Policy Statement | PS1/15

# Implementing the Bank Recovery and Resolution Directive – response to CP13/14

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BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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This policy statement contains the final rules and supervisory statement to implement the Bank Recovery and Resolution Directive.

# 1 Introduction

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback on responses to the proposals in CP13/14 (CP)[1] on implementing the Bank Recovery and Resolution Directive (BRRD),[2] and sets out the final PRA rules and a supervisory statement.

1.2 Implementing the BRRD is part of larger reforms under the Bank of England's wider resolution and resilience agenda. The rules contained in this PS require the industry to be better prepared for future financial stress through credible and robust recovery and resolution planning. The rules help the Bank of England in its role as the resolution authority by requiring firms to provide key data to be used in resolution plans which will set out how the firm will be resolved in an orderly manner without causing systemic disruption. Rules requiring the contractual recognition of bail-in ensure the feasibility of bailing-in creditors whose contracts are governed by third-country law. The contractual language will provide transparency for creditors who hold these instruments, further reinforcing the United Kingdom's approach to resolution.

1.3 This PS is relevant to holding companies, mixed financial holding companies, mixed activity financial holding companies, banks, building societies and PRA-designated investment firms.

1.4 In each of the areas covered by these rules the Directive provides for regulatory and implementing technical standards (RTS and ITS) to be drafted by the European Banking Authority (EBA). These standards are subject to adoption by the European Commission before entering into legal force as directly applicable regulations. Firms should be aware that the EBA has published proposed or final draft RTS or ITS on the following areas:

- the content of recovery plans;
- conditions for group financial support;
- the contractual recognition of write-down and conversion powers;
- form and content of disclosure of group financial support agreements; and
- the information firms and holding companies should provide when notifying the PRA that they consider they satisfy the conditions for failing or likely to fail.

1.5 The EBA is also mandated to issue guidelines (GL) on certain areas covered by these rules. Firms should be aware that the EBA has published proposed or final GL on:

- the minimum list of qualitative and quantitative recovery plan indicators;
- the range of scenarios to be used in recovery plans; and
- conditions for group financial support.

# 2 Responses to feedback

2.1 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to the proposals in a consultation, and publish an account, in general terms, of those representations and its response to them.

## Summary of content

2.2 CP13/14 proposed:

(a) revising PRA rules on recovery plans to implement requirements in the BRRD, including extending the scope of the rules to include holding companies and the requirement for firms to undertake scenario testing;

(b) revising PRA rules on resolution packs to extend the scope to holding companies;

(c) a framework for the provision of intragroup financial support in cross-border groups, as set out in the BRRD;

(d) a requirement that BRRD firms,[3] notify the PRA if they consider they meet the conditions for failing or likely to fail; and

(e) a requirement that BRRD firms include a term in contractual provisions governing eligible liabilities which states that the liability is subject to UK bail-in powers.[4]

2.3 The PRA received ten responses to the CP. Most of the feedback focused on recovery planning requirements and contractual clauses recognising UK bail-in powers.

(1) *PRA Consultation Paper CP13/14,* 'Implementing the Bank Recovery and Resolution Directive', July 2014; www.bankofengland.co.uk/pra/Documents/publications/cp/2014/cp1314.pdf.
(2) Directive 2014/59/EU Bank Recovery and Resolution Directive: establishing a framework for the recovery and resolution of credit institutions and investment firms, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_173_R_0008&from=EN.
(3) BRRD firms are defined in each relevant section of the PRA Rulebook.
(4) Eligible liabilities are those not excluded from BRRD Article 44 and are governed by non-EEA law — as set out by Article 55 of the BRRD.

2.4 Set out below are the PRA's responses to the most significant issues raised in the feedback, noting those areas where the PRA is making a substantive change to the proposals contained in the CP.

## Recovery planning

2.5 This section sets out the PRA's feedback to responses to proposals for changes to rules in the Recovery Planning Part of the PRA Rulebook (Appendix 1), and to its expectations in the supervisory statement on Recovery Planning, SS18/13 (Appendix 6).

2.6 In meeting the requirement set out in the rules, the content of recovery plans should be proportionate to the nature, scale and complexity of the activities of the firm and its group.

### Frequency and content of recovery plans for smaller firms

2.7 The PRA was asked to allow smaller firms to submit recovery plans under a simplified obligations regime requiring less frequent updates of the recovery plan and a reduced version of the content required by the PRA rules and related EBA RTS on the content of recovery plans. The PRA has considered this request and has decided to implement its policy as consulted. Recovery plans should be kept up to date and reviewed by a firm's management body at least on an annual basis. As currently, for small firms with very simple business models, whose key prudential metrics have not changed materially year on year, the firm's governing body may decide at its annual review that the information, plans, and triggers from the previous year continue to be appropriate.

### Scenarios

2.8 Respondents sought clarity on the number of scenarios they must include in their recovery plan. The PRA has updated SS18/13 to set out its expectation that designated global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) should include four scenarios in their recovery plans and all other firms should include three.

2.9 The PRA expects that firms will use existing stress testing which takes place as part of existing risk management processes and regulatory requirements (eg FPC/PRA, ICAAP, and ILAA) as a foundation for building scenarios.

### Cross-referencing to the resolution pack

2.10 Respondents asked whether in their recovery plan submission they can cross refer to resolution pack information in any instance where they have provided that information in their resolution pack. SS18/13 clarifies that firms can cross refer to information required by EBA RTS Article 6 paragraph 3 where that information has been provided as part of the firm's resolution pack.

2.11 SS18/13 also clarifies that firms should identify which core business lines they identify as critical functions for the purposes of recovery planning. Recovery planning is the firm's responsibility and the firm must identify critical functions for recovery purposes. The PRA recognises this is different to resolution planning, where the resolution authority identifies critical functions.

### Third-country branches

2.12 Respondents asked when the PRA might require a recovery plan for a third-country branch. As set out in the PRA's supervisory statement — Supervising international banks: the PRA's approach to branch supervision, SS10/14 — the PRA will work with the firm's home state supervisory authority to understand the recovery plan for the whole firm and how it covers the UK branch. Therefore, the PRA will not require third-country branches to provide individual recovery plans. However, where the PRA is concerned that the whole group plan is not able to deliver against the PRA's objectives, the PRA may, in the course of its host state prudential supervision of the branch, request a UK branch recovery plan.

### Wind-down analysis

2.13 Respondents pointed out that the wind-down analysis is not required under BRRD and some questioned whether this guidance belonged in recovery or resolution planning analysis. Additionally, respondents sought clarification on technical aspects of the wind-down such as how to treat the exit of linked positions in their analysis.

2.14 The BRRD is a minimum harmonising directive. Therefore, the PRA is not limited to the BRRD's requirements when setting out the information firms must submit in their recovery plans. The PRA considers that undertaking the wind-down analysis is important for firms with large trading books.

2.15 SS18/13 has been amended to provide further clarification on the technical questions posed by respondents including those related to exiting a linked position.

2.16 The PRA realises that the wind-down analysis may provide information relevant to both recovery and resolution scenarios, as this work will help identify a range of recovery options, and therefore it is most suitable to begin in the recovery planning process.

### Other changes

2.17 Respondents said that the changes proposed to SS18/13 were unclear and that the PRA proposed to remove some information firms find helpful. The PRA decided to maintain the original content of SS18/13 in addition to adding the new

guidance on the wind-down analysis. References to relevant EBA products on recovery planning are also included in the revised version of SS18/13.

2.18 The PRA has also made the following amendments to the proposed rules to align the final rules in the Recovery Planning Part better with the requirements of the BRRD:

- rule 5.3(1) has been updated to require a BRRD undertaking to submit the group recovery plan to the EEA consolidating supervisor where applicable; and
- rule 6.5 has been updated to add the requirement for a firm to notify the PRA if it decides to take action, or refrain from taking action, under its group recovery plan (as well as an individual recovery plan).

## Resolution pack

2.19 Respondents were content with the PRA's proposal in the CP to maintain the existing approach to collecting resolution pack information. However, when finalising the rules for resolution packs, the PRA felt that it was not clear in Resolution Pack 2.1 of the PRA Rulebook that firms are not expected to provide duplicate submissions of resolution packs to the PRA. Therefore, this rule has been amended to state that, where a firm is part of a group which has submitted a group level resolution pack to the PRA meeting the requirements under the rules, that individual firm does not also need to submit a firm level resolution pack to the PRA. The firm's resolution information would have been captured in the group level resolution pack.

## Intragroup financial support (IGFS)

2.20 This section sets out the PRA's responses to feedback on its proposed amendments to rules in the Group Financial Support Part of the PRA Rulebook. The final rules are in Appendix 3.

2.21 Respondents sought clarification on exemptions in the proposed rules and the time limit applicable to authorisations of the proposed IGFS agreements. There was also concern that the five business day period within which the PRA must decide on provision of the IGFS may be too long in a time-critical scenario. Respondents also asked about the potential interaction with other intra-group rules relating to ring-fencing.

### Timing of IGFS approvals

2.22 Any time limit applicable to a PRA approval of a proposed IGFS agreement will have been determined through the joint decision process contemplated by the BRRD.

2.23 The five business day deadline for making a decision to approve the provision of IGFS in BRRD Article 25(2) is an obligation the BRRD places on the competent authority of the relevant group entity. As such, it does not form part of the PRA rules. However, the PRA may make a decision in a shorter timeframe where it considers this appropriate.

2.24 Firms and holding companies should use the IGFS application template when seeking approval for IGFS agreements and the IGFS notification template when notifying the PRA of an intention to provide support. These templates can be found on the PRA's website www.bankofengland.co.uk/pra/Pages/authorisations/default.aspx.

### Exemptions

2.25 The final rules on IGFS have been amended to clarify that they do not apply to financial arrangements other than IGFS agreements as defined in the rules.

### Interaction with ring-fencing

2.26 The BRRD does not interfere with the separation of parts of a group or activities carried out within a group in the interests of financial stability (eg ring-fencing). This is achieved by allowing for limitations to be imposed on the provision of IGFS in those circumstances.

