



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP31/18

Resolution assessment and public disclosure by firms

December 2018



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Responses are requested by Friday 5 April 2019.

Please address any comments or enquiries to:

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1 Overview

1.1 In this Consultation Paper ('CP'), the Prudential Regulation Authority ('PRA') sets out proposed rules for UK banks and building societies with £50 billion or more in retail deposits on an individual or consolidated basis, as at the date of their most recent annual accounts, to assess their preparations for resolution, submit a report of their assessment to the PRA, and publish a summary of their report ('public disclosure'). The CP also contains a draft Supervisory Statement ('SS') setting out the PRA's expectations relevant to those rules. Drafts of the proposed rules are attached in Appendices 1 and 2 ('Rules') and the SS in Appendix 3 of this CP.

1.2 The purpose of the proposals in this CP is to contribute to ensuring that the firms that pose the greatest risk to UK financial stability are resolvable by 2022, and to increase firms' accountability and encourage ownership of firms' progress. The proposals are designed to ensure that firms are adequately preparing for resolution and that market participants and firms' stakeholders are informed of these preparations.

1.3 The proposals are relevant to PRA-authorized firms in scope of the proposed rules ('in-scope firms').

1.4 This CP may result in a new Resolution Assessment Part of the PRA Rulebook and a new SS.

Background

1.5 Firms are already required under PRA Fundamental Rule 8¹ to prepare for resolution so, if the need arises, they can be resolved in an orderly manner with minimum disruption to critical services. Firms have made significant progress in building resources to meet their future minimum requirements for own funds and eligible liabilities ('MREL'), in complying with PRA rules on stays in resolution, and meeting PRA operational continuity in resolution ('OCIR') requirements.

1.6 More work is needed to make resolution more transparent, better understood and more likely to succeed. The Resolvability Assessment Framework ('RAF') sets out the next steps in implementing the UK resolution regime, aiming to ensure that firms are, and are able demonstrate that they are, resolvable.

1.7 The RAF has three main components:

- The Bank of England ('the Bank') as Resolution Authority's CP 'The Bank of England's approach to assessing resolvability' ('The Bank CP') which sets out how it intends to assess resolvability, building on work that both firms and the Bank has already done. Readers of this CP should also refer to the Bank CP.
- The proposals in this CP for in-scope firms to assess their preparations for resolution, submit a report of their assessment to the PRA, and publish a summary of their report.
- Proposals for the Bank to make a public statement concerning the resolvability of each in-scope firm.

¹ Fundamental Rules Part of the PRA Rulebook, <http://www.prarulebook.co.uk/rulebook/Content/Part/211136/23-11-2018>.

Scope

1.8 The proposed Rules define the firms in scope as UK banks and building societies with retail deposits greater than or equal to £50 billion on an individual or consolidated basis, as at the date of their most recent annual accounts. This scope is intended to capture UK banks and building societies whose failure would pose the greatest threat to UK financial stability.

1.9 The Bank CP has a wider scope than this CP because it outlines how the Bank would perform its assessment of resolvability on firms: it is relevant to all firms with Bank-led bail-in or partial-transfer resolution strategies, and it is not limited to in-scope firms.

1.10 Other firms not in scope of the proposed PRA Rules may also pose risks to financial stability, particularly those with Bank-led bail-in or partial-transfer resolution strategies. The PRA, in consultation with the Bank, may therefore consider whether and how to apply some or all of the proposals to other such Bank-led bail-in or partial-transfer firms at a later date, where appropriate.

Summary of proposals

1.11 The PRA is proposing to introduce Rules whereby each in-scope firm would:

- carry out a realistic assessment of its preparations for resolution;
- include analysis of how it understands it would be resolved, any risks to its resolution and the steps taken or plans made to remove or reduce those risks;
- submit a report of its assessment to the PRA ('report') every two years starting from September 2020; and
- publicly disclose summaries of its report every two years starting from the end of May 2021.

1.12 This CP also includes proposals on:

- arrangements for a firm undergoing significant corporate restructuring; and
- board-level engagement and accountability for preparing and approving a firm's report.

Responses and next steps

1.13 This consultation closes on Friday 5 April 2019. The PRA invites feedback on the proposals set out in this consultation, in particular on the proposed dates for in-scope firms' submissions and disclosures and how they may interact with firms' closed periods and other reporting requirements. Please address any comments or enquiries to RAF_Consultation_2018@bankofengland.co.uk.

1.14 It is likely that the PRA will consider changes to existing PRA policies in due course, with a view to better aligning them with the RAF.

1.15 In particular, the PRA intends to consult in the coming months on changes to its Senior Manager and Certification Regime ('SM&CR') to incorporate the responsibility for carrying out assessments and related obligations into the existing prescribed responsibilities in the Allocation of Responsibilities Part of the PRA Rulebook.

1.16 Other areas where amendments may be needed include the Operational Continuity Part of the PRA Rulebook and accompanying Supervisory Statement 9/16 'Ensuring operational continuity in resolution'.

1.17 The Bank has set out in Chapter 7 of its CP that most or all functions may need to continue in order to facilitate the continuity of critical functions and other business lines may need to continue to enable post bail-in restructuring. The PRA is intending to review its policies regarding OCIR in light of this, and in light of feedback resulting from firms' experiences.

1.18 In the meantime, the requirement for firms in scope of the Operational Continuity Part to comply with the PRA's existing OCIR rules from Tuesday 1 January 2019 remains unchanged because these existing requirements already support firms' continuity in resolution.

1.19 The proposals in this CP have been designed in the context of the current UK and European Union (EU) regulatory framework. As set out in Consultation Paper 25/18 'The Bank of England's approach to amending financial services legislation under the European Union (Withdrawal) Act 2018', the PRA is also preparing for the situation where the UK leaves the EU on 11:00pm Friday 29 March 2019 ('exit day') without an Implementation Period.² The UK's withdrawal from the EU requires changes to be made to UK legislation to ensure that it remains functional in that scenario. As a result, this CP includes a second draft instrument in Appendix 2 which would only take effect in the event that the UK leaves the EU on exit day without an Implementation Period agreed between the EU and UK.

2 Proposals

2.1 Firms are already required to prepare for resolution. Disorderly bank failure is disruptive and costly. Effective preparations help with the management of failures, help avoid risks to depositors and the wider financial system, and protect public finances.

2.2 To ensure that firms are preparing effectively for resolution, the PRA proposes that in-scope firms undertake realistic assessments of their preparations for resolution and submit reports of their assessments to the PRA. Such assessments would:

- include analysis of how the firm understands it would be resolved;
- identify risks to its resolution; and
- describe the steps the firm is taking or plans to take to remove or reduce those risks.

