



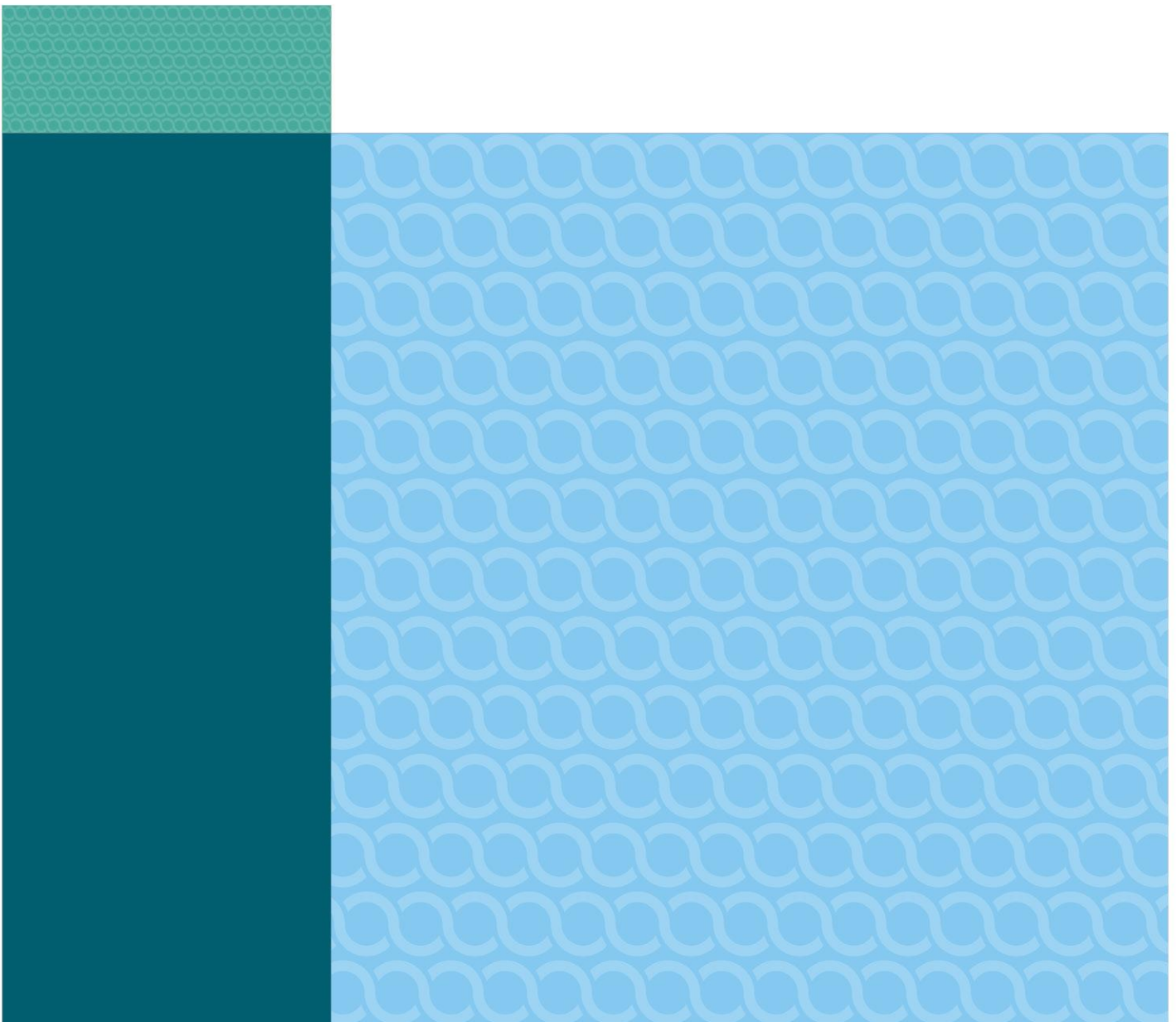
BANK OF ENGLAND

Resolution



Executing bail-in: an operational guide from the Bank of England

July 2021





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Foreword

During the 2007–09 Global Financial Crisis, the tools available to central banks and other authorities were simply not fit for purpose to address the failure of some of the world’s largest financial institutions. The question of how to tackle banks that were considered ‘Too Big To Fail’ had only one answer – public bailouts. The UK Government had to step in and inject public money to the tune of £137 billion to stabilise the financial sector.¹ Many other governments around the world had to take similarly extraordinary steps.

Over the last decade, the Bank, as the UK’s resolution authority, has worked closely with the PRA, other authorities, and firms themselves to enhance our preparedness and improve the resolvability of banks. A key innovation during that decade has been to develop the concept of ‘bailing-in’ shareholders and other investors in the failed bank, in contrast to publicly funded bail-outs.

Today bail-in is a recognised part of the toolkit of stabilisation powers available to the Bank and other resolution authorities. Bail-in means we can be more confident that banks will be able to keep critical services operating through resolution and restructuring, while maintaining appropriate financial resources and with costs borne by the failed bank’s owners and investors rather than by depositors or taxpayers.

For bank resolution to be credible, and for the Bank to meet its commitment to Parliament that major UK banks should be resolvable by 2022, bail-in has to be more than a concept; it has to be a practical tool which the Bank is able to deploy if necessary.

This publication and the draft Template Resolution Instruments are a significant step forward in ensuring that the UK’s resolution arrangements are fit for purpose and ready to be used to execute a bail-in if needed. They are in keeping with the four robust and coherent principles of the UK resolution regime: credibility and transparency in its design; and flexibility and proportionality in its implementation.

¹ The House of Commons Library Research Briefing ‘Bank rescues of 2007–09: outcomes and cost’ summarises the actions that were taken. Available at <https://commonslibrary.parliament.uk/research-briefings/sn05748/>.

Managing the failure of a bank of any size is unlikely ever to be a smooth process. A bail-in is likely to be a highly complex transaction involving multiple parties. Getting to this point has involved working with a number of other authorities and other entities, including Financial Market Infrastructures, for which we are very grateful, and their support will also be vital in the event of executing a bail-in. I hope that this publication will provide more transparency and detail on the actions that may take place as part of a bail-in resolution in the United Kingdom and so enhance our capability to deliver such a transaction.

A handwritten signature in grey ink, appearing to read 'Sasha Mills', with a stylized flourish at the end.

Sasha Mills
Executive Director, Resolution

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1: Introduction

1.1 The Bank of England ('the Bank'), as the UK's resolution authority, is responsible for taking action to manage the failure of certain financial institutions, including UK-headquartered banking groups and UK-incorporated banks and building societies (together, firms),² a process known as 'resolution'. Resolution allows the shareholders and unsecured creditors of failed firms to be fully exposed to losses, while ensuring the critical functions of the firm can continue and helping to preserve financial stability. Resolution reduces risks to depositors, the financial system, and public funds that could arise due to the failure of a firm. By ensuring losses will fall on a failed firm's investors, rather than depositors or taxpayers, resolution can both reduce the risk of firm failures by supporting market discipline and limit the impact of failure when it does occur.

1.2 Bail-in is one of the stabilisation tools available to the Bank as resolution authority under the Banking Act 2009 (the 'Banking Act').³ Bail-in ensures investors, rather than public funds, bear losses. Bail-in enables the Bank to impose losses on shareholders and to write down or convert into equity the value of the claims of certain unsecured creditors, so that the failed firm can be recapitalised and continue to operate thereby ensuring the continuity of critical functions pending a reorganisation of the business that addresses the causes of failure. The exposure of shareholders and creditors to losses in resolution should respect the order in which they would have received distributions in an insolvency of the firm,⁴ and leave them no worse off than they would have been if the firm had been placed into an insolvency process. This is a key protection for investors in firms and known as 'no creditor worse off' safeguard.⁵ The Bank considers that for the largest, systemically important firms – UK global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs) – the use of a bail-in resolution strategy is likely to be the way in which the special resolution objectives would best be met in the event of the failure of the firm. Such firms whose entry into insolvency would be too disruptive for their banking customers and services are also required to have additional financial resources.

² Foreign subsidiaries of UK banking groups are not in scope of statutory UK resolution powers, although such firms may fall within the scope of a group resolution strategy conducted by the home resolution authority in the foreign jurisdiction. For a diagram of the firms in scope of the UK resolution regime, see Figure 1 of 'The Bank of England's Approach to Resolution' (October 2017) available at www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution.

³ This document describes aspects of the bail-in process where it is used as a standalone stabilisation option. However, bail-in may also be used in conjunction with other stabilisation options, for example a bail-in in conjunction with a transfer to a bridge bank.

⁴ Subject to certain exclusions and exemptions as set out in section 48B of the Banking Act. Also see paragraph 2.17 of this document.

⁵ For more information, see chapter 12 of HM Treasury (2020), 'Banking Act 2009: Special Resolution Regime Code of Practice (revised December 2020)' available at www.gov.uk/government/publications/banking-act-2009-special-resolution-regime-code-of-practice-revised-march-2017.

1.3 The purpose of this document is to provide practical information on the ways in which the Bank might execute a bail-in resolution, and in particular the operational processes and arrangements that may be involved in this. This document is technical in nature and is likely to be of particular interest to those who may be directly affected by or involved in a bail-in. This includes firms for which bail-in is the preferred resolution strategy; shareholders and holders of eligible liabilities which may be subject to bail-in and custodians acting on their behalf; other creditors of such firms; financial market infrastructures and other market participants that may be involved in the execution of a bail-in; and others who would have an interest in resolution actions, such as host authorities of UK banking groups subject to bail-in. It is intended as a standalone document, although it builds upon previous publications (see paragraphs 1.5–1.6 below).

1.4 To facilitate resolution, the Bank is required to set a minimum requirement for own funds and eligible liabilities⁶ ('MREL') for all UK institutions.^{7, 8} The objective of MREL is to ensure firms maintain a sufficient amount of resources that can credibly and feasibly be used to absorb losses and recapitalise them to a level that enables them to continue to comply with the conditions for regulatory authorisation and sustain market confidence. The MREL resources would be the first liabilities subject to bail-in, following the order of loss absorption set out in the Banking Act; see paragraph 2.16 below. In the very extreme scenario that the level of losses and recapitalisation needs exceed the available MREL, the Bank has the power to bail in other liabilities. The Bank calibrates MREL as the sum of a loss absorption amount, to absorb losses suffered by the firm, and a recapitalisation amount. For bail-in firms — including the UK G-SIBs, D-SIBs and certain medium-sized firms ('mid-tiers') — the recapitalisation amount of MREL is set equal to minimum capital requirements.⁹

1.5 The Bank has previously published an overview of the process it has designed for conducting a bail-in – the 'exchange mechanic' – set out in Annex 2 of *The Bank of England's Approach to Resolution* ('The Purple Book').¹⁰ In *The Bank of England's Approach to Assessing Resolvability* ('RAF SoP'),¹¹ the Bank published further information as set out in Annexes 1 and 2, including an indicative stylised resolution timeline (**Figure 1**), which provides an illustration of how the Bank anticipates a bail-in resolution may be conducted.

⁶ 'Own funds' are CET1, AT1 and Tier 2 capital instruments. 'Eligible liabilities' are non-regulatory-capital instruments issued to meet a firm's requirements for MREL.

⁷ For banks with a modified insolvency strategy, MREL is set equal to minimum capital requirements.