### Other changes

2.27 The PRA has also made the following amendments to the proposed rules to align the final rules in the Intragroup Financial Support Part better with the requirements of the BRRD:

- rule 3.2 has been amended to require firms and holding companies to seek approval when they enter into new IGFS agreements and also when they propose to amend existing IGFS agreements previously authorised by the consolidating supervisor; and

- rule 4.1(7) has been amended to require firms to also comply with Capital Requirements Directive (CRD IV) requirements in relation to capital and liquidity and not just Capital Requirements Regulation requirements.

## Contractual recognition of bail-in powers

2.28 The majority of respondents favoured a phased implementation of the requirement that firms and holding companies include a contractual clause in relevant liabilities governed by the law of a third country by which the creditor recognises that the liability may be subject to the exercise of the bail-in tool by the Bank of England. Phased implementation strikes the right balance between providing the Bank of England with sufficient confidence that instruments most relevant for bail-in can be bailed-in and not putting an undue burden on firms or holding companies. This is reflected in the final PRA rules on contractual recognition of the bail-in tool, which will phase in the requirement over the next period until 1 January 2016.

2.29 The PRA amended the final rules to require such terms to be included in unsecured debt instruments from 2015, except in the case of mixed activity holding companies. These rules relating to debt instruments will commence on 19 February 2015 in order to minimise adverse impact on issuances already in train, and to give firms additional time to comply with the rules beyond the deadline originally proposed in the consultation. All other relevant liabilities must include such a term from 1 January 2016, as set out in the final rules.

2.30 These rules will apply to mixed activity holding companies from 1 January 2016 in line with HM Treasury's decision to grant the PRA relevant powers from that date.

2.31 The final rules also clarify that any debt or liabilities, including future or contingent liabilities which do not arise in business as usual, but will crystallise at the point of insolvency or resolution following netting, are in scope of the rules.

2.32 In addition, the PRA has amended and moved existing rules in Chapter 6 of the Definition of Capital Part of the PRA Rulebook which requires firms to demonstrate that their additional Tier 1 and Tier 2 capital instruments issued under the law of a third country can be written down or converted into common equity Tier 1 capital. The aim of these rules remains unchanged, but the wording has been simplified and aligned with the new rules. This will ensure that all rules on contractual recognition of bail-in are consistent and in one place in the PRA Rulebook. Firms should note that they may be required to demonstrate that any decision of the Bank of England to write-down or convert other liabilities governed by the law of a third country would be effective under the law of that third country if they are to be counted towards the minimum requirement for own funds and eligible liabilities (MREL). Where legal opinions are already being provided in relation to relevant debt issuances these should include a legal view on the effectiveness and enforceability of the contractual recognition of bail-in.

2.33 In the opinion of the PRA, the impact of the phased approach on mutuals will not be significantly different as compared to introducing the full requirement at the same time, as mutuals are relatively reliant on domestic deposit funding and not third-country governed contracts in the scope of these provisions.

### Scope of application

2.34 The Government has implemented the BRRD on the basis that it applies within the EEA. The PRA has therefore decided not to make the proposed transitional rule that any reference to the EEA/EEA States in the rules must be interpreted to mean a reference to EU Member States.

### Cost-benefit analysis

2.35 Some respondents commented on the cost-benefit analysis, suggesting the estimated cost of the bail-in contractual requirement did not account for all of the costs associated with operationalising such a requirement. This comment has been taken into account and is reflected in the phased implementation of the rules.

2.36 Others commented that a simplified regime for recovery planning for smaller firms would reduce cost to those firms.

### Impact on mutuals

2.37 In the opinion of the PRA the impact of the rules in this PS is not significantly different from the impact of the proposed rules on PRA authorised persons that are mutual societies as compared to other PRA authorised persons.

## 3 Commencement

3.1 The final PRA rules and supervisory statement in this PS will come into force on 19 January 2015, except for the rule to require contractual clauses in eligible debt instruments, which will come into force on 19 February, 2015.

3.2 The PRA's final rules to implement the BRRD are contained in Appendices 1–5, and the revised supervisory statement for recovery planning (SS18/13) is in Appendix 6.

# Appendices

# PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RECOVERY PLAN INSTRUMENT 2015

## Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (the PRA's general rules);
(2) section 137T (general supplementary powers);
(3) section 192J (rules requiring provision of information by parent undertakings); and
(4) section 192JB (rules requiring parent undertakings to facilitate resolution).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

C. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:

(1) section 192J ((rules requiring provision of information by parent undertakings);
(2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
(3) section 137T (general supplementary powers).

## Pre-conditions to making

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. In accordance with section 137J of the Act (Rules about recovery plans: duty to consult), the PRA consulted the Treasury and the Bank of England. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

## PRA Rulebook: CRR Firms and Non-Authorised Persons: Recovery Plan Instrument 2015

E. The PRA makes the rules in Annex A, Annex B and Annex C to this instrument.

F. The Recovery and Resolution Part of the PRA Rulebook is deleted.

## Commencement

G. This instrument comes into force on 19 January 2015.

## Citation

H. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Recovery Plan Instrument 2015

**By order of the Board of the Prudential Regulation Authority**
15 January 2015

# Annex A

## PRA RULEBOOK - GLOSSARY

Insert the following new definitions into the Glossary Part of the PRA Rulebook:

*BRRD*

> means Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU , and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council.

*BRRD undertaking*

> means a *CRR firm* or a *qualifying parent undertaking* of a *CRR firm*.

*MiFID II*

> means Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast).

*MiFIR*

> means Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

*qualifying parent undertaking*

> has the meaning given in section 192B of *FSMA.*

**Annex B**

**Amendments to the Interpretation Part of the PRA Rulebook**

In this Annex new text is underlined and deleted text is struck through

## 1 APPLICATIONS AND DEFINITIONS

1.1 Unless otherwise stated, ~~T~~this Part applies to a *firm* and a *qualifying parent undertaking*.

**Annex C**

In this Annex, the text is all new and is not underlined.

**Part**

# Recovery Plans

**Chapter content**

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking*.

1.2 In this Part, the following definitions shall apply:

*Article 1(1)(b) entity*

means a *financial institution* that is established in an *EEA State* when the *financial institution* is a *subsidiary* of a *credit institution* or *investment firm*, or of an *Article 1(1)(c) entity* or an *Article 1(1)(d) entity*, and is covered by the supervision of the *parent undertaking* on a *consolidated basis* in accordance with Articles 6 to 17 of *CRR*.

*Article 1(1)(c) entity*

means a *financial holding company*, *mixed financial holding company* or *mixed activity holding company* that is established in an *EEA State.*

*Article 1(1)(d) entity*

means a *parent financial holding company in an EEA State*, an *EEA parent financial holding company*, a *parent mixed financial holding company in an EEA State* or an *EEA parent mixed financial holding company.*

*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 *EEA State* concerned or the European Central Bank with regard to the specified tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

*conditions for early intervention*

means where an *institution* infringes or is likely in the near future to infringe the requirements of the *CRR*, *CRD, MiFID II* or any of Articles 3 to 7, 14 to 17 and 24, 25 and 26 of *MiFIR*.

*EEA consolidating supervisor*

means a *competent authority* responsible for the exercise of supervision on a *consolidated basis* of:

(1) an *EEA parent institution*; or

(2) *institutions controlled* by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company.*

*EEA parent financial holding company*

means a *parent financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State.*

*EEA parent institution*

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in any *EEA State.*

*EEA parent mixed financial holding company*

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State.*

*EEA parent undertaking*

means an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company.*

*extraordinary public financial support*

means *State aid*, or any other public financial support at supra-national level, which, if provided for at national level, would constitute *State aid*, that is provided in order to preserve or restore the viability, liquidity or solvency of an *institution* or *Article 1(1)(b) entity, Article 1(1)(c) entity, Article 1(1)(d) entity* or of a group of which such an *institution* or entity forms part.

*group recovery plan*

means a group recovery plan drawn up by a *BRRD undertaking* in accordance with Chapter 3.

*management body*

means a *BRRD undertaking's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *BRRD undertaking's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *BRRD undertaking.*

*own funds requirement*

means the requirements laid down in Articles 92 to 98 of the *CRR.*

*parent financial holding company in an EEA State*

means a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State.*

*parent mixed financial holding company in an EEA State*

means a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State.*

*parent institution in an EEA State*

means an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as a *subsidiary* or which holds a participation in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

*parent undertaking*

has the meaning given in Article 4(1)(15) of the *CRR.*

*recovery plan*

means a recovery plan drawn up by a *firm* in accordance with 2.

*significant branch*

means a *branch* of an *institution* that would be designated as being significant in accordance with Article 51(1) of the *CRD.*

*State aid*

means any aid granted by an *EEA State* or through an *EEA State's* resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, and which affects trade between *EEA States*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 RECOVERY PLANS

2.1 This Chapter applies to a *firm* that is not part of a *group* subject to consolidated supervision pursuant to Articles 111 and 112 of the *CRD*.

**[Note: Art. 5(1) of the *BRRD*]**

2.2 A *firm* must draw up and maintain a *recovery plan* providing for measures to be taken by the *firm* to restore its financial position following a significant deterioration of its financial situation.

**[Note: Art. 5(1) of the *BRRD*]**

2.3 A *firm* must submit its *recovery plan* to the *PRA*.

**[Note: Art. 6(1) of the *BRRD*]**

2.4 A *firm* must provide its *recovery plan* to the *PRA* by online submission through:

(1) email; or

(2) the appropriate systems made available to *firms*.

2.5 A *recovery plan* must not assume any access to or receipt of *extraordinary public financial support*.

**[Note: Art. 5(3) of the *BRRD*]**

2.6 A *recovery plan* must include, where applicable, an analysis of how and when the *firm* may apply, in the conditions addressed by the plan, for the use of central bank facilities and must identify those assets which would be expected to qualify as collateral.

**[Note: Art. 5(4) of the *BRRD*]**

2.7 The *recovery plan* must include the information set out in Section A of the Annex to the *BRRD*.

**[Note: Art. 5(5) of the *BRRD*]**

2.8 A *recovery plan* must include possible measures which could be taken by the *firm* where the *conditions for early intervention* are met.