2.3 Reporting these assessments to the PRA would ensure that supervisors are informed of in-scope firms' preparations and the extent to which they facilitate resolution. The PRA expects that an in-scope firm's report should be accessible to its users and focus on key information, the details of which are outlined in section 3 of the draft SS in Appendix 3.

2.4 The PRA considers that market and public scrutiny associated with public disclosure should incentivise firms in scope of these proposals to improve the robustness of their preparations for resolution. Disclosure should increase financial stability because market participants and counterparties can anticipate that failing firms will be resolved in an orderly manner. Orderly

² A draft Withdrawal Agreement was agreed March 2018. The draft Withdrawal Agreement provides for an implementation period ending on Thursday 31 December 2020 (the 'Implementation Period') available at: <https://www.gov.uk/government/publications/draft-withdrawal-agreement-19-march-2018>.

resolution should also improve safety and soundness of firms by reducing the risk of contagion when a firm fails.

2.5 The Bank CP sets out how the Bank proposes to assess the resolvability of firms to which it has communicated a preferred resolution strategy of bail-in or partial transfer. It proposes to assess these firms' capabilities, resources, and arrangements firms have in place for observing relevant policies; the credibility of these firms' plans to implement measures to observe relevant policies; and these firms' governance and assurance arrangements.

The PRA's role in the Resolvability Assessment Framework

2.6 The PRA's Fundamental Rule 8 already requires firms to prepare for resolution so, if the need arises, it can be resolved in an orderly manner with minimal disruption of critical services. The PRA has also introduced a number of requirements and expectations intended specifically to facilitate resolution including on OCIR, stays in resolution, and resolution pack.³ This CP proposes to build on these existing requirements and expectations by proposing that in-scope firms assess their business-as-usual preparations and capabilities for resolution.

2.7 In its capacity as Resolution Authority, the Bank has statutory responsibilities to draw up resolution plans and assess resolvability for all UK-incorporated banks, UK-incorporated building societies, and those UK-incorporated investment firms that are required to hold initial capital of €730,000, in particular those that deal as principal. It, therefore, sets the resolution strategy for each relevant firm. As part of resolution planning for a firm, the Bank undertakes annual 'resolvability assessments' in consultation with the PRA, which involve the identification of potential impediments to resolvability. The information provided to the PRA in accordance with the proposed Rules in this CP may also be used to inform the Bank's resolvability assessments.

The proposals to assess and report preparations for resolution

2.8 The PRA proposes that in-scope firms should prepare assessments of their preparations for resolution ('assessments'). In-scope firms would submit a report of those assessments to the PRA every two years by the second Friday in September starting in 2020, then next in 2022 and so on.

2.9 The PRA considers that a realistic assessment should be forward-looking and cover the extent to which an in-scope firm's preparations for resolution would facilitate an orderly resolution. Undertaking an assessment should help an in-scope firm identify any risks to its resolution, and the steps it needs to take to remove or reduce those risks. The proposed SS in Appendix 3 sets out the PRA's expectations on the content of an in-scope firm's report and public disclosure.

2.10 The PRA expects that an in-scope firm's report of its assessment should be thorough, focus on key information, and be easy to understand by its readers. The proposed Rules, which do not seek to prescribe the precise format of in-scope firms' reports for submission to the PRA, can be found in Appendices 1 and 2.

2.11 The PRA proposes in the draft SS that an in-scope firm's report should provide sufficient information and analysis to enable the PRA to understand its preparations for resolution. The

³ Operational Continuity Part of the PRA Rulebook (effective 01/01/2019), <http://www.prarulebook.co.uk/rulebook/Content/Part/320890/01-01-2019>, Stay in Resolution Part of the PRA Rulebook, <http://www.prarulebook.co.uk/rulebook/Content/Part/318771/>, and Resolution Pack Part of the PRA Rulebook, <http://www.prarulebook.co.uk/rulebook/Content/Part/211646/>.

PRA does not intend an in-scope firm's assessment to be a data collection exercise. Data collections, such as those required under Chapter 2 of the Resolution Pack Part of the PRA Rulebook⁴ and the EBA ITS on Resolution Planning,⁵ aim to enable the relevant authorities to identify the appropriate resolution strategy for firms to which the Bank's statutory responsibilities apply. The assessments and reports of in-scope firms described in this CP, instead, should allow the authorities to understand and evaluate the preparations the firm has taken for resolution.

The public disclosure proposals

2.12 In addition to the proposal in the Rules for firms to carry out an assessment and submit a report of its assessment to the PRA, the Rules also propose that in-scope firms publish a summary of their reports. The Rules propose that in-scope firms would publish their first public disclosure by the last working day of May 2021.

2.13 Paragraphs 7.1 and 7.2 of the proposed SS explain how the PRA intends the disclosure dates to operate in practice. Chapter 10 of the Bank CP describes how these dates might operate in conjunction with the Bank's own public statements. There is a gap between the submission of the report to the PRA and the backstop date for the public disclosure, to allow time for the Bank to conduct assurance work and draft its public statements on firms' resolvability, as these will be based on firms' reports.

2.14 The PRA considers that increased transparency would help advance the PRA's general safety and soundness objective and the requirement for the PRA to pursue this objective by seeking to prevent disorderly failure. It would inform the PRA's supervisory approach, including the PRA's expectations on compliance with Fundamental Rule 8. Disclosure of in-scope firms' progress should support public confidence in the stability of the financial system and allow firms' counterparties to make more informed decisions. Enhanced public accountability may increase incentives for firms to address any weaknesses identified in their preparations for resolvability, which may also contribute to greater financial stability.

2.15 The proposed SS sets out the PRA's expectations in relation to, among other things, the nature and content of in-scope firms' public disclosures. The SS refers to the PRA's expectation that the information contained in an in-scope firm's public disclosure be consistent with its latest report submitted to the PRA.

2.16 The PRA proposes that in-scope firms' public disclosures be concise and accessible. Their public disclosures should:

- focus on key information about the firm's resolvability, rather than giving detailed descriptions of how particular elements of its plans work in practice; and
- enable readers to obtain a clear and accurate understanding of the firm's progress towards resolvability.

2.17 The PRA does not propose to set detailed specifications for the content of in-scope firms' public disclosure. This approach should enable in-scope firms to include the information that is most relevant to stakeholders and should avoid constraining in-scope firms with a need to

⁴ January 2015: <http://www.prarulebook.co.uk/rulebook/Content/Chapter/211648>.

