediments'.

the Bank's proposed approach to assessing resolvability. One respondent proposed a 'ninth' generic barrier to resolvability for international firms concerning legal risk from a firm's activities in non-UK jurisdictions and conflicts that might arise due to the absence of practical international co-operation.

2.12 The Bank acknowledges that understanding the interaction between different jurisdictions' statutory and regulatory requirements is necessary in order to assess firms' resolvability. This will be a factor that needs to be considered when assessing the removal of each generic barrier to resolvability, rather than treated as a separate barrier in isolation. In some cases an understanding of where different rules apply and how they interact will be necessary to assess whether a particular barrier has been removed or mitigated to the extent possible by the firm.

2.13 Respondents noted that firms have already undertaken significant work to remove barriers to resolvability, particularly in areas where UK policy is relatively mature, such as MREL and continuity of financial contracts in resolution (stays). Respondents were supportive of the Bank providing greater clarity and transparency on how it will assess firms' resolvability.

Scope

2.14 The Bank is responsible for taking action to manage the failure of UK banks, UK building societies and certain UK investment firms.¹ The Bank set out that the proposals in the CP would apply to firms where:

- (i) the Bank, as resolution authority, has notified them that their preferred resolution strategy is bail-in or partial-transfer, i.e. that the Bank would expect the strategy to involve the use of its stabilisation powers; or
- (ii) in its capacity as host resolution authority, the Bank has notified them that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK.²

2.15 Respondents supported the scope of firms set out in the CP, both where the Bank is acting as home resolution authority and host resolution authority. The Bank has retained the same scope of firms in the final policy. While supportive of the proposed scope, respondents asked for further clarification on how the Bank would apply the proposals in the CP to different types of firms. Further detail on the Bank's approach to this, and feedback on consultation responses, is set out below for branches and in the following sub-section on application to different types of firms in scope.

2.16 Respondents requested that the Bank clarify whether the UK branches of overseas-based banking groups operating in the UK would be within scope of the proposals set out in the CP. Branches of overseas-based banking groups are not within scope of the Bank's power to direct institutions to address impediments to resolvability under section 3A of the Banking Act 2009 (Banking Act). As such, these branches are not within scope of the Approach to Assessing Resolvability SoP.

2.17 The Bank considers its approach to assessing resolvability, as set out in the Approach to Assessing Resolvability SoP, will nonetheless be of interest to these overseas-based banking groups and their home authorities. The Bank works with home authorities to ensure that these overseas-based banking groups are resolvable and will continue to engage with the relevant authorities to help deliver broadly comparable resolvability outcomes to those set out in the Approach to Assessing Resolvability. This

¹ UK-incorporated banks, UK-incorporated building societies and certain UK-incorporated investment firms that are authorised by the PRA or the Financial Conduct Authority (FCA). Investment firms subject to the United Kingdom's resolution regime are those that deal as principal, hold client assets and are subject to a minimum capital requirement of €730,000. The regime also applies to financial holding companies (or mixed financial holding companies) that are incorporated in the United Kingdom, and certain other UK group companies.

² Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

approach is consistent with the PRA's approach to international branch authorisation and supervision as set out in SS1/18.¹

Application to different types of firms in scope

2.18 Respondents requested greater clarity on how the proposals set out in the CP would apply to the following types of firm. The Bank has set out below feedback to the issues raised in consultation and highlighted any areas where it has made amendments to its approach.

Firms with greater than £50 billion in retail deposits where the Bank is home authority

2.19 As set out in the CP, the Bank's primary consideration for the RAF is firms whose individual failure could have the most adverse effects on the stability of the UK financial system. These firms have been identified as those with retail deposits equal to or greater than £50 billion on an individual or consolidated basis as at the date of their most recent annual accounts. The Bank considers this is a proportionate approach and it is consistent with other policy, for example the PRA leverage ratio framework.² Hence, to ensure a proportionate approach, the proposed rules in the accompanying PRA CP did not require other firms within scope of the Bank's stabilisation powers to complete assessments or submit reports to the PRA who do not meet the £50 billion retail deposit threshold.

2.20 Respondents supported the Bank's and PRA's approaches and agreed that £50 billion in retail deposits is an appropriate threshold. The Bank and PRA have therefore retained the approaches set out in their respective consultation papers.

Firms with fewer than £50bn in retail deposits where the Bank is home authority

2.21 Several respondents requested further detail on how the Bank will ensure its approach to assessing resolvability will be proportionate for firms with a bail-in or partial-transfer preferred resolution strategy below the £50 billion retail deposits threshold.

2.22 The Bank believes that all firms need to take responsibility for their resolvability, and responses to the consultation confirmed that. The Bank does however want to better understand the concerns expressed by firms in this category and how the firms can best be supported through the process. We will therefore engage further with these firms to ensure the approach is appropriately tailored to their needs and capacity.

2.23 The Bank considers that the outcomes-based approach within the RAF is designed to provide sufficient flexibility to allow firms to deliver the resolvability outcomes in a way that is commensurate to their business model. This is because the depth and type of capabilities necessary to remove barriers to resolvability will depend on the firm's size and the nature of its business model. Simpler firms will need to develop correspondingly simpler capabilities. Examples of how this applies include:

- MREL: Requirements are set as a proportion of risk-weighted assets or leverage exposure, and are generally lower for firms that are not G-SIBs³ or D-SIBs¹ up to 2022. In addition, reporting

¹ PRA (2018) 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision' PRA Supervisory Statement SS1/18 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss>. The PRA's general approach to branch authorisation and supervision, which applies to all branches, is anchored by an assessment of a range of factors including [...] the extent to which the PRA, in consultation with the Bank of England (the Bank) acting in its capacity as the UK resolution authority, has appropriate assurance over the resolution arrangements for the firm and its UK operations.

² PRA (2018) 'UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer' PRA Supervisory Statement SS45/15 UPDATE available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss>.

³ Global systemically important banks (G-SIBs) as identified by the Financial Stability Board in consultation with the Basel Committee on Banking Supervision and national authorities.

requirements are less onerous for smaller firms due to their simpler issuance structures.

- Valuations: Firms with less complex business models will require fewer and simpler valuation capabilities. The Bank's SoP on valuations capabilities to support resolution (Valuations SoP)² also specifies that smaller, simpler firms may not need to have resolution valuation models in place in business-as-usual.
- Stays: Smaller, less complex firms are likely to have fewer financial contracts at risk of early termination. The associated capabilities needed to manage this risk are therefore likely to be less burdensome.
- OCIR: Relatively simple service delivery models will make mapping of critical functions less complex. Fewer contractual relationships with critical service providers will make meeting expectations of contractual service provisions (as set out in SS9/16)³ less onerous.
- Funding in Resolution: A smaller, less diverse balance sheet and funding profile will be reflected in the complexity of a firm's capabilities.
- Continuity of Access to FMIs: Fewer, less diverse FMI relationships will make mapping those relationships and the development of contingency plans less complex.
- Restructuring Planning: Smaller, less complex firms will naturally have a smaller and simpler set of post-stabilisation restructuring options. In addition to this inherent proportionality, the Restructuring Planning SoP⁴ only applies to firms that have a preferred resolution strategy of bail-in and material subsidiaries of overseas-based banking groups.
- Management, Governance and Communication: Simpler firms are likely to have fewer key job roles and a less complicated board structure, reducing the complexity of the capabilities required.

2.24 The outcomes-based approach allows the Bank to assess firms' resolvability without imposing disproportionate burden upon firms. The Bank therefore considers the approach it set out in the CP supports implementing and assessing resolvability in a proportionate way and has retained this approach.

2.25 A small number of respondents asked the Bank to provide further detail on how specific capabilities should apply to firms with a partial-transfer preferred resolution strategy. One respondent noted that this may be best achieved through separate, published guidance on firms.

2.26 Although particular capabilities may not be applicable to partial-transfer firms, the Bank considers that firms are best placed to judge which capabilities may not be necessary in the context of their own business model. This is in line with the Bank's general approach that firms should take ownership of, and be accountable for, their resolvability. As stated above, the Bank will engage with firms to provide guidance on how the RAF applies to them, including in the context of their particular preferred resolution strategy.

¹ Domestic systemically important banks (D-SIBs) are those institutions that are subject to the PRA leverage ratio requirement (ie with retail deposits over £50 billion) and/or any institutions that are designated as an O-SII (other systemically important institution) by the PRA pursuant to article 131(3) of the Capital Requirements Directive (2013/36/EU), and which have a resolution entity in the United Kingdom.

² Bank of England (2018) 'The Bank of England's policy on valuation capabilities to support resolvability': available at <https://www.bankofengland.co.uk/paper/2018/the-boes-policy-on-valuation-capabilities-to-support-resolvability>.

³ Bank of England (2016) 'Ensuring operational continuity in resolution' PRA Supervisory Statement SS9/16 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/ensuring-operational-continuity-in-resolution-ss>.

⁴ Bank of England (2019) 'The Bank of England's statement of policy on restructuring planning': available at <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-restructuring-planning-sop.pdf>.

Changes to a firm's preferred resolution strategy

2.27 The Bank, in consultation with FCA and PRA and relevant international authorities determines the preferred resolution strategy of a firm. The Bank's general approach and indicative thresholds are set out in the Purple Book and the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL SoP).¹ Changes to a firm's preferred resolution strategy may occur in particular as a result of a firm's growth or due to changes in a firm's legal or organisational structure, business or financial position. Should a firm's preferred resolution strategy change (or be expected to change) from that previously communicated to the firm, the Bank will support the firm in understanding the additional capabilities the firm may need to develop as a result in order to support the successful execution of its new strategy.

2.28 Further, the Bank has recognised the need to give firms time to adapt and create appropriate capabilities after they come into scope of the Approach to Assessing Resolvability SoP and the relevant SoPs removing impediments to resolvability.² A firm could come into scope of these SoPs due to a change in their preferred resolution strategy or because they become 'material' for the purposes of setting internal MREL. As set out in the 'timeline for compliance' section of each SoP, the Bank may set a firm-specific compliance date that the Bank expects to be at least 18 months. This is consistent with the transitional provisions under the Valuations SoP where the Bank also expects to allow at least 18 months,³ and similar to the firm-specific transitional provisions under the Bank's MREL SoP where the Bank expects to allow at least 36 months for a material change in external MREL.⁴

Hosted subsidiaries

2.29 Whilst respondents supported the proposed scope set out in the CP, some requested greater clarity on how the Bank will assess the resolvability of hosted subsidiaries. The Bank would not plan on expecting to use its stabilisation powers unilaterally for these firms, and would instead expect to support resolution action taken by the home authority. The Bank's assessment of such firms' resolvability takes into account the capabilities of both the firm and its resolution group.⁵ In particular this assessment will focus on the extent to which the capabilities would enable a home-led resolution consistent with the resolvability outcomes and having regard to the risks that these firms would present to our resolution objectives in the UK.

2.30 The Bank will therefore look in the first instance to engage with international counterparts bilaterally and in relevant fora such as Crisis Management Groups. The Bank will engage with the relevant authorities to help ensure these firms are able to deliver capabilities which can support broadly comparable resolvability outcomes. In this context, the Bank considers that in many cases hosted subsidiaries may be able to rely on group-wide capabilities to achieve these outcomes.

2.31 Where the Bank assesses there are gaps between the resolution group's capabilities and the resolvability outcomes, the Bank will work with the relevant authorities and the firm to ensure capabilities are delivered at the appropriate level within the resolution group. By taking this approach,

¹ Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

² Bank of England (2019) 'The Bank of England's statement of policy on restructuring planning': available at <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-restructuring-planning-sop.pdf>, Bank of England (2019) 'The Bank of England's statement of policy on continuity of access to FMIs' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-continuity-of-access-to-fmis-sop.pdf>, Bank of England (2019) 'The Bank of England's statement of policy on funding in resolution' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf>, Bank of England (2019) 'The Bank of England's statement of policy on management, governance and communication' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-management-governance-and-communication-sop.pdf>.

³ Please refer to the 'timeframe for compliance' section of Bank of England (2018) 'The Bank of England's policy on valuation capabilities to support resolvability': available at <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/the-bank-of-englands-policy-on-valuation-capabilities-to-support-resolvability.pdf?la=en&hash=AC3DE6BDCAC29EF04F634757E95D9E4263F757B5>.

⁴ Please refer to the 'transitional arrangements' section of Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

⁵ Each resolution entity, together with its subsidiaries that are not themselves resolution entities, form a 'resolution group'.

the Bank anticipates that these firms will be able to meet the resolvability outcomes in a proportionate way that avoids unnecessary duplication. This is also consistent with the Bank's current approach.

Firms with a Multiple Point of Entry (MPE) bail-in preferred resolution strategy

2.32 Respondents were supportive of the approach set out in the CP with respect to firms with an MPE bail-in strategy. The Bank has retained its approach.

2.33 A respondent asked the Bank to clarify how the proposals in the CP would apply to entities outside of the UK resolution group for an MPE firm where the Bank is host resolution authority. In line with the approach in the CP, the Bank will assess the UK resolution group of an MPE firm where the Bank is host resolution authority against all the outcomes and capabilities set out in the Approach to Assessing Resolvability SoP in the same way it would a domestic firm. The resolvability outcomes do not apply to entities outside of the UK resolution group for an MPE firm where the Bank is host resolution authority, nor will the Bank assess the implementation, or effectiveness of, policies set by the relevant home or other host jurisdictions to support the exercise of their own resolution powers in its public statement.

Assurance

2.34 The Bank considers a key benefit of its Approach to Assessing Resolvability SoP is that it will provide greater assurance as to the resolvability of firms. The CP set out the Bank's approach to assessing the effectiveness of assurance conducted by firms as well as its own planned approach to assurance.

Assurance by firms

2.35 The Bank CP proposed that, in the first instance, firms should assure themselves that they have the necessary measures in place to support resolvability. The Bank has retained its general approach to assessing the effectiveness of firms' assurance, namely that it should be firms' responsibility in the first instance. Firms within the scope of the Resolution Assessment Part of the PRA rulebook will need to meet the PRA's expectations that they have fully embedded the process of the resolution assessment and the preparation and approval of their reports into their governance framework. The PRA is consulting on incorporating the responsibility for carrying out resolution assessments and related obligations into the existing prescribed responsibilities under the Senior Manager and Certification Regime.¹

2.36 Respondents requested greater clarity from the Bank on its expectations with regards to the role of audit functions and third parties in firms' assurance processes. Consistent with the approach set out in the CP, the Bank considers the level of audit function and third party involvement should be a matter for firms' management. The Bank will consider the extent to which firms' assurance has involved a suitably rigorous method and an appropriate level of expertise, independence and senior management engagement.

2.37 The Bank anticipates that firms will be able to leverage existing processes to deliver the resolvability outcomes and expects this also to be the case with respect to how the firms perform assurance. Where firms have leveraged an existing assurance process, they should clearly set out how this supports meeting the resolvability outcomes. The approach set out by the Bank therefore supports firms conducting assurance in an efficient way that seeks to minimise unnecessary costs, duplication and undue burden on firms.

¹ PRA Consultation Paper 12/19 'Strengthening individual accountability: Resolution assessments and reporting amendments', June 2019 <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2019/cp1219>.

Assurance by the Bank

2.38 The Bank set out in the CP how it would consider firms' reports produced according to the Resolution Assessment Part of the PRA Rulebook, including by asking firms for evidence to support firms' reports of their assessments. Respondents asked for further clarity from the Bank on how it would approach conducting its own assurance and to which firms this would apply.

2.39 The Bank and the PRA have statutory powers to make information requests.¹ While only a subset of firms within scope are required to submit reports to the PRA, the Bank and PRA may exercise these powers in respect of all firms. This has been clarified in the SoP. In addition, the Bank and the PRA have the ability to appoint third parties to conduct assurance for both resolution and supervisory purposes.²

2.40 Several respondents requested greater clarity on how the Bank will ensure that its assurance will not place undue burden on firms. The Bank confirms that it intends to be proportionate in its approach to assurance. The Bank anticipates that how it conducts assurance will depend on the particular circumstances of a firm, including its size and business model among other factors. The Bank has therefore retained the flexible approach set out in the CP. The Bank has provided some further clarification on testing and assurance relating to particular barriers to resolvability and encourages firms take this into consideration.

2.41 To support a proportionate approach to its own assurance for firms in scope of the Resolution Assessment Part of the PRA Rulebook, the Bank reiterates that it will not generally ask firms for evidence of all parts of each barrier in every cycle of the RAF. For those firms not in scope of the Resolution Assessment Part of the PRA Rulebook, the Bank anticipates that requests for evidence will be in proportion to the firm's size and the nature of its business model as this will correspond to the depth and type of capabilities required to remove barriers to resolvability.

2.42 Respondents requested that the Bank consider relying upon firms' existing processes for testing in order to conduct its assurance. The Bank considers that existing assurance processes can be used to demonstrate resolvability and that this could help ensure that resolvability is embedded in firms' business-as-usual processes. However, the onus is upon firms to demonstrate how existing processes achieve the specific resolvability outcomes. Where new capabilities have been developed, more detailed assurance processes may need to be considered.

2.43 Respondents suggested that the Bank should recognise that in an actual resolution all of a firms' resources would be mobilised, whereas this would not be the case for testing. The Bank considers that the ability to test a capability is an inherent design consideration. Documentation of testing should therefore make clear any assumptions firms are making in this regard. Two respondents, whilst supporting the need for live testing to demonstrate certain capabilities, asked that the Bank be mindful of the practical impacts of this type of testing.

The Bank's public statements concerning resolvability

2.44 The Bank proposed in the CP to make a public statement concerning the resolvability of those firms proposed to be in scope of the Resolution Assessment Part of the PRA Rulebook. This was intended to provide further transparency as to individual firms' progress towards resolvability and foster greater understanding of the resolution regime. The Bank also set out the proposed nature of the Bank's public statement as well as some considerations with respect to the sequencing of firms' and the Bank's publications. Respondents were supportive in principle of the Bank's objectives to enhance firms' accountability for progress on resolvability and transparency as to the resolution regime more widely. This section addresses feedback to responses specifically on the Bank's public statement. For

¹ Bank of England (2015) 'Resolution Planning: MREL reporting' PS11/18 available at <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-planning-mrel-reporting>.

² Section 83ZB Banking Act 2009 and section 166 Financial Services and Markets Act 2000.

further information on responses to firm disclosures, please see the PRA's Policy Statement PS15/19 *Resolution assessment and public disclosure by firms*.¹

2.45 In the CP the Bank set out the reasons why a single 'pass' or 'fail' judgement on each firms' resolvability would not be appropriate. Respondents agreed with the Bank, noting avoiding a binary approach should reduce the likelihood that market participants misinterpret the Bank's public statement or firms' disclosure. The Bank therefore intends to maintain this approach.

2.46 The Bank set out in the CP how it envisaged its public statement would differ in the first RAF cycle from the second and subsequent RAF cycles. The Bank outlined that:

- The Bank expects that its first public statement, following firms' completion of their first assessment in 2020, will focus on assessing the progress firms have made and their plans for becoming fully resolvable by 2022.
- In its second public statement, following firms' reports in 2022, the Bank expects to assess firms' progress against their plans, whether that progress is sufficient to achieve the resolvability outcomes, and, if not, what further work remains.
- In subsequent years (from 2024 onwards), the Bank expects that the focus of its public statements will shift. It expects to assess how far firms maintain their resolvability as their business models evolve and their progress in addressing any further issues that they or the Bank have identified.

2.47 Several respondents challenged the benefit of the Bank making public statements on individual firms before 2022 when firms are required to meet the resolvability outcomes. Some respondents suggested that an industry wide statement would be more appropriate to mitigate the risk that the Bank's public statement could be misinterpreted.

2.48 The Bank notes the concerns raised by firms that its public statements should be made in a way that supports greater transparency over firms' progress on resolvability whilst avoiding misinterpretation. The Bank remains of the view that increasing transparency of firms' progress on resolvability is best served by making firm-specific public statements in the first cycle.

2.49 The Bank acknowledges that first-cycle disclosures will be made ahead of the compliance deadlines of 1 January 2022. To reflect these considerations, the final SoP sets out that the Banks' public statements made in 2021 will include a separate section to differentiate between these SoPs and those areas where a firm's capabilities, resources, and arrangements should be more developed.

2.50 Several respondents noted that when making its public disclosure, the Bank should be careful not to disclose price sensitive or proprietary information. The Bank confirms it will give due consideration to these issues when making its public statements. Respondents were supportive of the Bank's proposal to publish its public statement at the same time as, or as soon as possible after, the relevant firm's disclosure. The Bank and PRA intend to engage further with firms on the sequencing and logistics of the Bank's and firms' disclosures ahead of the first RAF cycle.

Impact Assessment

2.51 The Bank set out its preliminary assessment of the costs and benefits of the proposed policy contained within the CP. The Bank's initial assessment of the net benefit of its proposals found that, whilst difficult to quantify compliance costs, the incremental costs to firms of developing their

¹ PRA PS15/19 'Resolution assessment and public disclosure by firms' at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

capabilities are likely to be small relative to the wider long run benefits to resolvability, given the scale of the latter (estimated to be between 0.3% and 0.9% of annual GDP to the UK economy).¹

Expected costs

2.52 Some respondents highlighted it was difficult for them to provide specific and quantitative estimates of the cost of implementing the Bank's proposals ahead of policy finalisation. Several respondents provided qualitative examples where they thought costs would likely arise, noting that in some cases these would not be insignificant. Respondents generally felt that costs would mostly be incurred in areas where the Bank is setting out new policy on barriers to resolvability or where firms have limited capacity to leverage their existing capabilities.

2.53 Whilst noting the additional costs firms will incur to achieve the resolvability outcomes, respondents also acknowledged that, in line with the Bank's expectations, firms should be able to leverage existing capabilities to a significant extent. This, along with the Bank's proportionate approach to implementation and assurance, suggests that the Bank's initial assessment of costs being 'incremental' is not significantly out of line with respondents' views. However, as recognised by both the Bank and respondents, it is difficult to quantify precisely the costs of meeting the resolvability outcomes until firms have scoped out required work in light of the final policies.

Expected benefits

2.54 The Bank proposed two key benefits to the proposals set out in the CP. First, the policy helps to reduce the costs and risks to the wider economy of resolving a failed institution and minimise any disruption to the functions it provides. Secondly, the proposals help to make resolution credible without reliance on public capital support.

2.55 Whilst respondents supported the Bank's articulation of the benefits the proposals set out in the CP, one respondent challenged using the Brooke et al. (2015) analysis as a quantitative benchmark. The respondent noted that the CP proposals built on pre-existing work on resolvability the Bank and firms have already undertaken (for example, in relation to MREL and OCIR) so the benefits should instead be captured by an 'incremental' not gross benefit analysis.

2.56 Whilst the Bank recognises that the estimation based on the approach set out in Brooke et al. (2015) does represent a gross benefit, even if the proposals in the CP delivered only a relatively marginal improvement in firms' resolvability, this would still significantly outweigh the expected costs. In relation to whether there would be any firm-specific commercial benefits as a result of the Bank's proposals, respondents on the whole felt these would be limited.

2.57 On balance, the responses to the CP did not provide any substantial evidence that would materially change the Bank's initial assessment or likely cause the Bank to revise its assessment at a later date. The Bank does however acknowledge it is likely to be difficult for both itself and firms to accurately estimate the costs for firms at this stage. The Bank may survey firms on the costs of delivering the resolvability outcomes at a later stage once firms are in a better position to provide more quantitative analysis.

¹ Brooke et al. (2015) 'Measuring the macroeconomic costs and benefits of higher UK bank capital requirements', available at: http://www.bankofengland.co.uk/financialstability/Pages/fpc/fspapers/fs_paper35.aspx.

Outcome: financial resources

The minimum requirement for own funds and eligible liabilities (MREL)

2.58 Respondents supported the general approach set out in the CP and the principles outlined to supplement the Bank and PRA's existing policies relating to MREL. The feedback below provides further clarity on specific areas raised in the consultation and highlights where minor amendments to the wording of the final policy have been made.

2.59 The principles set out in the CP provided further detail on the capabilities the Bank proposed firms should have to demonstrate that their MREL resources are sufficient and would be available in resolution. Two respondents requested greater clarity as to whether firms would be expected to develop specific capabilities in addition to their existing capital management systems. Consistent with the approach taken more widely in the CP, the Bank envisages that firms should be able to leverage existing capabilities to demonstrate they have taken action to support resolvability, according to the principles set out in the final policy. When describing how they have met those, firms should clearly articulate where they have leveraged existing capabilities to do so. Firms will be responsible for assessing whether existing processes and systems are sufficient and appropriate to meet the principles described or whether any additional action is needed.

Loss-absorbing resources and monitoring

2.60 The CP proposed that firms need to have arrangements and systems in place to monitor their MREL position appropriately, including to allow them to comply with their obligations as set out in SS19/13. These proposals were set out under 'Principle 1: Loss-absorbing resources and monitoring'. As noted above, respondents felt that their existing capabilities would largely be sufficient to meet the principles in the CP.

2.61 Several respondents sought greater clarity on the Bank's approach to monitoring surplus MREL and how the proposals set out in the CP related to this. The Approach to Assessing Resolvability SoP does not amend or replace the MREL SoP and retains the cross-reference to paragraph 6.4 of the MREL SoP. This articulates that the Bank expects that surplus MREL should be readily available to recapitalise any direct or indirect subsidiary, as necessary to support the execution of the resolution strategy and there should be no legal or operational barriers to this.

2.62 As highlighted in the CP, the Bank is still developing its policy on surplus MREL but will, in time, expect firms to have the capabilities to monitor the surplus resources that can be made readily available.

2.63 Whilst not explicitly referred to in the CP, several respondents argued that the primary responsibility for the implementation of loss-absorbing capacity requirements applying to a firm's overseas subsidiaries rests with the overseas subsidiary. The Bank, however, is of the view that the compliance of a firm's subsidiaries with requirements in their respective jurisdictions affects their group's resolvability and that the responsibility for the resolvability of the entire firm rests at the group level.

Documentation and internal policies

2.64 The Bank set out in 'Principle 5: Documentation and internal policies' of the CP that firms should maintain documentation that is relevant to a firm's MREL position in a way that could be made easily available to the Bank, when requested.

2.65 The CP set out instances where firms' might have received independent legal advice in relation to the eligibility of instruments for MREL purposes. Some respondents noted that the instances listed in

the CP could be considered unduly prescriptive and that independent legal advice that a firm may receive in relation to MREL eligibility may not cover considerations relevant to whether it was impracticable to include contractual recognition of bail-in terms in liabilities issued under the law of non-EEA jurisdictions. The Bank notes that the examples in paragraph 6.21 of the CP were illustrative, and did not constitute an exhaustive list of issues that firms may consider.

