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Dear Chief Executive Officer,

I am writing to you ahead of the first Resolvability Assessment Framework (RAF)<sup>1</sup> report submissions in October this year,<sup>2</sup> in order to emphasise the importance the Bank of England (the Bank) places on this exercise, and more generally the importance of firms taking ownership of their resolvability.

### **Maintaining a 'fit and ready' resolution regime**

Ensuring firms do not fail in a disorderly manner is a key element in delivering the Bank's statutory objective to protect and enhance UK financial stability. The Bank aims to maintain a 'fit and ready' resolution regime: fit for the purpose of maintaining financial stability and market discipline; and ready to be put into action to deal with the failure of one or more banks. The Bank's overall approach to resolvability supports financial stability through strong, effective standards appropriate for the maintenance of a credible resolution regime. The RAF is the final major piece in the UK's resolution regime and is a key priority for the Bank and Prudential Regulation Authority (PRA).

The Bank committed to Parliament that major UK banks will be resolvable by 2022. As you are aware, while the Bank is responsible for undertaking a resolution, the process is complex and may need to be implemented quickly. So firms need to prepare in advance by identifying, designing and implementing the capabilities necessary to enable the process to be executed in an orderly manner.

For firms to prepare for resolution successfully, they need to understand what the process of resolution could look like and how they would need to act. In addition to published resolvability policy, the Bank has published a number of materials to explain the resolution process, including its *Approach to Resolution* publication,<sup>3</sup> a stylised resolution timeline,<sup>4</sup> and a recent *Quarterly Bulletin* article.<sup>5</sup>

Although resolution is unlikely to ever be smooth, action taken by firms in advance reduces the risks of disruption and provides the authorities with credible options and the flexibility to respond in a crisis. More broadly, firms need to ensure that resolvability remains a focus in business-as-usual (BAU), ensuring that, once established, their resolvability capabilities are kept 'live' through ongoing monitoring and testing.

The ongoing Covid-19 pandemic reminds us that unexpected events may be just around the corner. To alleviate operational burdens on firms during this time, the PRA delayed the first RAF report submission

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<sup>1</sup> <https://www.bankofengland.co.uk/financial-stability/resolution/resolvability-assessment-framework>.

<sup>2</sup> As noted below, the PRA delayed the first RAF report submission and disclosure process by a year, via a Modification by Consent to Rules 3.1(1) and 4.1(1) of the Resolution Assessment Part of the PRA Rulebook. The PRA has subsequently consulted on amendments to the dates by which firms are first required to submit a report of their assessment of their preparation for resolution, and to first publish a summary of that report, as set out in CP19/20: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/resolution-assessments-reporting-and-disclosure-re-dates>.

<sup>3</sup> <https://www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution>.

<sup>4</sup> As set out in Annexes 1 & 2 of the RAF Statement of Policy.

<sup>5</sup> <https://www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q4/the-resolvability-assessment-framework>.

and disclosure process by a year.<sup>6</sup> The possibility of new and unpredictable events emphasises the importance of the resolution regime and the need for the financial system, and those who are active in it, to be capable of responding successfully.

A credible resolution regime is in firms' interests, further increasing the resilience of the UK banking system by reducing systemic risk and giving the public and investors confidence that any failure, should it occur, will be orderly. In December 2019 the Financial Policy Committee reaffirmed its judgement that effective resolution arrangements reduce the appropriate level of Tier 1 capital requirements by about 5 percentage points for the UK banking system.<sup>7</sup> This judgement reflects the progress firms have made since 2015 and the expectation of further progress to demonstrate they are resolvable under the RAF.

### **Making resolution a more transparent process**

The Bank also committed to Parliament to make resolution, and firms' preparedness for resolution, more transparent. Firm disclosures under the RAF and public statements by the Bank will together reinforce existing initiatives to make the UK resolution regime more transparent and better understood.

In addition to the Bank's *Approach to Resolution* publication, the Bank has also published the interim minimum requirement for own funds and eligible liabilities (MREL) that we currently require all UK-headquartered firms with an MREL above minimum capital requirements to maintain, as well as an indication of the end-state MRELs that firms will have to meet.<sup>8</sup> More information in the public domain about resolution will enable firms' investors, counterparties and other stakeholders to understand better what would happen in a resolution, the risks they may face and the steps firms are taking to ensure they are resolvable.