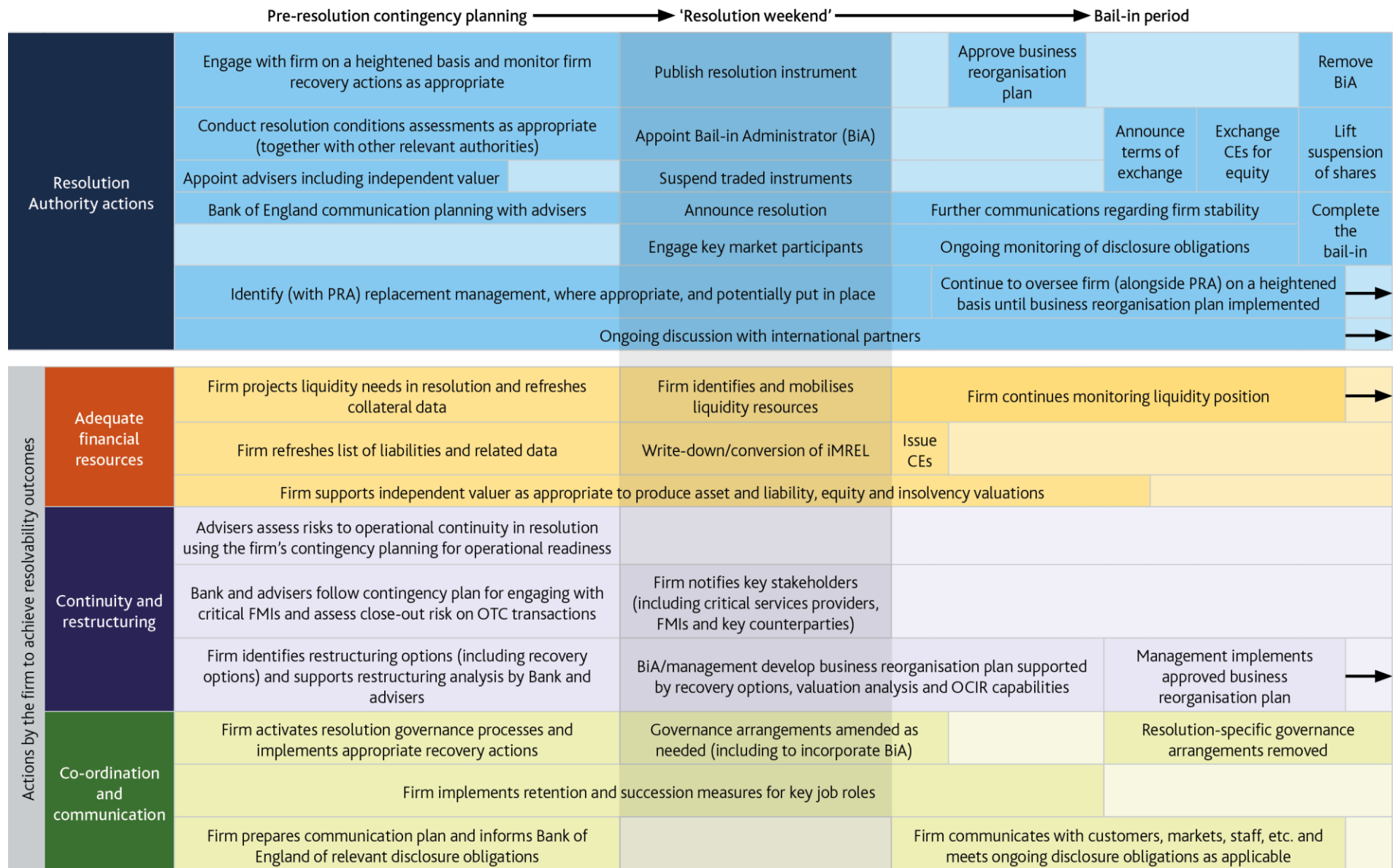
⁸ For more information about MRELS for UK-headquartered firms, see www.bankofengland.co.uk/financial-stability/resolution/mrels.

⁹ See Bank of England (2018), 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' available at: www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018. In July 2021, the Bank published a Consultation paper on the Bank's review of its approach to setting a minimum requirement for own funds and eligible liabilities (MREL), available at www.bankofengland.co.uk/Paper/2021/boes-review-of-its-approach-to-setting-mrel-consultation-paper-july-2021.

¹⁰ Bank of England (2017), 'The Bank of England's approach to resolution' available at: www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution.

¹¹ Bank of England (2019), 'The Bank of England's approach to assessing resolvability' available at: www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability.

Figure 1: Stylised resolution timeline



1.6 This timeline should help firms understand the capabilities and arrangements they will need to have in place in business-as-usual to enable them to achieve the three outcomes necessary to be considered resolvable (see Box A).

1.7 Finally, HM Treasury has published a *Special Resolution Regime (SRR) Code of Practice* which provides guidance as to how, and in what circumstances, the authorities (the Bank, the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and HM Treasury) will use, the stabilisation powers, including the bail-in power.¹² As set out in the SRR Code of Practice, HM Treasury has sole responsibility for authorising the use by the Bank of any stabilisation power which would have implications for public funds.¹³

1.8 In terms of the structure of this document, Part 1 is this Introduction. Part 2 describes actions and processes that may take place in the lead up to a resolution, referred to as the 'pre-resolution contingency planning' period. Part 3 describes actions that are likely to take place during the period immediately prior to and in which a firm is put into resolution by the Bank. This period is often referred to as the 'resolution weekend'.¹⁴ Part 4 sets out what may happen during 'the bail-in period', where the firm will be closely monitored by the Bank and any resolution administrator (sometimes referred to as a 'Bail-in Administrator', or 'BiA') appointed by the Bank whilst the bail-in process is completed and other actions, such as developing a post-resolution business reorganisation plan, take place. Part 5 concludes with the exit from resolution and transfer of control of the resolved firm to bailed-in creditors. Selected terms and abbreviations are provided in a glossary.

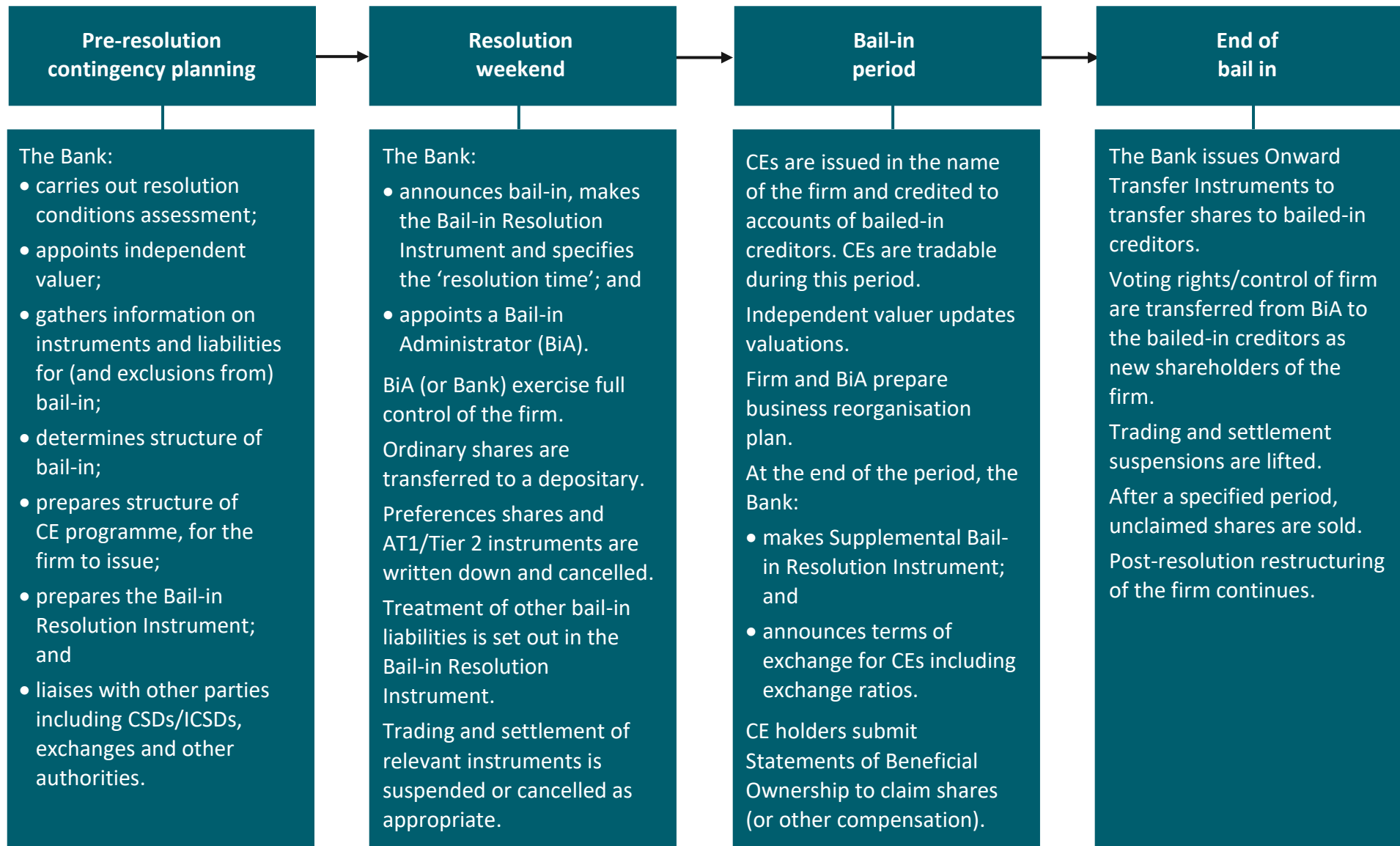
1.9 To aid market understanding and to provide a greater degree of transparency of how the Bank might conduct a bail-in in practice we set out a stylised bail-in timeline (**Figure 2**).

¹² HM Treasury (2020), 'Banking Act 2009: Special Resolution Regime Code of Practice (revised December 2020)' available at www.gov.uk/government/publications/banking-act-2009-special-resolution-regime-code-of-practice-revised-march-2017.

¹³ Also see section 78 of the Banking Act which provides that the Bank may not exercise a stabilisation power without HM Treasury's consent if the exercise would be likely to have implications for public funds.

¹⁴ Ideally, the Bank would want to ensure that this phase takes place over a weekend, with the resolution decision taking place during that weekend, and in general prior to the re-opening of financial markets. However, it may be necessary to depart from this timing and for resolution to take place mid-week if the circumstances required.

Figure 2: Stylised bail-in timeline



1.10 Annex 1 of this document contains three draft Template Resolution Instruments (the 'Template Resolution Instruments'):

- a ***Bail-in Resolution Instrument*** which would be made by the Bank at the point of entry into resolution. It would formally place the firm in resolution and contain actions to give effect to the bail-in including the issuance of certificates of entitlement (CEs) to creditors affected by the bail-in.
- a ***Supplemental Bail-in Resolution Instrument*** which would be made by the Bank when the Bank has quantified the level of recapitalisation required for the firm in resolution, can determine the exchange ratio of CEs of each class for shares in the firm, and is ready to start the process for exchange of CEs.
- an ***Onward Transfer Instrument*** which would be made by the Bank to give effect to the transfer of shares (or other compensation) to the CE holders who have exchanged their CEs. Depending on the exchange timeline and response from CE holders, the transfer may take place in a single transfer to all relevant CE holders or in 'tranches' to groups of CE holders. In the latter case, more than one Onward Transfer Instrument would be made.