**[Note: Art. 5(5) of the *BRRD*]**

2.9 A *recovery plan* must include appropriate conditions and procedures to ensure the timely implementation of recovery actions as well as a wide range of recovery options.

**[Note: Art. 5(6) of the *BRRD*]**

2.10 A *recovery plan* must contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the *firm's* specific conditions including system-wide events and stress specific to individual legal persons and to *groups*.

**[Note: Art. 5(6) of the *BRRD*]**

2.11 A *firm* must demonstrate to the *PRA* that the *recovery plan* meets the requirements set out in this Chapter and the following criteria:

(1) the implementation of the arrangements proposed in the *recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *institution* or of the *group*, taking into account the preparatory measures that the *institution* has taken or has planned to take;

(2) the *recovery plan* and specific options within the *recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *recovery plans* within the same period.

**[Note: Art. 6(1) of the *BRRD*]**

## 3 GROUP RECOVERY PLANS

3.1 This Chapter applies to a *BRRD undertaking* which is:

(1) an *EEA parent undertaking* unless *the FCA* is the *EEA consolidating supervisor* of its *group*; or

(2) a *firm controlled* by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* if:

(a) the *EEA parent financial holding company* or *EEA parent mixed financial holding company* is not incorporated in the *UK* and does not have a place of business in the *UK*; and

(b) the *PRA* is the *EEA consolidating supervisor* of the *firm*.

3.2 If the *EEA consolidating supervisor* is the *PRA*, a *BRRD undertaking* must draw up a *group recovery plan* and submit the *group recovery plan* to the *PRA*. If the *EEA consolidating* supervisor is not the *PRA*, a *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure that a *group recovery plan* is drawn up and submitted to the *EEA consolidating supervisor*.

**[Note: Art. 7(1) of the *BRRD*]**

3.3 The *group recovery plan* must consist of a recovery plan for the *group* headed by the *EEA parent undertaking* as a whole.

**[Note: Art. 7(1) of the *BRRD*]**

3.4 A *BRRD undertaking* which is required by 3.2 to submit the *group recovery plan* to the *PRA* must provide its *recovery plan* to the *PRA* by online submission through:

(1) email; or

(2) the appropriate systems made available to *BRRD undertakings*.

3.5 The *group recovery plan* must identify measures that may be required to be implemented at the level of the *EEA parent undertaking* and each individual *subsidiary*.

**[Note: Art. 7(1) of the *BRRD*]**

3.6 The *group recovery plan* must aim to achieve the stabilisation of the *group* as a whole, or any *institution* of the *group*, when it is in a situation of stress so as to address or remove the causes of the distress and restore the financial position of the *group* or the *institution* in question, at the same time taking into account the financial position of other *group* entities.

**[Note: Art. 7(4) of the *BRRD*]**

3.7 The *group recovery plan* must include arrangements to ensure the coordination and consistency of measures to be taken at the level of the *EEA parent undertaking*, at the level of an *Article 1(1)(c) entity* or *Article 1(1)(d) entity,* as well as measures to be taken at the level of a *subsidiary* and, where applicable, in accordance with the *CRD* at the level of a *significant branch*.

**[Note: Art. 7(4) of the *BRRD*]**

3.8 The *group recovery plan* must include the elements specified in 2.6 – 2.9. The *group recovery plan* must include, where applicable, arrangements for intra-group financial support adopted pursuant to an agreement for intra-group financial support that has been concluded in accordance with Articles 19 – 26 of the *BRRD* or Group Financial Support 2 – 8.

**[Note: Art. 7(5) of the *BRRD*]**

3.9 The *group recovery plan* must include a range of recovery options setting out actions to address a range of scenarios of severe macroeconomic and financial stress relevant to the *group's* specific conditions including system-wide events and stress specific to individual legal persons and to *groups*.

**[Note: Art. 7(6) of the *BRRD*]**

3.10 For each scenario, the *group recovery plan* must identify whether there are obstacles to the implementation of recovery measures within the *group*, including at the level of individual entities covered by the plan, and whether there are substantial practical or legal impediments to the prompt transfer of *own funds* or the repayment of liabilities or assets within the *group*.

**[Note: Art. 7(6) of the *BRRD*]**

3.11 A *BRRD undertaking* that is a *firm* must demonstrate to the *PRA* that the *group recovery plan* meets the requirements set out in this Chapter and the following criteria:

(1) the implementation of the arrangements proposed in the *group recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *group* or of an individual *subsidiary* in the *group*, taking into account the preparatory measures that the individual *subsidiary* has taken or has planned to take; and

(2) the *group recovery plan* and specific options within the *group recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *group recovery plans* within the same period.

**[Note: Art. 6(1) of the *BRRD*]**

3.12 A *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure it is demonstrated to the *EEA consolidating supervisor* that the *group recovery plan* meets the requirements set out in this Chapter and the following criteria:

(1) the implementation of the arrangements proposed in the *group recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *group* or of an individual *subsidiary* in the *group*, taking into account the preparatory measures that the individual *subsidiary* has taken or has planned to take; and

(2) the *group recovery plan* and specific options within the *group recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *group recovery plans* within the same period.

**[Note: Art. 6(1) of the *BRRD*]**

## 4 REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN

4.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.

4.2 A *BRRD undertaking* that is a *firm* must:

(1) review its *recovery plan* or *group recovery plan* at least once a year; and

(2) keep its *recovery plan* or *group recovery plan* up to date, which includes ensuring that it is updated to reflect any change to the legal or organisational structure of the *firm* or *group*, its business or its financial situation, which could have a material effect on, or necessitates a change to, the *recovery plan* or *group recovery plan*.

**[Note: Art. 5(2) of the *BRRD*]**

4.3 A *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure that:

(1) its *group recovery plan* is reviewed at least once a year; and

(2) its *group recovery plan* is kept up to date, which includes ensuring that it is updated to reflect any change to the legal or organisational structure of the *group*, its business or its financial situation, which could have a material effect on, or necessitates a change to, the *group recovery plan*.

**[Note: Art. 5(2) of the *BRRD*]**

4.4 A *firm* must notify the *PRA* of any material changes made to its *recovery plan* promptly and, in any event, within one month of making any such change.

4.5 A *BRRD undertaking* which is required by 3.2 to submit a *group recovery plan* to the *PRA* must notify the *PRA* of any material changes made to its *group recovery plan* promptly and, in any event, within one month of making any such change.

## 5 GOVERNANCE ARRANGEMENTS

5.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or a *group recovery plan* under 2 or 3.

5.2 A *firm* which is required to draw up a *recovery plan* must, taking into account the nature, scale and complexity of its business, establish and maintain appropriate internal processes regarding the governance of its *recovery plan* and must:

(1) ensure that its *management body* oversees, assesses and approves the *recovery plan* before the *firm* submits the *recovery plan* to the *PRA*;

(2) ensure that its audit committee periodically reviews the *recovery plan*; and

(3) nominate an executive *director* who is a member of the *firm's management body* to have responsibility for the *recovery plan* and for overseeing the internal processes regarding its governance.

5.3 A *BRRD undertaking* which is required to draw up a *group recovery plan* must, taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of the *group recovery plan* and must:

(1) ensure that its *management body* oversees, assesses and approves the *group recovery plan* before the *BRRD undertaking* submits the *group recovery plan* to the *EEA consolidating supervisor*;

(2) ensure that its audit committee periodically reviews the *group recovery plan*; and

(3) nominate an executive *director* who is a member of the *BRRD undertaking's management body* to have responsibility for the *group recovery plan* and for overseeing the internal processes regarding its governance.

**[Note: Art. 5(9) and 7(7) of the *BRRD*]**

## 6 RECOVERY PLAN AND GROUP RECOVERY PLAN INDICATORS

6.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.

6.2 A *recovery plan* and a *group recovery plan* must include a framework of indicators established by the *BRRD undertaking* which identifies the points at which appropriate actions referred to in the *recovery plan* or *group recovery plan* may be taken.

**[Note: Art. 9(1) of the *BRRD*]**

6.3 The indicators may be of a qualitative or quantitative nature relating to the *firm's* or the *group's* financial position and must be capable of being monitored easily.

**[Note: Art. 9(1) of the *BRRD*]**

6.4 A *BRRD undertaking* must have in place appropriate arrangements for the regular monitoring of the indicators.

**[Note: Art. 9(1) of the *BRRD*]**

6.5 A *firm* must notify the *PRA* without delay if it decides to take action under its *recovery plan* or *group recovery plan* or if it decides to refrain from taking action.

**[Note: Art. 9(1) of the *BRRD*]**

6.6 A *BRRD undertaking* that is a *qualifying parent undertaking* must:

(1) notify the *PRA* without delay if it (or any member of its *group*) decides to take action under the *group recovery plan* or to refrain from taking action and the *PRA* is the *EEA consolidating supervisor*; and

(2) make arrangements to ensure the *EEA consolidating supervisor* is notified without delay if it (or any member of its *group*) decides to take action under the *group recovery plan* or to refrain from taking action and the *PRA* is not the *EEA consolidating supervisor*.

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RESOLUTION PACK INSTRUMENT 2015**

**Powers exercised**

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (the PRA's general rules);
(2) section 137T (general supplementary powers); and
(3) section 192J (rules requiring provision of information by parent undertakings); and
(4) section 192JB (rules requiring parent undertakings to facilitate resolution).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

C. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:

(1) section 192J ((rules requiring provision of information by parent undertakings);
(2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
(3) section 137T (general supplementary powers).

**Pre-conditions to making**

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. In accordance with section 137K of the Act (PRA rules about resolution plans: duty to consult), the PRA consulted the Treasury and the Bank of England. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

**PRA Rulebook: CRR Firms and Non-Authorised Persons: Resolution Pack Instrument 2015**

E. The PRA makes the rules in the Annex to this instrument.

**Commencement**

F. This instrument comes into force on 19 January 2015.

**Citation**

G. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Resolution Pack Instrument 2015

**By order of the Board of the Prudential Regulation Authority**
15 January 2015

**Annex**

In this Annex, the text is all new and is not underlined.