Greater transparency will therefore mean firms can be held to account for their progress on resolvability. Driving forward progress on resolvability is critical, and by allowing firms to demonstrate their progress through high-quality disclosures, the RAF also presents firms with a strategic opportunity to reinforce their reputation as safe and sound financial institutions. In this context, the Bank's public statement on resolvability, to be published by June 2022, will include views on individual firms.

### **Firms are responsible for their own resolvability**

A key principle of the RAF is that firms are responsible for their own resolvability. As set out in the RAF Statement of Policy (SoP),<sup>9</sup> firms need to be able to achieve the three resolvability outcomes by January 2022. These are summarised below:

- Have adequate financial resources in the context of resolution.
- Be able to continue to do business through resolution and restructuring.
- Be able to coordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

Firms need to identify, design and implement the capabilities necessary to achieve these outcomes. This will involve, at a minimum, having capabilities, resources, and arrangements in place to meet Bank and PRA policies relevant to resolvability. In addition, firms should consider how their specific structure or business model may prevent the resolvability outcomes from being achieved, including whether there are any additional barriers to satisfying the outcomes and how those barriers will be removed. The Bank

<sup>6</sup> <https://www.bankofengland.co.uk/news/2020/may/statement-by-the-bank-of-england-and-pra-on-resolution-measures-and-covid-19>.

<sup>7</sup> Bank of England, *Financial Stability Report* (December 2019), available at: <https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2019/december-2019.pdf>.

<sup>8</sup> <https://www.bankofengland.co.uk/financial-stability/resolution/mrels>.

<sup>9</sup> Statement of Policy: The Bank of England's Approach to Assessing Resolvability, available at: <https://www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability>.

also expects firms to identify and account for any interdependencies between the capabilities they need to develop to achieve the outcomes.

The annexes to this letter provide further information to assist firms in their work to achieve the above outcomes. They do not impose any requirements in addition to those set out in published resolvability policy. The first annex provides examples of good practice that firms should consider as they develop their capabilities to achieve the resolvability outcomes. This includes examples of good practice for resolvability governance, testing, and capability design. Where there is any feedback on progress to date that is specific to your firm, we provide this privately in a second annex.

### **The importance of assurance: robust resolvability governance, testing and capability design**

As set out in the RAF SoP, firms should apply their own assurance arrangements to ensure they have the necessary measures in place to support resolvability. In assessing these arrangements during the first RAF cycle, the Bank will seek to understand whether firms' Boards and senior management have assured themselves that they can achieve – and can continue to achieve – the three resolvability outcomes. Firms will find it useful to consider whether their assurance arrangements are consistent with these examples:

- Robust governance processes to allow firms to monitor their ability to achieve the three resolvability outcomes, including a clear governance process for the Board and senior management to determine whether the firm can achieve the three resolvability outcomes on an ongoing basis;
- Testing arrangements to give firms assurance that they meet the resolvability outcomes at all times, governed by a robust testing framework clearly articulating the firm's approach to testing its ability to deliver the three resolvability outcomes and underlying resolvability capabilities, with testing activities appropriate to the different types of capability developed by the firm; and
- A structured approach to designing resolvability capabilities based on a clear Board and senior-level understanding of how the firm would be resolved, supported by a credible gap analysis of the capabilities required by the firm to facilitate the resolution process.

As set out in PRA Supervisory Statement 4/19,<sup>10</sup> firms' reports to the PRA should include a summary of the governance processes that the firm has in place for performing its assessment and producing its report, as well as a summary of testing carried out.

During the first RAF cycle, the Bank will place particular emphasis on examining how Boards and senior management have approached the responsibilities articulated above. In this context, the Bank may engage with independent members of firms' Boards in advance of the cycle to understand Boards' anticipated approaches.

### **Next steps**

The Bank anticipates engaging firms later in 2021 on the operational arrangements for the first RAF cycle. If you have any further questions regarding this letter please get in touch with your usual Resolution Directorate contact.