1.11 In the pre-resolution contingency planning period for a resolution, the Template Resolution Instruments would be a useful starting point for the preparation of the instruments and other documents required for the bail-in. The Bank would tailor the Template Resolution Instruments to reflect the specific case, the powers to be exercised and a range of other factors. For the reasons noted below, the Bank reserves its discretion to depart from the approach in the Template Resolution Instruments should it be judged appropriate in the circumstances of a particular case.

1.12 There are many other actions that will need to take place during a resolution, including valuations, restructuring planning and communications with stakeholders. This document refers to these actions where directly relevant to the legal means by which bail-in may be exercised, which we refer to as the 'bail-in mechanic'. It is not intended to provide a comprehensive overview of all aspects of resolution by bail-in. Firms should refer to the RAF Statement of Policy (SoP) for further information on the capabilities the Bank expects firms to have to remove barriers to resolvability (also see Box A).

1.13 A bail-in of a UK firm, especially a G-SIB or other large firm, is likely to require extensive cross-border co-ordination, including with host resolution authorities and any relevant Crisis Management Group. This document does not address those interactions, but they will be a vital component of a successful resolution of such a firm.

1.14 The bail-in tool was introduced into the United Kingdom in 2013.¹⁵ As at the time of publication, the Bank has not used the bail-in tool. Indeed, because it is an innovation only introduced after the 2008 global financial crisis, instances of bail-in of banks anywhere in the world are rare, and different jurisdictions may of course legitimately take different

¹⁵ Via the Financial Services (Banking Reform) Act 2013 which was then modified to reflect UK transposition of the Bank Recovery and Resolution Directive (2014/59/EU).

approaches to the execution of a bail-in to that outlined in this document.¹⁶ This document is intended to increase awareness and understanding of the actions that may take place in a bail-in resolution in the United Kingdom. At the same time, in light of the fact that bail-in is a crisis management tool, the Bank must be able to retain full discretion as to how to respond to the circumstances of a particular case. Accordingly, any use of the bail-in tool will depend on the facts and circumstances of the particular case, and may be different from the actions and approach set out in this document and the Template Resolution Instruments.

1.15 If you wish to contact the Bank of England regarding this publication, the Template Resolution Instruments or any other aspects of bail-in, please email bailinpublication2021@bankofengland.co.uk.

¹⁶ See Financial Stability Board (2018), 'Principles on bail-in execution' available at www.fsb.org/2018/06/principles-on-bail-in-execution-2/. Annex 4 of FSB (2020), '2020 Resolution Report: Be prepared' at www.fsb.org/2020/11/2020-resolution-report-be-prepared/ lists selected cases of public assistance or resolution since 2016 for banks with assets over USD 10 billion in FSB jurisdictions.

Box A: Bail-in and the Resolvability Assessment Framework

In July 2019, the Bank published its Policy Statement on *The Bank of England's approach to assessing resolvability*.¹⁷ The Statement sets out the Resolvability Assessment Framework (RAF). The RAF sets out the steps for ensuring that firms are, and are able to demonstrate that they are, resolvable. This will require firms to take responsibility for their resolvability by developing and maintaining the capabilities necessary to support their resolution.

The RAF applies to firms with a bail-in or transfer to private sector purchaser resolution strategy, or where 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 United Kingdom.¹⁸ In summary, to be considered resolvable, a firm must, as a minimum, be able to achieve three resolvability outcomes:

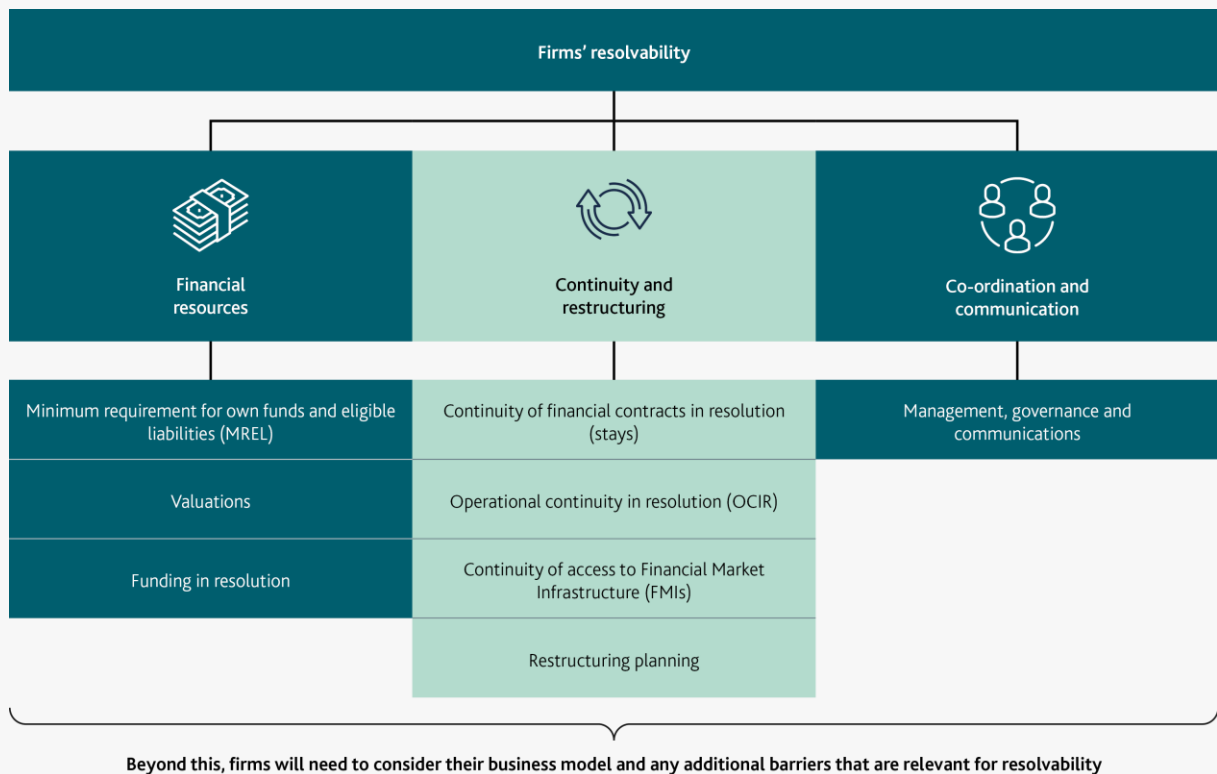
- i) Have adequate financial resources in the context of resolution.
- ii) Be able to continue to do business through resolution and restructuring.
- iii) Be able to co-ordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring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

To achieve the three outcomes firms must, as a minimum, remove eight generic impediments, or barriers, to their resolvability. Firms also need to consider whether there are other barriers created by their structures or business models that require them to take additional steps to allow them to achieve the three resolvability outcomes. **Figure A.A** illustrates how the capabilities that firms are expected to develop to address the eight generic barriers that support the resolvability outcomes.

¹⁷ Bank of England (2019), 'The Bank of England's approach to assessing resolvability' available at: www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability.

¹⁸ For hosted material subsidiaries, the Bank would expect to support resolution actions by the home authorities. As such, the Bank will assess whether the capabilities of the resolution group would deliver broadly comparable resolvability outcomes to those set out in 'The Bank of England's approach to assessing resolvability'.

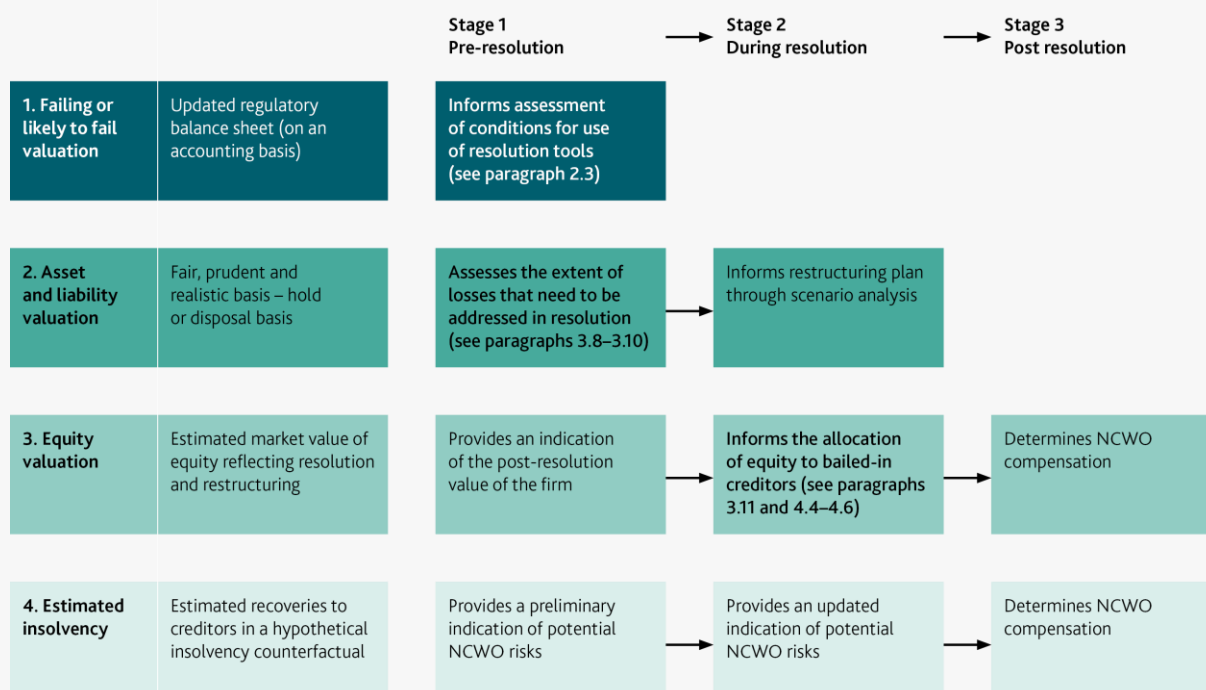
Figure A.A: Resolvability outcomes



Addressing all of these barriers is important, and a number of these barriers are directly relevant to the execution of a bail-in:

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

Valuations: Valuations are important in supporting the execution of a bail-in; notably the Asset and Liability Valuation (Valuation 2) which assesses the extent of losses that need to be addressed through the bail-in; and the Equity Valuation (Valuation 3) which informs the allocation of equity to bailed-in creditors (see **Figure A.B** below).

Figure A.B: Valuations supporting bail-in execution


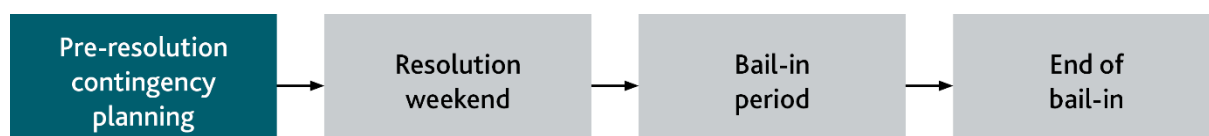
Continuity of access to Financial Market Infrastructures (FMIs): Firms will need continued access to clearing, payment, settlement, and custody services in order to keep functioning in resolution, recognising that providers of these services may retain a degree of discretion over their ability to terminate a firm’s membership. This will include membership of FMIs, notably central securities depositories (CSDs), through which the bail-in of securities and redistribution of equity to bailed-in creditors will be executed (though a firm may not need to be a member of a CSD in order to issue securities through it).