2.66 In line with the Bank's policy, as set out in paragraph 5.12 of the MREL SoP, that responsibility for ensuring liabilities, including own funds instruments, are eligible rests with institutions, the Bank also considers that the responsibility to consider all relevant independent legal advice and documentation required to meet Principle 5 also rests with firms. The Bank has, however, streamlined the wording of the final policy and removed references to impracticability.

Additional considerations regarding MREL

2.67 The Bank noted in 'Box 3: Additional considerations regarding MREL' of the CP that the European Commission had proposed a package of amendments to legislation that is relevant to MREL, including amendments to the BRRD¹ and the CRR,² which, at the time of publication, remained under negotiation. The Bank also noted that it expected to set out its policy on MREL cross-holdings and disclosure once greater clarity on the EU proposals had been achieved.

2.68 As set out in Box 1 of the Approach to Assessing Resolvability SoP the CRR II was published in the Official Journal of the European Union on 7 June 2019 and introduced requirements for UK G-SIBs and UK material subsidiaries of non-EU G-SIBs in respect of 'own funds and eligible liabilities', which were directly applicable from 27 June 2019. The Bank has communicated directly with firms affected by the CRR II, who should read the MREL SoP and this Policy Statement, including the definitions of MREL and internal MREL, subject to the new CRR II requirements.

Valuations

2.69 Respondents supported the approach set out in the CP, highlighting the existing Bank policy and the additional guidance on valuation capabilities published in November 2018 (Valuations SoP).³ The CP set out areas where firms should consider how, in complying with the Valuations SoP, they are supporting their overall resolvability. These areas for consideration have been retained. The Bank expects firms to take these considerations into account when describing how their capabilities support resolvability and deliver the resolvability outcomes.

2.70 Several respondents requested clarification on the interaction between the recently published EBA *Handbook on valuation for purposes of resolution*⁴ and the Valuations SoP. The Bank contributed to the EBA handbook and is supportive of its content. Firms may wish to consider the handbook to understand ways in which resolution valuations might be carried out in practice. However, the handbook is targeted at resolution authorities and does not intend to prescribe what capabilities firms must have in place.

2.71 Several respondents highlighted that the capabilities introduced to meet the Bank's policy on valuations might depend in part on capabilities relevant to any future PRA proposals on solvent wind-down (SWD). The Bank is closely engaged with the PRA on SWD to ensure co-ordination between these initiatives. The Bank envisages that the underlying trading-book valuation capabilities needed under its policy will be consistent with the delivery of a robust SWD capability regardless of the specific features needed for SWD purposes. The guidance on valuations capabilities referred to above sets out some potential links to SWD capabilities. Further, the Bank has contributed to, and is supportive of, the FSB's

¹ Bank Recovery and Resolution Directive (2014/59/EU) (BRRD).

² Regulation EU/2019/876, amending Regulation EU/575/2013, (CRR II).

³ Bank of England (2018) 'Guidance on valuation capabilities to support resolvability': available at <https://www.bankofengland.co.uk/letter/2018/guidance-on-valuation-capabilities-to-support-resolvability>.

⁴ EBA "Handbook on Valuation for the Purposes of Resolution", February 2019. Available at <https://eba.europa.eu/documents/10180/2613666/Valuation+Handbook.pdf>.

recently published discussion paper for public consultation on the solvent wind-down of derivatives and trading portfolios.¹ The Bank considers the capabilities set out in the FSB's discussion paper, and those set out in its policies on valuations and funding in resolution, to be complementary.

Funding in Resolution

2.72 Respondents on the whole were supportive of the principles set out in the CP. The Bank's approach outlines the funding capabilities that firms should have to ensure their resolution strategies can be successfully executed and that liquidity risks in resolution are managed. The Bank will retain the general approach to assessing this barrier to resolvability proposed in the CP. The feedback below provides further clarity on the Bank's policy approach in specific areas raised in the consultation responses and highlights where amendments to the wording of the SoP on Funding in Resolution have been made.

2.73 Whilst the CP set out the proposed capabilities that firms should have to ensure their resolution strategies can be successfully executed, several respondents requested greater clarity on the Bank's approach to providing liquidity in resolution.

2.74 The Bank published its approach to providing liquidity in resolution in the Purple Book. The Bank's approach, which takes in to account FSB guidance published in 2016,² sets out that in the first instance liquidity would be expected to come from the firm's own resources. Where those resources are temporarily insufficient, and access to private sector funding is disrupted, the Bank has put in place a flexible approach for the provision of liquidity in order to support the preferred resolution strategy. Under the Bank's approach, a firm in resolution would have access to the Bank's published facilities, as set out in the 'Red Book',³ subject to meeting the necessary eligibility criteria. Second, to supplement those arrangements, the Bank also has a flexible Resolution Liquidity Framework (RLF) providing the tools to lend to banks, building societies or investment firms subject to the resolution regime, where the entity or its holding company is in a Bank-led resolution. Further detail on the RLF, or the Bank's approach to providing liquidity in resolution more generally, can be found in the Purple Book.

2.75 Several respondents noted that firms are already subject to extensive going-concern liquidity reporting requirements and requested the Bank clarify whether it expects firms to develop specific capabilities under the SoP. Consistent with the approach set out in the CP and across other barriers to resolvability, the Bank anticipates that firms will be able to leverage existing capabilities to deliver the resolvability outcomes set out in the SoP. Where firms have leveraged existing capabilities, firms should clearly set out where this is the case, how additional enhancements have been made to these capabilities and how they deliver the necessary outcomes.

2.76 The principles set out in the SoP on Funding in Resolution should also provide for inherent proportionality in their application to firms. Firms with simpler business models and less complex funding structures will naturally be able to comply more straightforwardly and with fewer enhancements to their existing capabilities. The Bank will have regard to the nature of the firm's business model and liquidity profile in assessing a firm's resolvability with respect to their funding in resolution capabilities.

1 FSB (2019) 'Solvent wind-down of derivatives and trading portfolios: discussion paper for public consultation' available at <https://www.fsb.org/wp-content/uploads/P030619-1.pdf>.

2 FSB (2016) 'Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank' available at: [http://www.fsb.org/wp-content/uploads/Guiding-principles-on-the-temporary-funding-needed-to-support-the-orderly-resolution-of-a-global-systemically-important-bank-"G-SIB".pdf](http://www.fsb.org/wp-content/uploads/Guiding-principles-on-the-temporary-funding-needed-to-support-the-orderly-resolution-of-a-global-systemically-important-bank-).

3 Bank of England (2015) 'The Bank of England's Sterling Monetary Framework' available at: <https://www.bankofengland.co.uk/-/media/boe/files/markets/sterling-monetary-framework/red-book>.

Principle 1: Overview of liquidity analysis

2.77 The CP set out in paragraph 4.8 that in considering their resolvability, firms should not make assumptions around (a) the cause of failure or the prevailing macroeconomic context, or (b) the deployment of recovery actions prior to resolution. Several respondents highlighted that, particularly in the context of liquidity analysis, firms would find it difficult to produce robust or meaningful analysis without making assumptions in relation to either of these two issues. The approach set out in paragraph 4.8 in the CP was intended to guide firms' general approach to assessing their resolvability and planning for resolution. The Bank expects firms to take a pragmatic approach to how this applies to specific capabilities or barriers to resolvability.

2.78 The Bank recognises that when conducting any liquidity analysis, a range of assumptions will underpin the output of firms' capabilities and expects this to be no different in respect to the capabilities set out in the final SoP on Funding in Resolution. The Bank expects firms to develop capabilities that are sufficiently flexible so that the relevant liquidity analysis can be readily adjusted to reflect changes in underlying assumptions and the circumstance of the stress. Where firms have made assumptions that underpin their liquidity analysis, firms should be able to justify why they have made these assumptions and articulate their ability to adjust these assumptions and update their analysis in a timely manner.

2.79 In the CP, the Bank set out the minimum considerations that firms should take into account when identifying the entities and currencies which it considers material on the grounds of liquidity. Firms should define and justify the range of entities and currencies which they consider in and out of scope, taking into account the minimum considerations set out by the Bank as well as any other relevant factors they have included in their assessment.

2.80 Respondents welcomed the flexibility of the approach to determining material entities and currencies set out by the Bank, noting that this would allow them greater scope to factor in idiosyncratic issues related to their own business models. Whilst noting this flexibility in approach, one respondent sought greater clarity on how they should consider branches in the context of being material on the grounds of liquidity. The Bank is of the view that firms should for the purposes of this liquidity analysis consider branches as a distinct source of liquidity needs and assess their materiality accordingly. The Bank has amended the wording of the final SoP on Funding in Resolution to reflect this.

2.81 One respondent noted that firms should conduct the assessment of their material entities and currencies on the grounds of liquidity not only on their current balance sheet and business model, but on a more dynamic, forward looking basis. The Bank would expect firms to be mindful of how a change to its balance sheet or business model would impact its assessment of its material entities and currencies and the subsequent need to reflect this in their capabilities to ensure they meet the SoP on Funding in Resolution on a continuous basis. A forward looking approach to both implementing and maintaining a firm's capabilities, with respect to funding in resolution and any other barrier to resolvability, would be expected by the Bank as part of a firm's general approach to delivering resolvability.

2.82 The CP set out in para 6.52 that firms '*should be able to make the core part of the liquidity analysis available on a T+1 basis, or more rapidly if both necessary and appropriate.*' Two respondents requested greater clarity on how the Bank defines 'core liquidity analysis' to ensure greater consistency of approach in implementation across firms. For the purposes of the CP, the Bank defined core liquidity analysis as that which would ensure firms can at a minimum deliver the principles set out in the SoP on Funding in Resolution. To simplify the drafting of the final SoP, the Bank has removed 'core' from the final SoP, as well as any subsequent references in this feedback statement. This drafting change does not alter the substance of the final SoP.

2.83 Several respondents also noted the Bank's proposal that the liquidity analysis should be available on a *'T+1 basis, or more rapidly if both necessary and appropriate'* is overly burdensome and would pose implementation challenges for firms. Respondents also specifically requested further clarity from the Bank on how firms should interpret *'or more rapidly if both necessary and appropriate'*.

2.84 While the Bank recognises that this policy may entail firms undertaking additional implementation work, it considers firms' ability to produce timely and accurate liquidity analysis as fundamental to their resolvability. The Bank notes that the date for compliance with the SoP on Funding in Resolution is January 1 2022 providing firms' with adequate time for implementation. The Bank further reiterates that the need for the liquidity analysis to be available on a T+1 basis is aligned to the appropriate frequency of PRA 110 by large firms during a stress, so represents a proportionate approach. Firms will at a minimum be expected to produce the liquidity analysis on a T+1 basis. If firms can produce the analysis more rapidly, then the Bank would expect them to share this, given the benefits of more frequent refreshes of information in certain contingency planning and resolution scenarios.

Principle 2: Liquidity needs

2.85 The Bank proposed in the CP that when estimating their liquidity needs in resolution firms should consider the types and potential severity of outflows in resolution, and record the behavioural assumptions used to support cash flow forecasts. Several respondents noted the potential difficulty of producing accurate forecasts to support liquidity analysis in resolution given the inherent uncertainty involved in such a tail-risk event.

2.86 The Bank recognises that whilst there will be uncertainty in modelling behavioural assumptions to support cash flow forecast, firms should be able in the first instance to provide indicative assumptions to support its analysis and clearly articulate and justify the basis on which these assumptions have been made. The Bank anticipates that firms will develop more sophisticated methodologies for forecasting behavioural assumptions as they refine their modelling capabilities through further RAF cycles.

Principle 3: Liquidity sources

2.87 Respondents were supportive of the approach set out in the CP relating to how firms should monitor and mobilise liquidity resources in resolution. Highlighted as of particular importance for consideration by two respondents were potential operational issues that might impact the ability of liquidity to flow around the group. This reflects the Bank's approach as set out in the CP, and this approach has been retained.

Principle 4: Liquidity third-party facilities

2.88 The CP proposed that to support their resolvability firms should be able to project access to, and usage of, third-party facilities including central banks. Firms should be able to demonstrate that, subject to the agreement of third parties, if they were unable to meet their liquidity needs utilising their own resources, there is a reasonable likelihood that alternative facilities could be used in resolution.

2.89 Several respondents requested that the Bank provide clarity on how it defines an 'alternative facility' to ensure firms are consistent in their approach to the capabilities set out in Principle 4. The SoP has been amended to replace the term 'alternative facility' with 'third-party facility' to ensure consistency of terminology in the SoP.

Principle 5: Governance

2.90 The Bank proposed in the CP that firms should embed the outcomes of their analysis into their internal governance frameworks to facilitate effective and timely decision-making throughout the stylised resolution timeline set out in Annex 1 and 2 of the Approach to Assessing Resolvability SoP.

2.91 Two respondents noted that firms' liquidity management frameworks usually involve the input of a large number of different stakeholders across the firm making it vital that appropriate governance and co-ordination mechanisms exist. The Bank recognises the importance of firms having robust internal governance to support its liquidity reporting for resolution purposes, hence why it has retained in the SoP that firms should integrate their capabilities for managing liquidity risk in resolution within their existing liquidity management framework.

Principle 6: Testing

2.92 The CP set out that firms should test the capabilities and governance arrangements underpinning Principles 1-5 on a regular basis. Several respondents sought further clarity on how the Bank expects firms to conduct their testing of capabilities.

2.93 The Bank has deliberately not set out a prescriptive approach to how firms should conduct testing given that the circumstances and requirements of each firm will likely be unique. By not setting out a prescriptive approach, firms should be able to tailor their testing to suit their own capabilities and assessment of the need to involve internal audit or third-party assurance providers. However, the Bank has retained in the SoP that whatever approach firms take to testing their capabilities it should be conducted in a way that facilitates assurance by the Bank, the PRA or a third party.

Outcome: Continuity and Restructuring

Continuity of financial contracts in resolution (stays)

2.94 Respondents broadly agreed with the principles proposed in the consultation to support their resolvability, noting the maturity of existing policy in this area. Most respondents noted that firms would be able to leverage their existing capabilities significantly to meet the principles set out in the CP. Some respondents queried whether the principles created additional requirements on firms or whether they restated existing PRA Stay in Resolution Rules (PRA Stay Rules).¹

2.95 Following consultation, the Bank will retain its general approach to continuity of financial contracts in resolution (stays) as set out in the CP. The Bank expects firms to take the principles in the SoP into account when assessing their resolvability.

2.96 The feedback below provides further clarity on the Bank's policy approach in specific areas raised in the consultation and highlights where minor amendments have been made.

Principle 1: Compliance and monitoring capabilities

2.97 Respondents recognised that a firm's ability to monitor and identify their counterparties is a key capability to support removing the risk of early termination of financial contracts as a barrier to resolvability. The CP proposed that '*firms should be able to quickly identify their main counterparties across their legal entities and gather key information about their financial contracts*'. Two respondents queried the scope of the legal entities captured by this principle. The Bank has therefore removed reference to 'across their legal entities'. The Bank expects a firm to be able to determine the scope of the monitoring and reporting capabilities necessary for it to identify its counterparties and information about its financial contracts within the context of its preferred resolution strategy.

2.98 The proposed capabilities in the CP set out that firms should be able to quickly identify and gather key information about financial contracts, including both notional and market value. A small number of respondents noted that the reporting of notional value is in addition to the requirements set out in Commission Delegated Regulation (EU) 2016/1712 and would require additional implementation work

¹ 'PRA Stay Rules' refers to final rules contained in Bank of England (2015) 'Contractual stays in financial contracts governed by third-country law' PS25/15, available: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2015/ps2515>, and in the Stay in Resolution part of the PRA Rulebook.

by firms. Whilst the Bank recognises that firms may need to further develop their capabilities to include notional values in their monitoring capabilities, this information provides the Bank with visibility on the scale of the potential close-out risk faced by firms as a proportion of their book.

2.99 One respondent noted the need for firms to identify their main financial contracts was unclear and differed from the requirements of Commission Delegated Regulation (EU) 2016/1712 which covers all financial contracts within scope of the Delegated Regulation. The Bank has therefore deleted the word 'main'. As explained above, the Bank expects firms to be able to identify key information about its counterparties and its financial contracts in the context of its preferred resolution strategy. The Bank anticipates firms will be able to leverage the capabilities developed for capturing the information required by Commission Delegated Regulation (EU) 2016/1712 in meeting this principle.

Principle 2: Legal capabilities

2.100 The CP set out that *'firms are expected to satisfy themselves that they (and relevant subsidiaries) are in compliance with the PRA Stay Rules.'* The Bank notes that the PRA Stay Rules require a BRRD parent undertaking to ensure its subsidiaries comply with the PRA Stay Rules in certain circumstances as if they were subject to the Rule.¹ The Bank has therefore removed reference to *'(and relevant subsidiaries).'* The legal capabilities set out in Principle 2 apply to the same scope of entities and financial contracts as the PRA Stay Rules.

2.101 One respondent queried the extent to which firms may rely on existing internal legal procedures and controls to ensure financial contracts comply with the PRA Stay Rules. It is a firm's responsibility to ensure it complies with the PRA Stay Rules. The Bank is not introducing new enforceability tests or requirements. The wording of Principle 2 has been amended for clarity.

Principle 3: Communication capabilities

2.102 The CP set out that firms should be able to communicate effectively with counterparties both during pre-resolution contingency planning and during resolution. Several respondents also noted the potential sensitivity of these communication plans and firms should be mindful of this when preparing them.

2.103 There is an overlap between the capabilities firms should have to communicate with counterparties and those set out in the Management, Governance and Communication final SoP. The Bank expects that firms' capabilities developed to communicate with counterparties as required during resolution support a consistent approach across the firm. The Bank has therefore reflected these considerations in the final policy to ensure that firms consider the consistency of their approach to communicating with counterparties during resolution across all barriers to resolvability.

Principle 4: Understanding of the risk of early termination across a group

2.104 The Bank proposed in the CP that firms should develop capabilities that ensure they have a clear understanding of any risk of early termination of financial contracts that are not governed by EEA law or subject to the PRA Stay Rules, so called 'out of scope' contracts. Two respondents noted that where firms have complied with stay rules in non-EEA jurisdictions, these contracts should not be considered to be 'out of scope' for the purpose of the proposed capabilities in Principle 4. The Bank recognises that where firms have complied with stay rules in non-EEA jurisdictions this represents a reduced risk to the firm. The Bank nevertheless expects firms to be able to identify these contracts in order to understand the risk of early termination faced by the firm. The Bank anticipates that firms will be able to leverage the work they have done to implement stay rules in non-EEA jurisdictions to demonstrate they have met Principle 4.

¹ The conditions are specified in 1.2 and 1.3 of the PRA Stay in Resolution Rule.

2.105 One respondent requested further clarification on the entities intended to be covered by Principle 4. These respondents noted firms may not be able to access data and records in certain circumstances, for example in certain minority held participations. The Bank clarifies that it will expect firms to be able to determine the extent to which the termination of financial contracts by entities subject to consolidated supervision by the PRA would significantly impede the implementation of the group's preferred resolution strategy. Principle 4 has been updated to clarify this.

Principle 5: Governance and assurance

2.106 The CP proposed that firms should be able to explain to the Bank how their internal governance and assurance and testing ensure that they satisfy the PRA Stay Rules and the principles above. Given that the PRA Stay Rules have been in place for some time, the Bank anticipates firms will be able to significantly leverage their existing assurance and internal governance processes to meet this principle.

Operational Continuity in Resolution (OCIR)

2.107 The CP set out both how the Bank proposed to assess operational continuity in resolution (OCIR) and its current thinking on OCIR in the context of achieving the resolvability outcomes. This is likely to evolve in the future. Respondents acknowledged that for the purposes of the first RAF cycle in 2020, firms will be assessed, and should assess themselves against, how their compliance with current PRA OCIR policy supports ensuring continuity in resolution. This approach has been reiterated in the SoP.

2.108 Several respondents asked whether the proposals set out in the CP go beyond existing PRA OCIR policy. The proposals set out in the CP do not extend or replace the PRA OCIR policy, which firms are already required to meet under the Operational Continuity Part of the PRA Rulebook in line with the expectations set out in PRA SS9/16. The CP provided further guidance on particular areas where the Bank will focus when assessing the ways in which a firm's OCIR arrangements support resolvability. This approach has been retained.

2.109 The Bank noted in the CP that the PRA intends to review its existing OCIR policy in light of the Bank's current thinking on OCIR in the context of achieving the resolvability outcomes and many respondent were supportive of this. The majority of respondents requested further information on the PRA's intention to review the existing policy. The PRA's review of OCIR is ongoing and any changes proposed as a result of the review would be subject to the usual process, including consultation.

2.110 A small number of respondents asked for the Bank to provide further examples of how OCIR supports the continuity of the firm throughout the resolution timeline. The Bank expects firms to consider how the way in which they have implemented the PRA OCIR policy supports resolvability throughout all stages of the resolution timeline and be able to demonstrate this. The Bank has provided examples of relevant considerations for firms relating to OCIR in the stylised resolution timeline, set out in Annex 1 and 2 of the Approach to Assessing Resolvability SoP.

2.111 A small number of respondents asked for greater clarity on the interaction between OCIR and the discussion paper on operational resilience.¹ The PRA will examine the language in this section of SS9/16 in light of the publication of the Operational Resilience discussion paper in July 2018, as part of its OCIR review.

Continuity of Access to Financial Market Infrastructure (FMIs)

2.112 Respondents were generally supportive of the principles based approach set out in the CP relating to continuity of access to FMIs. The Bank's recognition in the CP of the importance of balancing

¹ Bank of England, Financial Conduct authority (2018) 'Building the UK financial sector's operational resilience, PRA Discussion Paper 1/18, FCA Discussion Paper 18/04 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/contractual-stays-in-financial-contracts-governed-by-third-country-law-ss>.

the needs of being able to maintain access to FMIs whilst also ensuring the stability of the FMI was supported by two respondents.

2.113 The Bank will retain the general approach to assessing this barrier to resolvability as proposed in the CP. The below feedback provides further clarity on the Bank's policy approach in specific areas raised in the consultation and highlights where minor amendments have been made.

2.114 Several respondents noted that whilst the consultation proposals addressed what firms need to do to facilitate access to FMIs, the FSB guidance also set out measures that both FMI and FMI intermediaries (together 'FMI service providers') themselves should take to support continuity of services in resolution. The majority of respondents strongly believed that progress on issues related to what FMIs themselves must do to support maintaining access in resolution could be achieved via industry-wide engagement with FMIs, supported by regulators. Whilst not in scope of the proposals set out in consultation, the Bank recognises the importance of firms and regulators working with FMIs to take this issue forward. In this context, the Bank notes a recent FSB industry workshop¹ to support this work and encourages firms and the wider industry to engage with this process. The Bank supports both bilateral and multilateral engagement by firms with FMIs, although the responsibility for ensuring continuity of access to FMIs in resolution ultimately rests with the firm.

2.115 A small number of respondents requested that the Bank provide a definition of FMI and FMI intermediary to ensure consistency of approach across firms. The definition of FMI and FMI Intermediary has been clarified by the addition of a footnote. This definition of an FMI and FMI intermediary is aligned to the definition set out in the FSB's guidance on continuity of access to FMIs.

Principle 1: Identifying FMI relationships

2.116 The importance of firms being able to identify all of their FMI relationships, and those maintained via an intermediary, is a key principle for firms to demonstrate they have removed this barrier to resolvability. Some responses to the consultation on this principle focused on how firms should ensure they are able to communicate with each FMI service provider at a time of financial stress.

2.117 The CP proposed that firms should be able to communicate with FMI service providers in times of financial stress in order to facilitate access to FMIs and understand any additional requirements that may be placed on them. Respondents were clear in emphasising that communication plans should cover the period of stress leading up to resolution, as well as in resolution itself. The Bank expects firms to be able to communicate with FMI service providers effectively throughout the entire resolution timeline and should plan on that basis. The Bank has therefore altered the wording in the final SoP on continuity of access to FMIs to clarify this.

2.118 One respondent also noted that firms should share their communication plans, to the greatest extent possible allowed under the terms of their contractual relationships, with FMI service providers. By doing this the respondent felt that there would be a greater level of understanding of how both parties would communicate in resolution and help to identify any potential issues ex ante. The Bank would expect firms to undertake this process of sharing communication plans with FMI service providers as part of business-as-usual resolution planning, to the extent allowed under the terms of their contractual arrangements, as part their assessment of FMI relationships as set out in the CP.

2.119 In addition to communication arrangements, a handful of respondents also requested that the Bank clarify whether firms would be required to maintain a detailed understanding of the FMIs' resolution plans to support implementing Principle 1. The Bank will not require firms to maintain a detailed record of FMIs' resolution plans under this policy as the purpose of this SoP is to aid resolution planning and remove impediments to resolvability for firms and not FMIs.

¹ The FSB hosted a workshop of firms, FMIs and authorities in May 2019.

Principle 2: Identifying FMIs that provide critical FMI services

2.120 The CP included the FSB description of 'critical FMI services', which has also been included in the Bank's final SoP. A small number of respondents recommended that a proportionate approach the Bank could take to defining the criticality of an FMI would be to align this with a firm's FMIs located in its Crisis Management Group (CMG) jurisdictions.

2.121 Whilst the Bank has provided a definition of critical FMI services, the responsibility remains on the firm to identify all critical FMI service providers and describe the information for each as set out in the final SoP. In addition, the Bank notes that the membership of a particular authority in a CMG does not necessarily relate to the FMI services provided from a jurisdiction, so would not provide either a proportionate or relevant measure of FMI criticality to a particular firm. As a result, the Bank has decided to retain its definition of critical FMI services.

Principle 3: Mapping and Assessment of FMI relationships

2.122 Several respondents highlighted the cost of establishing alternative FMI providers as a means of meeting the proposals set out in the CP, as well as noting the difficulty of demonstrating the credibility of these alternative arrangements. Some further interpreted the proposals in the CP as requiring firms to establish alternative FMI providers as a necessary condition of demonstrating compliance.

2.123 As set out in the consultation proposals, the Bank believes that firms should only consider establishing alternative FMI providers where the firm has assessed that its existing contractual relationship with an FMI does not facilitate continuity of access during resolution, for example due to the firm's preferred resolution strategy. The Bank therefore only expects firms to consider establishing a credible alternative FMI provider when it has assessed its existing contractual relationship with an FMI is unable to facilitate continuity of access, not in the first instance. The wording has been amended to clarify this. The Bank anticipates that instances where firms need to establish credible alternative providers to ensure continuity of access will be in a relatively limited number of cases, however where they are required it will be necessary for firms to demonstrate that they can be relied upon credibly.

Principle 4: Usage of FMIs and FMI Intermediaries

2.124 In order for firms to effectively monitor and assess their use of FMIs service providers, the Bank proposed that firms should maintain a record of transaction data that details their relevant positions and usage of FMIs and FMI intermediaries.