Yours sincerely,



**Dave Ramsden**

Deputy Governor for Markets & Banking

<sup>10</sup> 'Resolution assessment and public disclosure by firms', 30 July 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/resolution-assessment-and-public-disclosure-by-firms-ss>.

## **Annex 1: Examples of good practice**

This annex sets out examples of good practice which may assist firms in designing and implementing resolvability capabilities to meet the three resolvability outcomes. The Bank recognises that these capabilities, and their precise design, may differ between firms given differences in firms' structures, business models and other attributes. These examples therefore provide an illustration in a number of areas of how firms may be able to implement resolvability capabilities in a manner that achieves the outcomes, and assess their ability to do so in a robust manner.

These examples of good practice are not intended to be exhaustive and do not impose any requirements in addition to those set out in published resolvability policy. Firms should continue to refer to the RAF SoP and other Bank and PRA policies relevant to resolvability in the first instance to inform the design and implementation of the capabilities required to achieve the three resolvability outcomes.

While this annex aims to illustrate good practice, it is key that Boards also challenge whether the application of published resolvability policy (as well as the examples of good practice set out in this annex where relevant) is sufficient to achieve the resolvability outcomes. The Bank therefore strongly encourages firms to continually improve their practices, going beyond the minimum necessary wherever appropriate.

Although this letter has been sent to the major UK firms,<sup>11</sup> the Bank considers the information in this annex useful and relevant to all firms<sup>12</sup> who are in scope of and need to implement the provisions set out in the RAF SoP, in particular other UK firms with a preferred resolution strategy of Bank-led bail-in or partial transfer and the material subsidiaries of overseas-based banking groups. This includes 'mid-tier banks' (for whom the deadline to implement the RAF SoP and to achieve the three resolvability outcomes has been extended from 1 January 2022 to 1 January 2023).<sup>13</sup>

The Bank recommends that all in-scope firms consider the below examples of good practice as part of their work to achieve the three outcomes in a manner appropriate to their complexity and size.

### **Examples of good practice - resolvability assurance: governance, testing and capability design**

#### **Firms' governance over their resolvability arrangements**

The Bank expects firms to implement robust processes to monitor and govern their work to achieve the three resolvability outcomes, as set out in the RAF SoP. This is consistent with the expectation that firms should take ownership of their resolvability. The Bank also notes that Supervisory Statement 4/19<sup>14</sup> sets out that the PRA expects the Board, its sub-committees and senior management to have clear responsibilities for approving the report required under Chapter 3 of the Resolution Assessment Part of the PRA Rulebook, and to devote adequate time and resources to this task.

The Bank has noted that a number of firms have project plans and governance processes over their work to achieve the resolvability outcomes up until January 2022. However, in general the Bank has not yet observed that firms are sufficiently prepared to assess their ability to achieve the three outcomes in the run up to the January 2022 implementation deadline and on an ongoing basis thereafter.

<sup>11</sup> These firms are also in scope of the Resolution Assessment Part of the PRA rulebook and as part of the first RAF cycle are required to submit a report on their preparations for resolution to the PRA and to publish a summary of this report. The Bank will also make a public statement regarding their resolvability.

<sup>12</sup> For the purposes of this annex, 'firms' is defined as all institutions in the scope of the RAF SoP – ie institutions 1) where the Bank, as home resolution authority, has notified them that their preferred resolution strategy is bail-in or partial-transfer; or 2) where in its capacity as host resolution authority, the Bank has notified them that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK.

<sup>13</sup> As set out in the Bank's December 2020 statement, 'mid-tier banks' in scope of this extension include: UK resolution entities that are not G-SIBs or D-SIBs (or their subsidiaries) for which the Bank has set (or has indicated it will set) an MREL in excess of minimum capital requirements; UK material subsidiaries of such institutions; and certain UK subsidiaries of overseas groups for which the Bank has set internal MREL in excess of minimum capital requirements. For these firms, references to the 1 January 2022 implementation deadline should be read as 1 January 2023. <https://www.bankofengland.co.uk/news/2020/december/boe-statement-on-mrel-and-resolvability-deadlines>.