Restructuring Planning: In a bail-in, the firm or a BiA appointed by the Bank will be required to draw up and submit to the Bank a business reorganisation plan within a specified period of time. This business reorganisation plan must address the factors that caused the firm to fail including measures with a view to restoring the long-term viability of the firm within a reasonable timescale, and a timetable for the implementation of those measures. Depending on the scope of their role as determined by the Bank, the BiA will either support, or be responsible for, the development of the business reorganisation plan.

Management, Governance and Communication: Firms should be able to ensure that effective decision-making and oversight arrangements will be in place in resolution. In the case of a bail-in, this may involve the appointment of a BiA to be responsible for certain strategic decisions and to carry out certain senior roles within the firm. In such cases, firms should consider how they would rapidly familiarise a BiA with the firm so that they are able to carry out their role effectively.

Firms should also identify and continue any market communications that may be required under applicable national disclosure regimes including listing or prospectus regimes.

2: Pre-resolution contingency planning



The Bank:

- carries out resolution conditions assessment;
- appoints independent valuer;
- gathers information on instruments and liabilities for (and exclusions from) bail-in;
- determines structure of bail-in;
- prepares structure of CE programme, for the firm to issue;
- prepares the Bail-in Resolution Instrument; and
- liaises with other parties incl. CSDs/ICSDs, exchanges and other authorities.

2.1 There are many steps involved in conducting a bail-in. A number of these must be performed before a firm is placed into resolution.

2.2 Ahead of any resolution action, the relevant authorities must undertake an assessment to determine whether the conditions for a firm to be placed into resolution are met. The four general conditions which must be satisfied are contained in section 7 of the Banking Act.¹⁹

2.3 In addition, the Bank expects to appoint an independent valuer²⁰ to carry out a valuation of the assets and liabilities of the firm for the purpose of informing the decisions to

¹⁹ A stabilisation power may be exercised in respect of a firm only if the Prudential Regulation Authority (PRA) (or the Financial Conduct Authority (FCA) for investment firms regulated solely by the FCA) is satisfied that Condition 1 is met and the Bank is satisfied that Conditions 2, 3 and 4 are met.

Condition 1 is that the firm is failing or likely to fail. Before determining that Condition 1 is met, the PRA must consult the Bank as resolution authority.

Condition 2 is that, having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of the firm that will result in Condition 1 ceasing to be met.

Condition 3 is that the exercise of the stabilisation power is necessary having regard to the public interest in the advancement of one or more of the special resolution objectives (which are contained in section 4 of the Banking Act).

Condition 4 is that one or more of the special resolution objectives would not be met to the same extent by winding up the firm, whether under the Banking Act or otherwise.

Before determining that Conditions 2, 3 and 4 are met, the Bank must consult the PRA, FCA and HM Treasury.

²⁰ Where the urgency of the case makes it appropriate to exercise the bail-in power before a valuation can be carried out by an independent valuer, the Bank may itself carry out a provisional valuation.

be taken by the Bank and PRA, including the assessments as to whether the firm is failing or likely to fail and the level of recapitalisation required.²¹

2.4 The Bank will also take a number of other actions related to the overall resolution including:

- engaging with relevant UK authorities and host resolution authorities (including through the firm's Crisis Management Group);
- communications planning, to prepare for communications with a range of stakeholders once resolution has been triggered;
- determining any changes to the firm's management upon entry into resolution; and
- any preparations related to the resolution liquidity framework.²²

These are not described further in this document, but will be important components of any resolution.

2.5 For a resolution by bail-in, a key action will be to determine the instruments and liabilities that may be cancelled, transferred, diluted, written down and/or converted into equity in the bail-in and their relevant features. For example, in relation to each instrument: its International Securities Identification Number (ISIN); currency of denomination; whether it is admitted to listing, and if so where and on which exchanges trading takes place; the relevant central securities depositories (CSDs) and/or international central securities depositories (ICSDs) in which it is issued; its governing law; its status in the creditor hierarchy on an insolvency of the firm; and any contractual bail-in recognition provisions.²³ The Bank gathers this information on instruments that may be subject to bail-in.²⁴

2.6 During the pre-resolution contingency planning stage, the Bank will determine the structure of the bail-in to be conducted. The Bank's bail-in mechanic involves the issuance of CEs, together with the possible suspension or cancellation of the listing of the instruments associated with these CEs, ie those that are subject or potentially subject to bail-in. In general, CEs represent the potential right of bailed-in creditors to equity shares in the resolved firm. Additional Tier 1 (AT1) and Tier 2 instruments can only be converted into Common Equity Tier 1 (CET1) instruments. In the case of CEs created in respect of other bailed-in liabilities which are not fully written down, they could also represent a potential right to existing or new securities of the resolved firm.

2.7 The Bail-in Resolution Instrument will provide for the creation and issue of CEs by the firm. The CEs will be issued in various classes. If practicable, in order to streamline the

²¹ Under section 58(1) of the Financial Services Act 2012, the Bank also has a duty to immediately inform HM Treasury of any material risks to public funds.

²² For more information on the Resolution Liquidity Framework, see Box 2 of Bank of England (2017), 'The Bank of England's approach to resolution' available at: www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution.

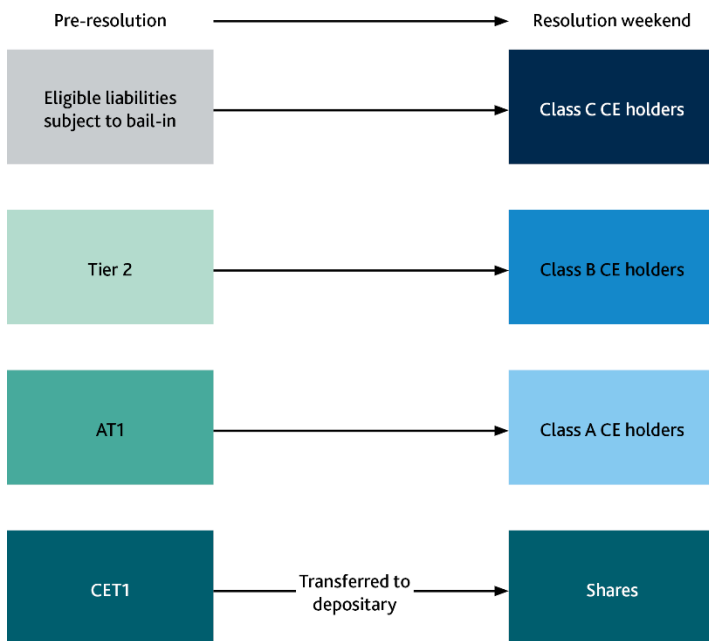
²³ For more information on MREL eligibility criteria, please refer to the Consultation paper on the Bank's review of its approach to setting a minimum requirement for own funds and eligible liabilities (MREL) www.bankofengland.co.uk/Paper/2021/boes-review-of-its-approach-to-setting-mrel-consultation-paper-july-2021.

²⁴ MREL reporting requirements can be found at www.bankofengland.co.uk/prudential-regulation/publication/2018/resolution-planning-mrel-reporting.

process, each class of CEs will correspond to a particular category of liabilities subject or potentially subject to bail-in determined by the ranking such liabilities would have in an insolvency of the firm (rather than, for example, to a specific issuance of securities subject or potentially subject to bail-in).

2.8 CEs will not be issued in certificated form and CEs of each class will be represented by a master certificate of entitlement in registered form. Accordingly, interests in CEs will need to be held through accounts with a recognised securities clearing system. It will be necessary to decide which CSD will be the issuer CSD for the CEs and which CSDs will need to reflect holdings of CEs through any linked account, which they maintain with the issuer CSD. An exchange adviser would most likely be appointed to advise and assist on the CE programme.

Figure 3: Simplified example of treatment of instruments upon entry into resolution



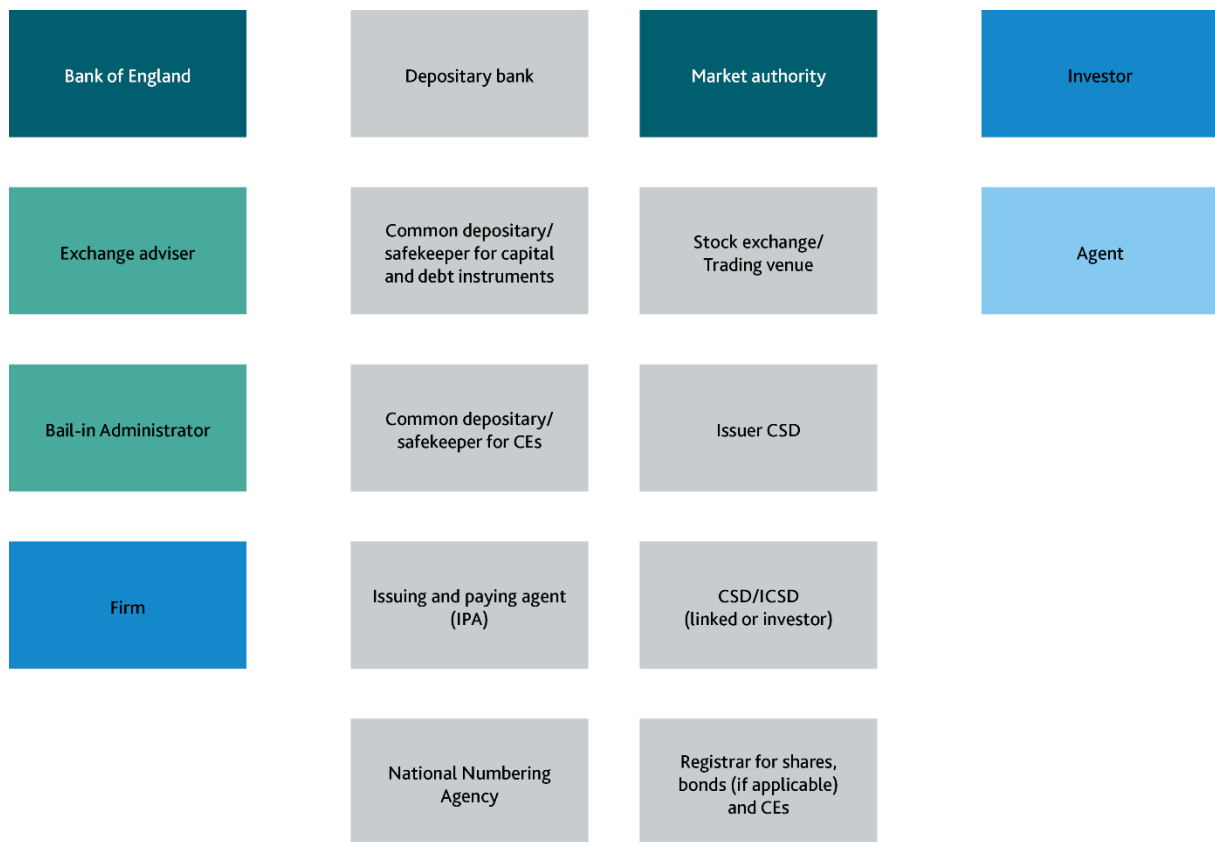
2.9 Under the Bail-in Resolution Instrument, CEs will be deemed to be issued by and in the name of the firm; and the firm will be required to take all necessary actions in connection with the creation of the CE programme. The Bail-in Resolution Instrument will also contain the conditions applicable to the CEs. The CEs will be capable of being traded, and are expected to conform to the UK’s Uncertified Securities Regulations 2001. CEs will not be listed on exchange.