**Part**

# RESOLUTION PACK

**Chapter content**

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking*.

1.2 In this Part, the following definitions shall apply:

*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 *EEA State* concerned or the European Central Bank with regard to the specific tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

*EEA consolidating supervisor*

means a *competent authority* responsible under the *CRD* for the exercise of supervision on a *consolidated basis* of:

(1) *an EEA parent institution*; or

(2) *institutions controlled* by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

*EEA parent financial holding company*

means a *parent financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

*EEA parent institution*

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of *a financial holding company* or *mixed financial holding company* set up in any *EEA State*.

*EEA parent mixed financial holding company*

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* off an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

*EEA parent undertaking*

means an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company.*

*group-level resolution authority*

means the *resolution authority* in the *EEA State* in which the *EEA consolidating supervisor* is situated.

*group resolution pack*

means a document containing the information necessary to draw up and implement a *group resolution* plan.

*group resolution plan*

means a plan for the resolution of a *group* drawn up in accordance with Articles 12 and 13 of the *BRRD*.

*parent financial holding company in an EEA State*

means a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

*parent mixed financial holding company in an EEA State*

means a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

*parent institution in an EEA State*

means an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding compan*y set up in the same *EEA State*.

*resolution authority*

means an authority designated by an *EEA State* in accordance with Article 3 of the *BRRD*.

*resolution pack*

means a document containing the information necessary to draw up and implement a *resolution plan.*

*resolution plan*

means a resolution plan for a *firm* drawn up by the *Bank of England* in accordance with Article 37 of The Bank Recovery and Resolution (No. 2) Order 2014.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 RESOLUTION PACK

2.1 This Chapter:

(1) applies to every *firm* which is not required to prepare, maintain and submit a *group resolution pack* under 3; but

(2) does not apply to a *firm* that is a member of a *group* for which a *group resolution pack* has been submitted to the *PRA* under 3.

2.2 In this Chapter:

(1) references to the taking of action include the taking of action by:

(a) a *firm*;

(b) any other *person* in the same *group* as a *firm*; and

(c) a *partnership* of which a *firm* is a member;

(2) references to the business of a *firm* include references to the business of:

(a) any other *person* in the same *group* as the *firm*; and

(b) a *partnership* of which the *firm* is a member.

2.3 A *firm* must prepare and maintain a *resolution pack*.

2.4 A *firm* must provide its *resolution pack* to the *PRA* by online submission through:

(1) email; or

(2) the appropriate systems made available to *firms*.

2.5 A *resolution pack* must contain sufficient information and analysis to facilitate the planning for or taking of action in the event of:

(1) circumstances arising in which it is likely that the business (or any part of the business) of the *firm* will fail; or

(2) the failure of the business (or any part of the business) of the *firm*.

2.6 In 2.5, references to the planning for or taking of action include the planning or taking of action by *The Treasury* or the *Bank of England* in relation to the possible exercise of any of their powers under the Banking Act 2009.

2.7 A *resolution pack* must take into account the wider business of the *group* of which the *firm* is a member.

## 3 GROUP RESOLUTION PACK

3.1 This Chapter applies to a *BRRD undertaking* which is:

(1) an *EEA parent undertaking* unless *the FCA* is the *EEA consolidating supervisor* of its *group*; or

(2) a *firm controlled* by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* if:

(a) the holding company is not incorporated in the *UK* and does not have a place of business in the *UK*; and

(b) the *PRA* is the *EEA consolidating supervisor* of the *firm*.

3.2 In this Chapter:

(1) references to the taking of action include the taking of action by:

(a) a *BRRD undertaking*;

(b) any other *person* in the same *group* as a *BRRD undertaking*; and

(c) a *partnership* of which a *BRRD undertaking* is a member;

(2) references to the business of a *BRRD undertaking* include references to the business of:

(a) any other *person* in the same *group* as the *BRRD undertaking*; and

(b) a *partnership* of which the *BRRD undertaking* is a member.

3.3 A *BRRD undertaking* must prepare and maintain a *group resolution pack*.

3.4 A *BRRD undertaking* must submit its *group resolution pack* to the *PRA* if the *PRA* is the *EEA consolidating supervisor* and, in any other case, to the *group-level resolution authority*.

3.5 A *BRRD undertaking* required by 3.4 to submit its *group resolution pack* to the *PRA* must provide the *group resolution pack* to the *PRA* by online submission through:

(1) email; or

(2) the appropriate systems made available to *BRRD undertakings*.

3.6 A *group resolution pack* must contain sufficient information and analysis to facilitate the planning for or taking of action in the event of:

(1) circumstances arising in which it is likely that the business (or any part of the business) of the *BRRD undertaking* or any other member of its *group* will fail; or

(2) the failure of the business (or any part of the business) of the *BRRD undertaking* or any other member of its *group*.

3.7 In 3.6, references to the planning for or taking of action include the planning or taking of action by *The Treasury* or the *Bank of England* in relation to the possible exercise of any of their powers under the Banking Act 2009 in respect of any member of the *group*.

3.8 The *group resolution pack* must contain information concerning:

(1) the *BRRD undertaking*; and

(2) each of the other members of its *group*.

**[Note: Art. 13(1) of the *BRRD*]**

## 4 REVIEW OF RESOLUTION PACK AND GROUP RESOLUTION PACK

4.1 A *firm* required to prepare, maintain and submit to the *PRA* a *resolution pack* under 2 must:

(1) keep the *resolution pack* up to date, which includes ensuring that the *resolution pack* is updated to reflect any material developments in the *firm*'s business; and

(2) notify the *PRA* of any material changes made to the *resolution pack* promptly and, in any event, within one month of making any such change.

4.2 A *BRRD undertaking* required to prepare, maintain and submit a *group resolution pack* under 3 must keep the *group resolution pack* up to date, which includes ensuring that the *group resolution pack* is updated to reflect any material developments in its business and the business of other member of its *group*.

4.3 A *BRRD undertaking* required to prepare, maintain and submit to the *PRA* a *group resolution pack* under 3 must notify the *PRA* of any material changes made to the *group resolution pack* promptly and, in any event, within one month of making any such change.

## 5 GOVERNANCE ARRANGEMENTS

5.1 A *firm* required to prepare, maintain and submit to the *PRA* a *resolution pack* under 2 must:

(1) taking into account the nature, scale and complexity of its business, establish and maintain appropriate internal processes regarding the governance of its *resolution pack*;

(2) ensure that its *governing body* is responsible for assessing, approving and overseeing the *firm*'s arrangements in place to produce the *firm*'s *resolution pack*;

(3) ensure that its audit committee periodically reviews these arrangements; and

(4) nominate an executive *director* who is a member of the *firm*'s *governing body* to have responsibility for the *resolution pack* and for overseeing the internal processes regarding its governance.

5.2 A *BRRD undertaking* required to prepare, maintain and submit a *group resolution pack* under 3 must:

(1) taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of its *group resolution pack*;

(2) ensure that its *governing body* is responsible for assessing, approving and overseeing the arrangements in place to produce the *group resolution pack*;

(3) ensure that its audit committee periodically reviews these arrangements; and

(4) nominate an executive *director* who is a member of its *governing body* to have responsibility for the *group resolution pack* and for overseeing the internal processes regarding its governance.

# PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: GROUP FINANCIAL SUPPORT INSTRUMENT 2015

## Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (the PRA's general rules);
(2) section 137T (general supplementary powers);
(3) section 192J (rules requiring provision of information by parent undertakings); and
(4) section 192JB (rules requiring parent undertakings to facilitate resolution).

B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:

(1) section 192J (rules requiring provision of information by parent undertakings);
(2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
(3) section 137T (general supplementary powers).

C. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

## Pre-conditions to making

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

## PRA Rulebook: CRR Firms and Non-Authorised Persons: Group Financial Support Instrument 2015

E. The PRA makes the rules in Annex A to this instrument.

## Commencement

F. This instrument comes into force on 19 January 2015.

## Citation

G. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Group Financial Support Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**
15 January 2015

**Annex A**

In this Annex, the text is all new and is not underlined.

**Part**

# GROUP FINANCIAL SUPPORT

**Chapter content**



**Links**

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking* which is a *CRR firm*, a *financial holding company*, a *mixed financial holding company* or a *mixed activity holding company*.

1.2 This Part does not apply in relation to:

(1) financial arrangements, other than *group financial support agreements*, including funding arrangements and the operation of centralised funding arrangements, provided that no *institution* that is party to such arrangements meets the *conditions for early intervention*; and

(2) financial support provided by a *BRRD undertaking* to a member of its *group* that experiences financial difficulties if the *BRRD undertaking* decides to do so on a case-by-case basis and according to *group* policies if it does not represent a risk for the *group*.

**[Note: Art. 19(2) and (3) of the *BRRD*]**

1.3 In this Part, the following definitions shall apply:

*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 *EEA State* concerned or the European Central Bank with regard to the specific tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of *credit institutions*.

*conditions for early intervention*

means circumstances in which an *institution* infringes or is likely in the near future to infringe the requirements of the *CRR*, the *CRD*, *MiFID II* or any of Articles *3 - 7, 14 - 17* and *24, - 26* of *MiFIR*.

*EEA consolidating supervisor*

means a *competent authority* responsible under the *CRD* for the exercise of supervision on a *consolidated basis* of:

(1) an *EEA parent institution*; or

(2) *institutions controlled* by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

*EEA parent financial holding company*

means a *parent financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

*EEA parent institution*

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

*EEA parent mixed financial holding company*

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

*EEA parent undertaking*

means an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

*group*

means a *parent undertaking* and its *subsidiaries*.

*group financial support agreement*

means an agreement between:

(1) a *parent institution in an EEA State*, an *EEA parent institution* or a *qualifying parent undertaking*, a *financial holding company*, *mixed financial holding company* or *mixed-activity holding company* established in an *EEA State*; and

(2) a *subsidiary* of an entity referred to in (1) set up in a different *EEA State* to that of the entity referred in (1) or in a *third country* and that is an *institution* or a *financial institution* covered by the consolidated supervision of the entity referred to in (1),

to provide financial support to a party that is an *institution* at a time when that *institution* meets the *conditions for early intervention*.