<sup>14</sup> 'Resolution assessment and public disclosure by firms', 30 July 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/resolution-assessment-and-public-disclosure-by-firms-ss>.

Firms will need robust project governance and monitoring while they build the necessary capabilities to achieve resolvability in the run up to January 2022 implementation deadline. Firms will also need to monitor their ability to achieve the resolvability outcomes after this point, helping to ensure they identify and mitigate any changes which may impact their resolvability. It is important that firms monitor their resolvability on an ongoing basis, ensuring Boards are able to assess their firms' ability to achieve the outcomes by 2022 and beyond.

Firms are also reminded that the Bank may ask for evidence of their resolvability. This may include asking firms to evidence how they have assessed and assured their ability to achieve, on an ongoing basis, each resolvability outcome and the objectives of Bank and PRA policy relevant to resolvability. For example, the Bank may request materials (such as minutes and papers) relating to Board discussions of their firms' resolvability.

The Bank recognises that effective governance processes vary between firms, reflecting their specific structures and procedures. Nevertheless, the Bank has set out below a number of indicative examples of good practice, which may assist Boards in satisfying themselves of the effectiveness of firms' governance processes and the related responsibilities of senior management, and helping Boards to assess their ability to achieve the resolvability outcomes on an ongoing basis.

- A clear process, supported by objective quantitative and qualitative metrics, for the Board and senior management to assess and monitor whether the firm can achieve the three resolvability outcomes: firms will likely find it beneficial to clearly articulate the process by which Boards and senior management will assess and monitor their firm's ability to achieve the three resolvability outcomes.

Boards will wish to consider how regularly to assess their overall position on an ongoing basis, and how any emerging issues, which may affect the firm's resolvability, will be identified and escalated based on a set of pre-agreed triggers.

Boards may also wish to document their framework for determining whether their capabilities (and any testing conducted) provide sufficient assurance that the actions of management are sufficient for their firms to achieve the three resolvability outcomes;

- A clearly defined accountability model: The Bank notes that under Rule 4.1 of the Allocation of Responsibilities Part of the PRA Rulebook firms are required to allocate to a Senior Manager the 'prescribed responsibility' for developing and maintaining the firm's recovery plan and resolution pack and, where relevant, resolution assessment, and for overseeing the internal processes regarding their governance.

To support clarity over the responsibilities of this Senior Manager, firms may wish to consider how they ensure clear ownership within the firm for addressing each barrier and resolvability outcome, and how to allocate clear responsibilities for ascertaining whether the firm is able to meet each barrier objective and resolvability outcome. Boards will also wish to consider how to ensure management has sufficient capacity, expertise and resources at their disposal to fulfil its responsibilities.

Similarly, firms will wish to consider what role the three lines of defence (3LOD) might play in their work to implement and maintain the necessary capabilities to achieve the three resolvability outcomes on an ongoing basis. This might include considering the role of the 3LOD in assuring and challenging the firm's resolvability arrangements and how frequently this is conducted. Firms may also find it beneficial to consider how such roles can be embedded within firms' control processes.

#### *Firms' testing of their resolvability arrangements*

As set out in the RAF SoP (paragraph 7.2), firms should apply their own arrangements to ensure they have the necessary measures in place to support resolvability. In assessing these arrangements during the first RAF cycle, the Bank will seek to understand whether firms' Boards and senior management have

assured themselves that they can achieve – and can continue to achieve – the three resolvability outcomes.<sup>15</sup>

Firms will therefore need to conduct robust testing to give them confidence that they have met the resolvability outcomes in line with the January 2022 implementation deadline, and provide assurance that they can continue to do so in BAU and stressed conditions. This testing will need to be taken into account in firms' ongoing assessments of their ability to meet the three outcomes.

The Bank has set out below a number of indicative examples of good practice, which may assist Boards in ensuring their firms' testing work is robust:

- A clear Board-approved framework for testing resolvability capabilities on an ongoing basis: The RAF SoP notes that in considering firms' resolvability, the Bank will consider how firms integrate governance and oversight arrangements into existing BAU arrangements to help embed consideration of resolvability as a focus within the firm.