2.10 Each of the persons shown in the relevant securities clearing systems as being entitled to an interest in CEs will need to look solely to that clearing system in relation to all rights arising under or in respect of the CEs except where otherwise expressly provided by the Bail-in Resolution Instrument or any Supplemental Bail-in Resolution Instrument on Onward Transfer Instrument. Transfers of interests in CEs within the relevant clearing system will be

in accordance with its respective rules and operating procedures and CE holders must rely on the procedures of the relevant clearing system with respect to such matters.²⁵

2.11 The firm in resolution will be required to undertake a number of ancillary actions in connection with the issue of CEs. For example, it will be required to execute the Master CE for each class of CEs, deliver the Master CEs to the nominated common depository/safekeeper and enter into agreements with the depository, CE registrar and custodian. The Bank will identify third parties who will take on these various roles, and prepare and agree the related documentation during the pre-resolution contingency planning stage.

Figure 4: Example overview of key parties involved in a bail-in



Notes: This figure provides a simplified overview of parties that may be operationally involved in a bail-in. In practice, there may be more than one of each type of entity, eg multiple stock exchanges or trading venues on which the firm’s instruments are available for trading.

The **Exchange adviser** may be appointed by the Bank and the firm for overall advice and support in connection with the CE programme.

The **Bail-in Administrator** is appointed by the Bank, may be appointed to control the voting rights in respect of the shares in the firm transferred to the Depository Bank and oversees the restructuring process.

The **Depository bank** is appointed by the Bank and the firm. Shares are transferred to the Depository Bank, but voting rights will be controlled by the Bail-in Administrator. It may also take on the role of CE Registrar.

The firm has **Common depositories/safekeepers** that assisted the firm in connection with the issue of securities to investors and which interface with the relevant CSDs/ICSDs.

The **CE Common depository/safekeeper** assists with the issuance of CEs and interfaces with the relevant CSDs/ICSDs.

²⁵ The Bank of England will not have any responsibility or liability for transfers of CEs within any CSD, ICSD or other clearing system or for any aspect of the records of any CSD, ICSD or other clearing system or any of their respective participants.

The **National Numbering Agency** issues ISINs, CFIs and FISNs (see Glossary) for instruments issued by the firm, including CEs in resolution.

Firms often issue securities through a **CSD** which enables transactions in the securities to be managed through book entry in its systems on behalf of its account holders and which provides services such as corporate actions processing and often settlement. Firms may have also issued securities via an **ICSD**. In a bail-in, the CSD will need to take a number of actions to give operational effect to the bail-in including suspending settlement of relevant securities and allocating CEs to relevant bondholder accounts.

The firm's shares and other instruments may be listed for trading on a **Stock exchange** or other **Trading venue**. These will be regulated by the relevant **Market authority**, with which the Bank would co-ordinate.

Registrars maintain an ongoing record of the firm's shares and, where debt securities have been issued in registered form, of the holders of the relevant debt instruments. UK share registrars would be members of CREST/Euroclear UK & Ireland. A registrar would also maintain records of CEs.

Issuing and paying agents appointed by the firm in connection with issues of debt securities provide various services on behalf of the firm.

2.12 In addition, the firm will need to maintain all continuing applicable issuer eligibility requirements in the relevant CSDs and ICSDs. Since in resolution the listing of the firm's shares and certain of its debt securities will likely be suspended but not necessarily cancelled, the applicable continuing obligations under the relevant listing rules in the jurisdiction of the exchanges on which those securities are listed will likely continue to apply to the firm, including applicable continuing disclosure requirements. The disclosure obligations under the Market Abuse Regulation²⁶ and the Listing Rules and Disclosure Guidance and Transparency Rules of the FCA applicable to the firm's UK listed securities will also be relevant in the pre-resolution contingency planning stage. It is the firm's responsibility to ensure compliance with these obligations at all times, both before and after the commencement of resolution.

2.13 The firm is also solely responsible for any decision to delay disclosure of inside information under Article 17.4 of the Market Abuse Regulation, or to seek the consent of the FCA to a delay in disclosure under Article 17.5 of the Market Abuse Regulation. Under Article 17.4 a firm is permitted to delay disclosure of inside information if immediate disclosure is likely to prejudice the legitimate interests of the firm, delay would not be likely to mislead the public, and the firm is able to ensure the confidentiality of the information. If a firm has delayed the disclosure of inside information under Article 17.4, it must notify the FCA that disclosure of the information was delayed immediately after the information is disclosed to the public. Upon request of the FCA, the firm shall provide a written explanation of how the applicable conditions were met. Under Article 17.5, in order to preserve the stability of the financial system, a firm may on its own responsibility delay the public disclosure of inside information where the following conditions are met:

- a) the disclosure of the inside information entails a risk of undermining the financial stability of the issuer and of the financial system;
- b) it is in the public interest to delay the disclosure;
- c) the confidentiality of that information can be ensured; and
- d) the FCA has consented to the delay on the basis that the conditions in (a) to (c) are met.

²⁶ The Market Abuse (Amendment) (EU Exit) Regulations (SI 2019/310) (MAR EU Exit Regulations) on-shored the EU Market Abuse Regulation (596/2014/EU) (EU MAR) in accordance with the framework established in the European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020).

The Bank and FCA would liaise closely in circumstances where a request has been made by a firm to the FCA to delay disclosure of inside information.²⁷

2.14 The determination of the classes of CEs, corresponding to different categories of bailed-in liabilities, will depend on a number of factors such as the ranking in the creditor hierarchy in an insolvency of the liability to be bailed-in (see **Figure 5**) and the precise structuring of the bail-in. The Template Bail-in Resolution Instrument contains a number of possible bail-in structures that could be used in respect of subordinated debt liabilities that are not AT1 or Tier 2 instruments.²⁸ Different classes of CE will allow for different Exchange Ratios to be set once final valuations are completed, which will enable appropriate loss absorption and compensation levels to be set.²⁹

2.15 The various liabilities that could be subject to bail-in may have a range of different characteristics in addition to their ranking in the creditor hierarchy in insolvency, including different minimum denominations and being denominated in different currencies.³⁰

2.16 Section 12AA of the Banking Act requires the Bank to use its powers when exercising the bail-in stabilisation option in a way which ensures that losses are borne in the following order:

- **Existing Common Equity Tier 1 (CET1) instruments**, which must be cancelled, transferred or severely diluted so as to ensure losses are borne first by the holders of such instruments.
- **Additional Tier 1 (AT1) instruments**, the principal amount of which must be reduced or converted (directly or indirectly) into CET1 instruments (or both) to the extent of the capacity of such AT1 instruments.
- **Tier 2 instruments**, the principal amount of which must be reduced or converted (directly or indirectly) into CET1 instruments (or both) to the extent of the capacity of such Tier 2 instruments.
- **Subordinated debt** which is not AT1 instruments or Tier 2 instruments, the principal amount of which must be reduced or converted (directly or indirectly) into shares or other securities or both reduced and so converted in accordance with the hierarchy of claims in normal insolvency proceedings, by the difference between the aggregate of the reduction or conversion of the AT1 instruments and the Tier 2 instruments and the

²⁷ If the firm has instruments admitted to trading on an EU trading venue, the requirement for the firm to send the notification on delayed disclosure of inside information to the FCA under Article 17(4) is separate to any additional obligation which the firm may have under EU MAR to notify an EU competent authority. The requirement to obtain FCA consent to a delay in disclosure of inside information under Article 17(5) is separate to any additional requirement to notify and seek the consent of any EU competent authority which may exist under EU MAR if the firm has instruments admitted to trading on an EU trading venue.

²⁸ These possible structures are not intended to be exhaustive and the structuring of the bail-in will depend on the particular circumstances of the case.

²⁹ After resolution, an 'estimated insolvency' valuation of the firm will be prepared by an independent valuer, appointed by a panel appointed by HM Treasury. Any NCWO compensation due is determined through a bail-in compensation order made by HM Treasury under the Banking Act.

³⁰ Where the bailed-in liability is in a currency other than sterling, it would likely be converted to a sterling amount in a manner which would be set out in the Bail-in Resolution Instrument. Depending on particular circumstances (for example, where the ordinary shares of the firm are issued in a currency other than sterling), other arrangements may be applied.

shortfall amount³¹ or to the extent of the capacity of such subordinated debt, whichever is lower. In addition, the holders of shares of the firm that are not CET1, AT1 or Tier 2 are required to bear losses in accordance with the hierarchy of claims in normal insolvency proceedings.

- **Remaining bail-in liabilities** (ie liabilities and capital instruments that do not qualify as CET1 instruments, AT1 instruments, Tier 2 instruments or subordinated debt of the firm and are not excluded liabilities under section 48B(8) of the Banking Act), the principal amount of which, or any outstanding amount payable in respect of which, must be reduced or converted (directly or indirectly) into shares or other securities, or both reduced and so converted, in accordance with the hierarchy of claims in normal insolvency proceedings, by the difference between the aggregate of the reduction or conversion of the AT1 instruments, the Tier 2 instruments, the subordinated debt and such other shares of the firm and the shortfall amount or to the extent of the capacity of such remaining bail-in liabilities, whichever is lower.³²

2.17 Certain classes of liabilities, such as FSCS covered deposits, client assets, certain liabilities arising from participation in designated settlement systems or recognised central counterparties, certain liabilities related to salary and pensions, etc. are excluded from bail-in by law.³³ Certain other liabilities may also be excluded, in whole or in part, if the Bank considers that exclusion is justified on the grounds set out in section 48B(12) of the Banking Act. Where this is the case, these categories of excluded liabilities will be set out in the Bail-in Resolution Instrument. Such exclusions may result in greater losses being borne by some creditors.

2.18 It is possible to structure the nominal value or minimum denomination of CEs in various ways. It is proposed that each CE will have a nominal value of £1, so that bailed-in creditors will receive a number of CEs of a class corresponding to a particular class of securities (or to multiple classes of securities all of which have the same ranking in the creditor hierarchy) equal to the aggregate principal amount of the liability written down or converted.

2.19 An individual creditor may hold multiple classes of bailed-in securities in a firm at the point of resolution. For example, the creditor may hold multiple issues of Tier 2 instruments and multiple issues of other eligible liabilities of the firm in resolution. Unless there is a need to treat any bailed-in liabilities having the same ranking differently for any reason, it is expected that a single class of CEs will be issued corresponding to all bailed-in liabilities having the same ranking in normal insolvency proceedings, for example one class of CEs for all AT1 Instruments and one class of CEs for all Tier 2 instruments. A creditor holding multiple classes of bailed-in liabilities having different rankings in normal insolvency proceedings would therefore receive multiple classes of CEs.

³¹ The 'shortfall amount' is defined in section 12AA(2) of the Banking Act.