2.125 Two respondents requested clarity on the expected frequency of which requests for this information would be made by the Bank, or the Bail-in Administrator (BIA), and how often the Bank would expect firms to collect this data. The intended policy outcome is for firms to develop the capabilities required to provide the relevant information on FMI service provider usage to the Bank, or BIA, as needed to support the resolution of the firm. When assessing whether firms have met this principle, the Bank will focus on the adequacy of the capabilities firms have developed to respond to such an information request in a timely manner rather than on prescriptive outputs.

2.126 The consultation proposals set out that as part of assessing their usage of FMIs, firms should consider the impact of clients' behaviour in assessing anticipated extended collateral or liquidity requirements to maintain access to critical FMI services. Respondents were sceptical of firms' ability to model client behaviour accurately given the inherent uncertainty of a resolution scenario. Whilst the Bank recognises there will be uncertainty in modelling client behaviour, firms should be able, at a minimum, to provide indicative modelling of client behaviour to support its analysis and clearly articulate and justify what key assumptions have been made. The Bank expects this to be an iterative process and that firms will be able to produce more sophisticated modelling as they develop their capabilities.

2.127 A small number of respondents noted the relevance of lines of credit that firms have with FMIs – one respondent stated that any lines of credit firms have with FMIs should also be within scope of the

capabilities developed by firms to provide the Bank, or BIA, with relevant information to support the resolution of a firm. The Bank would expect firms to provide information on lines of credit with FMIs as part of this process, and notes that the examples set out in paragraph 7.44 of the CP were meant to be illustrative, not exhaustive. It is the responsibility of the firm to ensure they have considered all relevant information that would be needed to ensure the Bank, or BIA, can understand the firm's obligations to, and pattern of usage of, the FMI or FMI intermediary.

Principle 5: Contingency planning

2.128 The CP set out that firms should develop contingency plans informed by a 'full range of plausible actions that could be taken by each critical FMI service provider, and the defensive actions the firm has identified for mitigating them'.

2.129 Of those respondents who considered the issue, the majority noted the difficulty of anticipating and predicting all the plausible actions FMI service providers might take in a resolution scenario to inform the development of contingency plans. The Bank recognises that developing contingency plans will be an iterative process as firms work with FMI service providers to further understand actions they may take in resolution. However, as a starting point, the Bank expects that firms should be able to perform an analysis based on current rulebook and contractual terms to provide a basis for ongoing engagement with FMIs.

2.130 A small number of respondents also drew attention to the fact that the consideration of 'plausible actions' should not just be restricted to actions that immediately terminate the firm's access to the FMI. This interpretation is consistent with the Bank's view, as set out in the CP, that firm's contingency plans should describe how they would facilitate access to critical FMIs throughout the stylised resolution timeline set out in Annex 1 and 2 of the Approach to Assessing Resolvability SoP, hence should not just be restricted to termination events.

2.131 It was also noted that when preparing contingency plans, firms should consider the possible combined effects of actions being taken by several FMIs concurrently as a response to a particular firm going in to resolution. The Bank anticipates that for any contingency plan to be deemed credible it would have to consider these factors. Accordingly Principle 1; 'Identifying FMI relationships' states that firms should consider the interdependencies between FMI relationships and use this to inform development of contingency plans.

Restructuring Planning

2.132 Whilst respondents generally supported the Bank's approach of leveraging recovery planning, they requested greater clarity from the Bank on how firms should develop capabilities as well as the objectives of the policy. The feedback below sets out how the Bank has addressed these issues and where it has been reflected through amendments to the final SoP on restructuring planning.

Objectives

2.133 The draft SoP outlined that firms should be able to plan and execute post-stabilisation restructuring options on a timely basis. Whilst this remains the overarching policy objective for firms, to clarify the Bank's policy intent the final SoP has been renamed 'Restructuring Planning' and has been split out into two underlying objectives: the 'restructuring objective' and the 'planning objective'. This reflects that, while effective restructuring is the ultimate objective of the policy, the SoP is largely focused on the ability of firms to carry out timely and credible planning during resolution.

2.134 Where the Bank has added additional underlying objectives, these are clarifications to reflect existing legal requirements more clearly as well as the positions set out in the stylised resolution timeline in Annex 1 and 2 of the Approach to Assessing Resolvability SoP. This includes legal requirements around the production of a business reorganisation plan, and how this planning relates to the timeframes and process by which a firm would exit from a bail-in resolution.

2.135 In response to feedback to the consultation, the Bank has also set out how these different objectives apply to different firms within scope. Consistent with the approach in the CP, firms with a preferred resolution strategy of partial-transfer are not within scope of the restructuring planning SoP. The Bank considers this further supports its approach to assessing firms' resolvability in a proportionate way. For hosted subsidiaries within scope, the Bank expects that firms should be able to avoid unnecessary duplication and significantly leverage existing capabilities developed as part of group-wide recovery planning to meet the policy.

Principle 1: Identification of restructuring options

2.136 The Bank set out the approach firms should take to identify restructuring options in the CP. Respondents requested greater clarity from the Bank on the considerations firms should take into account when identifying restructuring options and in particular how this relates to recovery planning.

2.137 The Bank has defined in the final SoP on restructuring planning a 'restructuring option' as a *'measure available to the firm that could reasonably be expected to support the achievement of the restructuring objective'*. As noted above, by providing greater clarity on the 'restructuring objective', the Bank feels this provides an appropriate level of guidance.

2.138 With respect to the interaction with recovery planning, the Bank has retained the approach that firms should consider whether their recovery options would represent restructuring options and relevant possible considerations for this assessment. The Bank has also added further clarification in response to consultation on its expectation that firms' identification of restructuring options should not just be limited to assessing the suitability of recovery options. Paragraph 4.3 of the final SoP on restructuring planning has been added to provide examples, but not an exhaustive list, of where firms could identify restructuring options that are not recovery options.

Principle 2: Evaluation of restructuring options

2.139 The Bank has set out 'Principle 2: Evaluation of restructuring options' to further clarify the link to other policies referred to therein, and to distinguish between 'business-as-usual' and 'in resolution' assessments. This principle sets out further detail on the information firms should be able to provide during a resolution event to inform the development of a credible restructuring plan. This links closely to related policies such as those on recovery planning, valuations, and OCIR.

2.140 Paragraph 4.7 of the final SoP on restructuring planning sets out examples of information firms may consider in evaluating restructuring options, though should not be considered an exhaustive list. This draws heavily on existing policies, such as recovery planning. The addition for restructuring purposes is that firms consider what information is needed to evaluate all potential restructuring options, and how such information would be accessed, analysed and presented to support restructuring planning as a whole. Evaluation of restructuring options is likely to involve a wide range of capabilities and stakeholders across a firm, so firms should also consider what relevant co-ordination mechanisms may be required to support this process. The Bank has reflected these considerations in the final SoP.

Principle 3: Planning for execution of restructuring options

2.141 The Bank proposed in the CP that firms should be able to describe and assess their capabilities for executing their identified restructuring options. The Bank has split 'description' and 'assessment' between two separate principles in the final SoP on restructuring planning (Principles 3 and 4). Principle 3 focuses on the ability to determine and describe how they would execute a given restructuring option in practice, including the capabilities and process associated with this.

2.142 When describing how they would execute a restructuring option, firms should provide a sufficient level of detail that supports both the firm being able to take actionable steps to execute the option as well as allow the Bank to assess its credibility.

2.143 Where a recovery option has also been identified as a restructuring option, the Bank expects there to be significant scope to leverage the content of the recovery plan. However, to meet the policy and ensure the credibility of firms' restructuring options, firms should consider what further information may be needed beyond that which is included in the recovery plan. These considerations have been reflected in paragraph 4.11 of the final SoP on restructuring planning.

Principle 4: Documentation and assurance

2.144 Respondents requested that the Bank provide greater detail on the documentation and assurance that firms would need to develop, in particular the extent to which this documentation and assurance goes beyond that which is required for recovery planning. For clarity, the Bank has therefore set this out in a separate principle, 'Principle 4: Documentation and assurance'.

2.145 Whilst setting this out in a separate principle, the Bank has retained a flexible approach to the associated documentation and assurance. The final SoP on restructuring planning does not require firms to produce additional documentation, or carry out testing, on a periodic basis as is done for recovery planning. Instead, firms should look at what they do already through recovery planning, and consider what incremental documentation and testing would be needed to meet the objectives of the SoP. This is likely to depend significantly on the size and business model of each specific firm. By taking a flexible approach the Bank aims to avoid potentially unduly burdensome implementation for firms.

Outcome: Coordination and Communication

Management, governance and communication

2.146 Respondents were generally supportive of the Bank's principles set out in the CP. Taking a principles-based approach will give firms the flexibility to meet the policy in a way that reflects their own particular business model and preferred resolution strategy. The Bank anticipates that existing management, governance and communication arrangements will likely deliver much of what is needed to meet the policy. Respondents generally shared and supported this view.

2.147 The Bank has set out below areas where it has addressed feedback received in the consultation and how it has incorporated this in to the final SoP. The Bank has retained its general approach and provided further detail and clarification on particular areas raised by respondents in the consultation. It has also looked for opportunities to make the policy more proportionate while still achieving its overarching objectives.

2.148 The final SoP on Management, Governance and Communication sets out the capabilities that firms should develop to ensure effective management, governance and communication in resolution. Respondents felt the objectives and principles in the policy were sufficiently clear and comprehensive to allow firms to achieve the desired resolvability outcomes. Many respondents requested further clarification on the role of the Bank and Bail-in Administrator (BIA) in resolution and how their decisions taken in resolution would interact with other regulatory requirements and applicable areas of corporate law.

2.149 The Bank recognises that these matters will be important for orderly resolution and may be relevant to the capabilities firms will put in place in business-as-usual. The Bank will consider these issues further and consider what further clarification can be provided in due course. That being said, there is a limit to how much specificity the Bank can provide in advance, given the inherent uncertainty around potential future resolution scenarios. As such, firms' capabilities will need to be flexible, rather than focused around a single approach.

2.150 The Bank has introduced sub-headings in to the final SoP to identify the individual considerations under each principle. These sub-headings have been added to provide greater clarity to the structure of the SoP and do not alter the substance of the SoP.

Principle 1: Management in resolution

Identification of key job roles

2.151 The draft SoP set out that firms should have capabilities to ensure that 'critical job roles' would be suitably staffed and incentivised in resolution. Whilst respondents noted the importance of retaining key staff in resolution, some requested the Bank provide greater clarity on how these roles should be identified by firms. Respondents also highlighted the potentially significant costs firms would face in maintaining a granular critical jobs list in business-as-usual, seeing this as unduly burdensome.

2.152 In response to the request for clarity on how firms should identify key job roles, the Bank has set out two criterion that firms should use ('significance' and 'non-substitutability'). The first reflects the types of tasks involved in a key job role. The second reflects that ex ante planning is not likely to be required for roles that, whilst important, could be carried out relatively easily by another individual should the incumbent leave in resolution. The Bank expects that this would be the case for the majority of roles underpinning the delivery of critical services, and has therefore referred to key job roles instead of critical job roles to avoid confusion.

2.153 The Bank has sought to avoid any undue compliance costs from maintaining a list of key job roles in the final policy. It will be important that firms do identify these roles in business-as-usual to inform what arrangements they may need for retention, succession, and appropriate incentives in resolution. However, the final policy takes a proportionate approach to how often the list will need to be updated in business-as-usual. The Bank will retain the approach of not asking firms to produce supporting information on these job roles on an ongoing basis in business-as-usual.

Retention

2.154 The CP set out that firms should consider how they would retain staff in key job roles in resolution. Several respondents queried whether the Bank would expect firms in business-as-usual to introduce contractual terms whereby a firm's entry into resolution would extend an employee's notice period. The Bank does not expect firms to introduce, during business-as-usual, new contractual terms whereby the firm's entry in to resolution would extend an employee's notice period as this may restrict the options available to them in resolution, for example their ability to effectively execute post-stabilisation restructuring options. Firms should assess their existing contractual arrangements and retention framework to identify any issues that may arise in the context of resolution.

Succession

2.155 The Bank set out in the CP proposals that firms should have a succession framework in place for those individuals performing key job roles to ensure that adequate skills and knowledge would be available to perform a given key job role if the incumbent were removed in resolution. A number of respondents were sceptical of the value of conducting such succession planning in business-as-usual, noting the potential cost of conducting a suitably detailed assessment of potential replacements for each key job role.

2.156 Firms' succession planning in the context of resolution is vital to ensuring that firms are able to carry out the actions needed to support orderly resolution, whilst giving authorities the flexibility to remove individuals as needed in resolution. However, the intent of the CP was not for firms to conduct resolution specific succession planning in business-as-usual. Instead, the final policy requires that firms should demonstrate how they would support handover and preparing up-to-date succession plans for key job roles during pre-resolution contingency planning. The Bank still considers that firms will be able to use their existing succession planning process in business-as-usual to support this.

Responsibilities and incentives

2.157 The Bank has redrafted the wording of the SoP on Management, Governance and Communication to focus more on the outcome it is seeking to achieve, rather than the mechanisms firms may use to achieve this. Whilst not directly in response to feedback, the Bank considers this redrafting more closely aligns the SoP to the Bank's outcomes-based approach to assessing

resolvability. The Bank would expect considerations of responsibilities and incentives to play a key part of aligning the actions of individuals with the goal of orderly resolution.

Regulatory approvals

2.158 The Bank set out in the CP that firms should identify what regulatory approvals would be needed for any changes to management personnel, management responsibilities and remuneration structures in resolution. The Bank has retained this approach. The Bank does not intend to provide further information on how quickly these approvals could be provided in response to feedback, given this is at the discretion of the relevant regulator.

Principle 2: Governance in resolution

Strategic objectives

2.159 The CP required firms to ensure that the Bank's resolution objectives would be appropriately reflected in their governance arrangements upon entry into resolution. Several respondents questioned how the Bank's statutory resolution objectives, which relate to the wider UK financial system, could be coherently integrated into the governance arrangements of a particular firm.

2.160 The Bank's policy intent in this regard is to align the firm's objectives with the practical objectives of the Bank when executing the resolution and subsequent restructuring.¹ For example, the need to stabilise the firm's financial position to support the Bank's resolution action should be able to be reflected in the objectives of the firm. Firms should be able to amend their strategic objectives at short notice to facilitate this. The Bank has amended the wording of the final SoP to clarify its desired outcome and has removed possible mechanisms for how firms may develop this capability so as to provide greater scope for flexibility in implementation.

Decision making and oversight

2.161 The Bank requires firms to be able to establish new committees, or amend existing committees at short notice where needed to support the resolution of the firm. Respondents requested greater clarity from the Bank on the expected role of these committees.

2.162 The Bank has added examples of key responsibilities firms should consider with respect to committees they may need to support resolution. These examples are intended to further guide firms' approach and should not be considered an exhaustive list. The Bank has also clarified that these may be new or existing committees and that it does not necessarily expect firms to establish resolution committees in business-as-usual. This aims to ensure that firms are able to tailor their approach to what is most appropriate given their preferred resolution strategy and going-concern arrangements.

Dispute resolution

2.163 The Bank set out in the CP that firms should have available to them appropriate dispute resolution mechanisms in resolution to address potential conflicts between the firm's decision-making bodies. The ability of a firm to resolve any potential internal conflicts that may arise during resolution will avoid undue delays in decision-making. This does not intend to over-ride the fact that there may be legal and regulatory requirements that will need to be considered as part of this decision-making.

2.164 A respondent noted that, in resolution, the firm would be directed by decisions taken by the BIA and or Bank, so would therefore not anticipate a need for a dispute resolution mechanism in this context. In practice, the role of the Bank and BIA in the firm's decision making processes will depend on the circumstances at hand. The firm's management and board may still retain some decision-making role, and will be required to implement and operationalise any decisions or directions given by the Bank

¹ In a Bank-led bail-in, the Bank envisages that practical objectives would be specified to the firm by the Bank or a by a BIA acting on the Bank's behalf. These practical objectives would set out the Bank's priorities for what the firm will need to do to support the effective implementation of the resolution (and any subsequent restructuring). These practical objectives would be based on, though not necessarily equivalent to, the special resolution objectives set out in section 4 of the Banking Act. The aims would depend on the particular circumstances at hand.

and or BIA. A clear dispute resolution mechanism supports either the firm itself resolving the issue effectively where appropriate, or the identification and escalation of the issue to the Bank and or BIA in a timely manner. The Bank has therefore retained this approach.

2.165 Several respondents also requested clarity on how dispute resolution would work where the decisions of the Bank or BIA conflicted with the legal or regulatory obligations of directors or management. The Bank intends to consider further, alongside other relevant issues as set out above, how it may address these matters in the event of resolution. The Bank's final policy also states that firms should consider where and how these conflicts could arise, and consider how they would notify the Bank of this in resolution to inform potential mitigating actions.

Supporting a BIA

2.166 The Bank set out in the CP that firms should consider how they would identify a team of staff to be responsible for supporting the BIA in carrying out their role. The Bank has retained this provision. Respondents noted the difficulty in planning ahead of time how the firm would find cover for the roles assigned to support the BIA, noting this would be highly dependent on the particular circumstances facing the firm. The Bank recognises the difficulty, and limited utility, of requiring extensive planning ahead of time to identify potential cover for these individuals and has therefore removed this from the final policy.

Principle 3: Communications in resolution

Market communications

2.167 A respondent noted that it could potentially be difficult for firms to ensure that sufficient communication infrastructure would be available to firms in resolution, given the uncertainty of the specific scenario that a firm may face and the communications infrastructure needs associated with that scenario. The Bank recognises this difficulty, but still expects that firms at least should be able to consider how they would access sufficient communications infrastructure that may be needed in resolution and any relevant associated considerations. The Bank has reflected this approach in the final SoP on Management, Governance and Communication.

Principle 4: Documentation

2.168 The Bank has retained its general approach from the CP as to how firms should document that they have meet the objectives and principles set out in the final SoP on Management, Governance and Communication.

2.169 One respondent noted that the need to maintain centrally the documentation required to deploy the capabilities required was too prescriptive and may hinder the deployment of capabilities in a timely fashion. The Bank has therefore removed this, but has maintained the wording that documentation should be readily available. This gives firms greater flexibility in how they maintain documentation while ensuring that it would still be readily available as required.

Appendix 1: Statement of Policy: The Bank of England's Approach to Assessing Resolvability

1 Background

1.1 The Resolvability Assessment Framework (RAF) consists of three elements:

- the Bank's approach to assessing firms' resolvability including the outcomes firms must, as a minimum, be able to achieve to be considered resolvable;
- a requirement for certain firms to carry out an assessment of their preparations for resolution, to submit a report of that assessment to the PRA and publish a summary of that report ('public disclosure') contained within the Resolution Assessment Part of the PRA Rulebook; and
- the publication of a statement by the Bank concerning the resolvability of each firm which makes an assessment.

1.2 The Bank believes that further transparency around the resolution regime and the progress made by individual firms towards being considered resolvable will foster greater understanding of the resolution regime. This should incentivise firms to take steps to embed changes to enhance their resolvability. Greater transparency will also be important for investors and shareholders when assessing the risks they face should a firm fail.

2 Statutory framework and scope

2.1 This Statement of Policy (SoP) is issued by the Bank of England (Bank), as UK resolution authority, in accordance with section 3B(9) of the Banking Act 2009, as amended (the Banking Act). This SoP sets out how the Bank intends to operate the RAF, and how it may use its powers under section 3A(2) of the Banking Act to direct a 'relevant person' to take measures to address impediments to resolvability.

2.2 A 'relevant person' means:

- (a) an institution¹ authorised for the purpose of the Financial Services and Markets Act 2000 (FSMA) by the Prudential Regulation Authority (PRA) or Financial Conduct Authority (FCA);²
- (b) a parent of such an institution which (i) is a financial holding company or a mixed financial holding company; and (ii) is established in, or formed under the law of any part of, the UK; or
- (c) a subsidiary of such an institution or of such a parent which (i) is a financial institution authorised by the PRA or FCA; and (ii) is established in, or formed under the law of any part of, the United Kingdom.

¹ For the purposes of this SoP the term 'institution' means UK-incorporated banks, UK-incorporated building societies and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. References to 'institution' shall be taken to also include 'relevant persons'.

² The PRA and FCA are the UK competent authorities. According to article 2 of the Bank Recovery and Resolution Directive (2014/59/EU) and article 4 of the Capital Requirements Regulation (EU No. 575/2013, as amended by Regulation (EU No. 2019/876), 'competent authority' means a public authority or body officially recognised by national law, which is empowered by national law to supervise institutions as part of the supervisory system in operation in the Member State concerned.

2.3 This SoP applies to institutions¹ where:

- (a) the Bank, as home resolution authority, has notified them that their preferred resolution strategy is bail-in or partial-transfer, i.e. that the Bank would expect the strategy to involve the use of its stabilisation powers; or
- (b) in its capacity as host resolution authority, the Bank has notified them that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK.²

2.4 Hereafter, references to 'firms' should only be taken to include those institutions that meet the criterion set out in paragraphs 2.3 (a) and (b), unless otherwise stated.

2.5 The Bank's assessment of firms' resolvability will also take into account the capabilities of the entire resolution group where relevant.³ Accordingly, the Bank considers that firms may be able to rely on capabilities across the resolution group, where appropriate to achieve the resolvability outcomes.

2.6 In particular, for hosted material subsidiaries, the Bank would expect to support resolution actions by the home authorities. As such, the Bank will assess whether the capabilities of the resolution group would deliver broadly comparable resolvability outcomes to those set out in this SoP. To support this the Bank engages with international counterparts bilaterally and in other fora such as Crisis Management Groups (CMGs).

2.7 This SoP does not apply to the UK branches of overseas banking groups. The Bank engages with international counterparts regarding the resolvability of these branches. The resolvability outcomes in this SoP will therefore inform this engagement and so will be of interest to overseas banking groups in this context. The SoP also provides relevant context for the Bank's engagement (in its capacity as UK resolution authority) with the PRA in respect of the authorisation and supervision of the UK branches of overseas banking groups, as set out in the PRA's approach to branch authorisation and supervision of international banks.⁴

2.8 The Bank is required to conduct statutory resolvability assessments on an annual basis. Further information on these assessments is provided in chapter 9 of this SoP. The RAF does not replace these assessments, rather it will provide information to the Bank which the Bank will use as part of fulfilling its legal requirement to assess the resolvability of firms.

¹ References to 'institution' shall be taken to also include 'relevant persons'.

² Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

³ Each resolution entity, together with its subsidiaries that are not themselves resolution entities, form a 'resolution group'.

⁴ Bank of England (2018) 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision' PRA Supervisory Statement SS1/18 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss>. The PRA's general approach to branch authorisation and supervision, which applies to all branches, is anchored by an assessment of a range of factors including the extent to which the PRA, in consultation with the Bank of England (the Bank) acting in its capacity as the UK resolution authority, has appropriate assurance over the resolution arrangements for the firm and its UK operations.

3 Resolvability Outcomes

3.1 To be considered resolvable firms must, as a minimum, be able to achieve these outcomes:

- (a) Have adequate financial resources in the context of resolution: Ensure that it has the resolution-ready financial resources available to absorb losses and recapitalise without exposing public funds to loss. This includes resources to meet its financial obligations in resolution. This is necessary to allow the authorities to keep the firm operating as described below. This means that firms must:
 - - meet the ‘minimum requirements for eligible liabilities’ (MREL) appropriately distributed across its business;
 - - be able to support a timely assessment of its capital position and recapitalisation needs; and
 - - be able to analyse and mobilise liquidity in resolution.
- (b) Be able to continue to do business through resolution and restructuring: Ensure that the firm’s activities can continue while the authorities take charge and begin to restructure the firm in such a way that the business can be reshaped, including any parts of it being sold or wound down (as appropriate). This includes ensuring that the resolution does not result in the firm’s financial and operational contracts being materially disrupted or terminated and that direct or indirect access to services delivered by financial market intermediaries is maintained. This is essential to having a continuing business that can be returned to long-term viability through restructuring. It also means building on recovery planning work so that the operational and support services needed for a viable business can be identified, separated and reorganised to support restructuring options.
- (c) Be able to coordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

3.2 The Bank has identified generic impediments to resolvability. These were developed to be consistent with the barriers identified by the Financial Stability Board (FSB).¹ On the basis of this work, the Bank has developed domestic policy it requires firms to meet for eight barriers to resolvability. The Bank will use the RAF as the basis for assessing the implementation of these policies.

3.3 The barriers described in this SoP should not be considered as an exhaustive list. In order to achieve the three resolvability outcomes, firms will also need to consider how their specific structure and or business model may prevent the resolvability outcomes from being achieved. This should include whether there are any additional barriers to satisfying the outcomes, beyond those elaborated in this SoP and how these barriers should be removed. Where firms consider requirements from other jurisdictions may be relevant for their resolvability, these should also be taken into consideration.

3.4 Firms whose preferred resolution strategy is Bank-led bail-in should use the stylised resolution timeline, set out in Annex 1 and Annex 2 of this SoP, when considering the capabilities, resources and arrangements they will need to have in place to achieve the resolvability outcomes. Firms should also consider how their specific structure and business model may complicate the application of a bail-in. A firm’s assessment of its preparations for resolvability, where required by the Resolution Assessment Part of the PRA Rulebook, should explain how the firm has removed these barriers.

3.5 The capabilities necessary for removing each barrier to resolvability should not be considered in isolation. Firms should take a holistic approach to resolvability and consider how different capabilities developed for each barrier will interact with one another and how they can be embedded in their

¹ FSB (2018) ‘Resolution Report: “Keeping the pressure up”’ available at: <https://www.fsb.org/wp-content/uploads/P151118-1.pdf>. The Bank uses the term ‘barriers’ as a more common usage term for ‘impediments’.

internal processes. Firms are encouraged to leverage existing capabilities in order to achieve the resolvability outcomes.

3.6 The Bank will be proportionate in the way that it assesses firms' resolvability. While all firms should meet the resolvability outcomes, the depth and type of capabilities required to remove barriers to resolvability will depend on the firm's size and the nature of its business model.

Resolution Strategy Implications

3.7 Firms' resolution strategies have implications for what capabilities they need to be resolvable.

Multiple point of entry (MPE) bail-in

3.8 Under a MPE strategy, certain host authorities may apply resolution powers to entities under their control within a consolidated group, in coordination with the home authority. Separation within the consolidated group could occur at or in close proximity to the point of resolution. Each entity to which resolution powers would be applied is a resolution entity. Each resolution entity, together with its subsidiaries that are not themselves resolution entities, form a 'resolution group'.

3.9 Notwithstanding paragraph 2.5, in assessing resolvability for all MPE firms, the Bank will take into account any factors relevant to the MPE strategy for the firm, including how resolution groups in other jurisdictions would be resolved, any interdependencies between the UK resolution group and resolution groups in other jurisdictions, and any resulting barriers to resolution. This would be likely to include considering the degree of financial and operational separability of its UK resolution group, for instance related to booking and risk-management practices or access to critical FIMs, and relevant structural issues, for instance arising from inter-resolution group exposures.