⁵ EBA Implementing standards on the provision of information for the purpose of resolution plans <https://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32018R1624&from=EN>.

meet a specific format. The PRA proposes, however, that an in-scope firm's public disclosure should include the elements set out in paragraph 4.4 in the draft SS.

2.18 The PRA would not expect an in-scope firm's public disclosure to include an overall judgement about whether it considers itself to be resolvable. This would be consistent with the Bank's approach to its proposed public statements. In Chapter 10 of its CP, the Bank proposes that its public statements would explain the extent to which the Bank considers whether any barriers to in-scope firms' resolvability could impede the Bank from executing these firms' preferred resolution strategy, without resorting to public funds.

Governance

2.19 The PRA proposes that in-scope firms fully embed the process for preparing and approving assessments into their governance framework. In particular, the PRA considers board-level engagement and accountability to be essential to ensure there is appropriate oversight of these key responsibilities.

2.20 The SS sets out the PRA's expectations in relation to the governance arrangements that an in-scope firm should use when undertaking and approving its assessment and report. In particular, the board, its sub-committees and senior management would need to have clear responsibilities for assessing an in-scope firm's preparations for resolution, overseeing, reviewing and approving a firm's report, and need to devote time and resources to this task.

2.21 The PRA intends to consult on changes to its SM&CR to incorporate these responsibilities in due course.

Approach to supervision

2.22 The PRA would expect to use a combination of continuous supervisory assessment and targeted reviews of in-scope firms' reports to monitor compliance with the Rules, if implemented. To evaluate a firm's assessment, the PRA expects to consider:

- whether an in-scope firm has realistically assessed how its preparations would support the Bank in executing a resolution;
- the credibility of any plans that the in-scope firm has for removing or reducing risks to its resolution; and
- whether the in-scope firm's board and senior management have sufficiently engaged with the process of assessing its preparations for resolution, and the process of approving its report to the PRA, in order to take responsibility for it.

3 The PRA's statutory obligations

3.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations. Before making any rules, the Financial Services and Markets Act 2000 (FSMA)⁶ requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost-benefit analysis;⁷

⁶ Section 138J of FSMA.

⁷ Section 2B of FSMA.

- an explanation of the PRA's reasons for believing that making the proposed policy is compatible with the PRA's duty to act in a way that advances its general objective;⁸ insurance objective⁹ (if applicable); and secondary competition objective;¹⁰
- an explanation of the PRA's reasons for believing that making the proposed policy is compatible with its duty to have regard to the regulatory principles;¹¹ and
- a statement as to whether the impact of the proposed policy on mutuals will be significantly different than upon other persons.¹²

3.2 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.¹³

3.3 The PRA is also required by the Equality Act 2010 to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis

Scope of the analysis and summary

3.1 This cost-benefit analysis focuses on the incremental costs and benefits of the proposals made by the PRA in this CP. This analysis does not include the costs and benefits associated with the Bank's proposed public statements or the cost of the new policies proposed in the Bank CP, which are analysed separately in the Bank CP.¹⁴

3.2 In summary:

- The costs of the proposals need to be considered in the context of the overall benefits of orderly resolution. The PRA has considered the costs of implementing its proposals by reference to the individual firms in scope, while the benefits have been considered from the point of view of the broader economy. The PRA has considered operational as well as reputational costs to in-scope firms.
- The PRA considers that these proposals contribute to the overall benefits to the broader economy of having a credible resolution regime, estimated at between £6.1 billion and £18.3 billion per annum.¹⁵ The PRA considers that costs, estimated at falling within a range of £3.8 million to £6.3 million per annum in total for the firms in scope, are proportionate to the estimated benefits.

Benefits

3.3 The PRA believes that the proposed Rules would incentivise in-scope firms to better prepare for resolution, and, with regards to the rule on public disclosure, would increase public and market confidence in the resolution regime.

3.4 In-scope firms would benefit, as:

⁸ Section 2B of FSMA.

⁹ Section 2C of FSMA.

¹⁰ Section 2H(1) of FSMA.

¹¹ Section 2H(2) and 3B of FSMA.

¹² Section 138K of FSMA.

¹³ Section 308 of the Bank of England Act 1998.

¹⁴ See Section 11 'Preliminary Impact Assessment' of the Bank CP.

¹⁵ Numbers based on calculations in paragraph 3.6.

- orderly resolution is likely to preserve more value for firms being resolved, as opposed to disorderly resolution; and
- counterparties may prefer to trade with firms that have credible resolution plans, as this would help maintain continuity of business throughout stress and resolution.

3.5 The benefits of the PRA's proposals are embedded within the broader benefits of the resolution regime. These benefits include reducing the costs and risks to the wider economy of resolving a failed institution, and making resolution credible without support from public finances.

3.6 Based on the approach set out in Brooke et al. (2015),¹⁶ the Bank estimated that the annual gross benefits of credible resolution are likely to be between 0.3% and 0.9% of annual GDP, or £6.1 billion to £18.3 billion in 2017.¹⁷ The PRA considers that having the in-scope firms implement the proposed Rules would contribute to these benefits.

Approach to estimating costs

3.7 The total estimated cost figure can be broken down between the cost of carrying out the assessment and producing the report on the one hand, and the cost of producing and publishing the public disclosure on the other. These are broad estimates and should be treated as such. These estimates are made under the assumption that in-scope firms use in-house capabilities to carry out the assessment, produce the report, and publish the public disclosure. The PRA has not considered the costs of using third parties or consultants.

3.8 As set out in the SS, in-scope firms are not expected to duplicate data submissions already made to the PRA. The PRA also anticipates costs to decrease in subsequent cycles after 2020, as in-scope firms' experience of the exercise increases.

3.9 The PRA anticipates that the bulk of the cost would comprise: the time spent by staff carrying out the assessment and producing the report; the time spent producing and publishing the public disclosure; and boards' and committees' review time of these documents. The PRA anticipates that in-scope firms would be able to leverage existing governance processes to produce the report and public disclosure.

3.10 These estimates are made on a per annum basis, to be comparable with the benefits.

Cost of the assessment and report

3.11 Assuming in-scope firms would need the equivalent of three to four annual Full-Time Equivalents (FTEs) to carry out the assessment, the PRA estimates staff costs to be in the range of £285,000 to £380,000 per annum.¹⁸ A variety of roles may be involved at different stages of the process (such as analysts, lawyers, and subject matter experts for example) and there would be peaks and troughs in intensity of the assessment work over the two year cycle.