³² For this purpose, the Bank may take the action required in relation to remaining bail-in liabilities only if it has converted or reduced the principal amount of any subordinated debt which contained terms providing for the principal amount of the instrument to be reduced on the occurrence of an event that refers to the financial situation, solvency or levels of own funds of the firm or terms which provide for the conversion of the instruments to shares on the occurrence of any such event, in accordance with such terms.

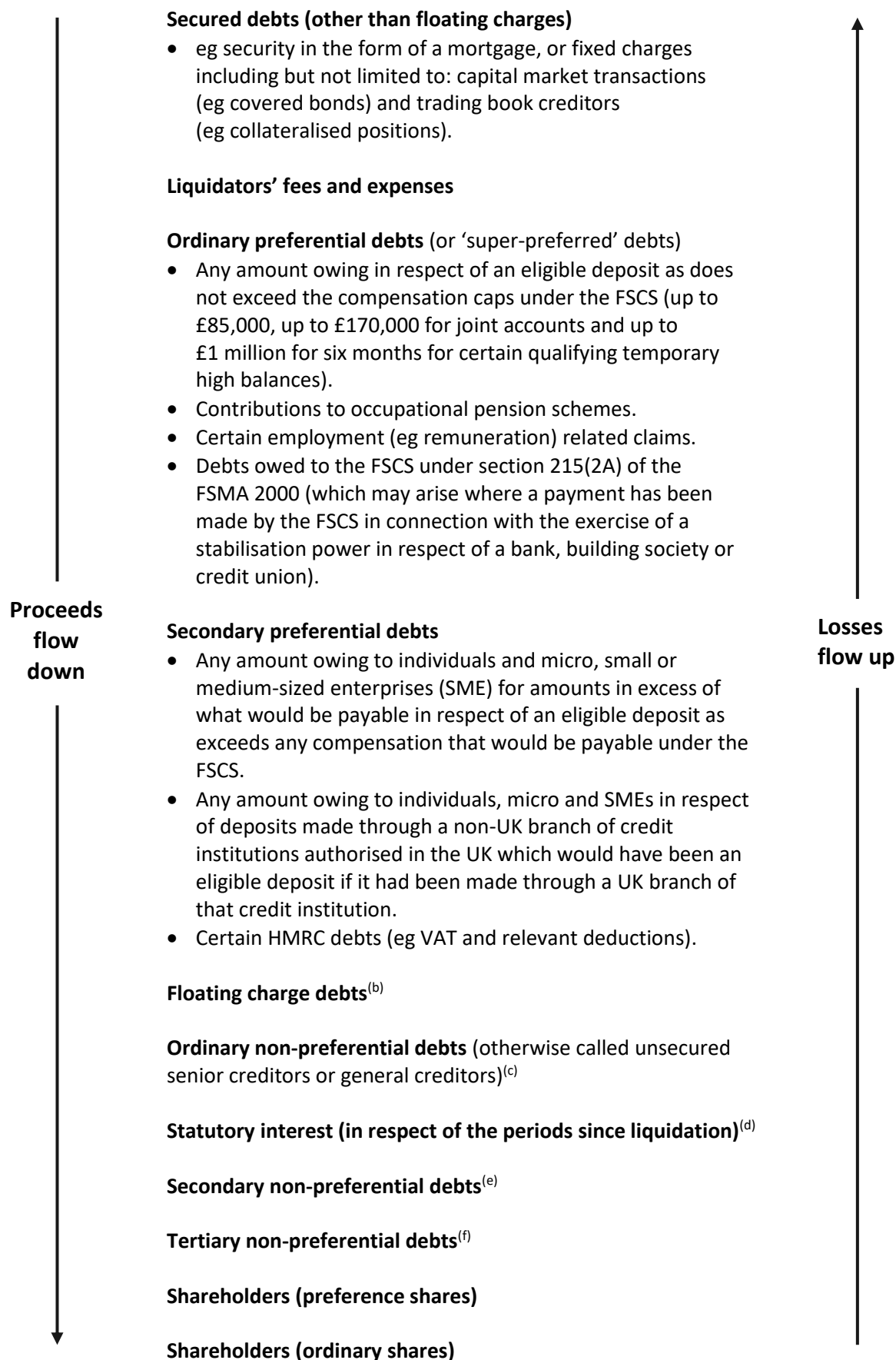
³³ The excluded liabilities are set out in section 48B(8) of the Banking Act and can be amended by order by HM Treasury under section 48F of the Banking Act.

2.20 The Template Bail-in Resolution Instrument provides for the shares in the firm to be transferred from the existing shareholders at the point of resolution to the depositary, to be held on trust. At the end of the exchange period, these shares would be allocated to the holders of CEs following the valid exchange of their CEs. We expect that the entire share capital of the firm would be required to compensate bailed-in creditors according to their position in the creditor hierarchy. Therefore, the Template Bail-in Resolution Instrument does not provide for CEs to be issued to existing shareholders.

2.21 Other actions undertaken in the pre-resolution contingency planning period include identifying a BiA and determining the scope of their role, including in relation to the business reorganisation plan (see Box C).

2.22 The Bank is also likely to be engaging on a confidential basis with a number of external parties in preparation for the bail-in. To execute the bail-in, the Bank will liaise with market infrastructures including CSDs and ICSDs, registrars and stock exchanges; a depositary bank for holding the shares of the resolved firm during the bail-in period and to administer the CE programme; and an exchange advisor to support the Bank in the execution of the bail-in (see **Figure 4**).

Figure 5: Insolvency creditor hierarchy^(a)



- (a) The assets of a company in liquidation will be distributed as shown in the above waterfall. The claims of creditors in the top row will be met first, with any excess assets being passed down to meet claims of creditors in the next row, and so on. Any losses arising from a shortfall between proceeds and creditor claims are incurred firstly by shareholders, and then pass up the creditor hierarchy until they are fully absorbed. A key purpose of MREL is to absorb losses. It therefore sits at the lower end of the creditor hierarchy. MREL is made up of 'own funds' and 'eligible liabilities'. The former is made up of regulatory capital and is represented in 'shareholders' and certain 'tertiary non-preferential debts' rows. The latter, made up of instruments that meet specific eligibility criteria, is represented in the 'secondary non-preferential debts' row. Creditors within a row on the diagram are treated equally (rank 'pari passu'). Note that trust assets or assets over which creditors have a proprietary interest fall outside of the general estate of the insolvent company and are not therefore shown in this waterfall.
- (b) Floating charges that constitute financial collateral arrangements or collateral security (pursuant to the UK Financial Collateral Arrangements Regulation and the Financial Markets and Settlement Finality Regulations) rank senior to preferential debtors and liquidators' fees and expenses.
- (c) This includes most unsecured liabilities (unless subordinated); commercial or trade creditors arising from the provision of goods and services; uncovered depositors (eg financial institutions); covered depositors that are not individuals or SME for amounts in excess of £85,000; any unsecured liability for pension deficit; and senior unsecured bonds.
- (d) In a liquidation, any surplus remaining after the payment of the debts proved in a winding up shall, before being applied for any other purpose, be applied in paying interest on those debts in respect of the periods during which they have been outstanding since the company went into the liquidation. Depending on the terms of secondary/tertiary non-preferential debts and their interpretation, these could rank ahead of statutory interest.
- (e) Secondary non-preferential debts are non-preferential debts issued by financial institutions under an instrument where:
- (i) the original contractual maturity of the instruments is of at least one year;
 - (ii) the instrument is not a derivative and contains no embedded derivative; and
 - (iii) the relevant contractual documentation and where applicable the prospectus related to the issue of the debts explain the priority of the debts under the Insolvency Act 1986.
- (f) Tertiary non-preferential debts means all subordinated debts issued by financial institutions, including (but not limited to) debts under CET1 instruments, Additional Tier 1 instruments and Tier 2 instruments (all within the meaning of Part 1 of the Banking Act).

Box B: Mandatory reduction at the ‘point of non-viability’ (PONV)

While similar to bail-in, mandatory reduction or write-down at the ‘point of non-viability’ is a distinct power of the Bank as resolution authority.

Under sections 6A, 6B and 81AA of the Banking Act, when a firm reaches the ‘point of non-viability’ the Bank must cancel, severely dilute or transfer the firm’s CET1 instruments in accordance with the principle that losses should be borne first by the holders of such instruments, and write down or convert the principal amount of AT1 instruments of the firm into CET1 to the extent required to achieve the special resolution objectives. If the special resolution objectives are not achieved by the write down or conversion of the AT1 instruments, the Bank must write down or convert the principal amount of Tier 2 instruments issued by the firm into CET1 to the extent required to achieve the special resolution objectives. This means that CET1 instruments bear losses in full, and any AT1 and Tier 2 instruments which qualify as regulatory capital must absorb losses up to the extent required to meet the special resolution objectives or to the extent of the capacity of the relevant instruments, whichever is lower. The Bank would give effect to this by making a mandatory reduction instrument.

Where mandatory reduction is required (other than in conjunction with a stabilisation power) in respect of a firm that is a subsidiary and not a resolution entity, PONV must also be used in relation to ‘relevant internal liabilities’; that is ‘eligible liabilities’³⁴ which are issued ‘internally’ between legal entities within a firm where the issuer is not a resolution entity.³⁵ Where PONV applies to a subsidiary, the Bank may also write down or convert regulatory capital instruments and/or relevant internal liabilities of any intermediate holding company between that subsidiary and the resolution entity. The write down or conversion in the case of an intermediate holding company must contribute to producing the result that the losses of the subsidiary are effectively passed on to, and the subsidiary is recapitalised by, the resolution entity.³⁶

The objective of a mandatory reduction is for a firm to be recapitalised and restored to long-term viability by shareholders and holders of AT1 and Tier 2 instruments, bearing their share of losses of the firm. Under section 48Z of the Banking Act, the making of a mandatory reduction instrument should be disregarded in determining whether a default event provision has occurred.

Although they may both involve the cancellation, transfer, dilution, reduction or conversion of CET1, AT1 and Tier 2 instruments and relevant internal liabilities, mandatory reduction should be distinguished from bail-in. Unlike bail-in, the Bank is required to make a mandatory reduction instrument where one of the cases in section 6A of the Banking Act exists. Section 6A of the Banking Act sets out five cases in which the Bank must carry out a mandatory reduction. The power may be exercised in conjunction with a stabilisation power (other than bail-in) if the conditions for the use of the stabilisation option are met, or

³⁴ Section 3A(4B) of the Banking Act.

³⁵ Section 6B(2)(d) of the Banking Act.

³⁶ Sections 81AA(8A) and 81C(1A)(aa) and (1AA) of the Banking Act.

separately from stabilisation powers if the firm would no longer be viable if the mandatory reduction power was not used but should be restored to long term viability if it is used.

If in order to recapitalise a firm the Bank needed to reduce or convert a greater amount of bail-in liabilities than permitted in a mandatory reduction instrument, the Bank may make a resolution instrument in accordance with section 12A Banking Act instead of making a mandatory reduction instrument. In order to exercise the bail-in stabilisation option, the conditions for the use of a stabilisation power must be satisfied.

The Bank may have made a mandatory reduction instrument prior to exercising the bail-in option in respect of a firm. If this is the case, CET1 instruments may have already been cancelled, transferred or diluted and some or all of the AT1 and Tier 2 instruments already reduced or converted into CET1.

3: The resolution weekend



The Bank:

- announces bail-in, makes the Bail-in Resolution Instrument and specifies the 'resolution time'; and
- appoints a Bail-in Administrator (BiA).