3.10 For MPE firms where the Bank is the home resolution authority, the Bank is responsible for applying stabilisation powers to the UK resolution group. The Bank would therefore assess the resolvability of the UK resolution group in a similar manner to single point of entry (SPE) firms. The Bank is also responsible for the overall coordination of the resolution process, and will therefore assess how such firms' capabilities enable the resolution of the whole group to occur in a coordinated way.

3.11 The Bank does not however, intend to assess the implementation or effectiveness of policies employed for resolution groups other than the UK resolution group. The Bank may, in forming its views on resolvability, consider the views of host authorities in so far as they pertain to the overall implementation and coordination of the resolution at group level.

3.12 For MPE firms where the Bank is the host resolution authority, the Bank is responsible for using stabilisation powers in respect of the UK resolution group. As such, the Bank will look for the UK resolution group to meet all of the proposals set out in this Statement of Policy in the same way as domestic firms.

Partial-transfer

3.13 This SoP also applies to firms with a preferred resolution strategy of partial-transfer. Firms should take into account differences between partial-transfer and bail-in resolution strategies when they develop the capabilities, resources and arrangements necessary to achieve the resolvability outcomes. The Bank will work with firms bilaterally to support their understanding of these differences.

Changes to a firm's preferred resolution strategy

3.14 Should the Bank change, or anticipate changes to, a firm's preferred resolution strategy the Bank will work with firms bilaterally to support their understanding of the capabilities they may need to develop as a result. A change in preferred resolution strategy may occur, for example, due to a firm's growth or changes to its structure, business or financial position.

4 Outcome: adequate financial resources

4.1 To meet the adequate financial resources outcome for resolvability, firms will need to (at a minimum) have capabilities, resources, and arrangements in place to meet relevant Bank and PRA policies relating to:

- The minimum requirement for own funds and eligible liabilities (MREL);
- Valuations; and
- Funding in Resolution.

The minimum requirement for own funds and eligible liabilities (MREL)

Policy Background

- The Bank published a SoP on its approach to setting MREL for the resolution entity in a group (referred to as external MREL) in November 2016 (the MREL SoP). The MREL SoP was updated in June 2018 to include the Bank's policy on how MREL resources should be maintained by material subsidiaries that are not themselves resolution entities (internal MREL).¹
- MREL must be set in line with the provisions of the Banking Act 2009, the Bank Recovery and Resolution (No. 2 Order) 2014, the BRRD and the European Commission Delegated Regulation (EU) 2016/1450 (the MREL RTS), subject to the considerations regarding EU's revised legislation on capital requirements and resolution in Box 1 below. The Bank also considers the FSB's total loss-absorbing capacity (TLAC) standard ('FSB TLAC standard') when setting MREL.
- The MREL SoP sets out the framework used by the Bank for setting MREL, including calibration, the eligibility criteria for MREL eligible liabilities, how the Bank takes the preferred resolution strategy of a firm into account and how MREL is applied in the context of groups. It also specifies interim and end-state compliance dates for MREL.
- The PRA Supervisory Statement SS16/16 'The minimum requirement for own funds and eligible liabilities (MREL) - buffers and Threshold Conditions' (as updated in December 2017) sets out PRA expectations regarding the interaction between MREL, the capital framework and the PRA Threshold Conditions.²
- In addition to this, in June 2018 the PRA set out its expectations on MREL reporting by updating SS19/13 'Resolution planning' and providing templates and guidance for firms whose MREL is in excess of regulatory capital requirements.³

4.2 **Objective:** To be considered resolvable firms should maintain a sufficient amount of resources that can credibly and feasibly be used to absorb losses and recapitalise them to a level that enables them to continue to comply with the conditions for regulatory authorisation and sustain market confidence.⁴

4.3 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the Bank and PRA's policies relating to MREL and how firms have met the following

¹ Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

² Update on 16 July 2019 <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/the-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel-ss>.

³ Bank of England (2015) 'Resolution Planning: MREL reporting' PS11/18 available at <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-planning-mrel-reporting>.

⁴ For firms with a partial-transfer preferred resolution strategy, recapitalisation may be limited to the level that (i) ensures that the transfer does not undermine the capital position of a private sector purchaser or (ii) enables a new bridge bank to be adequately capitalised.

principles (subject to the considerations regarding the EU's revised legislation on capital requirements and resolution in Box 1 below).

Principle 1: Loss-absorbing resources and monitoring

4.4 Firms need to have arrangements and systems in place to monitor their MREL position appropriately, including to allow them to meet the PRA's expectations outlined in SS19/13. When monitoring their MREL position, firms should have particular regard to the:

- current and projected stock of MREL resources and, where applicable, their maturities; and
- contractual provisions and features of individual instruments and issuances of instruments, especially in relation to eligibility criteria set out in the MREL SoP.

4.5 In monitoring their stock of MREL resources, firms should consider whether loss-absorbing instruments issued by entities within their group comply with the relevant requirements in non-European Economic Area (EEA) jurisdictions, as set by the relevant overseas-based authorities (for example, the amount of any such requirement and relevant eligibility criteria), where applicable. In particular, firms with an MPE preferred resolution strategy should assess their current and future consolidated external MREL resources in the context of that strategy, taking into account the sum of requirements relating to each of their resolution groups and entities or sub-groups located outside those resolution groups.¹

4.6 As articulated in paragraph 6.4 of the MREL SoP, the Bank expects that MREL surplus, that is the difference between external MREL and the sum of what must be issued to the resolution entity as internal loss-absorbing resources (to meet internal MREL or other equivalent loss-absorbing capacity requirements), if any, should be readily available to recapitalise any direct or indirect subsidiary, as necessary to support the execution of the preferred resolution strategy and there should be no legal or operational barriers to this.

4.7 Firms should also ensure that their plans for creating future MREL resources are achievable with reasonable confidence and consistent with their business plans and expected market issuance conditions for MREL instruments. In this regard, firms should consider whether their assessment or plans would change following or during a period of idiosyncratic stress or broader financial instability.

Principle 2: Write-down and/or conversion of external and internal MREL instruments in resolution

4.8 As noted in paragraphs 5.12 and 8.12 of the MREL SoP, the responsibility for ensuring that liabilities, including own funds instruments, are eligible to meet MREL rests with institutions. As noted in paragraph 5.1 of the MREL SoP, in order for MREL resources to fulfil their intended purpose, it must be practically straightforward for the Bank to apply its stabilisation powers to them, including the bail-in stabilisation power.

4.9 Firms need to assess their MREL resources against the provisions of the MREL SoP. In addition, specific examples are provided in the MREL SoP where firms are expected to assess carefully any difficulties that may arise in writing down and/or converting MREL resources in resolution, as a result of the specific features that some of those resources may have. For example:

- as explained in paragraph 5.10 of the MREL SoP, firms should consider cases (either outside or in the course of resolution proceedings) where it is not possible to write down and/or convert any non-CET1 own funds instruments to CET1 using statutory powers;

¹ The Bank requirements on group consolidated MREL for MPE groups are set out in paragraphs 6.8 and 6.9 of the MREL SoP.

- as mentioned in paragraph 5.11 of the MREL SoP, firms should consider the challenges to resolvability from having non-CET1 own funds instruments issued from non-resolution entity subsidiaries to holders outside their group after 1 January 2022;
- firms should ensure that contractual triggers in internal MREL instruments meet the requirements set out in paragraphs 8.8 and 8.9 of the MREL SoP. Where a contractual trigger provides for write-down only or conversion only, firms need to be able to demonstrate that this credibly supports the group preferred resolution strategy and the passing of losses and recapitalisation needs to the resolution entity; and
- firms should also consider whether the absence in any non-CET1 own funds instruments, of such contractual triggers, covering the circumstances described in paragraph 8.8(b) of the MREL SoP, could create difficulties for resolution.

4.10 In addition to the examples above, firms should assess carefully any difficulties that may arise in writing down and/or converting MREL instruments in resolution as a result of the specific features of these instruments.

Principle 3: the Role of internal MREL in supporting the preferred resolution strategy

4.11 As described in paragraph 8.4 of the MREL SoP, firms should ensure that the issuance of internal MREL by a material subsidiary or sub-group credibly supports the preferred resolution strategy and the passing of losses and recapitalisation needs to the resolution entity. In cases of direct or indirect issuance to the resolution entity that is not along the chain of ownership, therefore, firms need to assess circumstances in which writing down or converting internal MREL-eligible resources could result in a change of control of the subsidiary or subgroup, and whether there would be significant governance, accounting, legal or tax issues as a result.

4.12 Firms also need to consider whether there could be any impact on their resolvability caused by differences in form (such as equity or debt, maturity, currency, interest rate, and other terms and covenants) between internal MREL resources of a material subsidiary and MREL issued externally from the resolution entity.

Principle 4: Clean holding company

4.13 Firms that issue external MREL from a resolution entity that is a holding company should consider whether the assets and liabilities held by that resolution entity present challenges to the preferred resolution strategy. Such firms should have particular regard to on-balance sheet and off-balance sheet liabilities that may rank *pari passu* with any MREL resources, as mentioned in paragraph 6.3 of the MREL SoP, noting that the sum of liabilities that do not qualify as MREL should not exceed 5% of the overall external MREL resources of the resolution entity or 10% of the resolution entity's MREL resources in the same creditor class.

Principle 5: Documentation and internal policies

4.14 Documentation that is relevant to a firm's MREL position should be maintained in a way that can be made easily available to the Bank, when requested. This includes, where appropriate, independent legal advice that the firm received in relation to the eligibility of instruments for MREL purposes, for instance in order to determine whether a decision by the Bank to direct the write-down and/or conversion of instruments issued under third-country law would be effective and enforceable.

4.15 Firms should develop robust internal policies detailing, for example, targets in terms of issuance of external and/or internal MREL resources and any actions that may be taken if those targets are not met. Those policies may take the form of risk appetite statements and should specify the processes to be followed when issues are identified, the governance bodies and/or senior managers who are accountable for decision-making, and the timing of any remedial actions.

Box 1 - EU's revised legislation on capital requirements and resolution

Regulation EU/2019/876, amending Regulation EU/575/2013, (CRR II) was published in the Official Journal of the European Union on 7 June 2019.

The CRR II introduced requirements for UK G-SIBs and UK material subsidiaries of non-EU G-SIBs in respect of 'own funds and eligible liabilities', which were directly applicable from 27 June 2019. The Bank has communicated directly with firms affected, who should read the MREL SoP and this Statement of Policy, including the definitions of MREL and internal MREL, subject to the new CRR II requirements. As previously communicated, the Bank is also committed to, before the end of 2020, reviewing the calibration of MREL, and the final compliance date, prior to setting end-state MREs. In doing so, the Bank will have regard to any intervening changes in the UK regulatory framework, including the revision of BRRD and CRR, as well as firms' experience in issuing liabilities to meet their interim MREs.

Valuations

Policy Background

- In June 2018, the Bank published its policy on valuation capabilities to support resolvability (the 'Valuations SoP').¹ The compliance deadline for this policy is 1 January 2021.
- The policy sets out the Bank's overall objectives for the timeliness and robustness of resolution valuations. The policy also sets out seven principles for the capabilities that certain firms² should have in place to support these objectives. These principles relate to the data and models firms should have in place to support resolution valuations, as well as the governance, documentation, and assurance arrangements around these.
- The Bank wrote to firms in scope of the Valuations SoP in November 2018 to provide firms with guidance on valuation capabilities to support resolvability.³ This guidance is non-binding. It aims to support implementation of the Valuation SoP by illustrating what may be needed to support timely and robust resolution valuations.
- The Bank's policy is consistent with the FSB principles on bail-in execution published in June 2018.⁴ The Bank contributed to the development of these principles and has in turn sought to reflect them in its policy design. In particular, the policy has reflected that:
 - (a) firms will need to have systems in place to support timely valuations;
 - (b) the specific assumptions and methodologies applied in resolution valuations should ultimately be at the discretion of an independent valuer; and
 - (c) in cross-border resolutions, valuations should be led by the home authority, with input from host authorities where relevant.

4.16 Objective: To be considered resolvable, firms should meet the objective of having valuation capabilities that would enable a valuer to carry out sufficiently timely and robust valuations to support effective resolution.

¹ Bank of England (2018) 'The Bank of England's policy on valuation capabilities to support resolvability': available at <https://www.bankofengland.co.uk/paper/2018/the-boes-policy-on-valuation-capabilities-to-support-resolvability>

² The Scope of this policy is set out in paragraph 2.1. of the Valuations SoP.

³ Bank of England (2018) 'Guidance on valuation capabilities to support resolvability': available at <https://www.bankofengland.co.uk/letter/2018/guidance-on-valuation-capabilities-to-support-resolvability>.

⁴ FSB (2018) 'Principles on Bail-In Execution' available at: <http://www.fsb.org/2018/06/principles-on-bail-in-execution-2/>.

4.17 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the Bank's Valuations SoP. In summary, the principles of this SoP cover:

- **Data and information:** Firms should ensure that their underlying data and information is complete and accurate, and that relevant data and information would be readily available to a valuer.
- **Models:** As necessary to meet the timeliness and robustness objectives, firms should have models available to be tested and used by a valuer on a timely basis in carrying out the valuation analysis needed for resolution.
- **Methodologies:** Valuation models should use methodologies that are consistent with the methodologies a valuer could reasonably be expected to apply in producing valuations that meet the robustness objective.¹
- **Assumptions:** Firms should have processes that support the use of realistic valuation assumptions, and should enable a valuer to review and revise, and demonstrate sensitivity to these assumptions if necessary.
- **Governance:** Firms should apply sound governance arrangements and processes to ensure that valuation capabilities compliant with these principles are maintained in business-as-usual and available prior to and during resolution.
- **Documentation:** Firms should clearly and concisely document their valuation capabilities and how these could be relied upon to produce timely and robust resolution valuations.
- **Assurance:** Firms should periodically review and evaluate their valuation capabilities with regard to these principles, and should facilitate reviews undertaken by the Bank or a third party to test compliance.

4.18 In particular, the Bank will consider how firms' capabilities would support the actions and decisions needed within the stylised resolution timeline, set out in Annex 1 and Annex 2 of this SoP, by enabling a valuer to produce timely and robust valuations. This includes by having regard to the need:

- for a firm to co-ordinate effectively around the valuations process (including by providing a valuer with timely access to relevant data and information, documentation, model outputs, and staff);
- for a valuer to be able to rapidly familiarise themselves with a firm's capabilities and assess their reliability (including through the review of the firm's data, models and testing and oversight already undertaken in business-as-usual); and
- to carry out multiple iterations of the valuations in order to assess sensitivities, to reflect a valuer's independent expert judgement and to reflect the resolution and restructuring actions being considered (including through the use of firms' models).

Funding in Resolution

Policy Background

- Both a firm's liquidity position in resolution and the availability of funding sources are inherently uncertain prior to the firm entering resolution. However, establishing this with as much clarity as possible is a priority, because doubts about the ability of the firm to pay its obligations as they fall due could be self-fulfilling, compromising the success of the resolution.

¹ The robustness objective is set out in paragraph 3.3 of the Valuations SoP.

- In August 2016, the FSB recognised this issue and issued its first publication specifically covering funding in resolution.¹ This outlines a set of guiding principles covering temporary funding to support the execution of the preferred resolution strategy of a G-SIB. The principles set out that private markets should be the preferred source of funding in resolution and detail ways to encourage and maintain this. To the extent such funding is not available or sufficient, the principles cover the role and types of public sector backstop funding mechanisms and how such mechanisms can be designed to minimise moral hazard.
- In line with the FSB guidance, the Bank has developed the Resolution Liquidity Framework (RLF). A firm in resolution would have access to the Bank's published facilities, as set out in the 'The Bank of England's Sterling Monetary Framework' (the Red Book),² subject to meeting the necessary eligibility criteria. The RLF acts as a supplement to the Bank's existing liquidity facilities and provides the tools to lend to banks, building societies or investment firms subject to stabilisation powers where the entity or its holding company is in a Bank-led resolution.
- In June 2018, the FSB published further guidance for authorities developing funding plans to ensure that a firm will have sufficient liquidity in resolution.³ This identifies a number of key strategic elements for authorities to consider, as well as stating that authorities should ensure firms have:
 - (a) a methodology for estimating the liquidity needs of a firm to facilitate the successful execution of its preferred resolution strategy;
 - (b) processes for monitoring and reporting liquidity needs, liquidity sources, and the positioning of liquidity within the firm that would be available in resolution within an adequate timeframe; and
 - (c) processes for monitoring asset encumbrance and for identifying assets that can be mobilised as collateral across the group.
- Moreover, a number of going-concern policy standards developed by the Bank or the PRA align with the guidance contained in the FSB publications:
 - (a) as set out in SS9/17,⁴ by 30 June 2019, firms were required to model their capital and liquidity profiles in various stressed scenarios where the firm is implementing recovery actions, including by detailing their currency needs by jurisdiction (where appropriate); and
 - (b) as required by the PRA Rulebook: CRR Firms: Internal Liquidity Adequacy Assessment Instrument (2015),⁵ firms need to develop an effective liquidity contingency plan. Additionally, firms need to undertake regular liquidity stress testing and analysis of possible future liquidity stresses, as well as maintaining adequate liquidity resources at all times in going concern, and actively managing their liquidity risk exposures.

1 FSB (2016) 'Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank' available at: <http://www.fsb.org/wp-content/uploads/Guiding-principles-on-the-temporary-funding-needed-to-support-the-orderly-resolution-of-a-global-systemically-important-bank-G-SIB.pdf>.

2 Bank of England (2015) 'The Bank of England's Sterling Monetary Framework' available at: <https://www.bankofengland.co.uk/media/boe/files/markets/sterling-monetary-framework/red-book>.

3 FSB (2018) 'Funding Strategy Elements of an Implementable Resolution Plan' available at <http://www.fsb.org/wp-content/uploads/P210618-3.pdf>.

4 Bank of England (2017) 'Recovery planning', PRA Supervisory Statement SS9/17 available at: <https://www.bankofengland.co.uk/media/boe/files/prudential-regulation/supervisory-statement/2017/ss917.pdf>.

5 PRA Rulebook: CRR Firms: Internal Liquidity Adequacy Assessment Instrument (2015) available at: <https://www.bankofengland.co.uk/media/boe/files/prudential-regulation/policy-statement/2015/ps1115>.

- In July 2019, the Bank published its SoP on funding in resolution.¹ This SoP sets out objectives and capabilities that certain firms are expected to meet in order to avoid a determination that insufficient funding in resolution capabilities constitute a barrier to resolvability.

4.19 Objective: To be considered resolvable firms should ensure they can continue to meet their obligations as they fall due, are able to estimate, anticipate and monitor their potential liquidity resources and needs and mobilise liquidity resources in the approach to and throughout resolution.

4.20 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the Bank's policies on Funding in Resolution, in particular the Bank of England's Statement on Policy on Funding in Resolution.²

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¹ Bank of England (2019) 'The Bank of England's statement of policy on funding in resolution' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf>.
² Bank of England (2019) 'The Bank of England's statement of policy on funding in resolution' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf>.

5 Outcome: continuity and restructuring

5.1 To meet the continuity and restructuring outcome for resolvability, firms will need to (at a minimum) have capabilities, resources, and arrangements in place to meet relevant Bank and PRA policies relating to:

- Continuity of financial contracts (stays);
- Operational continuity in resolution;
- Continuity of access to FMIs; and
- Restructuring planning.

Continuity of financial contracts in resolution (stays)

Policy Background

- The Banking Act includes provisions to ensure a firm's entry into resolution does not, by itself, trigger contractual early termination rights or other rights under the contract normally triggered by an 'event of default'. This general stay lasts as long as the firm in resolution continues to perform its substantive obligations under the contract. The Bank, as resolution authority, also has the power to suspend temporarily the failed firm's payment and delivery obligations, including preventing counterparties from terminating their contracts with the firm or enforcing security interests created by the firm.
- The Banking Act general and temporary stay (jointly referred to as 'stay') powers apply to contracts governed by UK and EEA laws but may not be effective in relation to contracts governed by third-country laws. The FSB issued guidance in 2015 to highlight the benefits of contractual and regulatory measures that ensure such third-country law contracts are not terminated on entry into resolution.
- The PRA published the PRA Stay in Resolution Rules (PRA Stay Rules)¹ in November 2015 requiring certain types of new financial contracts to contain contractual terms requiring the counterparty to recognise the application of a stay imposed under the UK resolution regime.

5.2 **Objective:** To be considered resolvable firms should suitably address the risk of early termination of financial contracts upon entry into resolution to limit any impact on their stability and the wider financial system (i.e. market contagion) that may otherwise occur as a result of resolution.

5.3 In assessing whether a firm has met this objective, the Bank will consider how the firm has implemented the PRA Stay Rules and how the firm has met the following principles:

Principle 1: Compliance and monitoring capabilities

5.4 The BRRD empowers resolution authorities to require a firm to maintain detailed records of financial contracts² with further requirements set out in Commission Delegated Regulation (EU) 2016/1712. Firms should be able to quickly identify their counterparties and gather key information about their financial contracts, including contract values (both notional and market).

Principle 2: Legal capabilities

¹ 'PRA Stay Rules' refers to final rules contained in Bank of England (2015) 'Contractual stays in financial contracts governed by third-country law' PS25/15, available: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2015/ps2515>, and in the Stay in Resolution part of the PRA Rulebook.

² Article 71(7) BRRD.

5.5 In SS42/15, referred to in the policy background, firms are expected to satisfy themselves that they are in compliance with the PRA Stay Rules and be able to demonstrate compliance. For financial contracts in scope of the PRA Stay Rules that are remediated bilaterally in a bespoke manner (i.e. without using standard market protocols), firms should be able to demonstrate to the Bank that the counterparty has agreed in an enforceable manner that they will recognise a stay under the UK resolution regime.

Principle 3: Communication capabilities

5.6 Firms will need to be able to ensure a stay is effective in order to support resolvability. Firms should therefore:

- (a) have communications capabilities that can be used in pre-resolution contingency planning, if necessary, to engage with counterparties. These capabilities are likely to be consistent with those necessary to implement the communication plan included in the firm's recovery plan (see SS9/17 paragraph 2.85 and 2.86); and
- (b) have communications capabilities consistent with Principle 3 of the SoP on Management, governance and communication,¹ enabling firms to engage with counterparties as required during resolution.

Principle 4: Understanding of the risk of early termination across a group

5.7 Firms may have financial contracts that are not governed by EEA law or subject to the PRA Stay Rules. To support resolvability, firms should have a clear understanding of any risk of early termination of these 'out of scope' financial contracts. This understanding is important in order for firms to know of any significant risk of early termination for their business and the implications of this for the orderly implementation of the preferred resolution strategy. Firms should therefore be able to identify these financial contracts (including the notional and market amounts) and assess the risk of early termination.

Principle 5: Governance and assurance

5.8 For resolvability purposes, firms should be able to explain to the Bank how their internal governance and assurance processes ensure that they satisfy the PRA Stay Rules and the principles above.

Operational Continuity in Resolution (OCIR)

Policy Background

- The FSB *Guidance on Arrangements to support operational continuity in resolution* published in August 2016 describes the concept of operational continuity as the means of supporting continuity of the critical shared services that are necessary to maintain the provision, or facilitate the orderly wind down, of a firm's critical functions in resolution.²
- In the UK, OCIR is addressed by the Operational Continuity Part of the PRA Rulebook, and PRA SS9/16 (collectively the 'PRA OCIR Policy').³ The PRA Rules require firms to ensure their operational structure facilitates effective recovery and resolution planning. SS9/16 sets out expectations that firms will ensure their operational arrangements facilitate recovery actions, orderly resolution and post-resolution restructuring within a reasonable time.

¹ Bank of England (2019) 'The Bank of England's statement of policy on management, governance and communication' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-management-governance-and-communication-sop.pdf>.

² FSB (2016) 'Guidance on Arrangements to Support Operational Continuity in Resolution' available at: <http://www.fsb.org/2016/08/guidance-on-arrangements-to-support-operational-continuity-in-resolution/>.

³ Bank of England (2016) 'Ensuring operational continuity in resolution' PRA Supervisory Statement SS9/16 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/ensuring-operational-continuity-in-resolution-ss>.

Scope of operational continuity arrangements in the context of achieving the resolvability outcomes.¹

- Firms' compliance with PRA OCIR Policy is an important foundation for operational continuity in resolution and represents a significant step towards resolvability. These arrangements should be maintained and embedded in business-as-usual.
- Since publication of the PRA rule and Supervisory Statement on Operational Continuity in Resolution in 2016, the Bank has developed its expected approach to use of the bail-in power. Where the bail-in power is used to stabilise a firm, authorities must ensure that, through restructuring, there is a reasonable prospect of returning the firm to long-term viability.
- The Bank considers that the surest way to deliver the continuity objective described in this document is for most or all functions to continue through the 'resolution weekend' and the bail-in period, and for there to be continuity to allow post-resolution restructuring. In addition to critical functions, other business lines may need to continue to support the franchise and future viability. Furthermore, the disruption of banking services to customers and counterparties may undermine the process of restoring viability, even if these banking services are not themselves critical functions (for instance, due to loss of confidence or customer attrition). Given the cause of failure or the wider economic circumstances cannot be known in advance, the Bank cannot foresee the best way to restructure the firm to deliver a viable business that protects the critical functions required for financial stability and to meet the Bank's objectives.
- To achieve the resolvability outcomes, firms may need to ensure that the scope of operational continuity arrangements supports the execution of their preferred resolution strategy over the 'resolution weekend' and facilitates post-resolution restructuring. For UK firms whose preferred resolution strategy is bail-in, this may mean that the scope of operational continuity arrangements would need to support continuity of most or all functions in order to ensure continuity of critical functions and support restructuring. This may require arrangements to ensure continuity of a broader set of functions than solely those identified as critical.
- In addition, given the Bank's responsibility as a home resolution authority for UK-based international banking groups, the Bank may need to ensure firms' operations would be able to continue in other material jurisdictions without destabilising the group preferred resolution strategy.
- Under the Operational Continuity Part of the PRA Rulebook, firms are required to ensure operational arrangements for continuity of critical services. As noted in the PRA CP, the PRA is intending to review the PRA OCIR Policy, and in doing so will consider the Bank's current thinking as set out above, as well as experience from firms' implementation. The outcome of the PRA's review cannot be known in advance, and would be subject to usual processes including consultation.
- In the RAF cycle in 2020/21, firms will be assessed, and should themselves assess as to how their compliance with current PRA OCIR Policy is helping them towards ensuring continuity in resolution. The Bank would welcome firms' engagement and comments on their readiness to deliver a broader scope of operational continuity than the existing PRA OCIR policy, in line with the stated continuity outcome, but this will not be a formal part of the Bank's assessment in 2020. Clarification of how the Bank will assess firms' submissions beyond 2020 will be communicated following the review of PRA OCIR policy.