¹⁶ Brooke et al. (2015), *Measuring the macroeconomic costs and benefits of higher UK bank capital requirements*, accessible at <https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-paper/2015/measuring-the-macroeconomic-costs-and-benefits-of.pdf?la=en&hash=9E3312E32D26EC1F02E25CB2F075356B484F0242>.

¹⁷ Nominal GDP in the UK was 2.038 trillion in 2017 (source: IMF WEO April 2018).

¹⁸ Based on Robert Walters 2017 annual salary survey data, for Regulatory Policy roles in Banking and Financial Services, using the mid-point in the range of £70,000 for AVPs to £120,000 for Directors, i.e. £95,000; <https://www.robertwalters.fr/content/dam/salary-survey-2017.pdf>.

3.12 The PRA estimates that it would cost in-scope firms in the range of approximately £103,000 to £200,000 to have boards and committees review and sign-off the report.¹⁹ The PRA estimates assume one board meeting and between ten and fifteen committee meetings, depending on the complexity of the firm structure.²⁰

3.13 This gives an estimated cost of performing the assessment and producing the report in the range of £388,000 to £580,000 in total per in-scope firm.

Cost of the public disclosure

3.14 The public disclosure is a summary of the report. The PRA therefore considers the additional cost of the public disclosure, on top of the cost of the report, to be smaller in comparison. However the PRA anticipates that in-scope firms would face extra costs related to the public nature of the document, such as press office costs.

3.15 Assuming in-scope firms would need the equivalent of 1 to 2 annual FTEs to produce the public disclosure, the PRA estimates that the public disclosures would cost in-scope firms in the range of approximately £95,000 to £190,000.²¹

3.16 The PRA estimates in-scope firms would need one board meeting and between five and ten committee meetings to sign-off public disclosures, costing in the range of approximately £55,000 to £135,000.²²

3.17 In total, the PRA estimates that the cost per in-scope firm of producing the public disclosure would be in the range of £150,000 to £325,000 per year.

Total cost

3.18 Adding together the cost of the assessment, report, and public disclosure, the PRA estimates that the costs of implementing the PRA's proposals would be approximately in the range of £540,000 to £905,000 per firm in scope, or £3.8 million to £6.3 million in total per annum for all firms in scope.²³

3.19 The PRA has also considered potential reputational costs associated with the public disclosures for in-scope firms that disclose that they are inadequately prepared for resolution after 2022. The PRA does not believe it can quantify such costs. Such costs may act as an incentive for such firms to better prepare for resolution.

Compatibility with the PRA's objectives

3.20 The PRA has a statutory objective to promote the safety and soundness of firms.

3.21 The proposals in this CP would help advance the PRA's general objective of promoting the safety and soundness of firms by seeking to 'minimise the adverse effect that the failure of

¹⁹ The average hourly salary for board and committee members is estimated using CEO salary data published in the annual reports of seven major UK firms, excluding bonuses (Barclays, Lloyds Banking Group, Standard Chartered, HSBC, Santander UK, RBS and Nationwide). As salary figures are annual, the hourly rate is derived based on a 9.7 hour working day (Porter and Nohria (2018), *How CEOs managed their time*, Harvard Business Review, accessible on <https://hbr.org/2018/07/the-leaders-calendar#how-ceos-manage-time>). CEO salaries will be on the upper end of the salary range of board and committee member salaries: the PRA therefore considers these estimates to be conservative.

²⁰ For boards, PRA estimates assume 12 members and one hour dedicated to the report; for committees, six to eight members dedicating three hours each to the report.

²¹ Using similar methodology as in 3.11.

²² Using similar methodology as in 3.12.

²³ Rounded figures.

one of the firms we regulate could be expected to have on the stability of the UK financial system.’²⁴

3.22 The proposals for in-scope firms and their senior managers to take responsibility for, and improve the quality of, their preparations for resolution should increase the safety and soundness of these firms. The proposals for in-scope firms to submit assessments to the PRA should, among other things, allow the PRA to assess more effectively these firms’ compliance with Fundamental Rule 8.

3.23 The proposals made in this CP would help prevent disorderly failure, and support financial stability, via two channels:

- The proposed Rules would incentivise in-scope firms to make progress on their resolution planning. Credible resolution planning is necessary to minimise the impact of a disorderly failure.
- Disclosure of summaries of in-scope firm’s reports would increase public and market confidence in the resolution regime and enhance the regime’s credibility.

3.24 The PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorised persons.

3.25 The PRA does not believe that the proposed Rules would have an impact on competition. In particular:

- The proposals would not raise barriers to entry in the retail banking and building society sector, as it is presently proposed that they would only apply to firms with retail deposits equal to or greater than £50 billion, and the incremental cost increase of the proposal would not be material.
- From a competition perspective, the public disclosure proposal may have an impact on the funding costs of in-scope firms, as opposed to those not proposed to be in scope. The impact would arise from the additional information made available to markets via the public disclosure in carrying out risk assessments. However, any shift in funding costs for a disclosing firm would depend on the nature of the public disclosure, and the extent to which the disclosure may change the market’s risk assessment of the firm. All in all, the PRA does not think that the information provided in public disclosures would generate any material advantage or disadvantage in funding costs for disclosing firms vis-à-vis non-disclosing firms, and the PRA does not anticipate any material impact on competition.

Regulatory principles

3.26 In developing the proposals in this CP, the PRA has had regard to the regulatory principles. Two of the regulatory principles are of particular relevance:

- The principle that a burden or restriction should be proportionate to the benefits. As outlined in the cost-benefit analysis above, the proposals in this CP have been made with consideration to their cost relative to their benefits.

²⁴ See page 4 of ‘The PRA’s Approach to Banking Supervision’, October 2018, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pr-a-approach-documents-2018>.

- The principle requiring firms to publish information, as a means of contributing to the advancement of the regulator's objectives. The PRA is proposing that firms would disclose summaries of the reports they submit to the PRA. The PRA has given thought and engaged with firms in bilateral meetings on the implications of such public disclosure. For information on the Bank public statement please refer to the Bank CP.

Impact on mutuals

3.27 The PRA expects mutuals, like non-mutuals, to include in their reports and public disclosures the steps they are taking, or plan to take, to remove or reduce risks to resolution.

3.28 However, for a mutual, such steps could include consideration of recapitalisation options that involve a change in corporate status (such as partial or full demutualisation), in order to allow new or bailed-in investors some control over the business in exchange for their injection of equity. Such a change of status would not form part of a non-mutual's plans.

3.29 The PRA expect that mutuals will have already considered the practicality and implications of such recapitalisation options as part of their recovery planning, but the PRA recognises that disclosing a summary of such plans may present an additional communications challenge for mutuals that have not previously highlighted to their members the possibility, under extreme stress, of a change in mutual status.