Firms will find it beneficial to consider and document their approach to testing their resolvability capabilities, with a clear articulation of which methodologies will be used to test different types of capabilities, and why. This may include referring to standard industry practice and guidance in relation to testing and assurance.

- Ensuring that capabilities are sufficient to facilitate the actions of third parties, where those parties have a key role in the resolution process: Some third parties have a significant role in the resolution process and it may be useful for firms to engage these parties during the design or testing of their capabilities.

For example, in the run up to resolution, an independent valuer (IV) is likely to be appointed by the Bank to produce resolution valuations. This IV will need to rely on firms' pre-existing systems and processes to produce robust and timely valuations, and it may therefore be valuable for firms to engage with third parties with relevant valuation expertise. This may also help firms establish whether the systems, data standards and processes they are building or have built would be sufficient to facilitate the resolution process on a timely basis.

Except where explicitly required by published policy, the Bank does not require firms to engage third parties in order to be considered resolvable. However, firms will need to be able to demonstrate to the Bank that they have fully considered the needs of third parties (such as the IV) where relevant and that these parties will be able to rely on the firm's capabilities in resolution.

#### *Firms' approach to capability design and consideration of how they would be resolved*

As set out in the RAF SoP, to be considered resolvable firms will need to not only achieve the objectives of Bank and PRA policy relevant to resolvability, but should also consider how they would be resolved, their business model, and whether there are any additional barriers that are relevant for their resolvability. This is consistent with firms taking responsibility for their own resolvability.

In order to assist firms in understanding how they would be resolved, the Bank has published a stylised resolution timeline (set out in Annexes 1 and 2 of the RAF SoP). The Bank's recent *Quarterly Bulletin*<sup>16</sup> on the RAF also explores how firms can use this timeline to understand the key steps they could need to take during a resolution.

When designing their capabilities, firms will need to consider this timeline and consider fully how the capabilities they have developed would be sufficient to successfully facilitate the resolution process.

<sup>15</sup> In this respect, the Bank notes the PRA's recent consultation on updates to its operational continuity in resolution policy. CP20/20 'Operational Continuity in Resolution; Updates to the Policy' closed on 31 January 2021. The PRA is considering consultation responses and will publish final policy in due course. CP20/20 can be found at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/operational-continuity-in-resolution>.

<sup>16</sup> <https://www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q4/the-resolvability-assessment-framework>.



This will involve firms thinking through what their own failure could look like and the actions and decisions they (and the authorities) would need to take.

This will ensure firms are prepared to use their capabilities flexibly in different scenarios across the timeline, covering the three key phases of resolution: the contingency planning period; the 'resolution weekend' and the period where firms will prepare to exit resolution (and where firms will need to develop a credible restructuring plan to restore long-term viability).

In this context, the Bank has set out below some indicative examples of good practice, which may assist firms when considering these issues:

- **Gap analysis:** A credible and robust gap analysis is likely to be helpful for firms in identifying the capabilities required to achieve the resolvability outcomes. Firms will wish to consider the decisions and actions that they would need to take during the resolution process (with reference to the stylised resolution timeline) and identify what would be required to facilitate this process. This may lead to firms identifying and implementing additional, or different, capabilities, or addressing additional barriers to resolvability, to those set out within published policy.

When designing their capabilities, firms will also need to proactively identify any interdependencies with other capabilities, arrangements or resources, and ensure that these are fully taken into account.

For example, the Bank's Restructuring Planning Statement of Policy<sup>17</sup> sets out that when developing capabilities to provide information to support the evaluation of their identified restructuring options during resolution and pre-resolution contingency planning, firms will need to consider how to leverage information provided by capabilities developed to address a range of barriers to resolution, including Valuations in Resolution, Operational Continuity in Resolution and Funding in Resolution (alongside other areas such as Recovery Planning and the wind-down of trading activities).

Similarly, as part of their work to address the continuity of financial contracts in resolution (Stays) barrier, firms will find it beneficial to consider the links between the capabilities they are developing to communicate with counterparties and the communications capabilities required to address the Management, Governance and Communications barrier, and reflect these connections within the design of their capabilities. Similarly, firms will wish to proactively consider any impacts from the UK's withdrawal from the European Union when considering their approach to addressing this barrier.