¹ Box 4 within Bank of England (2018) 'Consultation Paper - The Bank of England's approach to assessing resolvability' <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/bank-of-englands-approach-to-assessing-resolvability-cp.pdf?la=en&hash=8B0357C32E2C7D6CF5E6C295BD1F2FA16928CBEF>.

5.9 Objective: To be considered resolvable firms should achieve the outcome of continuity by ensuring their operational continuity arrangements ensure continuity at the point of entry into resolution and permit post-stabilisation restructuring, to ensure the continuity of banking services and critical functions.

5.10 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the PRA OCIR policy.

5.11 In particular, the Bank will focus on whether a firm's OCIR arrangements support resolvability by:

- providing rapid access to the information needed to identify potential risks resulting from entry into resolution, and to develop the firm's business reorganisation plan. A service catalogue is a means by which the information mapped by firms is gathered and can be accessed reliably in a stressed scenario for resolution planning purposes.¹ This could be achieved through a comprehensive and searchable service catalogue, which includes the information above for all functions and services as captured in the mapping, so that information is readily available. It will also be important that information is kept up to date;
- helping to facilitate timely divestments of entities or business lines as part of post-resolution restructuring. Supporting resolvability includes, but is not limited to, the timely provision of information or documentation to a potential acquirer or other relevant parties. It will also be important that the firm can develop transitional service agreements at short notice or convert the service contracts into third party contracts at short notice;² and
- ensuring that divestments do not unduly disrupt the viability of the rest of the business. To support resolvability, it will be important that this includes having adequate financial resources available to fund service provision throughout resolution and restructuring.³

Continuity of Access to Financial Market Infrastructure (FMIs)

Policy Background

- The FSB Guidance on Continuity of Access to Financial Market Infrastructures (FMIs) for a Firm in Resolution was published on 6 July 2017.⁴ The Guidance sets out the measures and arrangements that FMI service providers, firms and authorities should consider in order to support continuity of access to FMI services in resolution.
- In general terms, BRRD prevents EU FMIs from using resolution as an automatic event of default which can be used as a ground for terminating a firm's membership. The same is true of some other jurisdictions, although resolution actions taken outside of the FMI's home jurisdiction may or may not be recognised. In either case, FMIs typically maintain discretion over increasing requirements on members both in the lead-up to and during the execution of a resolution strategy. Discretion is important for maintaining the stability of the FMI. It is important that firms engage with FMIs to understand how each individual FMI is likely to exercise their discretion.

¹ Such mapping is part of meeting the expectations on facilitating recovery and resolution under SS9/16.

² As expected under paragraph 10.1 SS9/16.

³ In line with PRA expectations on financial resilience in SS9/16.

⁴ FSB (2017) 'Guidance on Continuity of Access to Financial Market Infrastructures ('FMIs') for a Firm in Resolution' available at: <http://www.fsb.org/wp-content/uploads/P060717-2.pdf>.

- The UK authorities' joint discussion paper *Building the UK financial sector's operational resilience*¹ also includes relevant considerations for firms when they consider what might hinder maintaining continued access to FMIs in resolution.
- In July 2019, the Bank published its SoP on continuity of access to financial market Infrastructure.² This sets out objectives and capabilities that certain firms are expected to meet in order to avoid a determination that insufficient capabilities to ensure continuity of access to financial market infrastructure in resolution constitute a barrier to resolvability.

5.12 **Objective:** To be considered resolvable firms should be able to take all reasonable steps available to facilitate continued access to clearing, payment, settlement, and custody services in order to keep functioning in resolution (recognising that providers of these services may retain a degree of discretion over their ability to terminate a firm's membership).

5.13 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the SoP on Continuity of Access to Financial Market Infrastructure.³

Restructuring planning

Policy Background

- In a bail-in, a firm's directors (or a Bail-in Administrator (BIA) appointed by the Bank) will be required to draw up and submit a business reorganisation plan within a specified period of time. This business reorganisation plan must include measures aiming to restore the long-term viability of the firm within a reasonable timescale, and a timetable for the implementation of those measures. It must meet the requirements set out in Commission Delegated Regulation (EU) 2016/1400, which specifies that a successful reorganisation strategy should follow a comprehensive analysis of the firm to be reorganised, its strengths and weaknesses, as well as the relevant markets where that firm operates and the risks and opportunities they present. The EBA has also published Guidelines on the minimum criteria to be fulfilled by a business reorganisation plan.⁴
- There are a number of policies and initiatives in the UK that require firms to undertake actions in business-as-usual to support authorities in the restructuring objective:
 - a) Ring-fencing. Certain UK banking groups are required to ring-fence their core activities under the Financial Services and Markets Act 2000 (FSMA) as amended by the Financial Services (Banking Reform) Act (2013). Ring-fencing mandates the structural separation of the ring-fenced bank from the non-ring-fenced bank. While the Bank envisages that the bail-in tool will be applied to a single entity within a group, and in general that entity would be the top financial holding company of the group, ring-fencing would help facilitate the reorganisation of a firm by providing resolution authorities with additional options to minimise any disruption to the continuity of core services in the United Kingdom.
 - b) Recovery planning. This is addressed in the UK by PRA SS9/17 'Recovery Planning', published in December 2017,⁵ and the Recovery Plans Part of the PRA Rulebook. As part of their recovery

1 Bank of England, Financial Conduct authority (2018) 'Building the UK financial sector's operational resilience, PRA Discussion Paper 1/18, FCA Discussion Paper 18/04 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/contractual-stays-in-financial-contracts-governed-by-third-country-law-ss>.

2 Bank of England (2019) 'The Bank of England's statement of policy on continuity of access to FMIs' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-continuity-of-access-to-fmis-sop.pdf>.

3 Bank of England (2019) 'The Bank of England's statement of policy on continuity of access to FMIs' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-continuity-of-access-to-fmis-sop.pdf>.

4 Draft Regulatory Technical Standards and Guidelines on business reorganisation plans under Directive 2014/59/EU (BRRD). These relate to: awareness and commitment; credibility; appropriateness of the reorganisation strategy and measures; consistency; and monitoring and verification. The guidelines also cover coordination between resolution authorities and competent authorities.

5 Bank of England (2017) 'Recovery planning', PRA Supervisory Statement SS9/17 available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss917.pdf>.

planning, firms should have developed a number of recovery options, and should maintain and test their recovery plans. Governance of firms' recovery plans should be clearly defined and firms should have effective processes to identify and report the risks affecting their ability to recover. Some recovery options developed for PRA recovery planning, such as a sale of assets, may be available as restructuring options for a firm in resolution.

- c) Operational Continuity in Resolution. This is addressed in the UK in the PRA's OCIR policy. Firms' arrangements to meet OCIR requirements should facilitate and can inform post-stabilisation restructuring, such as objective service level agreements that help identify operational interdependencies and clear and transparent charging structures that aid decision-making in restructuring. As part of OCIR, firms are expected to structure themselves so that they can execute post-stabilisation restructuring within a reasonable time.¹
- d) Funding in Resolution. In July 2019, the Bank published its SoP on Funding in Resolution. This sets out the capabilities firms should have to ensure they continue to meet their obligations as they fall due in the approach to and through resolution. Capabilities developed to meet the Funding in Resolution SoP, which provide information on liquidity needs and sources of the firm, should inform firms' approach to restructuring planning.
- e) Valuation capabilities. This is addressed in the UK by the Bank's Valuation SoP and the accompanying guidance, published in November 2018.² To ensure that the valuations take proper account of all losses, firms should have data and information on post-stabilisation restructuring options to enable the financial implications of these to be assessed through the valuation process.
- In July 2019, the Bank published its SoP on restructuring planning.³ This SoP sets out objectives and capabilities that certain firms are expected to meet in order to avoid a determination that insufficient restructuring capabilities constitute a barrier to resolvability.

5.14 Objective: To be considered resolvable firms should be able to plan and execute restructuring effectively and on a timely basis in the event of resolution, taking into account the objectives applicable to that firm's preferred resolution strategy.

5.15 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the SoP on Restructuring Planning.⁴

¹ In the RAF cycle in 2020/21, firms will be assessed, and should assess themselves against, how their compliance with current PRA OCIR Policy supports ensuring continuity in resolution.

² Bank of England (2018) 'Guidance on valuation capabilities to support resolvability': available at <https://www.bankofengland.co.uk/letter/2018/guidance-on-valuation-capabilities-to-support-resolvability>.

³ Bank of England (2019) 'The Bank of England's statement of policy on restructuring planning': available at <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-restructuring-planning-sop.pdf>.

⁴ Bank of England (2019) 'The Bank of England's statement of policy on restructuring planning': available at <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-restructuring-planning-sop.pdf>.

6 Outcome: coordination and communication

6.1 To meet the coordination and communication outcome for resolvability, firms will need to (at a minimum) have capabilities, resources, and arrangements in place to meet relevant Bank and PRA policies relating to:

- Management, governance and communication.

Management, governance and communication

Policy Background

- Effective management, governance, and communication are crucial to enable an effective resolution. Inclusion of these matters in the Bank's resolvability assessment and resolution plans is consistent with existing legal obligations.¹
- In June 2018, the FSB published 'Principles on Bail-in Execution'.² This is the first set of international standards on the subject of management, governance and communication in resolution. The principles are addressed primarily to resolution authorities rather than firms, though for the Bank to implement these principles effectively it will need firms to have adequate capabilities and arrangements in place. The FSB principles have therefore informed the proposals set out below.
- Many of the policies that apply to firms in going-concern regarding management, governance and communication will also largely apply in resolution. The Bank considers that the following PRA Rules and expectations will be of particular relevance:
 - a) the PRA's Fundamental Rules, which, among other areas, require firms to organise and control their affairs responsibly;
 - b) the PRA's Senior Managers and Certification Regime (SM&CR), which provides a framework for identifying key decision-makers in a firm, allocating clear responsibilities to them, and holding them accountable;³
 - c) the PRA's Remuneration Rules, which seek to align incentives with performance and prudent risk-taking;⁴
 - d) the PRA's Ring-fencing Rules which require a ring-fenced body to, in carrying on its business, ensure that it is able to take decisions independently of other members of its group;⁵
 - e) PRA SS5/16 'Corporate governance: Board responsibilities' which sets out the PRA's expectations for boards;⁶
 - f) the PRA's OCIR Policy, which covers the need for continuity of governance and staff involved in the provision of critical services; and

¹ Part 6 of the No.2 Order.

² FSB (2018) 'Principles on Bail-In Execution' available at: <http://www.fsb.org/2018/06/principles-on-bail-in-execution-2/>.

³ Bank of England (2018) 'Strengthening individual accountability in banking' PRA Supervisory Statement SS28/15 available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2018/ss2815update>

⁴ www.praRulebook.co.uk/Rulebook/Content/Part/292166/25-07-2018.

⁵ Certain UK banking groups are required to ring-fence their core activities under the Financial Services and Markets Act 2000 (FSMA) as amended by the Financial Services (Banking Reform) Act (2013).

⁶ Bank of England (2018) 'Corporate governance: Board responsibilities' PRA Supervisory Statement SS5/16 available at:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2016/corporate-governance-board-responsibilities-ss>.

- f) other PRA Rules dealing with systems and controls, including business continuity, contingency planning,¹ and outsourcing.²
- In July 2019, the Bank published its SoP on management, governance and communication in the context of resolvability.³ This SoP sets out objectives and capabilities that certain firms are expected to meet in order to avoid a determination that insufficient management, governance and communication capabilities constitute a barrier to resolvability.

6.2 **Objective:** To be considered resolvable firms should be able to – during the execution of a resolution – ensure that their key roles are suitably staffed and incentivised, that their governance arrangements provide effective oversight and timely decision making, and that they deliver timely and effective communications to staff, authorities and other external stakeholders.

6.3 In assessing whether a firm has met this objective, the Bank will consider how firms have implemented the SoP on Management, Governance and Communication.⁴

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1 <https://www.praRulebook.co.uk/Rulebook/Content/Chapter/214138/25-07-2018>.

2 <https://www.praRulebook.co.uk/Rulebook/Content/Part/214147/25-07-2018>.

3 Bank of England (2019) 'The Bank of England's statement of policy on management, governance and communication' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-management-governance-and-communication-sop.pdf>.

4 Bank of England (2019) 'The Bank of England's statement of policy on management, governance and communication' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-management-governance-and-communication-sop.pdf>.

7 Assurance

7.1 When conducting assurance of firms' resolvability, the Bank will consider:

- (a) the capabilities, resources, and arrangements firms have in place for satisfying relevant policies and how this achieves the resolvability outcomes;
- (b) the effectiveness of firms' plans to implement measures to observe relevant policies;
- (c) the governance, communications and assurance arrangements firms use to ensure the effectiveness of their approach or method for complying with the relevant policy and how these achieve the resolvability outcomes; and
- (d) how firms assess and oversee their ongoing performance in observing the relevant policies.

Assurance by firms

7.2 In the first instance, firms should apply their own arrangements to ensure they have the necessary measures in place to support resolvability. In carrying out its resolvability assessments, the Bank will consider the effectiveness of these arrangements. This will include:

- **Ongoing testing and review.** The Bank will consider how the firm has tested and reviewed whether its capabilities and arrangements operate as expected. The Bank will consider whether this testing and review has involved a suitably rigorous method and an appropriate level of expertise, independence and senior management engagement. The Bank will also consider how the firm has incorporated the outcome of its testing and review into its plans to maintain and enhance its resolvability; and
- **Business-as-usual governance and oversight.** The Bank will consider how the firm has apportioned responsibilities within the firm for approving and monitoring the capabilities, resources, and arrangements necessary to support resolvability. The Bank will consider the extent to which these responsibilities sit with suitably senior individuals or committees that have the skills and capacity necessary to fulfil these responsibilities effectively. This includes whether there is an appropriate level of oversight by the firm's board and senior management in line with the responsibilities proposed in the Resolution Assessment Part of the PRA Rulebook. The Bank will also consider how firms integrate these governance and oversight arrangements into existing business-as-usual arrangements to help embed consideration of resolvability as a focus within the firm.

7.3 The Bank recognises that these arrangements should reflect the nature of each specific barrier, including whether the measures needed are discreet and measurable (i.e. contractual arrangements, MREL resources) or capability-based (eg ability to provide data and information).

Consideration of firms' reports

7.4 Firms which are in scope of the Resolution Assessment Part of the PRA Rulebook are required to assess their preparations for resolution and provide a report of their assessments to the PRA. These reports will be shared with the Bank to support its consideration of firms' resolvability.

7.5 To support the Bank's assurance, the Bank may ask firms to explain aspects of their report in further detail, including with regards to the specific capabilities and outcomes proposed in the previous chapters. The Bank considers that such engagement will be important for ensuring that firms have achieved the resolvability outcomes and that firms' work aligns with the Bank's desired outcomes.

7.6 The Bank will continue engaging with firms between RAF cycles to ensure that firms continue to make progress on their stated future work plans.

Evidence from firms

7.7 To gain assurance, the Bank may ask firms for evidence of their resolvability. The Bank will be proportionate in its approach to requesting evidence, in particular for those firms not in scope of the Resolution Assessment Part of the PRA Rulebook as the depth and type of capabilities required to remove barriers to resolvability will depend on the firm's size and the nature of its business model.

7.8 By way of example, the additional evidence the Bank may ask for could include:

- (a) Data or information: For a number of barriers, firms will need to maintain certain data and information, and be able to provide this upon request. The Bank may ask for this specific data and information as part of its ongoing assessments of resolvability (i.e. information on MREL issuance, close-out risks for financial contracts, and FMI membership). This could also include examples of the contractual language the firm has adopted to comply with a given policy (i.e. for stays in financial contracts, MREL instruments or service provision).
- (b) Documentation: The Bank may ask firms to provide documentation containing detailed information of their underlying capabilities and arrangements. This may include:
 - documentation regarding the firm's compliance with relevant policies (eg MREL issuance, statements of compliance, expert advice);
 - operational documentation describing how underlying capabilities would be deployed in a resolution scenario (eg processes for supporting an independent valuation, retaining key staff and communicating with key stakeholders);
 - descriptions of capabilities and arrangements themselves, such as how systems or processes operate, what methodologies have been applied for valuing assets, cost-charging, or identifying key job roles;
 - summaries of the testing carried out by the firm, including detail about the design and planning of the test, how the exercise unfolded, the team or individuals involved and the lessons learnt;
 - descriptions of the oversight and review arrangements that given capabilities and arrangements are subject to (as discussed above); and
 - documentation of the assumptions used when complying with the policies and principles set out above (eg assumptions underpinning MREL issuance plans, input assumptions for valuation models and assumptions around scenarios for projecting funding needs).
- (c) Live evidence: Certain capabilities involve processes and systems that will need to be deployed in a resolution scenario. The Bank may ask firms to demonstrate these capabilities directly to the Bank to gain assurance that they would work as intended in practice. This could include:
 - live testing of whether a firm's capabilities operate as stated in a scenario specified by the Bank (eg providing data for valuations, projecting potential liquidity needs and executing restructuring options); and
 - live demonstrations to the Bank of specific systems or processes (eg OCIR service catalogue demonstrations).

7.9 For firms within the scope of the Resolution Assessment Part of the PRA Rulebook, requests may be made for evidence to support the statements in firms' reports of their assessments or where there are gaps in those statements. In such instances the Bank will ask for evidence in a proportionate manner

and, in particular, will not as a matter of course, ask firms for evidence in relation to all parts of each barrier in each cycle of the RAF.

7.10 The Bank may ask for a particular piece of evidence on a specific capability from all firms in a given RAF cycle in order to undertake sector-wide analysis of a particular barrier.

7.11 The Bank will consider information submitted to the Bank for resolution planning purposes in accordance with Commission Implementing Regulation (EU) 2018/1624 prior to requesting additional materials. Wherever possible, the Bank will consider other information submitted to both the Bank and the PRA to inform what it will request so as to reduce information burden upon firms.

8 The Bank's public statements

8.1 The Bank will make public statements concerning the resolvability of firms within the scope of the Resolution Assessment Part of the PRA Rulebook. These public statements will explain the extent to which the Bank considers that any barriers to a firm's resolvability could impede the Bank from executing the firm's preferred resolution strategy, without resort to public funds, and whilst avoiding any significant adverse effect on the financial system or the continuity of banking services and critical functions.

8.2 The Bank will not make a 'pass' or 'fail' judgement on each firm's resolvability in recognition that resolvability is a complex judgement. The Bank will assess against the resolvability outcomes.

Sequencing of firms' and the Bank's publications

8.3 The Bank's public statements concerning firms' resolvability will take into account firms' own public disclosures as detailed in SS4/19. The Bank intends to publish its statements at the same time as, or as soon as possible after, the relevant firm's public disclosure. The Bank does not intend to disclose price sensitive or proprietary information in its public statement.

8.4 The Bank intends to publish all of its statements for firms in scope of the Resolution Assessment Part of the PRA Rulebook at the same time.

Disclosure in 2021

8.5 The Bank does not expect firms to be fully resolvable until 2022. Four of the Bank's SoPs to address impediments to resolvability do not come into force until 1 January 2022.¹ Therefore, in 2021, the Bank's public statements will include separate sections that differentiate these SoPs from those areas where a firm's capabilities, resources, and arrangements should be more developed.

9 How the RAF fits within the existing legal framework

9.1 The Bank has a statutory financial stability objective to 'protect and enhance the stability of the financial system of the UK'. This applies to the Bank generally including in relation to its role as the UK's resolution authority. In addition, the Banking Act 2009 sets out special resolution objectives which 'relevant authorities' (i.e. HM Treasury, the PRA, the FCA and the Bank) need to have regard to when

¹ Bank of England (2019) 'The Bank of England's statement of policy on restructuring planning': available at <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-restructuring-planning-sop.pdf>, Bank of England (2019) 'The Bank of England's statement of policy on continuity of access to FMIs' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-continuity-of-access-to-fmis-sop.pdf>, Bank of England (2019) 'The Bank of England's statement of policy on funding in resolution' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf>, Bank of England (2019) 'The Bank of England's statement of policy on management, governance and communication' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-management-governance-and-communication-sop.pdf>.

using, or considering use of, stabilisation powers (or bank insolvency or bank administration procedure).

9.2 The Bank must prepare resolution plans for all UK-incorporated banks, UK-incorporated building societies and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. As part of resolution planning, the Bank must, in consultation with the competent authority (that is, the PRA or the FCA), assess the extent to which it would be feasible and credible to place the firm into resolution and implement the preferred resolution strategy, while avoiding to the maximum extent possible any significant adverse effect on the financial system of any EEA State or the continuity of the firm's critical functions (that is, the 'resolvability assessment').

9.3 The resolvability assessment will be conducted annually, unless the Bank determines otherwise in accordance with the Bank Recovery and Resolution (No. 2) Order 2014 (the No. 2 Order) at the same time as, and for the purposes of, drawing up or updating the resolution plan.

9.4 The Bank must not assume that the firm will be in receipt of any: extraordinary public financial support; central bank emergency liquidity assistance; or central bank liquidity assistance provided under non-standard collateralisation, tenor and interest rate terms. This resolvability assessment shall be based on the following consecutive stages:

- (i) assessment of the feasibility and credibility of the liquidation of the firm under normal insolvency proceedings;
- (ii) selection of a preferred resolution strategy;
- (iii) assessment of the feasibility of the selected resolution strategy; and
- (iv) assessment of the credibility of the selected resolution strategy.

9.5 The Bank will continue to complete a formal resolvability assessment and review resolution plans on an annual basis. The assessment and report in SS4/19 and the Bank's public statements concerning firms' resolvability will not replace the Bank's annual resolvability assessment. It will provide information to the Bank which the Bank will use as part of fulfilling its legal requirement to assess the resolvability of firms.

9.6 When preparing its public statement, the Bank will ensure that it is consistent with its formal resolvability assessment, which it will continue to discuss with international counterparts in the relevant fora. The Bank will also ensure that its public statement is consistent with the summary of the resolution plan and resolvability assessment that it is obliged to send to firms annually.

9.7 In order to conduct assurance of firms' resolvability the Bank will consider information submitted to the Bank for resolution planning purposes in accordance with Commission Implementing Regulation (EU) 2018/1624. Wherever possible, the Bank will consider other information submitted to both the Bank and the PRA to inform what it will request so as to reduce information burden upon firms.

9.8 SS19/13 on Resolution Planning¹ sets out details on information that firms should submit to the PRA to facilitate resolution planning and applies to firms to which the Resolution Pack Part of the PRA Rulebook applies.

¹ PRA Supervisory Statement SS19/13 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/resolution-planning-ss>.

9.9 In October 2017 the EBA consulted on changes to the Implementing Technical Standards on information for resolution planning. The Bank and PRA recognised that the ITS requirements could lead to duplicative reporting and have delayed resolution pack submissions under SS19/13 for relevant firms until 2020. During this period, resolution planning information can still be requested from firms under SS19/13 Phase 2 requirements and MREL reporting continues.

9.10 This SoP refers to three resolvability outcomes. In order to achieve these three outcomes, firms must address eight barriers to resolvability. Following a resolvability assessment, the Bank will inform the firm of any identified substantive impediments to resolvability. The firm will then have four months to make a proposal to remove the identified impediments. If the Bank concludes that the firm's proposal is insufficient or no proposal is received, the Bank must use its power to require the firm to take measures to address impediments to the effective exercise of the stabilisation powers or the winding up of that firm. The firm must propose a plan to achieve the measures required by the Bank, within one month, beginning on the date of the direction.

9.11 Please see the Bank's SoP on its power to direct institutions to address impediments to resolvability (December 2015)¹ and Part 3 of the Purple Book for further details on the Bank's policy for exercising its power to direct institutions to address impediments to resolvability under Section 3A of the Banking Act 2009.

9.12 The policy set out in this SoP has been designed in the context of the current UK and EU regulatory framework. The Bank will update this SoP in future to reflect the UK's withdrawal from the EU.²

10 Timeframe for compliance

10.1 Firms should be compliant with this SoP by 1 January 2022.

10.2 The Bank may on a firm-specific basis set an earlier compliance date, for example, where the Bank has concerns about the resolvability of a firm.

10.3 The Bank may also set a firm-specific compliance date where a firm that was not previously within scope becomes within scope of this SoP. This might occur if the preferred resolution strategy applicable to the firm changes, or if the firm becomes 'material' for the purposes of setting internal MREL. In these cases, the Bank will determine the appropriate compliance date on a firm-specific basis, and expects to allow firms at least 18 months for compliance.

¹ Bank of England (2015) 'The Bank of England's power to direct institutions to address impediments to resolvability' available at: <https://www.bankofengland.co.uk/paper/2015/the-boes-power-to-direct-institutions-to-address-impediments-to-resolvability-sop>.

² Please refer to the Bank's webpages on the UK's withdrawal from the [UK's withdrawal from the EU](#) for further information and details of the Bank's approach to financial services legislation under the European Union (Withdrawal) Act 2018.

Annex 1: A Stylised Resolution Timeline

1.1 This stylised resolution timeline provides an illustration of how the Bank anticipates a resolution may be conducted. This should help firms understand the capabilities and arrangements they will need to have in place in business-as-usual. Firms should consider each phase of the timeline when developing their capabilities to deliver the resolvability outcomes set out in the Approach to Assessing Resolvability SoP. When assessing the resolvability of firms, the Bank intends to have regard to a stylised resolution timeline reflecting how a firm may be resolved. However, the Bank recognises that each resolution scenario will be unique and will not necessarily conform to this timeline in practice.

1.2 This stylised resolution timeline is designed around the bail-in tool.¹ It complements the description of the Bank's approach to resolution and bail-in mechanic as described in the Purple Book.² Aspects of this timeline may also be relevant for firms whose preferred resolution strategy does not involve Bank-led bail-in.

1.3 This stylised resolution timeline consists of three phases: (i) pre-resolution contingency planning, (ii) the 'resolution weekend' and, (iii) the bail-in period. The Bank will endeavour to ensure that the duration of each of these phases is sufficient to make resolution effective. However, the duration of each phase cannot be known in advance and will depend on the circumstances of the financial failure at hand.

1.4 When implementing a resolution, the Bank must pursue the statutory special resolution objectives³ and is empowered to do so without the consent of shareholders, creditors or the senior management of the firm. The Special Resolution Regime is designed to ensure that action can be taken quickly and effectively to protect financial stability. Where the bail-in tool is used, the Bank's direct involvement as resolution authority will end following the return of a sufficient majority of the equity of the resolved firm to the new shareholders or after a set period has elapsed.

1.5 This description of the resolution timeline focuses on the key actions and decisions that would need to be taken during the resolution process. It does not include every decision or action that may need to be taken. Throughout the process the Bank would expect to engage with supervisors, advisers and other relevant authorities around these actions and decisions as appropriate.