3.30 Overall the PRA considers that the impact on mutuals would not differ from the impact on other firms, except for implications relating to the disclosure of recapitalisation options.

HM Treasury recommendation letter

3.31 HM Treasury has made recommendations to the PRC about aspects of the Government's economy policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.²⁵

3.32 The aspects of the Government's economic policy that are most relevant to the proposals in this CP are outlined below.

Competitiveness

3.33 The PRA believes that these proposals would not negatively impact UK competitiveness. Conversely, these proposals may enhance competitiveness as the disclosures should support confidence in the UK financial system by providing markets with additional information on firms' resolvability. The PRA believes that market confidence in a credible resolution regime would help promote London as a financial centre.

Equality and diversity

3.34 The PRA has performed an assessment of these proposals and does not consider that the proposals give rise to equality and diversity implications.

²⁵ Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at <https://www.bankofengland.co.uk/about/people/prudential-regulation-committee>.

Appendices

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- 1 Draft Resolution Assessment Part**

 - 2 Draft Resolution Assessment Part in the event of a no-deal Brexit**

 - 3 Draft Supervisory Statement – Resolution Assessment and Public Disclosure by Firms**

Appendix 1 – Resolution Assessment Part

PRA RULEBOOK: [CRR FIRMS][NON CRR FIRMS][SOLVENCY FIRMS][NON SOLVENCY FIRMS][NON AUTHORISED PERSONS]:[TITLE OF PART] INSTRUMENT [2019]

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); and
 - (2) section 137T (General supplementary powers).
- B. 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

- C. 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]: [Title of Part] Instrument [2019]

- D. The PRA makes the rules in the Annex to this instrument.

Commencement

- E. This instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: [CRR Firms] [Title of Part] Instrument [2019].

By order of the Prudential Regulation Committee
[DATE]

Annex

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

Part

[PART TITLE]

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ASSESSMENT**
- 3. REPORT**
- 4. DISCLOSURE**

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *firm* that is a *UK bank* or *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion on:
- (1) an individual basis;
 - (2) if the *firm* is a *parent institution in a Member State*, the basis of its *consolidated situation*; or
 - (3) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, the basis of the *consolidated situation* of that holding company.
- 1.2 In this Part, the following definitions shall apply:
- deposit*
- has the meaning given in 30, Part 1, Annex V (Reporting on financial information) of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.
- retail deposit*
- means *deposits* from "households" as defined in 35(f), Part 1, Annex V (Reporting on financial information) of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.
- 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 ASSESSMENT

- 2.1 A *firm* must carry out an adequate assessment of its preparations for resolution.
- 2.2 The assessment in 2.1 must:
- (1) be realistic;
 - (2) include analysis of how the *firm* understands it would be resolved, any risks to its resolution and steps the *firm* is taking or plans to take to remove or reduce those risks; and
 - (3) be reviewed by the *firm* if there is reason to suspect it is no longer accurate and updated if there has been a change in any of the matters to which it relates that impacts its assessment.

3 REPORT

- 3.1 A *firm* must submit to the *PRA* a report in writing of the assessment in 2.1 by:

- (1) the second Friday in September 2020; and
- (2) biennially thereafter by the second Friday in September of the relevant calendar year.

3.2 A *firm* must submit to the *PRA* an updated version of the report in 3.1 within twenty *working days* of a change in the assessment carried out under Chapter 2.

4 DISCLOSURE

4.1 A *firm* must publish by the following dates a summary of the most recent report submitted to the *PRA* under Chapter 3:

- (1) the last *working day* in May 2021; and
- (2) the last *working day* in May of each calendar year following the year in which a *firm* is required to submit a report under 3.1(2).

Appendix 2 – Resolution Assessment Part in the event of a no-deal Brexit

PRA RULEBOOK: [CRR FIRMS][NON CRR FIRMS][SOLVENCY FIRMS][NON SOLVENCY FIRMS][NON AUTHORISED PERSONS]:[TITLE OF PART] INSTRUMENT [2019]

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); and
 - (2) section 137T (General supplementary powers).
- B. 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

- C. 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]: [Title of Part] Instrument [2019]

- D. The PRA makes the rules in the Annex to this instrument.

Commencement

- E. This instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: [CRR Firms] [Title of Part] Instrument [2019].

By order of the Prudential Regulation Committee
[DATE]

Annex

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

Part

[PART TITLE]

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ASSESSMENT**
- 3. REPORT**
- 4. DISCLOSURE**

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *firm* that is a *UK bank* or *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion on:
- (1) an individual basis;
 - (2) if the *firm* is a *UK parent institution*, the basis of its *consolidated situation*; or
 - (3) if the *firm* is controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Part 6 of the *Capital Requirements Regulations*, the basis of the *consolidated situation* of that holding company.
- 1.2 In this Part, the following definitions shall apply:
- deposit*
- has the meaning given in 30, Part 1, Annex V (Reporting on financial information) of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.
- retail deposit*
- means *deposits* from "households" as defined in 35(f), Part 1, Annex V (Reporting on financial information) of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.
- 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 ASSESSMENT

- 2.1 A *firm* must carry out an adequate assessment of its preparations for resolution.
- 2.2 The assessment in 2.1 must:
- (1) be realistic;
 - (2) include analysis of how the *firm* understands it would be resolved, any risks to its resolution and steps the *firm* is taking or plans to take to remove or reduce those risks; and
 - (3) be reviewed by the *firm* if there is reason to suspect it is no longer accurate and updated if there has been a change in any of the matters to which it relates that impacts its assessment.

3 REPORT

- 3.1 A *firm* must submit to the *PRA* a report in writing of the assessment in 2.1 by:
- (1) the second Friday in September 2020; and

(2) biennially thereafter by the second Friday in September of the relevant calendar year.

3.2 A *firm* must submit to the *PRA* an updated version of the report in 3.1 within twenty *working days* of a change in the assessment carried out under Chapter 2.

4 DISCLOSURE

4.1 A *firm* must publish by the following dates a summary of the most recent report submitted to the *PRA* under Chapter 3:

(1) the last *working day* in May 2021; and

(2) the last *working day* in May of each calendar year following the year in which a *firm* is required to submit a report under 3.1(2).

Appendix 3 – Draft Supervisory Statement ‘Resolution assessment and public disclosure by firms’

1 Introduction

1.1 This Supervisory Statement (‘SS’) is relevant to the UK banks and building societies to which the Rules in the Resolution Assessment Part of the PRA Rulebook (the Rules) apply (‘a firm’).