*management body*

means a *BRRD undertaking's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *BRRD undertaking's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *BRRD undertaking*.

*own funds requirement*

means the requirements laid down in Articles 92 - 98 of the *CRR*.

*parent institution in an EEA State*

means an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

*parent financial holding company in an EEA State*

means a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

*parent mixed financial holding company in an EEA State*

means a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

1.4 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR.*

## 2 GROUP FINANCIAL SUPPORT AGREEMENT

2.1 A *BRRD undertaking* must not enter into a *group financial support agreement* unless the following conditions are satisfied:

(1) the *group financial support agreement* specifies the principles for the calculation of the consideration for any transaction made under it, which:

(a) need not take into account any anticipated temporary impact on market prices arising from events external to the *group*;

(b) may take into account information unavailable to the market in the possession of the party providing financial support based on it being in the same *group* as the party receiving financial support; and

(c) must require that the consideration is set at the time of the provision of financial support;

(2) each party acts freely in entering into the *group financial support agreement*;

(3) in entering into the *group financial support agreement* and in determining the consideration for the provision of financial support, each party acts in its own best interests which may take account of any direct or any indirect benefit that may accrue to a party as a result of the provision of the financial support;

(4) each party providing financial support has full disclosure of relevant information from any party receiving financial support prior to determination of the consideration for the provision of financial support and prior to any decision to provide financial support;

**[Note: Art. 19(7) of the *BRRD*]**

(5) any right, claim or action arising from the *group financial support agreement* may be exercised only by the parties to the agreement; and

**[Note: Art. 19(9) of the *BRRD*]**

(6) the terms of the *group financial support agreement* are consistent with the conditions for the provision of financial support in 4.1.

**[Note: Art. 20(3) of the *BRRD*]**

2.2 A *BRRD undertaking* must not enter into a proposed *group financial support agreement* if:

(1) the *EEA consolidating supervisor* has not granted permission to do so; or

(2) at the time the proposed agreement is made, a *competent authority* has decided that a party to the agreement that is an *institution* meets the *conditions for early intervention*.

**[Note: Art. 19(8) and Art. 20(3) of the *BRRD*]**

## 3 SUBMISSION OF GROUP FINANCIAL SUPPORT AGREEMENT

3.1 This Chapter applies to a *BRRD undertaking* which is an *EEA parent undertaking*, unless the *FCA* is the *EEA consolidating supervisor* of its *group*.

3.2 If a *BRRD undertaking* or any member of its *group* intends to enter into a *group financial support agreement*, or amend a *group financial support agreement* previously authorised by an *EEA consolidating supervisor*, the *BRRD undertaking* must submit to the *EEA consolidating supervisor* an application for authorisation of the proposed agreement or amendment.

3.3 The application referred to in 3.2 must contain the text of the proposed *group financial support agreement* and identify any other *persons* in the same *group* as the *BRRD undertaking* that propose to be parties to the proposed agreement.

**[Note: Art. 20(1) of the *BRRD*]**

## 4 CONDITIONS FOR GROUP FINANCIAL SUPPORT

4.1 A *BRRD undertaking* must not provide financial support in accordance with a *group financial support agreement* unless the following conditions are met:

(1) there is a reasonable prospect that the financial support provided significantly redresses the financial difficulties of the *group* member receiving the support;

(2) the provision of financial support has the objective of preserving or restoring the financial stability of the *group* as a whole or any of the members of the *group* and is in the interests of the *BRRD undertaking* providing the support;

(3) the financial support is provided on terms, including consideration, in accordance with 2;

(4) there is a reasonable prospect, on the basis of the information available to the *management body* of the *BRRD undertaking* providing financial support at the time when the decision to grant financial support is taken, that the consideration for the financial support will be paid and, in particular:

(a) if the financial support is given in the form of a loan, the loan will be repaid by the *group* entity receiving the support; and

(b) if the financial support is given in the form of a guarantee or any form of security, the liability of the *group* entity receiving the support that arises in the

event that the guarantee is called upon or the security is enforced, will be paid.

(5) the provision of the financial support would not jeopardise the liquidity or solvency of the *BRRD undertaking* providing the financial support;

(6) the provision of the financial support would not create a threat to financial stability, in particular in the *UK*;

(7) where a *firm* provides the financial support, it complies at the time the financial support is provided, with the requirements of the *CRD* relating to capital or liquidity and any requirements imposed pursuant to Article 104(2) of the *CRD* and the provision of the financial support does not cause the *firm* to infringe those requirements;

(8) where a *firm* provides the financial support, it complies at the time when the financial support is provided, with the requirements relating to large exposures laid down in the *CRR* and in the Large Exposures Part, and the provision of the financial support must not cause the *firm* to infringe those requirements; and

(9) the provision of the financial support would not undermine the resolvability of the *BRRD undertaking* providing the financial support.

**[Note: Art. 23 of the *BRRD*]**

## 5 DECISION TO PROVIDE OR ACCEPT GROUP FINANCIAL SUPPORT

5.1 A *BRRD undertaking* that intends to provide financial support in accordance with a *group financial support agreement* must ensure that the decision to provide financial support is taken by its *management body*.

5.2 The decision must be reasoned and indicate the objective of the proposed financial support; in particular, the decision must indicate how the provision of the financial support complies with the conditions in 4.1.

5.3 A *firm* that intends to accept financial support in accordance with a *group financial support agreement* must ensure that the decision to accept financial support is taken by its *management body.*

**[Note: Art. 24 of the *BRRD*]**

## 6 NOTIFICATION OF PROPOSED GROUP FINANCIAL SUPPORT

6.1 A *BRRD undertaking* that intends to provide financial support in accordance with a *group financial support agreement* must ensure that its *management body* notifies:

(1) the *PRA;*

(2) where different from the authorities in (1) and (3), where applicable, the *EEA consolidating supervisor*;

(3) where different from the authorities in (1) and (2), the *competent authority* of the *group* member receiving the financial support; and

(4) the *EBA*,

before it provides that financial support.

6.2 The notification must include the reasoned decision of the *management body* and details of the proposed financial support including a copy of the *group financial support agreement*.

**[Note: Art. 25(1) of the *BRRD*]**

## 7 PROVISION AND NOTIFICATION OF GROUP FINANCIAL SUPPORT

7.1 A *BRRD undertaking* may only provide financial support in accordance with a *group financial support agreement* if:

(1) the *PRA* has not, within five *business days* from the date of receipt by the *PRA* of the complete notification in 6.1, prohibited the provision of the financial support;

(2) the *PRA* has agreed to the provision of the proposed financial support; or

(3) the *PRA* has agreed to the provision of financial support subject to restrictions.

7.2 Where the *PRA* has agreed to the provision of financial support subject to restrictions, a *BRRD undertaking* may only provide financial support in accordance with those restrictions.

**[Note: Art. 25(5) of the *BRRD*]**

7.3 Where the *management body* of a *BRRD undertaking* decides to provide the financial support, that *BRRD undertaking* must notify:

(1) the *PRA*;

(2) where different from the authorities in (1) and (3), where applicable, the *EEA consolidating supervisor*;

(3) where different from (1) and (2), the *competent authority* of the *group* member receiving the financial support; and

(4) the *EBA*.

**[Note: Art. 25(6) of the *BRRD*]**

## 8 DISCLOSURE

8.1 A *BRRD undertaking* must, in accordance with the general principles set out in Articles 431 - 434 of the *CRR*, disclose:

(1) whether or not it has entered into a *group financial support agreement*;

(2) a description of the general terms of any such agreement; and

(3) the names of the *group* members that are party to the agreement.

8.2 A *BRRD undertaking* must update the information disclosed at least annually.

**[Note: Art. 26(1) of the *BRRD*]**

**PRA RULEBOOK: NOTIFICATIONS (BANK RECOVERY AND RESOLUTION DIRECTIVE) INSTRUMENT 2015**

**Powers exercised**

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (the PRA's general rules);
(2) section 137T (General supplementary powers); and
(3) section 192J (rules requiring provision of information by parent undertakings).

B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:

(1) section 192J (rules requiring provision of information by parent undertakings);
(2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
(3) section 137T (general supplementary powers).

C. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

**Pre-conditions to making**

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and directions and had regard to representations made.

**Amendments**

E. The Notifications Part of the PRA Rulebook is amended in accordance with the Annex to this instrument.

**Commencement**

F. This instrument comes into force on 19 January 2015.

**Citation**

G. This instrument may be cited as the PRA Rulebook: Notifications (Bank Recovery and Resolution Directive) Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**
15 January 2015

**Annex**

**Amendments to the Notifications Part of the PRA Rulebook**

In this Annex new text is underlined and deleted text is struck through.

Insert the following new definitions in the appropriate alphabetical position in Notifications 1.2:

*extraordinary public financial support*

means *State aid*, or any other public financial support at supra-national level, which, if provided for at national level, would constitute *State aid*, that is provided in order to preserve or restore the viability, liquidity or solvency of *a BRRD undertaking or of* a *group* of which *a BRRD undertaking* forms part.

*BRRD management body*

means a *BRRD undertaking's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *BRRD undertaking's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *BRRD undertaking*.

*financial holding company*

has the meaning set out at point 20 of Article 4(1) of the *CRR*.

*mixed financial holding company*

has the meaning set out at point 21 of Article 4(1) of the *CRR*.

*mixed-activity holding company*

has the meaning set out at point 22 of Article 4(1) of the *CRR*.

*own funds*

has the meaning set out at point (118) of Article 4(1) of the *CRR*.

*State aid*

means any aid granted by an *EEA State* or through an *EEA State's* resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods and which affects trade between *EEA States*.

Make the following amendments to the Notifications Part of the PRA Rulebook:

**1 APPLICATIONS AND DEFINITIONS**

1.1 Unless otherwise stated, this Part applies to every *firm* and Chapter 8 applies only to a *BRRD undertaking*.

…

1.3 This Part applies to *incoming firms* without a *top-up permission* as follows:

…

(9) ~~6-9~~ 6, 7 and 9 apply in full.