1.6 This stylised resolution timeline does not consider:

- (a) *The cause of the firm's financial failure or the prevailing macroeconomic context*. The Bank expects firms to have capabilities that are robust regardless of the nature of the original issue that has caused a financial loss. As such, the Bank would not expect firms to plan for a particular scenario or cause of financial failure.
- (b) *The deployment of recovery actions prior to resolution*. In the period prior to resolution, supervisors will engage with the firm on a more intensive basis in recovery.⁴ In considering their resolvability,

¹ This is the preferred resolution strategy for the largest and most complex UK firms and the majority of other firms to which stabilisation powers would likely be applied.

² The stylised resolution timelines set out in Annex 1 and Annex 2 of the Approach to Assessing Resolvability SoP is structured around the bail-in mechanic described in Annex 2 of the Purple Book, rather than the broader resolution phases covered in Part 2 of that document. These phases are the 'stabilisation phase', the 'restructuring phase' and 'exit from resolution and implementation of restructuring'. In a bail-in, the 'stabilisation phase' covers the 'resolution weekend' and the first part of the bail-in period. The 'restructuring phase' would likely start during the bail-in period, once the firm is stabilised. 'Exit from resolution' would occur at the end of the bail-in period. 'Implementation of restructuring' would likely continue after the end of bail-in period (i.e. after 'exit from resolution').

³ Section 4 Banking Act.

⁴ Bank of England (2018) 'The Prudential Regulation Authority's approach to supervision': <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pr-a-approach-documents-2018>.

firms should demonstrate an awareness of the interactions between recovery and resolution.¹

While there are some overlaps between the phases described here and the recovery process, firms should not work on the basis that they have taken any specific recovery action prior to resolution.

Pre-resolution contingency planning

1.7 The first phase covers the pre-resolution contingency planning period. Pre-resolution contingency planning complements actions taken by firms to implement their recovery plans and heightened supervision undertaken by supervisors. The Bank would expect to intensify its contingency planning for a resolution when the firm appears to be coming under increasing stress, as informed by the firm's position in the PRA's Proactive Intervention Framework.²

1.8 In a period of heightened stress, the MREL position of a firm is likely to deteriorate. As stated in PRA SS16/16,³ the PRA expects firms not to double count common equity Tier 1 capital (CET1) towards both MREL and the amount reflecting the risk-weighted capital and leverage buffers. In addition, a firm breaching, or likely breaching, its external or internal MREL should also expect the PRA to investigate whether the firm is also failing, or likely to fail, to satisfy the Threshold Conditions.⁴

1.9 The Bank aims for contingency planning for resolution to be possible over the course of three months. The Bank will endeavour to ensure that sufficient time is available. In practice, however, the amount of time available for contingency planning will vary — for example, depending on the nature of the difficulties being experienced and the actions to recover being taken by the firm.⁵

1.10 In this phase, one would usually expect there to be heightened, intensive engagement between the firm, regulatory authorities (the Bank, PRA and Financial Conduct Authority (FCA), as well as with authorities in other relevant jurisdictions), and the Bank's advisers (including an independent valuer).

1.11 For resolution to achieve its objectives, the Bank (and other relevant authorities) will need to make effective decisions around the application of stabilisation powers. This includes assessing:

- (a) Whether the preferred resolution strategy is feasible. To review the feasibility of the preferred resolution strategy, the Bank will need more assurance around the firm's resolvability. This includes assessing the eight barriers to resolvability. The Bank will also need to consider any other potential issues or challenges that may complicate the resolution.
- (b) Whether there is a reasonable prospect that long-term viability will be restored through the resolution and restructuring. For the Bank to use the bail-in tool it will need to consider there to be a reasonable prospect that bail-in, together with other measures, including any business reorganisation measures, will restore the firm to financial soundness and long-term viability.
- (c) What instruments and liabilities are potentially in scope of bail-in. The Bank will need to confirm what instruments and liabilities are available to bail-in. It will also need valuation analysis to inform what the recapitalisation needs are for the firm's material subsidiaries, and the group as a whole.
- (d) Whether the conditions for a firm being placed into resolution are met. Four statutory conditions must be met before a firm can be placed into resolution. These include the determination that the

¹ See Bank of England (2017) 'Recovery planning', PRA Supervisory Statement SS9/17 available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss917.pdf>.

² For more information on the Proactive Intervention Framework, Bank of England (2018) 'The Prudential Regulation Authority's approach to supervision': <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pru-approach-documents-2018>.

³ Update on 16 July 2019 <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/the-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel-ss>.

⁴ However, a breach or likely breach by a firm of its MREL does not automatically mean that the PRA will consider the firm is failing, or likely to fail, to satisfy Threshold Conditions.

⁵ See paragraph 3.31 of the Purple Book.

firm is deemed 'failing or likely to fail', and that it is not reasonably likely that action will be taken outside resolution that will result in the firm no longer failing or being likely to fail.¹

1.12 To support these decisions, and to ensure the effectiveness of the resolution more generally, a number of actions will need to be undertaken. Annex 2 provides an illustration of some key actions that firms may be required to take during this stylised resolution timeline. In practice, there will be further actions needed beyond those listed.

The 'resolution weekend'

1.13 The second phase begins at the point that the authorities determine that the firm has met the conditions for resolution and that the relevant resolution entity will be placed into resolution. The phase ends the next business day when relevant markets open. Ideally the Bank would want to ensure that this phase takes place over a weekend, with the resolution decision taking place on a Friday once relevant financial markets have closed. It is possible that resolution may need to take place mid-week.

1.14 Once the Bank has decided to place a firm into resolution,² it will make a resolution instrument. This will give effect to the resolution, and specify the instruments and liabilities subject to the bail-in. It will be accompanied by a public announcement by the Bank. The Bank will coordinate with the relevant listing authorities (including the FCA) to suspend the trading, or cancel the listing of relevant instruments subject to the bail-in. Settlement will be frozen within the relevant central securities depositaries (CSDs).

1.15 In addition, the resolution instrument may:

- appoint a Bail-in Administrator (BIA) to control the voting rights of all shares in the firm during the bail-in period. The resolution instrument would also provide the BIA with additional powers, and impose objectives, constraints, and reporting arrangements, as the Bank saw fit;
- require the firm to issue Certificates of Entitlement (CEs) representing the potential right of bailed-in creditors to a future claim in the resolved firm.³ CEs would be credited into the accounts of bailed-in creditors, the process for which would commence at the 'resolution weekend';
- transfer the legal title of existing shares to a third-party depositary bank appointed by the Bank. These shares would be held on trust on behalf of the CE holders who will be the future owners of the firm;
- remove or replace directors and senior managers of the firm or vary their service contracts;
- require the BIA or the firm's directors to submit a business reorganisation plan to the Bank within a specified time period;⁴ and/or
- apply any other relevant powers under the Banking Act 2009 (and associated legislation), if the Bank considered this necessary to achieving its resolution objectives.⁵

1.16 During this phase, the firm will need to communicate essential information about the Bank's resolution action to its key stakeholders, including counterparties, investors, customers and suppliers.

¹ The general conditions for the use of stabilisation powers are set out in Section 7 of the Banking Act. Further detail on the conditions assessment process is set out in the Purple Book.

² This decision would be made in consultation with the PRA, FCA and HM Treasury.

³ CEs would also carry the rights of bailed-in creditors to potential compensation under the NCWO safeguard.

⁴ Under Article 52 of the Bank Recovery and Resolution Directive (2014/59/EU) (BRRD), the plan should need to be provided within one month of the Bank applying the bail-in tool. In exceptional circumstances, this may be extended up to a maximum of two months.

⁵ This could include, but is not limited to: amending the contractual terms of securities issued by the firm, discontinuing or suspending the listing of securities issued by the firm, requiring one or more of the firm's directors to comply with directions, and requiring continuity of relevant processes after the resolution date.

The firm and the Bank will work together to reassure these stakeholders and retain their confidence, helping to ensure that the firm can continue operating post-resolution. It will be crucial that, as the 'resolution weekend' ends, the firm will be able to continue performing the banking services and critical functions it normally provides to its customers and the wider financial market.

1.17 In particular, it will be important that counterparties under financial contracts that are within scope of either the Banking Act stay or the PRA Stay Rules respect a stay under the UK resolution regime. The firm may therefore need to communicate with counterparties regarding the general and any temporary stay. In doing so, the firm may need to explain that the consequence of resolution is that the operating company will be stabilised and continue to operate. Communication should be clear that the resolution action is taken at the level of the resolution entity.

1.18 Firms may also need to support the mechanics of the bail-in transaction. In doing so, firms will need to consider the implications of the relevant securities law or listing rules that may apply, and seek to ensure that these requirements do not frustrate the bail-in transaction.

Bail-in period

1.19 The third phase covers the period between the 'resolution weekend' and when the firm returns to private control. The Bank aims for this period to last no more than three to six months. In practice, however, this period would last as long as necessary until the Bank could accurately calibrate the final terms of the bail-in and safely return the firm to private control.

1.20 Throughout this phase, the firm will be expected to continue providing most or all of its banking services and critical functions. This will be supported by preparatory work before resolution, though ongoing actions may be needed to stabilise the firm and achieve the resolvability outcomes.

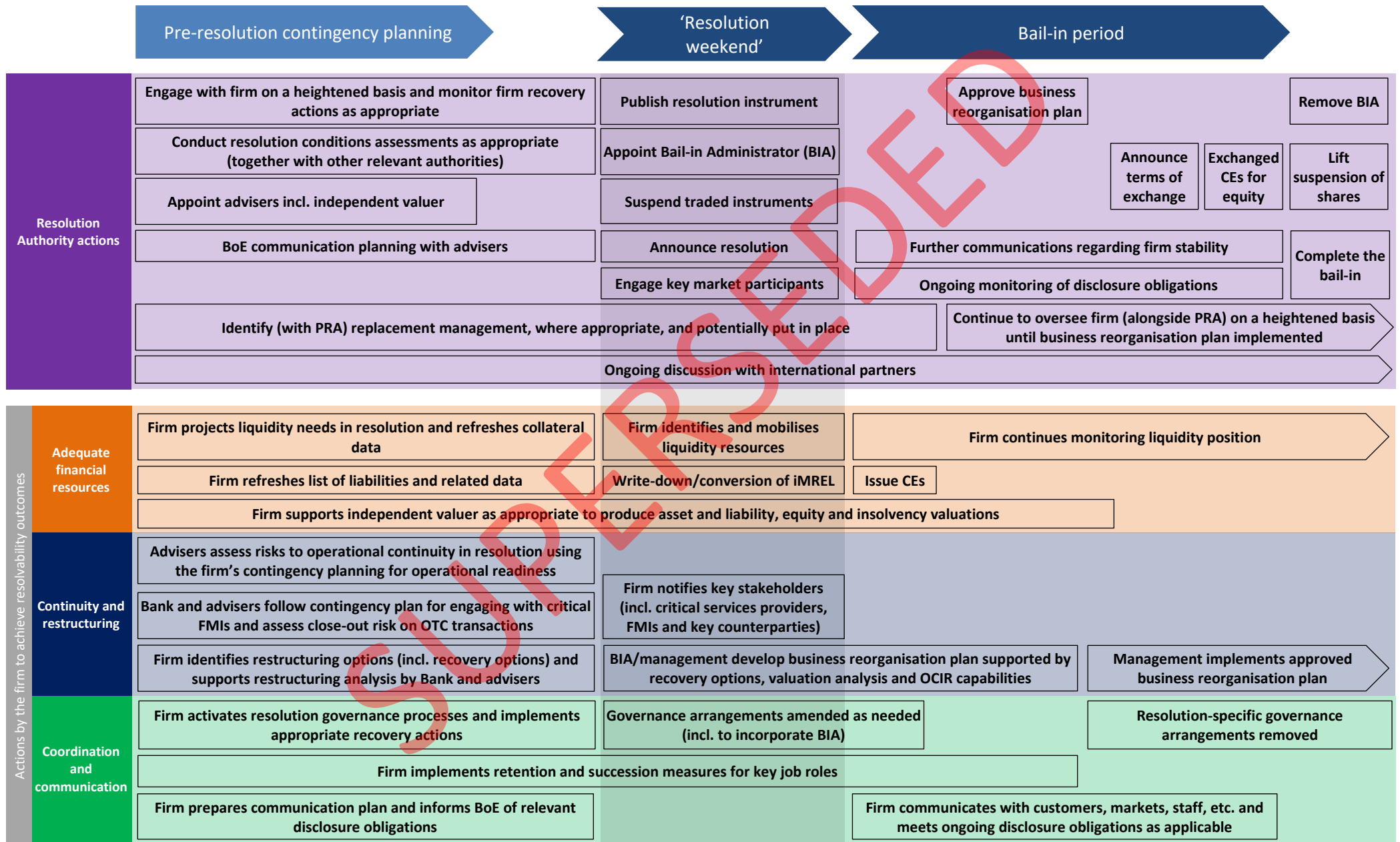
1.21 During the bail-in period, the BIA, if appointed, would work with the firm's management to further develop and submit a credible business reorganisation plan. This plan may involve some parts of the business being wound down or sold as well as a possible restructuring of the remaining business. Work undertaken in the contingency planning period and the firm's recovery plan, as well as the specific circumstances of the firm's failure, will all be used to form the basis of this plan.

1.22 This plan will need to be approved by the Bank, in consultation with the PRA and/or the FCA, who will need to be satisfied that the plan is credible (i.e. the arrangements in the plan would, if implemented, have a reasonable prospect of returning the firm to long-term viability). Further consideration may need to be given to the specific steps needed to implement the plan after the plan has been approved.

1.23 Further valuation work (supported by the independent valuer) will also be needed to inform and reflect the business reorganisation plan. Once final valuations have been completed, the Bank will announce the terms of the exchange for each class of CEs. CE holders will be asked to come forward and identify their beneficial ownership.

1.24 Exit from resolution will take place once an adequate proportion of CE holders have come forward or after a set period of time has elapsed. The depository bank will transfer shares to the relevant accounts of CE holders, and the BIA will no longer control the associated voting rights. The suspension of trading of the firm's shares would subsequently be lifted, and the BIA would be removed.

1.25 The firm will be expected to commence implementing its business reorganisation plan as soon as possible once the firm has been stabilised and the plan agreed. Implementation of the plan is likely to start during the bail-in period and extend beyond the point at which the firm has exited from resolution. However, the timing of the restructuring will reflect the specific case at hand. Where restructuring does continue post resolution, this will be completed by the new management and board under the supervision of the PRA and/or FCA.



Annex 2: Actions during this Stylised Resolution Timeline

Firms should consider all the actions they may have to take during this stylised resolution timeline when developing their capabilities to meet the resolvability outcomes set out in the Approach to Assessing Resolvability SoP.

The tables below provides an illustration of some key actions firms may be required to take during the periods within this stylised resolution timeline, as well as context as to why these actions may be needed. It is intended to be illustrative only, and should not be considered to be exhaustive. The Bank recognises that each resolution scenario will be unique and, in practice, the actions may not necessarily conform to those listed below. The length of each section below is not an indication of the importance of removing particular barriers to resolvability.

The tables groups the actions that may be required of firms into two parts: those that maybe required during the pre-resolution contingency planning period and those that may be required during the 'resolution weekend' and the bail-in period. This is because much of what may be required of firms after they have entered into resolution will be necessary on an ongoing basis rather than at a specific point on the 'resolution weekend'.

Key actions that may be required from firms during pre-resolution contingency planning

| Barrier | Context | Actions required from the firm |
|--|--|---|
| Outcome: Financial resources | | |
| MREL | The Bank will need to confirm what liabilities are available to bail-in. | The firm may need to provide the Bank and the PRA with additional, or more up-to-date, information, possibly at a short notice. |
| Valuations | The Bank will require valuations to inform its decisions. These valuations will likely be subject to significant uncertainty and may need to take into account rapidly evolving information on the resolution, the restructuring actions envisaged, and the condition of the firm and the market more broadly. | The firm will need provide timely access to relevant data and information, model outputs, documentation and relevant personnel needed to support these valuations and associated sensitivity analysis. This process is likely to be highly iterative. |
| Funding in Resolution | In a period of stress, the liquidity position of a firm is likely to deteriorate. The Bank and the PRA may require additional, or more up-to-date, information on liquidity, possibly at short notice, in order to facilitate their contingency planning. | The firm will need to manage its available liquidity to meet its obligations as they fall due in resolution. |
| Outcome: Continuity and Restructuring | | |
| Continuity of financial contracts | The Bank will need a clear understanding of the firm's exposure to financial market counterparties and the risk of early termination of financial contracts. This will be used to assess the risks of implementing | The firm may need to communicate <ul style="list-style-type: none"> with financial market counterparties with the Bank about its financial market counterparties |

| | | |
|---|---|--|
| | the preferred resolution strategy. | |
| Operational continuity in Resolution | Planning will be needed to ensure there will be minimal change to a firm's operations throughout this stylised resolution timeline and risks to continuity are identified and managed, to ensure uninterrupted continuity of banking services and critical functions | The firm will need to ensure its operational readiness prior to the 'resolution weekend'. This includes providing: detailed, robust, and readily available information on operational arrangements, including staff required to ensure continuity; a plan for the firm's communications, and an overview of key risks to operational continuity and potential mitigating actions. |
| Continuity of access to FMIs | Throughout this stylised resolution timeline many actions could be impeded should access to critical FMIs not be maintained. In a resolution scenario, FMI operators would likely enhance their monitoring of whether a firm meets its membership criteria and may impose additional requirements on the firm under its membership rules. | The firm will need to understand the specific requirements that FMIs may place upon them ahead of, and during, resolution. The firm will need to understand what communication, reporting or additional collateral or liquidity may be required by different FMIs at different points in the resolution timeline. The firm may also need to provide information to the Bank so that the relevant FMI supervisors can be contacted if necessary. |
| Restructuring Planning | The Bank will need an initial evaluation of what restructuring the firm could undergo should it enter resolution. First, to assess whether a bail-in resolution strategy is viable. Second, to inform the assessment of recapitalisation needs of the firm and its material subsidiaries. This will in turn inform the extent of resolution action needed, as well as the use of internal MREL resources. | The firm would need to support this initial evaluation by providing relevant information and analysis on a timely basis. This could include analysis of the firm's recovery options, mapping and documentation of service provision in the firm and – where relevant – the firm's plans to carry out a solvent wind down of its trading activities. It could also include information and analysis to support the valuations carried out by an independent valuer. |
| Outcome: Co-ordination and communication | | |
| Management | Should the firm enter resolution, it will be important to ensure that adequate management would be in place to run the firm's ongoing business as needed and carry out actions specific to resolution and restructuring. However, some key staff may leave or be replaced in the lead-up to or during resolution. | The firm will need to identify its expected key job roles and consider the succession, retention and incentives measures that may be needed to ensure these roles are adequately staffed and incentivised in resolution. This could include working with the Bank and PRA to prepare potential replacement management. |
| Governance | Effective contingency planning for resolution will require significant interaction with, and involvement by, the firm in question. The firm will need to carry out a number of actions on a timely basis. | The firm will need to ensure that clear and effective governance arrangements are in place to co-ordinate the actions that the firm will need to take, such as by: <ul style="list-style-type: none"> • mobilising necessary resources. |

| | | |
|---------------|--|---|
| | During pre-resolution contingency planning the Bank will identify a BIA, and define what specific roles, powers and responsibilities they will take on should the firm enter resolution. | <ul style="list-style-type: none"> expediting decision making. providing oversight and engaging with relevant internal and external stakeholders. <p>The firm may also need to support a potential BIA in preparing for their role.</p> |
| Communication | Effective communications will be crucial to promoting confidence and reducing uncertainty during resolution and any restructuring. | The firm will need to develop a detailed plan for how they will communicate with their internal and external stakeholders. |

Key actions that may be required from firms during the 'resolution weekend' and the bail-in period

| Barrier | Context | Actions required from the firm |
|---|---|---|
| Outcome: Adequate financial resources | | |
| MREL | The Bank will make a resolution instrument, specifying the liabilities, including MREL resources, subject to bail-in. The Bank, informed by valuations of the firm, will indicate the terms on which CEs may be exchanged for securities in the resolved firm. | A firm that has entered resolution will rebuild its MREL resources over time. The Bank expects to reduce the MREL applicable to a firm that has been resolved as necessary, so that it would not be in breach of MREL immediately after resolution. |
| Valuations | The independent valuer would update and finalise their valuations, including to inform and reflect the firm's business reorganisation plan. These valuations: <ul style="list-style-type: none"> inform the assessment of restructuring options and the resources required to deliver the firm's reorganisation plan; enable the Bank to assess resources needed to deliver restructuring; and inform the exchange ratios the Bank will set to distribute the firm's equity to CE holders. | Firms will need to continue to support the valuer in carrying out the necessary analysis. This could involve providing: <ul style="list-style-type: none"> detailed business forecasts; valuations of disposal options; other relevant information and analysis requested by the valuer. <p>This is likely to be a highly iterative process.</p> |
| Funding in Resolution | The Bank will monitor the firm's liquidity throughout the 'resolution weekend' and then on an ongoing basis, given the importance of stabilising outflows and restoring market confidence in the firm. | The firm will need to continue to monitor, anticipate, and adjust their assessment of liquidity risk. They should specifically consider resolution liquidity needs including with regard to stressed conditions and their evolving liquidity position. |
| Outcome: Continuity and Restructuring Planning | | |
| Continuity of financial contracts | It will be critical that, following the 'resolution weekend', counterparties under financial contracts that are within scope of either the Banking Act stay or the PRA Stay Rules respect a stay under the UK resolution regime. | The firm may need to communicate with counterparties regarding the general and any temporary stay. |

| | | |
|---|--|--|
| Operational continuity in resolution | Uninterrupted operational continuity of banking services and critical functions will be essential throughout the 'resolution weekend' and then on an ongoing basis. | The firm will need to ensure continuity of banking services and critical functions as planned, including uninterrupted service provision from both internal and external parties. Communications with key stakeholders and suppliers will be important in delivering this. Accessing pre-positioned liquid resources may be needed for the payment of services. The firm will also need to provide information on a timely basis to support the development of the business reorganisation plan. |
| Continuity of access to FMIs | Uninterrupted continuity of access to critical FMI services will be essential throughout the 'resolution weekend' and then on an ongoing basis. | The firm may need to provide information on their FMI relationships to inform the development and execution of the firm's business reorganisation plan. |
| Restructuring Planning | The Bank would need to be content that the firm has a credible restructuring plan in place before it is able to return the firm to private sector control. The Bank will initially require the delivery of a business reorganisation plan within one month, but may require further planning and analysis beyond this point to ensure the plan is sufficiently credible. | Initially, the firm would need to draw up and submit this business reorganisation plan (or support a BIA in doing so). Following this, the firm would need to continue providing information and analysis to support the assessment of the business reorganisation plan and any further planning needed to support its implementation. |
| Outcome: Co-ordination and communication | | |
| Management | Entry into resolution may prompt departures or entail the removal of certain individuals deemed culpable or accountable for the firm's failure. However, it will also be important that the management of the organisation is suitable before the firm is returned to private control (which may itself entail further changes to management). | Following entry into resolution, the firm itself may need to take steps to ensure that the firm's boards, Senior Management Functions (SMFs) and other key job roles are adequately staffed and incentivised, ¹ reflecting the operational objectives of the resolution. |
| Governance | Once a firm is placed into resolution, the Bank and any BIA it appoints will have a bespoke role in the management of the firm, decision making, and communications. Certain key decisions will likely be reserved for the BIA and/or the Bank. Where deficiencies in governance arrangements contributed to the | The firm may need to rapidly amend its governance arrangements to ensure they are effective in resolution. This could involve addressing any governance failures, incorporating a BIA into governance structures, or expediting decision making and conflict resolution to reflect the situation at hand. |

¹ The Bank has the power to vary or terminate the service contract of a director or senior manager under section 48N(1) of the Banking Act. The Bank may delegate this power to a BIA. Note that the PRA's 'early intervention powers' also enable it to (among other things) require members of senior management to be removed.

| | | |
|---------------|---|---|
| | firm's failure, these would also need to be addressed before the firm is returned to private-sector control. | |
| Communication | There are a large number of stakeholders, both internal and external that may be impacted (or fear being impacted) by the resolution. To promote confidence, it will be important that communications are delivered on a timely basis, using effective communications channels, and containing relevant and consistent content. | The firm will need to communicate essential information about the Bank's resolution action to its key stakeholders, including counterparties, investors, customers and suppliers. The firm will also need to continue meeting its disclosure obligations (potentially seeking waivers where available). |

SUPERSEDED

Appendix 2: The Bank of England's Statement of Policy on Funding in Resolution

1 Background and statutory framework

1.1 This Statement of Policy (SoP) is issued by the Bank of England (the Bank), as UK resolution authority, in accordance with section 3B(9) of the Banking Act 2009 as amended (the Banking Act). The SoP sets out how the Bank expects to use its power under section 3A(2) of the Banking Act to direct a 'relevant person' to take measures to address impediments to resolvability, specifically in relation to their capabilities and arrangements to support funding in resolution.

1.2 A 'relevant person' means:

- (a) an institution¹ authorised for the purpose of the Financial Services and Markets Act 2000 (FSMA) by the Prudential Regulation Authority (PRA) or Financial Conduct Authority (FCA);²
- (a) a parent of such an institution which (i) is a financial holding company or a mixed financial holding company; and (ii) is established in, or formed under the law of any part of, the UK; or
- (b) a subsidiary of such an institution or of such a parent which (i) is a financial institution³ authorised by the PRA or FCA; and (ii) is established in, or formed under the law of any part of, the United Kingdom.

1.3 The intended process around using this direction power is set out in the Bank's SoP on its power to direct institutions to address impediments to resolvability.⁴ In short, this process involves the Bank:

- (a) determining that there is a substantive impediment to the resolvability of an institution;
- (b) where a substantive impediment is identified, notifying the institution of the impediment. The institution will then have four months to make its own proposal to remove the identified impediments; and
- (c) if the Bank remains dissatisfied with the measures proposed by the institution, directing the institution to take specific action to remediate the impediment.

1.4 This SoP sets out objectives and principles that firms are expected to meet in order to avoid a determination that they have insufficient capabilities and arrangements to support effective resolution and that these constitute an impediment to resolvability.

¹ For the purposes of this SoP the term 'institution' means UK-incorporated banks, UK-incorporated building societies and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. References to 'institution' shall be taken to also include 'relevant persons'.

² The PRA and FCA are the UK competent authorities. According to Article 2 of the Bank Recovery and Resolution Directive (2014/59/EU) and Article 4 of the Capital Requirements Regulation (EU No. 575/2013), as amended by Regulation (EU No. 2019/876), 'competent authority' means a public authority or body officially recognised by national law, which is empowered by national law to supervise institutions as part of the supervisory system in operation in the Member State concerned.

³ The term 'financial institution' has the meaning given by Article 4 (1) (26) of Regulation 575/2013/EU.

⁴ Bank of England (2015) 'The Bank of England's power to direct institutions to address impediments to resolvability' available at: <https://www.bankofengland.co.uk/paper/2015/the-boes-power-to-direct-institutions-to-address-impediments-to-resolvability-sop>.