1.2 This SS sets out the Prudential Regulation Authority’s (PRA’s) expectations on how these firms should comply with the Rules.

1.3 This SS should be read in conjunction with the Resolution Assessment Part of the PRA Rulebook and the Bank of England’s (‘the Bank’) Policy Statement on the Resolvability Assessment Framework (‘Policy Statement’). The Resolution Assessment Part contains the rules on a firm’s assessment, report and public disclosures. The Bank’s Policy Statement sets out the Bank’s approach to assessing the resolvability of banks, building societies and certain investment firms to which the Bank’s statutory responsibilities apply

1.4 The PRA may, in consultation with the Bank as Resolution Authority, consider an exercise of its powers under section 55M of the Financial Services and Markets Act 2000 (FSMA) to apply some or all of the requirements set out in the Resolution Assessment Part to one or more Bank-led bail-in or partial-transfer resolution strategy firms, where it is desirable to do so to advance the PRA’s general objective. The PRA would consult with the affected firm or firms on a case by case basis before reaching a decision.

2 Assessing preparations for resolution

2.1 A firm is required to carry out an assessment of its preparations for resolution under 2.1 of the Resolution Assessment Part. This section sets out the PRA’s expectations on this rule.

Outcomes for resolvability

2.2 The PRA expects a firm to undertake a forward-looking, realistic assessment of how its preparations for resolution would enable it to achieve the outcomes for resolvability as set out in the Bank’s Policy Statement.

2.3 The three outcomes for resolvability are:

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

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

- meet the ‘minimum requirements for eligible liabilities’ (MREL) appropriately distributed across its business;

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

- be able to support a timely assessment of its capital position and recapitalisation needs; and
- be able to analyse and mobilise liquidity in resolution.

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

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

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

Resolution assessments

2.4 This section should be read in conjunction with the Bank's Policy Statement.

2.5 When undertaking its assessment, the PRA expects a firm to consider how a Bank-led resolution is likely to be executed.

2.6 A firm should:

- base its assessment on how it would be resolved by the Bank and how its preparations facilitate the Bank's process with reference to the pre-resolution contingency period, the 'resolution weekend', and the post-bail in period as described in the Bank's Policy Statement;
- identify any risks which could prevent the above outcomes from being achieved and detail the steps it intends to take to reduce or remove those risks. This should include an anticipated timeline for completion and any controls that exist at the firm to oversee its execution of these steps;
- identify any other actions it may need to take to facilitate orderly resolution; and
- document these considerations in its report.

2.7 The PRA expects a firm to reference a stylised resolution timeline as a reference tool when developing its assessments.

2.8 The PRA expects a firm's assessment to cover the consolidation group that the PRA is responsible for supervising on a consolidated basis. Consideration should also be given to how the firm's preparations for resolution are consistent with the PRA's ring-fencing requirements under the Ring-Fenced Bodies Part of the PRA Rulebook.

2.9 The PRA expects that a single assessment would be developed covering the consolidation group for which the PRA is responsible for supervising on a consolidated basis. The PRA will

consider this single assessment as discharging the obligations of the other firms within the consolidation group, in line with its understanding of how the firm would be resolved by the Bank, subject to the considerations outlined in paragraphs 2.8 and 5.6 of this SS. Similarly, the PRA expects firms to provide a single report and disclosure covering the consolidation group the PRA is responsible for supervising on a consolidated basis.

2.10 The PRA does not expect a firm to consider issues relating to how the UK authorities will engage with authorities in other jurisdictions.

Barriers to resolvability

2.11 In conducting its assessment, the PRA expects a firm to assess its preparations for resolution by reference to the objectives of the barriers to resolvability identified by the Bank in the Bank's Policy Statement. A firm should also consider its specific business model and whether there are any additional barriers that are relevant. The PRA also expects a firm to assess whether there are any other factors that may prevent its orderly resolution. A firm should assess whether it has the capabilities, resources and arrangements to achieve the following objectives:

- **Minimum requirement for own funds and eligible liabilities ('MREL'):** A firm should maintain a sufficient amount of loss-absorbing resources, as determined by the Bank, that can credibly and feasibly be used to absorb losses and recapitalise the firm to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustains market confidence.²
- **Valuations:** A firm's valuation capabilities should enable a valuer to carry out sufficiently timely and robust valuations that would not impede the effectiveness of resolution (including by informing entry into resolution, the choice of resolution tools, the terms of the resolution, and relevant no-creditor-worse-off (NCWO) risks).
- **Funding in resolution:** In order to ensure it continues to meet its obligations as they fall due, a firm should be able to estimate, anticipate and monitor their potential liquidity resources and needs in the approach to and throughout resolution.
- **Early termination of financial contracts (stays):** A firm suitably addresses the risk of early termination of financial contracts upon entry into resolution to limit any impact on their stability and the wider financial system (eg market contagion) that may otherwise occur as a result of resolution.
- **Operational continuity in resolution ('OCIR'):** A firm's operational continuity arrangements ensure continuity at the point of entry into resolution and permit any post-stabilisation restructuring, to ensure the continuity of banking services and critical functions. For its assessment in 2020, a firm should assess how its compliance with PRA OCIR policy which came into force on 1 January 2019 is helping it achieve this objective. Thereafter, a firm should assess how its arrangements as a whole meet this objective, taking into account PRA OCIR policy that is in force at the time of its assessment.
- **Continuity of access to financial market infrastructures:** A firm should be able to take all reasonable steps available to maintain continued access to clearing, payment, settlement,

² For firms with a partial-transfer resolution strategy, recapitalisation may be limited to the level that (i) ensures that the transfer does not undermine the capital position of a private sector purchaser or (ii) enables a new bridge bank to be adequately capitalised.

and custody services to be able to keep functioning in resolution (recognising that providers of these services may retain a degree of discretion over their ability to terminate a firm's membership).

- **Restructuring:** A firm should be able to identify, develop and execute post-stabilisation restructuring options on a timely basis to ensure that, following entry into resolution, it can: (i) return to fulfilling relevant regulatory requirements on a forward-looking basis; and (ii) return to a viable business model that is sustainable in the long-term.
- **Management, governance and communications:** This relates to a firm's ability to adopt appropriate governance structures, retain and replace key staff, and deliver communications and disclosures during resolution.

2.12 The PRA does not consider the capabilities set out in the Bank Policy Statement to be exhaustive. A firm should also consider its specific business model and whether there are any additional barriers that are relevant. The PRA expects these additional barriers and/or factors to be taken into account in a firm's assessment.