…

## 8 SPECIFIC NOTIFICATIONS

8.0 This Chapter applies to a *BRRD undertaking*.

8.1 A *CRR firm* must report to the *PRA* immediately any case in which its counterparty in a *repurchase transaction* or securities or commodities lending or borrowing transaction defaults on its obligations.

8.2 A *BRRD undertaking,* which is a *CRR firm*, a *financial holding company*, a *mixed financial holding company* or a *mixed activity holding company* must notify the *PRA* immediately if its *BRRD management body* considers that:

(1) the assets of the *BRRD undertaking* are or there are objective elements to support a determination that the assets of the *BRRD undertaking* will, in the near future, be less than its liabilities;

(2) the *BRRD undertaking* is or there are objective elements to support a determination that the *BRRD undertaking* will, in the near future, be unable to pay its debts or other liabilities as they fall due; or

(3) *extraordinary public financial support* is required for the *BRRD undertaking* or the *group* of which the *BRRD undertaking* forms part.

8.3 A *BRRD undertaking*, which is a *CRR firm,* must notify the *PRA* immediately if its *management body* considers that the *firm* is failing or there are objective elements to support a determination that the *firm* will, in the near future, fail to satisfy one or more of the *threshold conditions*, including as a result of the *firm* having incurred or being likely to incur losses that will deplete all or a significant amount of its *own funds*.

**[Note: Art. 81(1) of the *BRRD*]**

8.4 A notification required from a *BRRD undertaking* under 8.2 or 8.3 must be delivered to the *PRA* by the method of electronic mail to an address for the usual supervisory contact at the *PRA* for the *BRRD undertaking* or its *group*.

…

# PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: CONTRACTUAL RECOGNITION OF BAIL-IN INSTRUMENT 2015

## Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (the PRA's general rules);
(2) section 137T (general supplementary powers); and
(3) section 192JB (rules requiring parent undertakings to facilitate resolution).

B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:

(1) section 192JB (rules requiring parent undertakings to facilitate resolution); and
(2) section 137T (general supplementary powers).

C. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

## Pre-conditions to making

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

## PRA Rulebook: CRR Firms and Non-Authorised Persons: Contractual Recognition of Bail-In Instrument 2014

E. The PRA makes the rules in Annex A and Annex B to this instrument.
F. With effect from 1 January 2016 the PRA deletes rules 3.1 to 3.3 in Annex A.

## Commencement

G. Rules 1.1(1) to (3), 1.2, 1.3 and 3.1 to 3.3 in Annex A to this instrument come into force on 19 February 2015.
H. Rules 1.1(4), 2.1 and 2.2 in Annex A to this instrument come into force on 1 January 2016.
I. Annex B to this instrument comes into force on 19 February 2015.

## Citation

J. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Contractual Recognition of Bail-In Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**
15 January 2015

**Annex A**

In this Annex, the text is all new and is not underlined.

**Part**

# CONTRACTUAL RECOGNITION OF BAIL-IN

**Chapter content**



**Links**

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking* which is:

(1) a *CRR firm;*

(2) a *financial holding company*;

(3) a *mixed financial holding company*; or

(4) a *mixed activity holding company* which has at least one *subsidiary* which is an *institution* which is not the *subsidiary* of a *financial holding company* which is also a *subsidiary* of the *mixed activity holding company*.

1.2 In this Part, the following definitions shall apply:

*eligible deposit*

has the meaning given in point 4 of Article 2(1) of Directive 2014/49/EU.

*excluded deposit*

means

(1) an *eligible deposit* from natural persons and *micro, small and medium-sized enterprises;* or

(2) a deposit that would be an *eligible deposits* from natural persons or *micro, small and medium-sized enterprises* if the deposit had not been made through a *branch* of the *firm* located in a *third country*.

*excluded liability*

has the meaning given in section 48B(7A)(a) of the Banking Act 2009.

*liability*

means any debt or liability to which the *BRRD undertaking* is subject, whether it is present or future, certain or contingent, ascertained or sounding only in damages.

*mandatory reduction provision*

has the meaning give in section 6B(2) of the Banking Act 2009.

*micro, small and medium-sized enterprises*

means micro, small and medium-sized enterprises as defined with regard to the annual turnover criterion referred to in Article 2(1) of the Annex to Commission Recommendation 2003/361/EC.

*special bail-in provision*

has the meaning given in section 48B(1) of the Banking Act 2009.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 CONTRACTUAL RECOGNITION OF BAIL-IN

2.1 A *BRRD undertaking* must include in the contract governing a *liability* a term by which the creditor or party to the agreement creating the *liability* recognises that the *liability* may be subject to the exercise of a power by the Bank of England to make *special bail-in provision* or *mandatory reduction provision* and agrees to be bound by any reduction of the principal or outstanding amount due or by any conversion or cancellation effected by the exercise of that power, provided that such *liability* is:

(1) not an *excluded liability*;

(2) not an *excluded deposit*;

(3) governed by the law of a *third country*; and

(4) issued, entered into or arising after 31 December 2015.

**[Note: Art. 55(1) (part) of the *BRRD*]**

2.2 In respect of a *liability* that is:

(1) an *additional tier 1 instrument*; or

(2) a *tier 2 instrument*,

a *BRRD undertaking* that is a *CRR firm* must provide to the *PRA* a properly reasoned independent legal opinion from an individual appropriately qualified in the relevant *third country* on the enforceability and effectiveness of the term referred to in 2.1.

## 3 CONTRACTUAL RECOGNITION OF BAIL-IN - TRANSITIONAL PROVISIONS

3.1 In this Chapter, the following definitions shall apply:

*debt instruments*

means any form of transferable debt security or instrument, whether registered or bearer, including commercial paper, bills of exchange, banker's acceptances, certificates of deposit and bonds, with the exception of debt securities or instruments which are *Additional Tier 1 instruments* or *Tier 2 instruments*.

*unsecured liability*

means a *liability* where the right of the creditor to payment or other form of performance is not secured by a charge, pledge, lien or mortgage, or collateral arrangements including *liabilities* arising from repurchase transactions and other title transfer collateral arrangements.

3.2 A *BRRD undertaking* must include in the contract governing a *liability* a term by which the creditor or party to the agreement creating the *liability* recognises that the *liability* may be subject to the exercise of power by the Bank of England to make a *special bail-in provision* or *mandatory reduction provision* and agrees to be bound by any reduction of the principal or

outstanding amount due or by any conversion or cancellation effected by the exercise of that power, provided that such *liability* is:

(1) not an *excluded liability*;

(2) not an *excluded deposit*;

(3) governed by the law of a *third country*;

(4) issued, entered into or arising after 19 February 2015; and

(5) either a *debt instrument* which is an *unsecured liability*, or an *additional Tier 1 instrument* or a *tier 2 instrument*.

**[Note: Art. 55(1) (part) of the *BRRD*]**

3.3 In respect of a *liability* that is:

(1) an *additional tier 1 instrument*; or

(2) a *tier 2 instrument*,

a *BRRD undertaking* that is a *CRR firm* must provide to the *PRA* a properly reasoned independent legal opinion from an individual appropriately qualified in the relevant *third country* on the enforceability and effectiveness of the term referred to in 2.1.

## Annex B

## Amendments to the Definition of Capital Part of the PRA Rulebook

Chapter 6 is deleted in its entirety.

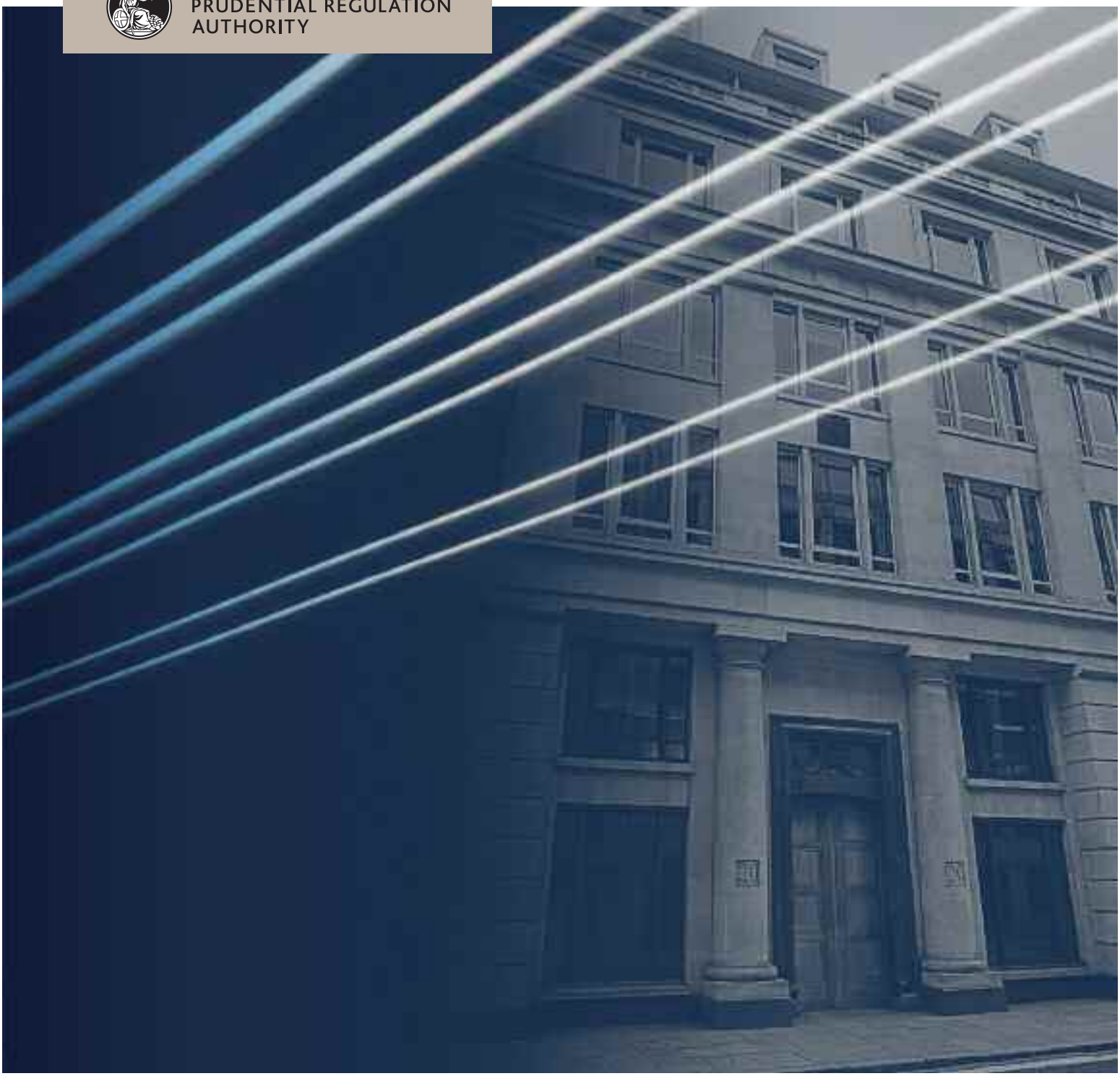
Supervisory Statement | SS18/13

# Recovery planning

December 2013

(Last updated 16 January 2015)

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Supervisory Statement | SS18/13

# Recovery planning

December 2013

(Last updated 16 January 2015)

# 1 Introduction

1.1 This statement is aimed at UK banks, building societies, UK designated investment firms and qualifying parent undertakings ('firms') to which the Recovery Planning Part of the PRA Rulebook applies.