1.5 Not meeting these objectives and principles may constitute a barrier to resolvability and may result in the Bank directing firms to improve their capabilities to ensure resolvability.

1.6 In considering these objectives and principles, firms should have regard to their size, business model, and preferred resolution strategy.¹

2 Policy scope

2.1 This SoP applies to:

- (a) institutions notified by the Bank that their preferred resolution strategy is bail-in or partial-transfer, i.e. that the Bank would expect the strategy to involve the use of its stabilisation powers; or
- (b) institutions notified by the Bank that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK, as determined in accordance with the criteria set out in the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL SoP).²

2.2 Hereafter, references to 'firms' should only be taken to include those institutions that meet the criteria set out in paragraphs 2.1(a) and (b). Further detail is set out below on the application of this SoP to firms, and to entities in firms' groups.³

2.3 Material subsidiaries should consider this SoP within the context of the Statement of Policy: *The Bank of England's Approach to Assessing Resolvability* (Approach to Assessing Resolvability SoP), in particular paragraphs 2.5-2.6.

3 Objective

3.1 In order to ensure they continue to meet their obligations as they fall due, firms are able to estimate, anticipate and monitor their potential liquidity resources and needs and mobilise liquidity resources, in the approach to and throughout resolution.

4 Principles

Principle 1: Overview of liquidity analysis

Firms should be able to perform liquidity analysis on a timely basis at the level of material entities and for material currencies.

4.1 Firms should identify the entities and currencies that they consider material on the grounds of liquidity, and consider and identify the potential locations of liquidity risk within these. Firms should define and justify the range of entities and currencies which they consider to be in and out of scope.

4.2 At a minimum, the scope of firms' material entities should include those already defined as material for the purposes of internal MREL. Firms should also identify additional entities that are material for liquidity purposes.

4.3 At a minimum, firms' assessment of material currencies should consider the denominated currency of assets, liabilities, and contingent liabilities held by each material entity. Material currencies should include, at a minimum, each currency (which may include the reporting currency) that represents 5% or

¹ The Bank will notify a firm of its preferred resolution strategy on at least an annual basis.

² Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

³ For the purposes of this SoP, a firm's group should be taken to include the firm and subsidiaries that are directly or indirectly owned by the firm. It does not include the parent entities of the firm or subsidiaries thereof in which the firm does not have an ownership stake.

more of the total liabilities of each material entity. Firms should also identify additional currencies which are material for the purposes of liquidity at each material entity, or the group as a whole, taking into particular consideration the currency of obligations that are likely to arise in resolution.

4.4 Firms should develop capabilities to perform liquidity analysis, at the level of material entities, for currencies which are deemed to be material for that material entity, and for currencies which are deemed to be material for the group. Firms should also develop capabilities to perform liquidity analysis at the level of the group for currencies which are deemed to be material to the group.

4.5 For entities and currencies that are not deemed to be material, firms may choose to conduct less granular analysis. At a minimum, firms should be able to use existing systems to confirm that the liquidity needs of each non-material entity, and the obligations arising in each non-material currency, do not represent a risk to the liquidity position of the firm in resolution.

4.6 Firms should be able to refresh the relevant liquidity analysis as necessary, at the level of material entities, and deliver this information in a timely manner. Firms should be able to make the liquidity analysis available on a T+1 basis, or more rapidly if both necessary and appropriate. The mechanism for collecting and compiling information should be robust and compliant with the relevant data quality processes within the firm. The liquidity analysis should be sufficiently adaptable that it can be readily adjusted to reflect the circumstances of a stress.

4.7 The range of liquidity analysis capabilities and the characteristics of these capabilities, described in the remainder of this section of the SoP, should be read as applying to the scope of the analysis described in paragraph 4.4.

Principle 2: Liquidity needs

Firms should be able to develop estimates of, and assess, liquidity needs in resolution.

4.8 Firms should have the capability to estimate their liquidity needs in resolution based on their current balance sheet, and based on future estimated balance sheets. As such, firms should be able to estimate their liquidity needs in resolution for at least 90 days from the point of entry, both if they were to enter resolution either immediately or following a period of prolonged stress.

4.9 These capabilities should be sufficiently flexible that firms' projections of liquidity needs can reflect the different circumstances that firms might face in resolution and the different ways counterparties to the firm might behave in these circumstances. Firms should be able to perform sensitivity analysis and identify the key drivers of liquidity needs at the level of material entities.

4.10 Firms should design and document methodologies to estimate their liquidity needs in resolution. Firms' methodologies should consider the types and potential severity of outflows in resolution, record the behavioural assumptions used to support cash flow forecasts, and identify key drivers of liquidity needs in resolution.

4.11 When estimating their liquidity needs in resolution, firms should be able to estimate and detail the liquid assets they will be required to hold for operational reasons, such as minimum amounts in central bank reserve accounts, payment systems, initial margin on market transactions, and legal tender held in physical form.

4.12 In particular, firms should be able to estimate their likely intra-day liquidity needs in resolution based on current and estimated future exposures and taking account of how their peak needs may evolve in resolution. Firms should engage relevant counterparties in business-as-usual to understand the likely implications of resolution on their intra-day liquidity needs.

4.13 Firms should be able to estimate how intra-group funding needs would impact on their liquidity needs in resolution. In particular, firms should consider how their preferred resolution strategy would influence the movement of liquidity throughout the group.

Principle 3: Liquidity sources

Firms should be able to monitor and mobilise liquidity sources in resolution.

4.14 Firms should have the ability to estimate the liquidity resources available to them in resolution, both if they were to enter resolution immediately, or at any point during a period of prolonged stress. When estimating the liquidity resources available to them, firms should take into account the impact of prevailing market conditions on the method and timing of asset monetisation.

4.15 Firms should be able to identify unencumbered collateral¹ on a spot basis and project collateral balances, including how they evolve in a stress. Firms should be able to identify important information relating to the availability of collateral, such as currency, asset class, eligibility for central bank facilities, and whether the collateral is pre-positioned or has become encumbered as a consequence of the stress. They should also identify any legal and operational features that impact the management of collateral, including the transfer of collateral across jurisdictions and across the ring-fence.²

4.16 Firms should account for the assumptions made regarding intra-group liquidity needs, and for firms in scope of ring-fencing, restrictions in transferring collateral across the ring-fence in considering the resources available to be moved around the group. The assumptions around transferability are expected to be consistent with firms' preferred resolution strategy, and should remain sufficiently flexible.

Principle 4: Third party facilities

Firms should be able to project their possible need to use third party facilities.

4.17 Firms should be able to project their possible need to use third party facilities, including central banks.

4.18 Firms should consider their need and ability to monetise a wide range of collateral with third parties, including any potential need or ability to request liquidity from central banks. This should include an assessment of the timing of, and collateral suitable for, borrowing, and the availability of information a third party would require to risk manage their exposures.

4.19 Firms should be able to demonstrate that, subject to the agreement of third parties, if they were to be unable to meet their liquidity needs utilising their own resources, there is a reasonable likelihood that third-party facilities could be used in resolution.

Principle 5: Governance

Firms should embed the outcome of their analysis into their internal governance framework.

4.20 Firms' internal governance frameworks should facilitate effective and timely decision-making throughout the periods illustrated in the stylised resolution timeline set out in Annex 1 and Annex 2 of the Approach to Assessing Resolvability SoP, and should also support firms' existing management of liquidity risk.

¹ As referred to in Article 7(2) of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013: *an asset shall be deemed to be unencumbered where the credit institution is not subject to any legal, contractual, regulatory or other restriction preventing it from liquidating, selling, transferring, assigning or, generally, disposing of such asset via active outright sale or repurchase agreement within the following 30 calendar days. The following assets shall be deemed to be unencumbered: (a) assets included in a pool which are available for immediate use as collateral to obtain additional funding under committed but not yet funded credit lines available to the credit institution. This shall include assets placed by a credit institution with the central institution in a cooperative network or institutional protection scheme. Credit institutions shall assume that assets in the pool are encumbered in order of increasing liquidity on the basis of the liquidity classification set out in Chapter 2, starting with assets ineligible for the liquidity buffer; (b) assets that the credit institution has received as collateral for credit risk mitigation purposes in reverse repo or securities financing transactions and that the credit institution may dispose of.*

² For firms in scope of ring-fencing, as set out in The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014.

4.21 Firms should integrate their capabilities for managing liquidity risk in resolution into their existing comprehensive liquidity management framework, alongside any existing legal entity-specific liquidity requirements, and internal stress tests.

4.22 Firms should have internal governance arrangements in place for reporting liquidity risks in resolution to senior management, appropriate risk committees, and relevant authorities. Firms should consider quantitative and qualitative indicators for such reporting. These indicators should ensure senior management are informed of firms' liquidity risks in resolution on a sufficiently forward-looking basis. Firms' consideration of appropriate indicators should take into account the sensitivities and key drivers of risk identified through the analysis described earlier in this section.

4.23 Firms should consider the appropriate frequency with which they estimate and report their projected liquidity needs and resources to senior management. Specifically firms should be able, and have processes, to increase the frequency of reporting in a period of stress.

Principle 6: Testing

Firms should participate in, and provide information for, tests of the above capabilities.

4.24 Firms should test the capabilities and governance arrangements set out in this SoP on a regular basis. Firms should document the outcomes of these tests and review them, which may involve internal audit or third-party assurance providers. The tests should be conducted in a way that facilitates assurance by the Bank, the PRA, or a third party.

5 Timeframe for compliance

5.1 Firms should be compliant with this SoP by 1 January 2022.

5.2 The Bank may on a firm-specific basis set an earlier compliance date, for example where the Bank has concerns about the resolvability of a firm.

5.3 The Bank may also set a firm-specific compliance date where a firm that was not previously within scope becomes within scope of this SoP. This might occur if the preferred resolution strategy applicable to the firm changes, or if the firm becomes 'material' for the purposes of setting internal MREL. In these cases, the Bank will determine the appropriate compliance date on a firm-specific basis, and expects to allow firms at least 18 months for compliance.

Appendix 3: The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure (FMIs)

1 Background and statutory framework

1.1 This Statement of Policy (SoP) is issued by the Bank of England (the Bank), as UK resolution authority, in accordance with section 3B(9) of the Banking Act 2009 as amended (the Banking Act). The SoP sets out how the Bank expects to use its power under section 3A(2) of the Banking Act to direct a 'relevant person' to take measures to address impediments to resolvability, specifically in relation to their capabilities and arrangements to support continuity of access to financial market infrastructure.

1.2 A 'relevant person' means:

- (a) an institution¹ authorised for the purpose of the Financial Services and Markets Act 2000 (FSMA) by the Prudential Regulation Authority (PRA) or Financial Conduct Authority (FCA);²
- (a) a parent of such an institution which (i) is a financial holding company or a mixed financial holding company; and (ii) is established in, or formed under the law of any part of, the UK; or
- (b) a subsidiary of such an institution or of such a parent which (i) is a financial institution³ authorised by the PRA or FCA; and (ii) is established in, or formed under the law of any part of, the United Kingdom.

1.3 The intended process around using this direction power is set out in the Bank's SoP on its power to direct institutions to address impediments to resolvability.⁴ In short, this process involves the Bank:

- (a) determining that there is a substantive impediment to the resolvability of an institution;
- (b) where a substantive impediment is identified, notifying the institution of the impediment. The institution will then have four months to make its own proposal to remove the identified impediments; and
- (c) if the Bank remains dissatisfied with the measures proposed by the institution, directing the institution to take specific action to remediate the impediment.

1.4 This SoP sets out objectives and principles that firms are expected to meet in order to avoid a determination that they have insufficient capabilities and arrangements to support effective resolution and that these constitute an impediment to resolvability.

¹ For the purposes of this SoP the term 'institution' means UK-incorporated banks, UK-incorporated building societies and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. References to 'institution' shall be taken to also include 'relevant persons'.

² The PRA and FCA are the UK competent authorities. According to Article 2 of the Bank Recovery and Resolution Directive (2014/59/EU) and Article 4 of the Capital Requirements Regulation (EU No. 575/2013), as amended by Regulation (EU No. 2019/876), 'competent authority' means a public authority or body officially recognised by national law, which is empowered by national law to supervise institutions as part of the supervisory system in operation in the Member State concerned.

³ The term 'financial institution' has the meaning given by article 4 (1) (26) of Regulation 575/2013/EU.

⁴ Bank of England (2015) 'The Bank of England's power to direct institutions to address impediments to resolvability' available at: <https://www.bankofengland.co.uk/paper/2015/the-boes-power-to-direct-institutions-to-address-impediments-to-resolvability-sop>.

1.5 Not meeting these objectives and principles may constitute a barrier to resolvability and may result in the Bank directing firms to improve their capabilities to ensure resolvability.

1.6 In considering these objectives and principles, firms should have regard to their size, business model, and preferred resolution strategy.¹

2 Policy scope

2.1 This SoP applies to:

- (a) institutions notified by the Bank that their preferred resolution strategy is bail-in or partial-transfer, i.e. that the Bank would expect the strategy to involve the use of its stabilisation powers; or
- (b) institutions notified by the Bank that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK, as determined in accordance with the criteria set out in the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL SoP).²

2.2 Hereafter, references to 'firms' should only be taken to include those institutions that meet the criteria set out in paragraphs 2.1(a) and (b). Further detail is set out below on the application of this SoP to firms.

2.3 Firms should also ensure that the principles set out in this SoP are met in respect of all entities within their group.³

2.4 Material subsidiaries should consider this SoP within the context of the Statement of Policy: *The Bank of England's Approach to Assessing Resolvability* (Approach to Assessing Resolvability SoP), in particular paragraphs 2.5-2.6.

3 Objective

3.1 Firms are able to take all reasonable steps available to facilitate continued access to clearing, payment, settlement, and custody services in order to keep functioning in resolution (recognising that providers of these services may retain a degree of discretion over their ability to terminate a firm's membership).

4 Principles

Principle 1: Identifying FMI relationships

4.1 Firms should identify all of the relationships they have with FMIs,⁴ including those that are maintained via an intermediary.

4.2 Firms should know the membership requirements (including operational, financial and capital requirements) for all of the identified FMIs and FMI intermediaries (together 'FMI service providers'),

¹ The Bank will notify a firm of its preferred resolution strategy on at least an annual basis.

² Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

³ For the purposes of this SoP, a firm's group should be taken to include the firm and subsidiaries that are directly or indirectly owned by the firm. It does not include the parent entities of the firm or subsidiaries thereof in which the firm does not have an ownership stake.

⁴ An 'FMI', as defined by the Key Attributes, is 'a multilateral system among participating financial institutions, including the operator of the system, used for the purposes of recording, clearing, or settling payments, securities, derivatives, or other financial transactions'. As used in this guidance, an FMI includes payment systems, central securities depositories (CSDs), securities settlement systems (SSSs), and central counterparties (CCPs). It does not extend to trade repositories or to trading platforms. FMIs owned and operated by central banks are not themselves subject to the Key Attributes, however firms will need to consider their relationships with them for the purpose of this SoP.

and how these may change when the firm comes under financial stress, and specifically if it were put into resolution.

4.3 Firms should know how to communicate with each FMI service provider at a time of financial stress before resolution and should ensure that they are able to provide any additional information that may be required by each FMI in order for access to be facilitated.

Principle 2: Identifying FMIs that provide critical FMI services¹

4.4 Firms should develop a methodology to determine which of the FMI service providers identified under Principle 1 provide critical FMI services to them.

4.5 Firms should be able to identify all FMI service providers that provide critical FMI services to them, and describe for each FMI service provider:

- (a) the critical FMI service provided;
- (b) whether their access to the FMI is direct or indirect;
- (c) the jurisdiction where the critical FMI service provider is incorporated; and
- (d) the governing law under which the legal relationship between the firm and the FMI service provider operates and whether this framework supports recognition of the Bank's resolution regime.

Principle 3: Mapping and Assessment of FMI relationships

4.6 Firms should map relationships with critical FMI service providers to:

- (a) critical functions;²
- (b) critical services³ (where the firm provides access to FMIs or FMI intermediaries as a service to other legal entities within the group);
- (c) business lines;
- (d) legal entities; and
- (e) supervisory, resolution or any other competent authorities for the FMI by jurisdiction.

4.7 Should a firm assess that the contractual relationship with the critical FMI service provider may not facilitate continuity of access during resolution, to the extent that execution of its preferred resolution strategy would be materially impeded, it should consider putting in place arrangements with an alternative provider. Where the firm has decided to put in place arrangements with an alternative FMI service provider the firm should be able to provide an assessment of how credible the alternative arrangement is. Making arrangements with an alternative provider may not be viable, for example if there is no available provider of the same services as the FMI service provider in question or if there are

1 'Critical FMI services' are clearing, payment, securities settlement and custody activities, functions or services, the discontinuation of which could lead to the collapse of (or present a serious impediment to the performance of) one or more of the firm's critical functions. They include related activities, functions or services whose on-going performance is necessary to enable the continuation of the clearing, payment, securities settlement or custody activities, functions or services. Critical FMI services may be provided to a firm either by an FMI, or through an FMI intermediary.

2 'Critical functions' has the meaning in section 3(1) and (2) of the Banking Act 2009.

3 As referred to in Commission Delegated Regulation 2016/778: Critical services should be the underlying operations, activities and services performed for one (dedicated services) or more business units or legal entities (shared services) within the group which are needed to provide one or more critical functions. Critical services can be performed by one or more entities (such as a separate legal entity or an internal unit) within the group (internal service) or be outsourced to an external provider (external service). A service should be considered critical where its disruption can present a serious impediment to, or completely prevent, the performance of critical functions as they are intrinsically linked to the critical functions that an institution performs for third parties. Their identification follows the identification of a critical function.

legal, operational or financial barriers to the establishment and maintenance of a 'back up' arrangement. In this situation, the firm should consider alternative measures to mitigate the risk that continuity of access will be disrupted.

4.8 Firms should maintain an inventory of the actions that providers of critical FMI services may take to terminate, suspend or limit access, should its membership requirements not be met, and the consequences of those actions for the firm at a time of financial stress or in resolution. Where possible, following discussion with the critical FMI service provider, firms should consider and document the likelihood and circumstances in which these actions may be taken.

Principle 4: Usage of FMIs and FMI intermediaries

4.9 Firms should maintain a record of transaction data that details their relevant positions and usage of FMI service providers. These records should be provided to the Bank during pre-resolution contingency planning to assist the Bank's understanding of firms' obligations to and patterns of usage at FMI service providers.¹ These records should be reviewed and updated whenever the firm materially changes the volume or exposures it processes or holds with the FMI service provider in question.

4.10 Firms should consider how to provide to the Bank or Bail-in Administrator, upon request, any relevant information, including, but not limited to:

- (a) collateral pledges;
- (b) types of collateral accepted by each FMI service provider;
- (c) historical daily values of margin required at applicable FMI service providers;
- (d) historical daily values of gross payments sent or received; and
- (e) an inventory of material upcoming settlement and delivery obligations by value and type of asset.

4.11 Firms should be able to assess the anticipated extended collateral or liquidity requirements that providers of critical FMI services may place on them and how they would expect to meet those requirements, building on existing risk management systems.

4.12 In estimating these anticipated extended requirements (including on an intra-day basis and taking into account potential prefunding requirements), firms should consider the aggregated volume of business or activity that they would expect to maintain with each critical FMI service provider during resolution. Firms should also take reasonable steps to model the impact of their clients' possible behaviour in determining this amount.

Principle 5: Contingency planning

4.13 Firms should use the information collected according to principles 1-4, following engagement with FMIs, to draw up and update a contingency plan describing how they will maintain access to critical FMI service providers in stress and during resolution. The contingency plan should include a list based upon a full range of plausible actions that could be taken by each critical FMI service provider, and the defensive actions the firm has identified for mitigating them.

5 Timeframe for compliance

5.1 Firms should be compliant with this SoP by 1 January 2022.

¹ The maintenance and provision of such records must be performed in accordance with applicable law.

5.2 The Bank may on a firm-specific basis set an earlier compliance date, for example where the Bank has concerns about the resolvability of a firm.

5.3 The Bank may also set a firm-specific compliance date where a firm that was not previously within scope becomes within scope of this SoP. This might occur if the preferred resolution strategy applicable to the firm changes, or if the firm becomes 'material' for the purposes of setting internal MREL. In these cases, the Bank will determine the appropriate compliance date on a firm-specific basis, and expects to allow firms at least 18 months for compliance.

Appendix 4: The Bank of England's Statement of Policy on Restructuring Planning

1 Background and statutory framework

1.1 This Statement of Policy (SoP) is issued by the Bank of England (the Bank), as UK resolution authority, in accordance with section 3B(9) of the Banking Act 2009 as amended (the Banking Act). The SoP sets out how the Bank expects to use its power under section 3A(2) of the Banking Act to direct a 'relevant person' to take measures to address impediments to resolvability, specifically in relation to their capabilities and arrangements to support restructuring in the context of resolution.

1.2 A 'relevant person' means:

- (a) an institution¹ authorised for the purpose of the Financial Services and Markets Act 2000 (FSMA) by the Prudential Regulation Authority (PRA) or Financial Conduct Authority (FCA);²
- (b) a parent of such an institution which (i) is a financial holding company or a mixed financial holding company; and (ii) is established in, or formed under the law of any part of, the UK; or
- (c) a subsidiary of such an institution or of such a parent which (i) is a financial institution³ authorised by the PRA or FCA; and (ii) is established in, or formed under the law of any part of, the UK.

1.3 The intended process around using this direction power is set out in the Bank's SoP on its power to direct institutions to address impediments to resolvability.⁴ In short, this process involves the Bank:

- (a) determining that there is a substantive impediment to the resolvability of an institution;
- (b) where a substantive impediment is identified, notifying the institution of the impediment. The institution will then have four months to make its own proposal to remove the identified impediments; and
- (c) if the Bank remains dissatisfied with the measures proposed by the institution, directing the institution to take specific action to remediate the impediment.

1.4 This SoP sets out objectives and principles that firms are expected to meet in order to avoid a determination that insufficient capabilities to plan and execute restructuring constitutes an impediment to resolvability.

1.5 Not meeting these objectives and principles may constitute a barrier to resolvability and may result in the Bank directing firms to improve their capabilities to ensure resolvability.

¹ For the purposes of this SoP the term 'institution' means UK-incorporated banks, UK-incorporated building societies and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. References to 'institution' shall be taken to also include 'relevant persons'.

² The PRA and FCA are the UK competent authorities. According to Article 2 of the Bank Recovery and Resolution Directive (2014/59/EU) and Article 4 of the Capital Requirements Regulation (EU No. 575/2013), as amended by Regulation (EU No. 2019/876), 'competent authority' means a public authority or body officially recognised by national law, which is empowered by national law to supervise institutions as part of the supervisory system in operation in the Member State concerned.

³ The term 'financial institution' has the meaning given by article 4 (1) (26) of Regulation 575/2013/EU.

⁴ Bank of England (2015) 'The Bank of England's power to direct institutions to address impediments to resolvability' available at: <https://www.bankofengland.co.uk/paper/2015/the-boes-power-to-direct-institutions-to-address-impediments-to-resolvability-sop>.

1.6 In considering these objectives and principles, firms should have regard to their size, business model, and preferred resolution strategy.¹ Firms are encouraged to consider how capabilities and arrangements developed for other purposes may be leveraged to comply with this SoP, given the substantial overlap with what is required under other policies and initiatives (such as recovery planning).

2 Policy scope

2.1 This SoP applies to:

- (a) institutions notified by the Bank that their preferred resolution strategy is Bank-led bail-in;² and
- (b) institutions notified by the Bank that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK, as determined in accordance with the criteria set out in the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL SoP).³

2.2 Hereafter, references to 'firms' should only be taken to include those institutions that meet the criteria set out in paragraphs 2.1(a) and (b).

2.3 The Bank may notify a material subsidiary that it does not fall within scope of this SoP in cases where restructuring capabilities are less relevant to the firm's orderly resolution. This could include where the firm's ultimate parent is likely to be resolved through the immediate transfer of all or most of its business to a private sector purchaser.

2.4 The objectives and principles in this SoP apply in respect of a firm's capabilities to plan and execute restructuring across their group⁴ as a whole. For the purposes of this SoP the capabilities of a firm's subsidiaries shall be considered capabilities of the firm itself provided that they are applicable to the firm's group and would be available to the firm in the event of resolution.

2.5 Material subsidiaries should consider this SoP within the context of the Statement of Policy: *The Bank of England's Approach to Assessing Resolvability* (Approach to Assessing Resolvability SoP), in particular paragraphs 2.5-2.6.

3 Objectives

3.1 The overarching objective of this SoP is to ensure that firms are able to plan and execute restructuring effectively and on a timely basis in the event of resolution. To achieve this overarching objective, firms will need to apply the principles of this SoP having regard to the restructuring objective and the planning objective set out below.

3.2 The **restructuring objective** is that, once stabilised following entry into resolution:

- (a) firms for whom the Bank's preferred resolution strategy is Bank-led bail-in are able to restructure their business to:
 - (i) address the causes of failure;

¹ The Bank will notify a firm of its preferred resolution strategy on at least an annual basis.

² For the purposes of the Statement of Policy, 'Bank-led bail-in' means a resolution in which the Bank uses the bail-in stabilisation option.

³ Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

⁴ For the purposes of this SoP, a firm's group should be taken to include the firm and subsidiaries that are directly or indirectly owned by the firm. It does not include the parent entities of the firm or subsidiaries thereof in which the firm does not have an ownership stake.

- (ii) enable the firm to return to a viable business model that is sustainable in the long-term;
 - (iii) enable the firm to return to fulfilling relevant regulatory requirements on a forward-looking basis; and
 - (iv) support the achievement of the Bank's statutory resolution objectives, in particular by ensuring the continuity of banking services and critical functions in the UK.¹
- (b) firms that are a subsidiary of an overseas-based banking group are able to restructure their business to:
- (i) enable the firm to return to fulfilling relevant regulatory requirements on a forward-looking basis;
 - (ii) support the achievement of the Bank's statutory resolution objectives, in particular by ensuring the continuity of banking services and critical functions in the UK;² and
 - (iii) ensure consistency with the orderly restructuring of the group of the firm's ultimate parent.

3.3 The **planning objective** is that:

- (a) Firms for whom the Bank's preferred resolution strategy is Bank-led bail-in are able to:
- (i) deliver, within one month of entry into resolution, a business reorganisation plan containing all of the elements set out in Articles 2-5 of Commission Delegated Regulation 2016/1400.³
 - (ii) deliver further planning during resolution to support the timely approval and effective implementation of their business reorganisation plan. This planning should be sufficiently timely and credible to enable exit from resolution within three to six months of entry into resolution,⁴ including by satisfying the Bank that:
 - the planned actions would achieve the restructuring objective if undertaken (thereby enabling the Bank to approve the business reorganisation plan);⁵ and
 - there was no further need for a Bail-in Administrator to oversee the firm's planning for restructuring (thereby enabling the Bank to return the firm to private-sector control).
- (b) Firms that are subsidiaries of overseas-based banking groups are able to:
- (i) contribute relevant planning to support the delivery of a credible group restructuring plan or revised business plan in line with the requirements and expectations applicable in their home jurisdiction; and

¹ This does not mean that a firm would need to be able to continue providing its existing banking services or critical functions indefinitely. The continuity of these services and functions may be achieved, for instance, by transferring them to another provider or shrinking to point of non-criticality, provided that this avoids disruption to customers.