2.13 The PRA recognises that it may be necessary for a firm to make a number of assumptions around the actions and/or decisions of different parties involved in resolving a firm, for example by regulators and advisors, to determine whether its preparations for resolution are realistic. The assumptions set out in the Bank's Policy Statement are examples of the assumptions a firm may need to make.

2.14 The PRA expects a firm to undertake testing of its preparations for resolution to substantiate its assessment, to identify any risks to its resolution, and to assist in the development of steps it needs to take to remove or reduce those risks. Any testing and review should assess a firm's capabilities, resources and arrangements against the objectives outlined above in paragraph 2.11 should be designed with regard to the stylised resolution timeline as outlined in the Bank's Policy Statement.

2.15 A firm should undertake testing and review of its preparations at a suitable frequency to ensure that its assessment remains up-to-date and accurate.

2.16 A firm should appropriately allocate roles and responsibilities for its testing. The PRA expects any testing to involve an appropriate level of senior management engagement, to provide oversight and to reflect how the firm's preparations function in practice. Reviews should be carried out by individuals of a suitable level of expertise and independence to ensure the review is robust.

Multiple-Point-of-Entry ('MPE') Bail-in firms

2.17 Where the Bank has set a preferred resolution strategy as MPE bail-in, a firm should consider as part of its assessment how resolution groups in other jurisdictions would be resolved, assess interdependencies between the UK resolution group and resolution groups in other jurisdictions, and address any resulting barriers to the resolution process. In particular, an MPE firm should consider the degree of financial and operational separability of its UK resolution group, for instance related to booking and risk-management practices or access to critical FMIs, and relevant structural issues, for instance arising from inter-resolution group exposures.

2.18 In addition, an MPE firm headquartered in the UK should consider the extent to which coordination across multiple resolution groups is necessary to execute its group-wide

resolution strategy. As such, a firm should consider relevant factors including governance and operational arrangements, and capabilities that may be relevant for the firm as a whole.

2.19 The PRA does not expect a firm to provide detail on how resolution groups headquartered in other jurisdictions comply with policies set in those jurisdictions.

3 Reporting firms' assessments

3.1 This chapter sets out the PRA's expectations on the structure and format of a firm's report required under 3.1 of the Resolution Assessment Part.

Format

3.2 The PRA expects a firm to develop a format for its written report that reflects the structure, size, and complexity of a firm's business and operating model.

Content

3.3 The PRA expects a firm's report on its assessment of its preparations for resolution to cover, at a minimum, the following topics:

- A summary of the firm's group structure. The PRA expects this to include a brief explanation of any key aspects of its structure (including as a result of the PRA's ring-fencing requirements) that either facilitate or may pose impediments to orderly resolution.
- An explanation of the firm's understanding of its resolution strategy. The PRA expects this to include a brief description of the actions the firm would take to support resolution actions by the Bank, using a stylised resolution timeline as a reference tool for the overall resolution process.
- A summary of the capabilities, resources and arrangements in place to prepare for the firm's resolution, and how they relate to the actions identified above. The PRA expects a firm to explain how it would achieve the resolvability outcomes set out in paragraph 2.3 with reference to barriers to resolvability. This includes the barriers identified in the Bank's Policy Statement and others that may be specific to a firm's particular structure and/or business model. The PRA expects a firm to describe any issues that could prevent the resolvability outcomes set out in paragraph 2.3 from being achieved.
- The anticipated timeline for completion of the steps the firm is taking to remove or reduce those risks, as well as a description of the controls in place to oversee the execution of those steps.
- A summary of testing. Where a firm has carried out testing of its existing capabilities and arrangements to substantiate its assessment, the PRA expects it to incorporate a summary of its testing into its report. This should include detail about the design and planning of the test, how the exercise unfolded, the team or individuals involved and lessons learnt.
- A summary of the governance processes that the firm has in place for performing its assessment and producing its report. The PRA expects a firm to describe how its governance processes meet the expectations set out in Chapter 5 of this SS.

3.4 The Bank's Policy Statement sets out further detail on what the Bank considers is needed to address the barriers to resolvability listed in paragraph 2.11 above. The PRA expects that the Bank's Policy Statement will inform a firm's assessment of its preparations for resolution, and subsequently, a firm's report of its assessment. A firm is also expected to identify how its compliance with PRA rules, such as those on OCIR, helps it to address the above barriers to resolution.

3.5 A firm may determine that it could achieve the outcomes for resolution³ without having some of the capabilities described in the Bank's Policy Statement, for example as a result of its structure, its business model or its resolution strategy. The PRA expects such instances to be exceptional, but if they were to occur, the PRA expects a firm's report to explain why this is the case.

3.6 A firm should not treat its report as a regulatory compliance exercise. The PRA expects firms to describe all necessary actions required to support its preparations for resolution and to provide additional clarifications, details, and explanations of preparations where it would be necessary or helpful to the PRA.

Accessibility

3.7 The PRA expects a firm's report to be written in an accessible manner which would enable the PRA to obtain a clear and accurate understanding of its preparations for resolution. It should contain as much information and analysis as necessary for the PRA to understand its assessment of its preparations undertaken for resolution. The PRA expects that reports would typically be around 250 pages in length.

Materiality

3.8 While a firm's report should be sufficiently detailed and provide sufficient evidence to enable the PRA to understand its preparations for resolution, the level of detail should not be excessive.

3.9 The PRA expects a firm to avoid superfluous or unnecessary text in its report. In particular, a firm should not submit a significant volume of supporting documents such as contracts or operational documentation in its report. Instead, a firm should describe such documents, including how far they support orderly resolution.

Relation to other reporting requirements

3.10 The PRA notes that the content of a firm's report under the Resolution Assessment Part may overlap in places with that of reports submitted to PRA in accordance with other regulatory reporting obligations, such as a firm's resolution pack submission as set out in SS19/13 'Resolution Planning'.⁴ The PRA does not expect a firm to duplicate in its report any material that it has submitted in the discharge of any other regulatory reporting obligations, such as resolution packs. Instead, a firm may cross-refer to the relevant document, as long as the information therein remains correct as at the reference date of the assessment.

³ Described in paragraph 3.44 of this SS.

⁴ December 2013: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/resolution-planning-ss>.

Updating the report

3.11 The PRA requires a firm to update its assessment, and its report of its assessment, if a change occurs which gives the firm reason to suspect its assessment is no longer accurate or up-to-date. Examples of such changes may include:

- changes to group structures that may affect MREL issuance structures;
- major investments in capabilities that improve a firm's preparations for resolution and/or reduce the risk of a firm's disorderly failure; and
- disinvestments.