1.2 This statement sets out the PRA's expectations on the content of recovery plans and group recovery plans (jointly referred to as 'recovery plans'). This statement complements and should be read together with requirements set out in the Recovery Planning Part of the PRA Rulebook. In addition, the BRRD provides for the Commission to adopt regulatory technical standards (RTS) specifying information to be contained in recovery plans and for the European Banking Authority (EBA) to issue guidelines (GL) specifying the range of scenarios to be used in recovery plans and GLs on a minimum list of recovery plan indicators.

1.3 This statement may be revised in the light of international policy developments and experience gained through the assessment of recovery plans.

1.4 Firms are required to maintain and update recovery plans that outline credible recovery actions to implement in the event of severe stress. The objective of recovery plans is to enable firms to restore their business to a stable and sustainable condition.

# 2 Key Elements

2.1 The recovery plan is a firm's complete menu of options addressing a range of severe financial stresses caused by idiosyncratic problems, market-wide stress or both. The PRA expects the recovery plan to include all credible options for addressing both liquidity and capital difficulties. Below are key elements of a recovery plan. Further guidelines on the content are in **Table A**.

- A summary of a firm's complete list of recovery options. In addition to the more obvious and straightforward recovery options firms should consider radical options which could alter the firm's structure and business model. Firms should also identify any remedial actions that could be taken to improve the credibility and effectiveness of individual recovery options.

- A description of each recovery option using a consistent framework (see **Table B**), including the firm's assessment of the probable success and quantitative estimate of each option's benefits. The quantum and time frame to achieve benefits should be prudently estimated, though the PRA accepts that these aspects of recovery actions will depend on the specific stressed circumstances at the time. A firm should consider the implications of the option on the franchise and viability of the firm.

- Identification of a range of indicators to activate the implementation of the recovery plan. Indicators should go beyond regulatory capital and liquidity ratios and include internal quantitative and qualitative metrics from the firm's overall risk management framework. Firms should also consider early warning indicators to identify emerging signs of stress. The calibration of indicators should be forward looking to allow sufficient time for corrective actions to be taken. The EBA is consulting on GLs setting out minimum recovery indicators firms should use in their recovery plan,(1) the PRA expects firms to follow these draft GLs until the final version is published.

- A sufficiently clear description of the escalation and decision-making process. This should ensure effective action is taken in a timely manner and should include procedures to be followed during recovery, including identification of the key people involved and their roles and responsibilities. Firms should embed the recovery plan into the firm's existing risk management framework. This will allow the plan to be implemented efficiently and effectively when firms encounter severe stress conditions.

- An operational plan for accessing central bank liquidity facilities. The Bank of England's presumption is that all banks and building societies that meet the PRA's threshold conditions for authorisation may sign up for the Sterling Monetary Framework and have full access to borrow in the facilities they have signed up for.

- Confirmation that the firm's Board of Directors, or other appropriate senior governance committee or group, has reviewed and approved the recovery plan.

- A communication plan to ensure that stakeholders (internal and external) are given timely and appropriate information during the firm's recovery process.

# 3 Recovery Plans

3.1 Recovery plans must contain the information set out in the Recovery Planning Part of the PRA Rulebook. In meeting those requirements, the content of recovery plans should be proportionate to the nature, scale and complexity of the activities of the firm and its group.

(1) EBA's consultation on recovery plan indicators is available at www.eba.europa.eu/-/eba-consults-on-qualitative-and-quantitative-recovery-plan-indicators.

3.2 In July 2014, the EBA published draft RTS on the content of recovery plans.(1) Firms should comply with these draft standards pending adoption of the RTS by the Commission.

3.3 The BRRD also obliges the EBA to issue GLs on the range of scenarios to be used in recovery plans. Firms should follow these GLs as they develop their scenarios.(2) The PRA expects all globally systemic important institutions (G-SIIs) and other systemically important institutions (O-SIIs) to provide four scenarios in their recovery plans. All other firms should provide three scenarios.

3.4 Further PRA guidelines on the content of recovery plans relating to scenario planning, access to central bank facilities, disposal options and wind-down analysis are set out in **Table A**. This should be seen as guidance for firms on how to integrate this content into their recovery plans. **Table A** is not a summary of the total content which is required — this is set out by the PRA Rules and EBA draft RTS on the content of recovery plans. Recovery plans should include a summary of proposed recovery options using a consistent framework (see **Table B**). The quantum and time frame to achieve benefits should be prudently estimated.

3.5 The PRA expects firms that are members of an international group headquartered in third countries to assess and demonstrate how the UK plan submitted to the PRA fits with the group recovery plan in addressing the UK operations, where applicable. As part of this process, it will be important for firms to understand dependencies, both financial and non-financial, with the group and the effect on the credibility of the UK recovery plan.

3.6 In assessing the credibility of recovery options, firms should consider the factors that could reduce the likelihood of success and how these could be mitigated. Prior experience in executing a recovery option should be included together with information on the circumstances which might render recovery options unavailable.

3.7 For small firms, the PRA recognises that recovery options may be limited in number, but nevertheless expects firms to give careful thought to identifying possible options, including a sale of the whole business. For small firms with very simple business models, whose key prudential metrics have not changed materially year on year, the firm's governing body may decide at its annual review that the information, plans, and triggers from the previous year continue to be appropriate.

3.8 Where a firm has included in its resolution pack information of the sort described in Article 6 paragraph 3 of the EBA draft RTS on the content of recovery plans, the PRA will allow firms to cross refer to that information in its recovery plan. Firms should ensure that sufficient detail is included in their resolution pack submission in order to cross refer to that information. Where firms cross refer to critical functions that are included in the resolution pack, they should identify which core business lines they identify as critical functions for the purposes of recovery planning.

(1) The EBA's Consultation Paper Draft Regulatory Technical Standards on the content of recovery plans is available at www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/draft-regulatory-technical-standards-on-the-content-of-recovery-plans.

(2) The EBA's Guidelines on the range of scenarios to be used in recovery plans is available at www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/draft-regulatory-technical-standards-specifying-the-range-of-scenarios-to-be-used-in-recovery-plans.

## Table A Recovery plan content

| Number | Heading | Required data/detail |
|---|---|---|
| **1** | **Recovery plan overview** | |
| | **Summary** | A firm's view of the extent that its recovery plan is credible and executable in a severe stress and an explanation of that view. Description of any material changes (including reason for changes) or action taken since the firm's last recovery plan submission. |
| 1.1 | **Integration with existing processes** | An overview of how the preparation of the recovery plan links to the firm's existing risk management framework. |
| | | Please detail the following:<br>• how the plan is integrated into the firm's risk management process (including Management Information Systems) and/or crisis management framework; and<br>• details of the process undertaken to ensure appropriate governance; confirmation of board approval; and nomination of the accountable executive director responsible for the firm's recovery plan and for acting as the firm's contact point with the authorities on its recovery plan. |
| 1.2 | **Implementation of the plan** | The recovery plan must include appropriate indicators and procedures to ensure the timely implementation of recovery actions.<br>These indicators can comprise a combination of quantitative and qualitative indicators. They need to be timely (ie forward looking to provide enough notice to take corrective action), capable of being monitored and it should be clear when they are not being met.<br>The indicators can be based on internal early warning indicators that firms currently monitor. An appropriate number of indicators should be monitored in line with the firm's complexity and business profile. |
| | | Describe the internal decision-making process by which the firm will identify when its recovery plan triggers are reached and how decisions are taken concerning the appropriate actions which follow, as well as the process for notifying the PRA. |
| | | List of key staff involved in the decision-making and activation process and selection of the individual options to be implemented. |
| **2** | **Recovery plan options** | |
| 2.1 | **Summary of options** | Summary description of each recovery option and the steps necessary to effect it. |
| | | For each recovery option, please provide the information set out in **Table B** below.<br>The PRA expects comprehensive recovery planning that includes all credible options for addressing both liquidity and capital difficulties, and therefore should include actions identified as part of BIPRU liquidity planning requirements.<br>The PRA expects firms to also consider options that may have permanent structural implications including those which would likely be contemplated in extremely stressed circumstances. |
| **Further detail on each option** | | |
| 2.2 | **Impact** | A description of the impact of carrying out each recovery option, including metrics. |
| | | Potential range of impact on capital, liquidity and balance sheet together with explanation of the assumptions made. |
| | | The range of potential effects of each option on the ongoing business in terms of profit. The quantification of recovery action benefits should be submitted on a post-tax basis. |
| | | The impact of each option on the ongoing business operations and support functions. |
| | | The impact of each option on the firm's franchise and how a communication plan can mitigate this. |
| | | The impact of each option on the firm's ratings. |
| | | The impact of each option on resolution, eg would it create additional barriers for an orderly resolution. |
| | | The systemic implication of each option on both the United Kingdom and international financial system. |
| 2.3 | **Execution/implementation issues** | A fully worked-up plan describing the execution of each recovery option. |
| | | The estimated time to realise the benefits of the recovery option. |
| | | The risks and hurdles to a successful implementation, including where relevant, any assumptions that have been made about managing foreign currency risks, for example, the currency of possible outflows, and possible FX swap lines which firms might use to meet those outflows. |
| | | The dependencies and assumptions for the option. |
| | | The key regulatory and legal issues. |
| | | The executive committee which has operational ownership of the option. |