² This does not mean that a firm would need to be able to continue providing its existing banking services or critical functions indefinitely. The continuity of these services and functions may be achieved, for instance, by transferring them to another provider or shrinking to point of non-criticality, provided that this avoids disruption to customers.

³ The minimum elements of a business reorganisation plan and the minimum contents of the reports on the progress in the implementation of the plan are further specified in regulatory technical standards.

⁴ This does not mean that the implementation of the business reorganisation plan would need to be complete before the firm can exit from resolution. The stylised resolution timeline set out in the Bank's Approach to assessing Resolvability SoP provides further detail on this process. In determining the timing of exit from resolution, the Bank will consider a number of factors in addition to the status of restructuring planning.

⁵ In consultation with the PRA and FCA.

- (ii) deliver restructuring planning at the level of the firm itself as needed to support the decisions and actions the Bank may need to take as host resolution authority, including:
 - the write-down or conversion of internal MREL resources;
 - engagement with the home authority around the provision of further financial resources to the firm;
 - engagement with the home authority regarding the restructuring actions to be taken in respect of the firm; and
 - engagement with relevant authorities in the UK, including the PRA and FCA.

4 Principles

Principle 1: identification of restructuring options

4.1 Firms should be able to identify restructuring options during resolution and the pre-resolution contingency planning period.¹ For the purposes of this SoP, 'restructuring options' are the potential measures available to a firm that could reasonably be expected to support the achievement of the restructuring objective of this SoP.

4.2 Firms should consider whether their recovery options would represent restructuring options. In this context, 'recovery options' means options that firms must identify to meet PRA Rules and expectations regarding the content of recovery plans and group recovery plans.² To inform this, firms should consider the possibility that some recovery options may have been undertaken in an attempt to recover and so may no longer be available once the firm is in resolution. Firms should also consider the possibility that some recovery options are not sufficient to address issues that may arise in the event of resolution.

4.3 Firms should also be able to identify any restructuring options that have not been identified as recovery options. This includes options that would support the restructuring objective but would not be expected to help restore the firm's financial position. By way of example, this could include options that:

- (a) have significant business model implications and would only be expected to deliver benefits in the long term; or
- (b) would not themselves deliver capital or liquidity benefits when executed but would contribute to the overall achievement of the restructuring objective.

4.4 As part of this analysis, firms should be able to identify whether the solvent wind-down of their trading activities represents a restructuring option.

4.5 In identifying restructuring options, firms should have regard to the regulatory requirements that will continue to apply in resolution (including, where relevant, ring-fencing requirements).

¹ The consideration of restructuring in resolution is likely to take place once a firm has entered into resolution. However, an initial consideration of restructuring options may also be needed during the pre-resolution contingency planning period to help inform the Bank's decisions around the application of resolution powers. The stylised resolution timeline set out in the Bank's Approach to Assessing Resolvability SoP provides further detail on this process.

² This includes the Recovery Plans part of the PRA Rulebook, and PRA Supervisory Statement (SS) 9/17 'Recovery Planning', available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss917.pdf>.

Principle 2: Evaluation of restructuring options

4.6 Firms should be able to provide information to support the evaluation of their identified restructuring options during resolution and pre-resolution contingency planning. This includes the evaluations that may be undertaken by the relevant authorities and by the management and board of the firm or its ultimate parent as part of developing or reviewing the firm's restructuring plan. For firms whose preferred resolution strategy is Bank-led bail-in, this could also include evaluations undertaken by a Bail-in Administrator appointed by the Bank.

4.7 As a starting point, firms should consider the information that must be provided to support the viability and credibility of recovery options, as set out in the PRA Supervisory Statement 'Recovery Planning' (SS9/17). In addition, firms should be able to provide further information and analysis on the viability and credibility of restructuring options as needed to meet the planning objective of this SoP. This further information includes, but is not limited to:

- (a) information on the financial and regulatory capital impacts of restructuring options (and sensitivity analysis around these), as set out in the Bank's Statement of Policy on valuation capabilities to support resolvability;¹
- (b) information on the liquidity needs and sources of the firm reflecting proposed restructuring options (and sensitivity analysis around these), as set out in the Bank's Statement of Policy on Funding in Resolution;²
- (c) information on the operational arrangements that would support or be impacted by restructuring options, as set out in the PRA's rules and expectations on operational continuity in resolution;³ and
- (d) where relevant, information on trading book solvent wind down, as may be produced in line with PRA solvent wind-down exercises or any PRA policy regarding this.

4.8 Firms should consider how this information would be accessed and used to support the timely evaluation of restructuring options during resolution and pre-resolution contingency planning. As part of this, firms should consider how they would co-ordinate with relevant parties to ensure that information would be produced or retrieved as required. Firms should also consider how they would combine, analyse, and present information to meet the planning objective of this SoP.

Principle 3: Planning for execution of restructuring options

4.9 Firms should be able to determine and describe how they would execute their identified restructuring options. This should inform, and be informed by, the evaluation of restructuring options referred to in Principle 2.

4.10 Firms should be able to describe their options in sufficient detail for the options to be actionable by the firm and to be deemed credible by the Bank. In doing so, firms should be able to meet the planning objective of this SoP.

4.11 Firms should consider the extent to which the description of recovery options in their recovery plans could be relied on for this purpose. Firms should be able to describe how they would execute restructuring options that are not described in their recovery plan. Firms should also consider what

¹ 'The Bank of England's Statement of Policy on valuation capabilities to support resolvability' <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/the-bank-of-englands-policy-on-valuation-capabilities-to-support-resolvability.pdf?la=en&hash=AC3DE6BDCAC29EF04F634757E95D9E4263F757B5>.

² Bank of England (2019) 'The Bank of England's statement of policy on funding in resolution' available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf>.

³ This includes the Operational Continuity part of the PRA Rulebook and Supervisory Statement SS9/16 'Ensuring operational continuity in resolution', available at www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2016/ss916. At the point of publication these policies were under review. References to this policy will updated as appropriate following the outcome of this review.

detail may be needed beyond what is provided in their recovery plans in order to meet the objectives of this SoP.

Principle 4: Documentation and assurance

4.12 Firms should consider the extent to which they would need to maintain documentation in business-as-usual in order to meet the planning objective of this SoP. In doing so firms should consider the availability of documentation produced for other purposes (such as recovery planning).

4.13 Firms should assess the effectiveness of their restructuring planning capabilities with regard to the principles set out in this SoP. Firms should consider how their assessments of other relevant capabilities would support the assessment of their restructuring capabilities. This includes assessments undertaken as part of recovery planning and the Resolution Assessment Part of the PRA Rulebook.¹

4.14 Where firms identify shortcomings in their capabilities, they should take measures to ensure they meet the objectives and principles set out in this SoP.

5 Timeframe for compliance

5.1 Firms should be compliant with this SoP by 1 January 2022.

5.2 The Bank may on a firm-specific basis set an earlier compliance date, for example where the Bank has concerns about the resolvability of a firm.

5.3 The Bank may also set a firm-specific compliance date where a firm that was not previously within scope becomes within scope of this SoP. This might occur if the preferred resolution strategy applicable to the firm changes, or if the firm becomes 'material' for the purposes of setting internal MREL. In these cases, the Bank will determine the appropriate compliance date on a firm-specific basis, and expects to allow firms at least 18 months for compliance.

¹ PRA PS15/19 'Resolution assessment and public disclosure by firms' at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-assessment-and-public-disclosure-by-firms>.

Appendix 5: The Bank of England's Statement of Policy on Management, Governance and Communication

1 Background and statutory framework

1.1 This Statement of Policy (SoP) is issued by the Bank of England (the Bank), as UK resolution authority, in accordance with section 3B(9) of the Banking Act 2009 as amended (the Banking Act). The SoP sets out how the Bank expects to use its power under section 3A(2) of the Banking Act to direct a 'relevant person' to take measures to address impediments to resolvability, specifically in relation to their capabilities and arrangements to ensure effective management, governance and communication in resolution.

1.2 A 'relevant person' means:

- (a) an institution¹ authorised for the purpose of the Financial Services and Markets Act 2000 (FSMA) by the Prudential Regulation Authority (PRA) or Financial Conduct Authority (FCA);²
- (a) a parent of such an institution which (i) is a financial holding company or a mixed financial holding company; and (ii) is established in, or formed under the law of any part of, the UK; or
- (b) a subsidiary of such an institution or of such a parent which (i) is a financial institution³ authorised by the PRA or FCA; and (ii) is established in, or formed under the law of any part of, the United Kingdom.

1.3 The intended process around using this direction power is set out in the Bank's SoP on its power to direct institutions to address impediments to resolvability.⁴ In short, this process involves the Bank:

- (a) determining that there is a substantive impediment to the resolvability of an institution;
- (b) where a substantive impediment is identified, notifying the institution of the impediment. The institution will then have four months to make its own proposal to remove the identified impediments; and
- (c) if the Bank remains dissatisfied with the measures proposed by the institution, directing the institution to take specific action to remediate the impediment.

1.4 This SoP sets out objectives and principles that firms are expected to meet in order to avoid a determination that they have insufficient capabilities and arrangements to support effective resolution and that these constitute an impediment to resolvability.

¹ For the purposes of this SoP the term 'institution' means UK-incorporated banks, UK-incorporated building societies and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. References to 'institution' shall be taken to also include 'relevant persons'.

² The PRA and FCA are the UK competent authorities. According to Article 2 of the Bank Recovery and Resolution Directive (2014/59/EU) and Article 4 of the Capital Requirements Regulation (EU No. 575/2013), as amended by Regulation (EU No. 2019/876), 'competent authority' means a public authority or body officially recognised by national law, which is empowered by national law to supervise institutions as part of the supervisory system in operation in the Member State concerned.

³ The term 'financial institution' has the meaning given by article 4 (1) (26) of Regulation 575/2013/EU.

⁴ Bank of England (2015) 'The Bank of England's power to direct institutions to address impediments to resolvability' available at: <https://www.bankofengland.co.uk/paper/2015/the-boes-power-to-direct-institutions-to-address-impediments-to-resolvability-sop>.

1.5 Not meeting these objectives and principles may constitute a barrier to resolvability and may result in the Bank directing firms to improve their capabilities to ensure resolvability.

1.6 In considering these objectives and principles, firms should have regard to their size, business model, and preferred resolution strategy.¹ Firms are encouraged to consider how capabilities and arrangements developed for other purposes may be leveraged to comply with this SoP, given the substantial overlap with existing business-as-usual practices and requirements.

2 Policy scope

2.1 This SoP applies to:

- (a) institutions notified by the Bank that their preferred resolution strategy is Bank-led bail-in² or partial-transfer (i.e. the bank would expect the strategy to involve the use of its stabilisation powers); and
- (b) institutions notified by the Bank that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK, as determined in accordance with the criteria set out in the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL SoP).³

2.2 Hereafter, references to 'firms' should only be taken to include those institutions that meet the criteria set out in paragraphs 2.1(a) and (b).

2.3 Firms should ensure that the principles set out in this section are also met in respect of all subsidiaries in its group,⁴ where prior consideration of management, governance and communication in resolution would be needed to ensure the orderly resolution of the firm's group as a whole. At a minimum this should include all subsidiaries that meet the criteria for 'material subsidiaries' set out in the Bank's Statement of Policy on its approach to setting minimum requirements for own funds and eligible liabilities.⁵

2.4 For the purposes of this SoP, the capabilities of a firm's subsidiaries shall be considered as capabilities of the firm itself provided that they are applicable to the firm's group and would be available to the firm in the event of resolution.

2.5 Material subsidiaries should consider this SoP within the context of the Statement of Policy: *The Bank of England's Approach to Assessing Resolvability* (Approach to Assessing Resolvability SoP), in particular paragraph 2.5-2.6.

2.6 The principles set out in the SoP are only applicable to firms to the extent that they are relevant in the context of the firm's preferred resolution strategy. In particular, aspects of principle 2 regarding changes to governance arrangements upon entry into resolution are only relevant to firms whose preferred resolution strategy is Bank-led bail-in or involves the use of a comparable resolution tool in their home jurisdiction. Furthermore, aspects of principles 2 and 3 regarding the role of the Bank and a Bail-in Administrator (BIA) in the management and oversight of a firm in resolution are only relevant to firms whose preferred resolution strategy is Bank-led bail-in.

¹ The Bank will notify a firm of its preferred resolution strategy on at least an annual basis.

² For the purposes of the Statement of Policy, 'Bank-led bail-in' means a resolution in which the Bank uses the bail-in stabilisation option.

³ Bank of England (2018) 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

⁴ For the purposes of this SoP, a firm's group should be taken to include the firm and subsidiaries that are directly or indirectly owned by the firm. It does not include the parent entities of the firm or subsidiaries thereof in which the firm does not have an ownership stake.

3 Objectives

3.1 The overarching objectives of this SoP are that firms are able to co-ordinate and communicate effectively to support orderly resolution. To achieve this, a firm's capabilities should meet the following objectives for management, governance and communication during the execution of a resolution:

- (i) Management: the firm's key job roles are suitably staffed and incentivised;
- (ii) Governance: the firm's governance arrangements provide effective oversight and timely decision making; and
- (iii) Communication: the firm delivers timely and effective communication to staff, authorities and other external stakeholders.

4 Principles

Principle 1: Management in resolution

4.1 Firms should be able to ensure that key job roles would be suitably staffed and incentivised in resolution. They should have regard to the potential extent of turnover in a resolution scenario,¹ the need to replace management deemed responsible for the firm's failure, and the need for the firm's staff to carry out a large number of business-as-usual and resolution-specific actions to support orderly resolution.

Identification of key job roles

4.2 Firms should identify in business-as-usual the job roles that are likely to be key in resolution. For the purposes of this SoP, key job roles are those roles where a vacancy in resolution may present an obstacle to the effectiveness of resolution and any subsequent restructuring. A role would generally be deemed key where it meets both of the following criteria:

- (a) **Criteria 1: Significance:** The performance of the role would have a material impact on how effectively the firm undertook the actions needed to support orderly resolution. This includes:
 - (i) those actions needed in respect of the barriers to resolvability identified in the Approach to Assessing Resolvability SoP;
 - (ii) business-as-usual activities that would be important to the continuity outcome set out in that publication;
 - (iii) material decision-making or co-ordination in respect of one or more of these actions.

At the very least, this is likely to include job roles corresponding to senior management functions (SMFs) considered under the Senior Management Functions part of the PRA Rulebook.

- (b) **Criteria 2: Non-substitutability:** It is reasonably uncertain that the individual in the role could be replaced² at short notice, assuming that no planning had been undertaken prior to resolution. By way of example, this may occur where:

- (i) there is likely to be a very limited pool of suitably experienced individuals available to carry out the role;

¹ This includes the run-up to resolution, the resolution itself, and any post-stabilisation restructuring.

² This could include replacement by an existing staff member, a new hire, or a contractor.

- (ii) a role involves relationships with key external stakeholders (such as financial market infrastructures or critical service providers) that would otherwise be difficult to maintain without prior planning; or
- (iii) a role requires specific expertise or institutional knowledge that may be otherwise unavailable to the firm.

4.3 Firms should be able to provide an up-to-date list of key job roles at short notice during a resolution event. This list should include all roles that would be key given the particular circumstances of that resolution. To achieve this, firms should consider the extent to which they would need to review their identified roles on an ongoing basis in business-as-usual, taking into account their size and the nature of their business.

4.4 Firms should also be able to rapidly compile and present relevant information on these roles as needed to inform the related actions that may need to be taken in resolution (e.g. dismissal, retention, replacement or changes to responsibilities or incentives). This includes, but is not limited to, information on key responsibilities,¹ remuneration, notice periods, succession plans, and regulatory approvals (both UK and overseas), as well as the assessed risk and impact of a vacancy in the role.

Retention

4.5 Firms should consider how they would retain staff in key job roles in resolution, should retention be necessary. This includes measures that the firm could take at short notice in a stress or resolution scenario to retain staff where needed.

4.6 To the extent consistent with relevant legal and regulatory requirements, firms should seek to avoid including any terms (such as release clauses) in relevant employment contracts whereby the firm's entry into resolution would enable the employee to leave the role at shorter notice than would be the case in business-as-usual.

Succession

4.7 Firms should be able to ensure rapid handover of key job roles to individuals appointed throughout the resolution process. In doing so, firms should ensure that an individual is able to carry out the role effectively as soon as reasonably possible after their appointment.

4.8 Firms should have a robust process in place for preparing robust and up-to-date succession plans for key job roles during pre-resolution contingency planning. These plans should seek to ensure that one or more individual(s) with adequate skills and knowledge would be available to perform a given key job role if the incumbent were to leave or be removed in resolution. Firms may leverage succession planning carried out in business-as-usual for this purpose.²

4.9 Firms should also consider how key job roles could be performed should the role become vacant before a suitable internal or external replacement could be appointed in a resolution event.

Responsibilities and incentives

4.10 Firms should consider how they could amend the incentives applicable to key job roles at short notice in a resolution event. This should facilitate the alignment of the individual's incentives with the practical objectives of the resolution.³ Firms should also consider how they could clarify the

¹ This should include statements of responsibility where required under the Allocation of Responsibilities part of the PRA Rulebook.

² This includes succession planning carried out to meet expectations under PRA Supervisory Statement SS5/16 'Corporate governance: Board responsibilities', as updated.

³ In a Bank-led bail-in, the Bank envisages that practical objectives would be specified to the firm by the Bank or a by Bail-in Administrator (BIA) acting on the Bank's behalf. These practical objectives would set out the Bank's priorities for what the firm will need to do to support the effective implementation of the resolution (and any subsequent restructuring). These practical objectives would be based on, though not necessarily equivalent to, the special resolution objectives set out in section 4 of the Banking Act. The aims would depend on the particular circumstances at hand.

responsibilities of individuals in a resolution event where these were different to those applicable in business-as-usual. Firms should ensure that any such changes would be consistent with relevant legal, contractual, and regulatory requirements where applicable.

4.11 Firms should consider the extent to which they would need to develop potential incentive structures and responsibilities for use in resolution, taking into account the size and nature of their business.

Regulatory approvals

4.12 Firms should identify what regulatory approvals would be needed for any changes to management personnel, management responsibilities, and remuneration structures in resolution. Firms should be able to make timely and complete applications for these approvals, including in urgent situations. This could include approvals needed in the UK and overseas.

Principle 2: Governance in resolution

4.13 Firms should be able to ensure that effective decision-making and oversight arrangements will be in place in resolution, considering the need to ensure rapid decision-making in the context of uncertainty, and to account for changes to the firm's governance that may be introduced in resolution. In the case of a Bank-led bail-in, this may involve the appointment of a Bail-in Administrator (BIA) to be responsible for certain strategic decisions and to carry out certain senior roles within the firm.

Strategic objectives

4.14 Firms whose preferred resolution strategy is Bank-led bail-in should consider how they would amend the objectives governing their decision-making at short notice upon entry into resolution. This should facilitate the alignment of the firm's objectives and key decision-making processes with the practical aims of the resolution and any subsequent restructuring. In doing so firms should seek to identify and mitigate any potential legal or practical constraints to amending these objectives.

Decision making and oversight

4.15 Firms should be able to nominate one or more new or existing committees to co-ordinate and oversee the actions that the firm may need to take to support resolution and any associated restructuring. Firms should be able to do this at short notice during the pre-resolution contingency planning period, including by obtaining any necessary delegations or approvals from the firm's board.

4.16 Key responsibilities of these committees should include, but not are not limited to, ensuring that the firm:

- (a) devotes sufficient resource and time to resolution-related actions;
- (b) engages external stakeholders (including authorities) as necessary and appropriate; and
- (c) takes sound decisions on resolution-related matters without undue delay.

4.17 The Bank does not expect firms to establish committees in business-as-usual for this purpose. However, firms should consider what committees might be required in a resolution event, as well as:

- (a) what the specific responsibilities of these committees would be;
- (b) how these committees would interact with other existing committees and boards;
- (c) what membership such committees would need to ensure that there is sufficient expertise, seniority and challenge for the committee to discharge its responsibilities effectively; and

(d) how to ensure that committee members would have adequate time available to discharge their duties effectively.

4.18 In addition, firms whose preferred resolution strategy is Bank-led bail-in, or involves the use of a comparable tool in their home jurisdiction, should consider how they would ensure that:

- (a) decisions are escalated to and taken at the appropriate level in resolution including, as relevant, to the Bank, other authorities, and a BIA (or similar agent appointed by the home resolution authority);
- (b) decision-making is expedited in resolution where necessary depending on the urgency of the situation at hand;¹
- (c) ownership, authority and accountability for specific decisions in resolution are clear (for example, through an amended management responsibilities map);² and
- (d) relevant individuals, boards, committees and, as relevant, the Bank, other authorities and a BIA (or similar agent) will receive the information they need to effectively discharge their decision-making and oversight responsibilities in resolution.

4.19 In particular, firms should consider how these arrangements would apply in cases where they differed from their business-as-usual arrangements.

Dispute resolution

4.20 Firms should ensure that dispute-resolution measures will be available in resolution to address and resolve potential conflicts between the firm's decision-making bodies. This includes, but is not limited to, the boards of the firm and its subsidiaries (including, where relevant, ring-fenced and non-ring-fenced banks, overseas subsidiaries, and non-bank subsidiaries).

4.21 Firms whose preferred resolution strategy is Bank-led bail-in should consider the role a BIA may be given to adjudicate on conflicts in resolution. These firms should also consider where and how applicable legal or regulatory requirements may prevent or delay the firm acting upon a decision taken by the Bank or BIA. Firms should notify the Bank of where these risks may arise in order to inform what mitigating actions could be taken in resolution.

4.22 Paragraphs 4.20 and 4.21 are not applicable to firms whose preferred resolution strategy is partial-transfer (or involves the use of a comparable resolution strategy in the firm's home jurisdiction).

Supporting a BIA

4.23 Firms whose preferred resolution strategy is Bank-led bail-in should consider how they would rapidly familiarise a BIA with the firm so that they are able to carry out their role effectively. These firms should consider how they would identify a team of staff to be responsible for supporting a BIA in carrying out their role. This could include, but is not limited to, staff to support administrative matters, technology and data access, liaison with other areas of the firm, communications, and understanding of the firm's preferred resolution strategy.

Regulatory approvals

4.24 Firms should identify what regulatory approvals would be needed for any changes to their governance arrangements in resolution. Firms should be able to make timely and complete applications

¹ Expedited processes should appropriately balance the need for rapid decision making with the need for relevant challenge and oversight. Decisions should be appropriately recorded, even when made on an expedited basis.

² This refers to the management responsibility maps required under the Allocation of Responsibilities part of the PRA Rulebook.

for these approvals, including in urgent situations. This could include approvals required in the UK and overseas.

Principle 3: Communication in resolution

4.25 Firms should be able to plan and deliver effective communication in resolution, considering the extent and sensitivity of communication that will be required to provide confidence to both internal and external stakeholders.

Market communications

4.26 Firms should identify any market communications that may be required under applicable national disclosure regimes. Processes should be in place to ensure that the firm proactively informs authorities (including the Bank and relevant market authorities) where disclosures may unduly impact financial stability or market confidence.

Identifying stakeholders

4.27 Firms should identify groups of relevant stakeholders where communication would be necessary or desirable in resolution. This should include external stakeholders (such as customers, counterparties, investors, FMIs, and providers of outsourced critical services) as well as internal stakeholders (such as staff and contractors). As part of this, firms should consider those stakeholders identified to meet relevant rules and expectations regarding operational continuity, continuity of access to financial market infrastructure, and continuity of financial contracts in resolution.

Communications planning

4.28 Firms should ensure that resolution communication plans could be developed on a timely basis in the pre-resolution contingency planning period.

4.29 For each stakeholder group, firms should identify the:

- (a) level of communication that would likely be required;
- (b) key messages they would need to communicate to promote that group's confidence in the firm and its resolution; and
- (c) communication channels and infrastructure they expect to use to deliver these communications.

4.30 Firms should consider how they would access sufficient communication infrastructure to deliver the extent of communications that may be needed in resolution. This could include infrastructure that is available in business-as-usual as well as additional infrastructure arranged ahead of resolution as needed. This infrastructure should be able to manage any reasonably foreseeable increases in usage resulting from entry into resolution (such as increased call volumes to call centres).

4.31 Firms should determine who would be responsible for delivering various communications and what governance arrangements would apply. Bank-led bail-in firms should ensure that these governance arrangements are able to incorporate the Bank and BIA as appropriate.

Principle 4: Documentation

4.32 Firms should clearly and concisely document their capabilities as needed to demonstrate and ensure effective management, governance and communication in resolution.

4.33 Firms should maintain operational documentation illustrating how their capabilities would be used in a resolution scenario. Documentation should describe:

- (a) the processes, frameworks and arrangements in place to meet the principles above;

- (b) roles and responsibilities for deploying these processes and frameworks; and
- (c) the timeframes in which this would take place if needed.

4.34 Firms should test and review their operational documentation where appropriate to ensure that it is credible and effective.

4.35 Firms should be able to provide supporting documentation as needed to demonstrate and deploy the capabilities set out above (including documentation maintained for other purposes where relevant). This could include, but is not limited to, the documentation of the firm's:

- (a) expected key job roles in resolution, as identified under principle 1 above;
- (b) retention and succession plans for key job roles (where maintained in business-as-usual);
- (c) governance arrangements (including those in place in business-as-usual and those that may be introduced specifically in resolution);
- (d) management responsibilities (including those responsibilities that may be introduced in the event of resolution);
- (e) internal and external stakeholders, as identified under Principle 3 above; and
- (f) communications content prepared for use in resolution.

4.36 These documents should be readily available, including to the Bank and a BIA where relevant. Documents should be written in a clear and concise manner to enable the reader to rapidly familiarise themselves with a firm's capabilities and arrangements.

5 Timeframe for compliance

5.1 Firms should be compliant with this SoP by 1 January 2022.

5.2 The Bank may on a firm-specific basis set an earlier compliance date, for example where the Bank has concerns about the resolvability of a firm.

5.3 The Bank may also set a firm-specific compliance date where a firm that was not previously within scope becomes within scope of this SoP. This might occur if the preferred resolution strategy applicable to the firm changes, or if the firm becomes 'material' for the purposes of setting internal MREL. In these cases, the Bank will determine the appropriate compliance date on a firm-specific basis, and expects to allow firms at least 18 months for compliance.