4 The requirement to publish

4.1 This chapter sets out the PRA's expectations for the content of the published summary that is required by 4.1 of the Resolution Assessment Part.

4.2 The Rules require a firm to publicly disclose a summary of its report.

4.3 The PRA expects a firm's public disclosure to be a concise summary of its report on its assessment of its preparations for resolution. The document should contain sufficient detail regarding the information mentioned in paragraph 3.3 to give a reader an accurate understanding of the firm's preparations for resolution, and the steps taken or plans made to remove or reduce risks to its resolution. It should not give unnecessarily detailed descriptions of particular resolvability arrangements and plans.

4.4 The PRA expects the information contained in a firm's public disclosure to be consistent with the report submitted to the PRA, subject to any material updates made since submission of its report to the PRA in the intervening period. The PRA expects a firm's public disclosure to cover:

- arrangements currently in place at the firm that have been implemented to improve its resolvability;
- details of the firm's understanding of its resolution strategy and the steps the firm would take to facilitate resolution by the Bank;
- an assessment of how the firm's preparations for resolution support the resolvability outcomes set out above in paragraph 2.3. A firm should identify any issues that could prevent these outcomes from being achieved;
- any outstanding steps that a firm is planning to undertake to mitigate the above issues. These should include an anticipated timeline for completion and controls that exist in the firm to oversee its execution of these steps; and
- any material updates that have occurred during the period of time that has elapsed between submission of a firm's assessment and disclosure of its resolvability disclosure.

4.5 The PRA does not expect a firm's public disclosure to include an overall judgement about whether or not the firm considers itself to be resolvable. Instead, the focus should be the preparations the firm has undertaken to prepare for resolution and the steps the firm is taking or plans to take to remove or reduce risks to its resolution. If a firm has chosen to include an

executive summary or any similar introductory statement in its report for submission to the PRA under 3.1 of the Resolution Assessment Part, the PRA would not expect it to constitute the public disclosure under 4.1 of the Resolution Assessment Part.

4.6 A firm may exclude information from the published summary on the grounds that it is proprietary or confidential. When excluding information on these grounds, the PRA expects a firm's approach to be consistent with its approach to meeting its Pillar 3 disclosure requirements.⁵

5 Governance

5.1 This chapter sets out the PRA's expectations regarding the governance arrangements supporting a firm's assessment, report and public disclosure.

5.2 The PRA expects a firm that is required to undertake an assessment under the Resolution Assessment Part to ensure that its management body oversees, assesses and approves the assessment before the firm submits its report of the assessment to the PRA. Firms are already required under Rule 5.1 of the General Organisational Requirements ('GoR') Part of the PRA Rulebook to have their management body define, oversee and be accountable for the implementation of governance arrangements that ensure effective and prudent management of the firm. The PRA expects the requirement to also include a firm's preparations for resolution, which are part of a firm's prudential risk management. Such board-level engagement and accountability is important to ensure that there is adequate oversight of these key activities. Moreover, the PRA expects a firm to fully embed the process of assessment, and preparing and approving reports of its assessment into its governance framework.

5.3 Under Rule 4.1 of the Allocation of Responsibilities Part of the PRA Rulebook firms are required to allocate the 'prescribed responsibility' for developing and maintaining the firm's recovery plan and resolution pack and for overseeing the internal processes regarding their governance to a Senior Manager. This necessarily requires firms to take actions in business-as-usual to plan for stressed conditions that could potentially lead to business failure and resolution.

5.4 To that end, the PRA expects the board, its sub-committees (including, where appropriate, the risk and audit committees) and senior management to have clear responsibilities for approving a firm's report of its assessment, and to devote adequate time and resources to this task. As part of this process, the board and senior management should give particular attention to remaining barriers to resolvability, as well as any planned actions to address those barriers and the time horizon over which the firm reasonably expects it would be able to do so.

5.5 A firm management body is required under the GoR Part to oversee the process of disclosure and communications. The PRA expects this to encompass a firm's public disclosure under rule 4.1 of the Resolution Assessment Part.

5.6 Where a firm's consolidated group contains a ring-fenced body (RFB), the PRA expects that the management body of the RFB is involved in the development of the consolidated group's single assessment and its single report for submission to the PRA, as described in

⁵ Basel Committee on Banking Supervision (2015), 'Revised Pillar 3 Disclosure requirements', paragraph 11: <https://www.bis.org/bcbs/publ/d309.pdf>

paragraph 2.9. The RFB should also take steps to manage any conflicts between interests arising between the RFB and the group as part of the group's assessment.

6 Waiver or modification of assessment, report, and disclosure requirements

6.1 The PRA recognises that there may be circumstances in which a firm may seek to alter one or more of the deadlines set out in the Rules, for example the submission date of its report or disclosure date. This could be, for example, when it is undergoing a significant reorganisation, restructure, merger or acquisition.

6.2 In such situations, the PRA may consider whether to grant a waiver from, or modification of, the requirement to assess or publish by the relevant date, or both, where the relevant statutory tests are met. The PRA does not automatically grant applications for waivers or modifications. Details on the PRA's waiver process are available on the PRA's webpages.⁶

7 Process

7.1 The submission and disclosure dates specified in the Resolution Assessment Part are the latest possible dates by which a firm must submit its report to the PRA and disclose its public disclosure. In practice, the expectation is that the PRA, the Bank as Resolution Authority, and a firm would seek to coordinate, prior to the deadline, on a suitable date for submission and disclosure.

7.2 If necessary, and after engaging with firms in scope of the Resolution Assessment Part, the PRA may consider a modification of the application to one or more firms' report or disclosure date in the Rules to either bring it forward or push it back as appropriate for the circumstances.

8 Transitional arrangements

8.1 Where a firm not previously subject to these Rules comes into scope of the Resolution Assessment Part within 12 months of a report date, the PRA may consider the grant of a waiver or modification of the relevant requirement or requirements to postpone the submission or disclosure date, or both, until the next cycle. In considering a firm application for a waiver or modification, the PRA would take into account, among other things, whether the firm came into scope as a result of an acquisition or through organic growth.

8.2 Where a firm comes into scope between twelve to 24 months of a report date, the PRA is less likely to grant a waiver or modification of the requirement to assess and report to the PRA. However, the PRA may consider, upon receipt of an application from a firm, granting a waiver or modification from the requirement to publish a summary of the firm's assessment.

⁶ <https://www.bankofengland.co.uk/prudential-regulation/authorisations/waivers-and-modifications-of-rules>.