- **Evidence and challenge:** Firms will likely find a robust evidential base for this analysis useful. Such analysis, clearly documented, will allow Boards and senior management to consider and challenge whether their firm's capabilities, resources and arrangements are sufficient to achieve the resolvability outcomes on an ongoing basis and document the basis on which their judgement was rendered. This will also enable Boards to assess the due diligence undertaken by senior management to ensure that firms have identified all necessary capabilities to achieve the three outcomes.

### **Examples of good practice – Resolvability outcome 1: adequate financial resources**

#### **MREL**

As set out in the Bank's MREL SoP and RAF SoP, the responsibility for ensuring that liabilities, including own funds instruments, are eligible as MREL rests with institutions. In order for MREL resources to fulfil their intended purpose, it must be practically straightforward for the Bank to apply its stabilisation powers to them, including the bail-in stabilisation power.

Firms need to assess their MREL resources against the provisions of these SoPs, identify any issues which may impact their ability to achieve the resolvability outcomes, and take action to mitigate these

<sup>17</sup>

<https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-restructuring-planning-sop.pdf>.

issues. This may include identifying and addressing any difficulties which may arise in the write down or conversion of instruments classified as MREL, including legacy instruments.

Consistent with the considerations set out earlier in this letter, firms will also wish to ensure their governance and control arrangements provide sufficient assurance that their capabilities and arrangements operate as expected. This may include, for example, how the design and operation of firms' governance, controls and other processes deliver regulatory reporting of appropriate quality, consistent with the reporting expectations set out in PRA Supervisory Statement 19/13<sup>18</sup> and the PRA's October 2019 letter on the reliability of regulatory returns.<sup>19</sup>

Firms are reminded that the Bank may ask for evidence of their resolvability. This may include requesting information from firms regarding how they have assessed whether their resources, capabilities and arrangements relating to MREL enable them to achieve the adequate financial resources outcome. Firms are also reminded that they are expected to demonstrate compliance with the Bank's MREL eligibility criteria on request.

#### Valuations in Resolution

Firms should continue to focus on implementation of the Bank of England's policy on valuation capabilities to support resolvability<sup>20</sup> (Valuations SoP) ahead of the implementation deadline of 1 April 2021. As part of this, firms should ensure that they embed a robust assurance framework, including testing of their valuation capabilities in BAU. For example, they may wish to ensure that any additional models developed where necessary to implement the policy have been independently validated and tested.

Firms will also wish to ensure they have robust internal documentation in place and that this documentation would be sufficient to support the work of an IV, as well as supporting firms' own BAU capabilities and processes.

In this context, consistent with the RAF SoP, the Bank may ask for evidence of how Boards and senior management have assessed whether the firm's capabilities enable the firm to achieve the objectives and principles of the Valuations SoP and/or the three resolvability outcomes.

#### Funding in Resolution

Firms should continue to progress implementation of their Funding in Resolution project plans to ensure delivery risks are managed and there is appropriate time for capability testing. The Bank recognises that firms may leverage existing capabilities when implementing the Funding in Resolution Statement of Policy. Where firms are leveraging existing capabilities without building new capabilities, they should be able to clearly set out how they have assured themselves that these capabilities meet the standards set out in the Funding in Resolution SoP.<sup>21</sup> In addition to being able to explain the output the particular capabilities would deliver, firms should also be able to provide details of how existing or planned capabilities would work in practice and what governance and control frameworks are in place to ensure their effective operation.

Firms' capabilities should be sufficiently flexible so that they can reflect and respond to the different circumstances that might be faced throughout all stages of a resolution transaction. In demonstrating that their capabilities are flexible, firms should be able to provide the Bank as far as possible with tangible examples of instances where flexibility has been demonstrated and assessed as appropriate by the firm, for example through testing. Firms should continue to use the stylised resolution timeline as a reference tool to inform the key actions and decisions that may be needed in relation to the firm's management of liquidity throughout the resolution process and when assessing the flexibility of their capabilities. Where the firm has assessed that enhancements are required to improve the flexibility of their capabilities, their implementation work should be based on a clear, detailed plan on how to deliver these.