BiA (or Bank) exercise full control of the firm.

Ordinary shares are transferred to a depository.

Preferences shares and AT1/Tier 2 instruments are written down and cancelled.

Treatment of other bail-in liabilities is set out in the Bail-in Resolution Instrument.

Trading and settlement of relevant instruments is suspended or cancelled as appropriate.

3.1 If the Bank, in consultation with other relevant authorities, has determined that the resolution conditions have been met and is satisfied that the use of the bail-in stabilisation option is in the public interest and that action is necessary to advance the resolution objectives set out in the Banking Act, resolution will be triggered.

3.2 Once the Bank has decided to place a firm into resolution, it will make a Bail-in Resolution Instrument, which it is obliged to publish as soon as is reasonably practicable after making the instrument. The making of the Bail-in Resolution Instrument, the time at which it is to come into force and the measures provided for in the Bail-in Resolution Instrument would be announced by the Bank; and the Bail-in Resolution Instrument would be published at the same time.³⁷ The firm in resolution would also make an announcement at the same time. The final preparations for resolution and the making of the Bail-in Resolution Instrument are likely to take place over a weekend, sometimes informally referred to as the

³⁷ Under section 48T of the Banking Act, the Bank is under an obligation to publish the resolution instrument on the Bank's website, in two newspapers chosen by the Bank to maximise the likelihood of the instrument coming to the attention of persons likely to be affected, and if securities issued by the firm have been admitted to trading on a regulated market, by means of a regulatory information service. A copy of the resolution instrument must also be sent to the resolved firm, HM Treasury, the PRA, the FCA and any other person specified under the SRR Code of Practice. HM Treasury must lay a copy of the resolution instrument before Parliament. If necessary, HM Treasury may be an order make any necessary changes to the law if needed for the effectiveness of the resolution and may make regulations to provide for fiscal consequences of the exercise of a stabilisation power (under section 75 and section 74 of the Banking Act).

‘resolution weekend’, although the necessary actions can take place at any time if the circumstances so require.

3.3 The Bail-in Resolution Instrument initiates the resolution, identifies the instruments and liabilities subject to the bail-in and specifies what is to happen to these upon entry into resolution (the ‘Resolution Time’, which will be specified in the Instrument). The affected securities will be listed by ISIN (or other relevant identifier) in the Bail-in Resolution Instrument or other accompanying documents.³⁸

3.4 By the Bail-in Resolution Instrument, the title to all existing ordinary shares will be transferred to a third party depositary bank appointed by the firm in resolution and the Bank, at nil consideration to the shareholders. The ordinary shares will be held on trust by the depositary bank on behalf of the CE holders. The BiA or the Bank, as appropriate, will exercise full control of the firm in resolution. Therefore, all voting rights attached to ordinary shares will be exercisable during the bail-in period by the BiA or the Bank, as provided for in the Bail-in Resolution Instrument.

3.5 The Bail-in Resolution Instrument will write down and cancel in full all preference shares and all AT1 and Tier 2 instruments of the firm. These instruments would be removed from the relevant CSDs/ICSDs and trading venues in accordance with their normal rules and procedures for cancelled securities. Any UK listings of these securities will be cancelled.³⁹

3.6 The Bail-in Resolution Instrument will also:

- bail in, or announce the proposed bail-in of, bail-in liabilities;⁴⁰
- create each class of CEs as instruments of the firm;
- specify the treatment of coupon and principal payments in respect of bail-in liabilities during the bail-in period;
- effect suspensions as applicable of the UK listings of the shares and the eligible liabilities in the form of securities (see below);⁴¹
- appoint the BiA (see Box C);
- specify the arrangements for drawing up the business reorganisation plan;
- if necessary, give directions to, and/or remove, directors of the firm in resolution; and
- specify the actions to be taken by the relevant CSDs, ICSDs, registrars, common depositaries/safekeepers and others.

3.7 The treatment of eligible liabilities and any other bail-in liabilities⁴² will depend on the way in which the bail-in is structured, which the Bank will determine having regard to the circumstances of each case. This may include:

³⁸ Under section 48Z of the Banking Act, the exercise of stabilisation powers by the Bank of England should be disregarded in determining whether a default event provision has occurred.

³⁹ The listing of shares will be suspended, but not cancelled.

⁴⁰ As defined in section 3(1) of the Banking Act; and to the extent of any shortfall as defined in the Banking Act.

⁴¹ In resolution it may be beneficial to suspend any other listings in other jurisdictions, however this would be outside the legal powers available to the Bank of England.

⁴² Section 3A(4A) of the Banking Act states that ‘where the Bank of England gives directions to a relevant person under subsection (4) the bail-in liabilities that the person is required to maintain or issue are referred to, in relation to that person, as ‘eligible liabilities’’. For simplicity, this document will refer to bail-in liabilities.

- writing down those bail-in liabilities in part or in whole at the commencement of the resolution;
- an immediate write-down in part of those bail-in liabilities with the possibility of a further write-down at a later stage once the independent equity valuation has been completed;
- the identification of bail-in liabilities which are to be bailed in in whole or in part and the transfer of such bail-in liabilities to the depositary bank with the write-down taking place in a single stage once the independent equity valuation has been completed (referred to as a 'deferred bail-in'); or
- a combination of such approaches.

3.8 One of the main inputs to the decision on how to structure the bail-in in respect of shares, capital instruments and bail-in liabilities will be the valuation data available to the Bank. The Bank is required to obtain an independent valuation of the assets and liabilities of the firm before it exercises stabilisation powers.

3.9 The broad purpose of these valuations is to inform the decisions as to whether the conditions for the exercise of the stabilisation power are satisfied, the resolution tools to be applied and the extent to which shares, capital instruments and bail-in liabilities should be cancelled, transferred, diluted, written down and/or converted to ensure that the extent of losses is appreciated upon entry into resolution.

3.10 The valuation of the firm's assets and liabilities, on a hold value or disposal value basis, for the purposes of determining the necessary write-down, conversion, cancellation, dilution or transfer, and informing the firm's restructuring plan is referred to as 'Valuation 2'.⁴³ The Bank will need to take into account the recapitalisation needs of the firm to comply with the conditions for authorisation and command market confidence, both immediately after the resolution weekend and through the post-resolution restructuring period.

3.11 In some circumstances, the Bank may decide to apply a deferred bail-in, where bail-in liabilities are not written down at the start of the resolution but are transferred to a depositary to hold during the bail-in period with the write-down being determined at a later point in the bail-in period. In such a case, the amount of the bail-in would be quantified once the final equity valuation (Valuation 3) is available.⁴⁴ If the bail-in is structured in this way, a separate class of CEs for each class of bail-in liabilities in the form of securities would be created. This is because if the bail-in liabilities are written down in part, on the exchange of the CEs issued in exchange for such instruments, holders of the CEs may receive both shares and relevant part written down bail-in liabilities. This option is provided for in the Template Bail-in Resolution Instrument.

⁴³ Technical standards for assessing the value of assets and liabilities in resolution are set out in the Regulation 2018/345. For more information on valuations, see Bank of England (2018), 'Guidance on valuation capabilities to support resolvability' available at www.bankofengland.co.uk/letter/2018/guidance-on-valuation-capabilities-to-support-resolvability.

⁴⁴ Technical standards for assessing the value of a firm's equity post-resolution are set out in the Regulation 2018/345. For more information on valuations, see Bank of England (2018), 'Guidance on valuation capabilities to support resolvability' available at www.bankofengland.co.uk/letter/2018/guidance-on-valuation-capabilities-to-support-resolvability.

3.12 It is expected that any accrued but unpaid interest in respect of securities which have been bailed in at the point of entry into resolution would be written down and cancelled by the Bail-in Resolution Instrument. The Bail-in Resolution Instrument would also be likely to provide for the suspension of interest accrual on all bailed-in liabilities that have not been cancelled in their entirety for the duration of the bail-in period.

3.13 The Bail-in Resolution Instrument would have direct effect in respect of the shares of the firm and all liabilities subject to bail-in which are governed by English law. In the case of such liabilities governed by the law of another country, there will be reliance on either contractual recognition of bail-in,⁴⁵ and/or recognition of the Bank's resolution actions by authorities in the relevant jurisdictions.

3.14 The listing and/or trading of instruments subject to bail-in (where they are not cancelled) will be suspended and the Bank will co-ordinate with the FCA and the relevant exchanges on this.⁴⁶ In most cases, the suspension of listing and/or trading can be effected quickly and potentially intraday, though it would be preferable to do this overnight or over a weekend (ie outside of market opening hours). While listing is suspended, the firm will be required to comply with the continuing obligations for a listed company, including all listing rules and disclosure obligations throughout the bail-in period.

3.15 Settlement of bailed-in securities (which have not been cancelled in their entirety) will also be suspended and the relevant instruments will be frozen within the relevant CSD accounts during the bail-in period. It is anticipated that transactions that are 'in-flight'⁴⁷ at the point of entry into resolution will be treated in accordance with the CSD's settlement finality rules and arrangements; though in some circumstances intraday suspensions can take immediate effect, meaning unsettled transactions remain in a 'frozen' status. Suspensions may affect not only normal settlement, but also collateral operations and lending and borrowing.

3.16 The Bail-in Resolution Instrument will contain instructions to be followed by parties such as CSDs, common depositaries/safekeepers, issuing and paying agents, and registrars to implement the resolution actions in respect of relevant securities. The Bank will co-ordinate with relevant CSDs on a confidential basis in the run up to a resolution. This will almost certainly include Euroclear UK & Ireland, and may also include ICSDs such as Euroclear Bank and Clearstream Banking Luxembourg.⁴⁸ Where relevant instruments are held in multiple CSDs, the exact treatment and sequence of actions will depend on the particular circumstances. However, in general, it is common practice for investor/linked CSDs to follow actions undertaken by the primary issuer CSD for a particular security.

3.17 The relevant CSDs will be directed to credit CEs of the relevant class to the securities accounts held with them by the creditors whose securities have been subject to bail-in. In the case of a deferred bail-in, this will include CEs in respect of the liabilities in the form of securities which have been transferred to the depositary bank.

⁴⁵ As set out in the PRA rulebook, see www.prarulebook.co.uk/rulebook/Content/Part/211722/11-06-2019.

⁴⁶ As part of resolution, trading in other instruments may also need to be suspended temporarily for reasons such as financial stability or market integrity. This is outside the scope of this document.

⁴⁷ Ie transactions that have been initiated but not yet settled.

⁴⁸ In some circumstances, the instructions to the CSD or ICSD may formally come from the firm in resolution or a paying/exchange agent, under the direction of the Bank.

Box C: The Bail-in Administrator

In exercising the bail-in stabilisation option, the Bank has the power to appoint a resolution administrator (referred to in this document as a Bail-in Administrator or BiA) to perform functions that it specifies in the Bail-in Resolution Instrument or in a separate instrument of appointment.

The Bank has considerable flexibility to determine whether to appoint a BiA, and what the BiA should be responsible for. This is important as it allows the Bank to determine the most appropriate role according to the specific circumstances of each case. The Bank may appoint more than one BiA to perform functions in respect of the firm in resolution and a BiA may be an individual or a body corporate. The Bank also has discretion to take on the role of BiA itself. In most circumstances, the Bank would be likely to appoint an individual rather than a firm as BiA.⁴⁹

The BiA may be appointed to perform some or all of the following duties:

- work with the firm to draw up the business reorganisation plan required by section 48H of the Banking Act;
- liaise with an independent valuer to support the production, updating or revision of valuations;
- hold any securities temporarily transferred or issued to the BiA;
- where the Bail-in Resolution Instrument provides for securities to be transferred to another person, including the ordinary shares in the firm, exercise voting rights to be exercisable as directed by the Bank; and/or
- be authorised to manage the firm's business or to exercise any powers of the firm.