Table A Recovery plan content (continued)

| Number | Heading | Required data/detail |
|---|---|---|
| 2.4 | **Credibility** | An assessment of the credibility of each recovery option. |
| | | Likely effectiveness in response to both an idiosyncratic and a market-wide stress. An assessment of the situations in which a particular option may not be feasible/appropriate. Assess which options are mutually exclusive and which options complement each other (likely groupings of options). |
| | | Factors that could reduce the likelihood of success and how these could be mitigated. |
| | | The firm's prior experience in executing each option. |
| | | The circumstances which would render the options unavailable. |
| 2.5 | **Scenario planning** | Scenarios should be severe enough to activate the recovery plan while being plausible and taking into account the business and risk profile of the firm. Firms may use stress testing which takes place as part of existing risk management processes and regulatory requirements (eg FPC/PRA, ICAAP and ILAA) as a foundation for scenarios. Firms may consider the use of reverse stress testing as a helpful starting point for developing scenarios which would lead the firm to 'near-default' allowing recovery options to be implemented to restore the firm's viability. All globally systemic important institutions (G-SIIs) and other systemically important institutions (O-SIIs) should provide four scenarios in their recovery plans. All other firms should provide three scenarios. All firms must include an idiosyncratic, a system-wide, and a combined scenario. G-SIIs and O-SIIs may determine which of these three scenarios to use as a fourth option. |
| | | Firms should provide:<br>(i) a description of each stress scenario; |
| | | (ii) an estimate of the quantitative and qualitative impacts of each scenario on the firm's and group's capital and liquidity as a minimum, but also consider impacts on the firm's or the group's profitability, business model, provision of payment services and reputation; |
| | | (iii) an estimate of the impact of each scenario on the relevant recovery plan indicators resulting in the activation of the recovery plan; |
| | | (iv) a list and reasoned explanation of the recovery options that would be effective at improving the firm's or the group's financial position under each scenario and quantification of the benefit of each option on the firm's or the group's capital and liquidity; and |
| | | (v) an assessment of the final aggregate impact of recovery options that under each scenario could be taken together to restore the firm's financial position and relevant recovery indicators. |
| 2.6 | **Plan for accessing central bank facilities** | Firms or qualifying parent undertakings should prepare plans for accessing central bank liquidity facilities, both at the Bank of England and overseas.<br>This should include:<br>• demonstrating that they have familiarised themselves with the purpose of those facilities;<br>• considering the circumstances in which they would need to access those facilities and discuss options with the Bank of England at an early planning stage;<br>• testing the operational aspects of their plan for accessing central bank facilities (including by carrying out periodic test trades with central banks where required, and internal testing of the speed of collateral processing etc);<br>• regularly 'realising' a representative proportion of the assets they would expect to receive from the use of central bank facilities (eg gilts if using the Bank of England's Discount Window Facility), either through repo or outright sale;<br>• undertaking an analysis of eligible assets and the drawing capacity against these;<br>• ensuring that an appropriate amount of assets are pre-positioned; and<br>• undertaking preliminary work to identify the range of options they would have, over time, for repaying central bank liquidity support, recognising that the nature and timing of such repayment plans would depend on the nature of the initial liquidity shock. These options should be able to be drawn largely from the recovery plan. |

Table A Recovery plan content (continued)

| Number | Heading | Required data/detail |
|---|---|---|
| 2.7 | **Disposals** | For disposals, a fully worked-up plan to execute that particular disposal. |
| | | On disposals, while the choice will be dependent on the market opportunities at the time of the stress, all possible disposal options should be identified and execution plans developed ahead of the stress and included in the recovery plan. Firms are expected to be conservative in valuing their disposals including assuming disposals at a discount distress level. They should explain their valuation methodology and main underlying assumptions.<br>In addition to identifying legal entity, business line and business unit options, the PRA expects firms to consider whether a disposal of the whole of the business is feasible. If so, this should be included as a recovery option. Where this is not feasible, the recovery plan should explain why. |
| | | For each disposal option, firms should outline the potential purchasers (at least by type). The PRA expects firms to assess the availability of strategic investors and to set out who they are and why they could be interested. |
| | | Describe any third-party consent/approvals or notices required. |
| | | Comment on potential competition issues. |
| | | Describe any contractual obstacles that might restrict the disposal. |
| | | Assess the tax implications of the disposal. |
| | | Assess any significant pensions or HR issues that need to be dealt with. |
| | | Explain what due diligence information would need to be available and confirm whether the information could be quickly assembled and whether there would be any barriers to sharing it. |
| | | Include a separability analysis, describing any issues with unplugging the business unit from the rest of the group or the financial infrastructure and how these should be dealt with. |
| | | State if there were disposals that have been considered but dismissed and, if so, a clear explanation as to why. |
| | | Where a merger or sale of the whole firm is a relevant recovery option, firms should consider fair valuation of the balance sheet, data room capabilities and how these impact the credibility of the recovery option. |
| 2.8 | **Remediation measures** | Identify actions (including structural changes) that should be taken to improve the credibility and effectiveness of the recovery plan. This should include a plan articulating a list of measures aimed at overcoming the barriers to the effectiveness of identified recovery actions with target completion dates and estimated costs for outstanding work. |
| 2.9 | **Wind-down analysis** | A trading book wind down is likely to be a consideration in recovery planning for all firms with a large trading book. A trading book includes all cash and derivative items held in a trading book accounting environment.<br>If necessary, firms may contact their supervisors to clarify whether this analysis is required. |
| | | The analysis should consider the capital and liquidity impacts, as well as the operational impacts, ie the firm's capacity to handle increased volumes of transactions.<br>The trading book wind-down plan should include a method to identify the liquid and illiquid positions within the portfolios of the trading book and the associated profit and loss impact (eg exit costs), together with the balance sheet and risk-weighted assets impact over a recovery period.<br>The portfolio segmentation analysis outlined below should assist firms in identifying positions which are linked (embedded in the balance sheet) and others that may be transferrable or sold:<br>• Embedded/structural transactions: in some cases, linked positions may be difficult to exit within the prescribed timeframes (eg hedges for asset and liability management, structured loans and credit management of loan portfolios), particularly if significant adverse structural and profit and loss consequences would arise from partial exit. These positions should be categorised as 'hold-to-maturity' and the types, amounts and locations should be listed.<br>• Segment the transferable inventory: the remaining inventory (being the transferable or saleable positions) should be split into segments based on product types and business lines.<br>• Divide by exit strategies: the positions in each segment should be subdivided by exit strategies, based on ease and cost of exit, to identify the illiquid segment.<br>• Scenario analysis: the estimates of exit costs and the amounts of inventory that can be disposed of should be calculated for both a one year and three-year timeframe under normal market conditions.<br>• The illiquid inventory will comprise the 'hold to maturity' positions, and any other transactions that cannot be disposed of within the prescribed timeframes. Together with the linked and embedded positions, these would be identifiable as a run-off/rump portfolio. |

## Table B Comparative framework for recovery plans

In order to show a comparative summary of a firm's complete list of recovery options, the PRA expects to be provided with data covering at least the categories listed in the following table. Firms should provide a separate table for each scenario a recovery option is tested against so that the outcomes of each recovery option can be identified for a market-wide, idiosyncratic and combined scenario independently.

The PRA recommends the templates included in this table as one suitable format for providing this data. The PRA recognises that the space provided on the template may be insufficient for the information that needs to be included. In such cases, the PRA's suggested headings and elements outlined below should be applied as closely as possible in an expanded format.

**Market-wide scenario**

| Recovery options | Capital impact (in nominal amount and % CET1 and total capital) | Risk-weighted and total asset impact (in nominal amount and %) | Liquidity impact (£m and % of applicable regulatory liquidity metric)[(a)] | Leverage ratio exposure impact (using CRR as base for calculations | Assumptions to quantify liquidity/ capital impact | Timing to realisation of the benefits | Summary of hurdles/risks to implementation | Franchise impact (Low, Medium, High) | Likely effectiveness (Low, Medium, High) | Ownership of the recovery option within the firm |
|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 | | | | | | | | | | |
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**Idiosyncratic scenario**

| Recovery options | Capital impact (in nominal amount and % CET1 and total capital) | Risk-weighted and total asset impact (in nominal amount and %) | Liquidity impact (£m and % of applicable regulatory liquidity metric)[(a)] | Leverage ratio exposure impact (using CRR as base for calculations | Assumptions to quantify liquidity/ capital impact | Timing to realisation of the benefits | Summary of hurdles/risks to implementation | Franchise impact (Low, Medium, High) | Likely effectiveness (Low, Medium, High) | Ownership of the recovery option within the firm |
|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 | | | | | | | | | | |
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**Combined scenario**

| Recovery options | Capital impact (in nominal amount and % CET1 and total capital) | Risk-weighted and total asset impact (in nominal amount and %) | Liquidity impact (£m and % of applicable regulatory liquidity metric)[(a)] | Leverage ratio exposure impact (using CRR as base for calculations | Assumptions to quantify liquidity/ capital impact | Timing to realisation of the benefits | Summary of hurdles/risks to implementation | Franchise impact (Low, Medium, High) | Likely effectiveness (Low, Medium, High) | Ownership of the recovery option within the firm |
|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 | | | | | | | | | | |
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(a) Until the liquidity coverage ratio (LCR) is introduced through the European Commission's Delegated Act in 2015, the PRA's liquidity regime will continue to apply to PRA-authorised banks, building societies and designated investment firms and therefore firms should refer to individual liquidity guidance (ILG). The PRA will consult on changes to its liquidity regime in due course.