<sup>18</sup> 'Resolution planning', May 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/resolution-planning-ss>.

<sup>19</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2019/reliability-of-regulatory-returns.pdf>

<sup>20</sup> <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/the-bank-of-englands-policy-on-valuation-capabilities-to-support-resolvability.pdf>.

<sup>21</sup> <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf>.



## **Examples of good practice – Resolvability outcome 2: continuity and restructuring**

### *Continuity of Access to Financial Market Infrastructure (CoA)*

The Financial Stability Board (FSB) published a questionnaire in August 2020 to gather information from financial market infrastructures (FMIs) about continuity of access for firms in resolution. The Bank, as operator of the Real Time Gross Settlement (RTGS) service and CHAPS, the UK's high-value payment system, published its response in December 2020. The response is available at this [link](#), and the supporting information is available at this [link](#).

We note that firms are still awaiting responses from some FMI service providers to inform their development of arrangements to meet the CoA barrier objective, including with regard to delivering contingency plans describing how they will maintain access to critical FMI service providers in stress and during resolution. To reduce delivery risks, firms should continue to progress work based on the responses from FMI service providers that have been received and maintain momentum on workstreams that are not dependent on such responses. Firms should determine for themselves whether bilateral engagement may be required to supplement responses and information received from FMI service providers via the Financial Stability Board questionnaire.

Firms should ensure that they have a clear and thorough methodology for identifying which of their FMI service providers are critical. This should be based on clear and consistent criteria and have been subject to appropriate governance processes.

### *Restructuring Planning*

Firms should demonstrate a holistic approach to restructuring planning by thinking beyond recovery planning and consider any idiosyncratic factors specific to their individual business models and additional capability requirements. Where firms are leveraging their current recovery plans and trading book wind-down capabilities for the purposes of complying with the Restructuring Planning Statement of Policy, it is important that firms appropriately incorporate the latest PRA feedback on their recovery plans and understand the read-across to their restructuring planning capabilities.

Firms should focus on developing a clear and robust methodology or framework for evaluating potential restructuring options under any stress scenario. Firms should provide sufficient detail on their evaluation methodologies, including which information they identify as key to support analysis by the Bank, Bail-in Administrator and the IV. While firms may find use of scenarios helpful for testing and assurance purposes, firms should not solely base their thinking around a limited set of scenarios and, instead, should focus on the applicability of their framework under any stress scenario including other aspects, which could impede the resolvability outcome for example, co-ordination processes across the group and relevant cross-border counterparties.

Firms need to ensure that their restructuring planning capabilities enable them to provide the Bank with relevant information and analysis about their initial consideration of restructuring options on a timely basis during the pre-resolution contingency planning period, including information that is required by an IV for valuations. Firms should demonstrate an understanding of how the production of an initial restructuring plan will be required to support the necessary pre-resolution valuations (eg Valuation 3).

Firms should also consider how their restructuring capabilities would interact with other resolution barriers such as Valuations in Resolution, Funding in Resolution, and Operational Continuity in Resolution in order to identify, evaluate and plan for execution of the restructuring options within the stylised resolution timelines. For example, firms should be able to articulate how their Valuations and Funding capabilities will feed into the drafting of a post-resolution restructuring plan, and demonstrate an understanding of the operational arrangements required to support this plan.

## **Examples of good practice – Resolvability outcome 3: coordination and communication**

### *Management, Governance and Communication (MGC)*

Some firms are relying significantly on existing BAU arrangements to deliver MGC capabilities. As set out in the MGC SoP<sup>22</sup> “firms are encouraged to consider how capabilities and arrangements developed

<sup>22</sup> <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-management-governance-and-communication-sop.pdf>.

for other purposes may be leveraged". However, firms should be able to demonstrate how these arrangements can be effectively used in resolution. Examples include, but are not limited to:

- In the identification of key job roles firms may be leveraging from existing frameworks (eg senior management roles corresponding to functions under the Senior Management Function Part of the PRA Rulebook). However, these should be a starting point and firms should ensure they consider all the criteria set out in paragraph 4.2 of the MGC SoP. This includes roles needed in respect of other barriers to resolvability, which may include operational roles, and not just Senior Managers.
- Under the 'Communication' principle (MGC SoP Principle 3) firms should consider not just the infrastructure available in BAU, but additional infrastructure that may need to be arranged or scaled up ahead of resolution.

Firms should be clear about their assumption(s) when designing MGC capabilities. This includes the triggers for when they would need to put capabilities into action (in the context of the stylised resolution timeline, especially in the lead up to resolution) and how long it would take to do so.

Firms should ensure sufficient focus on developing the capabilities that are key to implementing other elements of the MGC SoP effectively. For example, key job role identification is a foundation that determines the scope of other capabilities under the Management principle.

The 'Documentation' principle (MGC SoP Principle 4) is important for firms to be able to demonstrate their MGC capabilities, as well as in ensuring effective MGC capabilities can be deployed in resolution. Firms should not neglect this principle in their implementation of the MGC SoP.

#### *Bail-in administrator (BiA)*

Firms whose preferred resolution strategy is bail-in should design and implement MGC capabilities that are flexible and could support a range of BiA roles. For example, a BiA could be appointed to undertake a more or less active role in the day-to-day running of the firm. Firms should consider the possibility that the BiA could be a senior executive or senior manager, or alternatively could undertake a non-executive or other oversight role. These roles could include functions that are exercised by existing directors or senior managers, as well as responsibilities specific to resolution, such as in relation to the business reorganisation plan.

#### *Management in resolution*

As set out in the MGC SoP, firms should have regard to 'the need to replace management deemed responsible for the firm's failure'. This reflects the general principles of resolution described in HM Treasury's Special Resolution Regime (SRR) Code of Practice.<sup>23</sup> As set out in paragraph 6.8 of the SRR Code of Practice the Bank '*expects to remove senior management considered responsible for the failure of the firm, and to appoint new senior management as necessary. Where senior management is retained, or any new members of senior management appointed, they will have a role in assisting the Bank of England to meet the special resolution objectives. In particular, the Bank has extensive powers under section 83ZA of the Act to require directors and management of a banking institution to provide the Bank with information that it reasonably needs in connection with the exercise of the stabilisation powers or other functions relating to resolution*'.

Firms should consider the information published on the Bank's decision to remove or replace management arrangements in the Bank of England's Approach to Resolution publication.<sup>24</sup> As set out in paragraph 2.3: '*... As part of the process, the Bank will expect to remove or replace senior management where retention (collectively or individually) is considered unnecessary or detrimental to the continuing operations of the firm*'.

Decisions regarding changes to existing management will vary depending on the circumstances of a resolution. Firms' MGC capabilities should be flexible to enable their management and governance arrangements to adapt to changes in resolution.

<sup>23</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945165/SRR\\_CoP\\_December\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945165/SRR_CoP_December_2020.pdf).

<sup>24</sup> <https://www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution>.

### *Retention*

Notwithstanding any decisions that the Bank may take in respect of senior management, firms should consider how they would retain staff in key job roles in resolution, should retention be necessary (see MGC SoP paragraph 4.5). Firms are encouraged to consider the full range of retention tools they may have at their disposal. Whilst specific decisions regarding retention arrangements would be taken at the time of a resolution, it is important that potential options are identified in advance.

If firms identify barriers to designing and implementing these capabilities, they should set them out in relevant documentation, including how they have, or plan, to overcome them. If a barrier cannot be addressed in BAU, firms should consider how they would take steps to address it during pre-resolution contingency planning or resolution. For the major UK firms, relevant documentation may include their reports on preparations for resolution.

We recognise that firms may be considering how remuneration could be used as a retention tool in resolution. Consistent with paragraph 4.12 of the MGC SoP, a firm's capabilities should be compliant with PRA requirements and expectations. These may include, but are not limited to:

- the PRA's policy requirements on remuneration;<sup>25</sup> and
- restrictions relating to variable remuneration for a firm that is subject to a maximum distributable amount (MDA) under Chapter 4 of the Capital Buffers Part of the PRA Rulebook.

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<sup>25</sup> As set out in the Remuneration Part of the PRA Rulebook and Supervisory Statement 2/17 'Remuneration'.