The BiA may be given some or all of the powers of shareholders, senior management and the Board of Directors, but will be subject to the control of the Bank of England. The BiA will have a statutory duty to take all the measures necessary to promote the special resolution objectives, and will also be required to have regard to any other objectives specified by the Bank.

The scope of the role of a BiA, the split of responsibilities between the BiA and the directors of the firm in resolution, and the position which a BiA would occupy in the governance framework of the firm would depend on the circumstances of the firm at the time it is placed into resolution. Accordingly, the Bank considers it important to have flexibility to determine the role of the BiA as part of pre-resolution contingency planning on a case-by-case basis. Firms whose preferred resolution strategy is bail-in should design and implement capabilities (including under the Management, Governance and Communication (MGC) Statement of Policy (SoP)⁵⁰) that are flexible and could support a range of BiA roles.⁵¹

⁴⁹ The BiA could be an individual from a firm with financial services, insolvency, restructuring or other skills which would be available to support the work of the BiA.

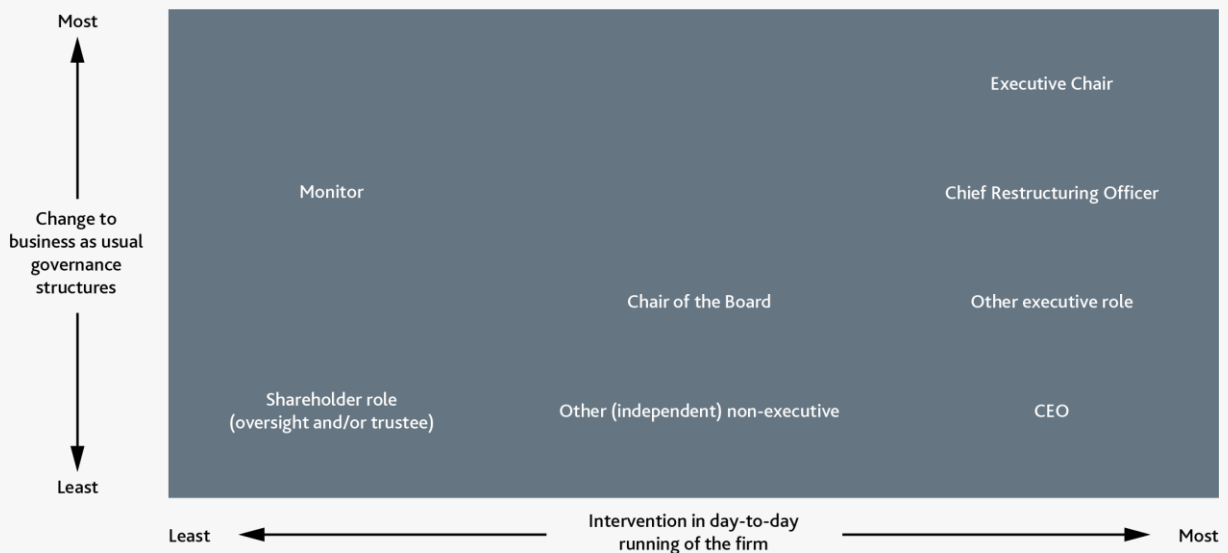
⁵⁰ Bank of England (2019), 'The Bank of England's Statement of Policy on Management, Governance and Communication' available at www.bankofengland.co.uk/paper/2020/updates-to-the-boes-approach-to-assessing-resolvability.

⁵¹ See Bank of England (2021), 'Letter from Dave Ramsden on firms' Resolvability Assessment Framework preparations' available at www.bankofengland.co.uk/letter/2021/february/firms-raf-preparations.

A BiA could be appointed to undertake a more or less active role in the day-to-day running of the firm. The BiA could be a senior executive (including Chief Executive Officer) or senior manager, or alternatively could undertake a non-executive or other oversight role. These roles could include some 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. HM Treasury’s *Special Resolution Regime (SRR) Code of Practice*⁵² also notes that the BiA may be granted the powers of shareholders and management, and perform that function without involvement from other directors or, alternatively, may act as part of the management team and be involved in management decisions along with the directors of the firm in resolution. In such situations, it will be important to have clarity on the respective responsibilities and accountability of the BiA and other senior managers of the resolved firm.

The figure below provides a stylised representation of potential types of roles that could be performed by the BiA; there may also be other roles in addition to those identified below.

Figure C.A: Potential role for a Bail-in Administrator



The Bank has also made clear that, 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 *The Bank of England’s Approach to Resolution* and the *SRR Code of Practice*. Decisions regarding changes to existing management will vary depending on the circumstances of a resolution. Firms’ MGC capabilities should be sufficiently flexible to enable their management and governance arrangements to adapt to changes in resolution, in support of the co-ordination and communication outcome of the RAF.

⁵² HM Treasury (2020), ‘Banking Act 2009: special resolution regime code of practice (revised December 2020)’ at www.gov.uk/government/publications/banking-act-2009-special-resolution-regime-code-of-practice-revised-march-2017.

To enable the BiA to carry out the role conferred on it by the Bank, including acting as part of the firm's management team if required, the BiA is statutorily protected from incurring liability for damages for anything done in good faith for the purposes of or in connection with the functions of the office (except in limited circumstances).⁵³

⁵³ Section 62E(3) of the Banking Act.

4: The bail-in period



CEs are issued in the name of the firm and credited to accounts of bailed-in creditors. CEs are tradable during this period.

Independent valuer updates valuations.

Firm and BiA prepare business reorganisation plan.

At the end of the period, the Bank:

- makes Supplemental Bail-in Resolution Instrument; and
- announces terms of exchange for CEs including exchange ratios.

CE holders submit Statements of Beneficial Ownership to claim shares (or other compensation).

4.1 The next stage of a bail-in covers the period after the resolution time and the initial resolution actions, up to completion of the exchange of CEs for shares and/or other securities. The Bank anticipates that this period would typically last no more than six months. In practice, however, this period would last as long as necessary for the Bank to calibrate robustly the final terms of the bail-in and return the firm to private control; depending on the complexity of the case, the period could therefore last longer than six months. The updated asset and liability valuation (Valuation 2) will determine the total losses that will need to be absorbed by the write-down, dilution or cancellation of bailed-in liabilities.

4.2 One of the inputs relevant to this assessment will be the business reorganisation plan. A firm must produce a business reorganisation plan within one month of entry into resolution. The plan should:

- address the causes of failure;
- enable the firm to return to a viable business model that is sustainable in the long-term;
- enable the firm to return to fulfilling relevant regulatory requirements on a forward-looking basis; and
- support the achievement of the Bank's statutory resolution objectives, in particular by ensuring the continuity of banking services and critical functions in the UK.

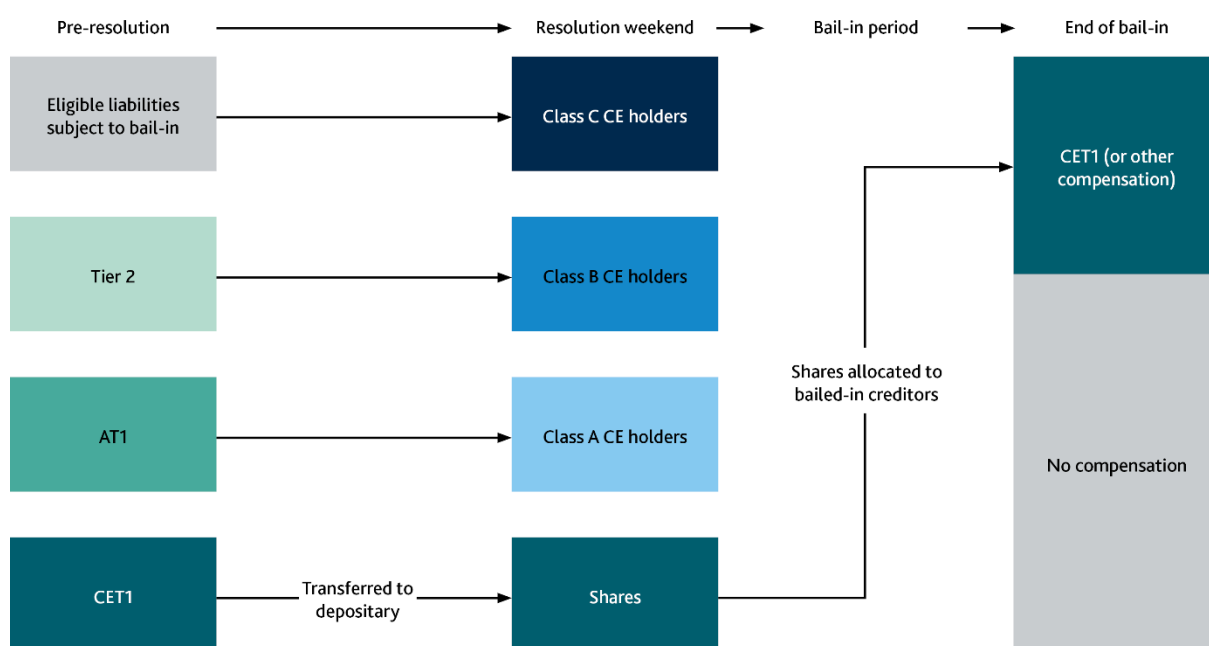
4.3 This plan may involve some parts of the business being wound down or sold as well as a possible restructuring of some or all of the remaining business. Depending on the circumstances, the Bank will decide whether the BiA or one or more directors of the firm in resolution, possibly in conjunction with the BiA, will produce the business reorganisation plan during this period. The Bank, in consultation with the PRA and the FCA, will approve the plan if satisfied that the plan is appropriately designed to meet the objective of restoring the viability of the firm.

4.4 Once final valuations have been completed, the Bank will announce the terms of the exchange of CEs. This will include the Exchange Ratio of CEs for shares in the firm (and possibly other assets) for each class of CEs and the timetable for the exchange, including the record date (ie the time and date at which holders of CEs on the register will be potentially eligible to receive shares (or other compensation) on exchange of the CEs registered in their name on that date) for holders of CEs to be eligible. The Exchange Ratio for a class of CEs may be zero. The Exchange Ratios and CE exchange timetable will be contained in and announced through a Supplemental Bail-in Resolution Instrument made by the Bank.

4.5 In cases of deferred bail-in, ie where the Bank does not write down bail-in liabilities at the start of the resolution, the Supplemental Bail-in Resolution Instrument will give effect to the terms of the write-down and/or cancellation of these liabilities. In these cases, the CEs of the relevant class which were issued at the start of the resolution will represent an entitlement to any residual principal amount of such bailed-in liabilities as well as any shares to which holders of such class of CEs may be entitled and this will be reflected in the relevant Exchange Ratio for such class of CEs.

4.6 In a case where an immediate bail-in of bail-in liabilities took place at the commencement of the resolution, but during the bail-in period the level of losses to be absorbed and the recapitalisation needs have been found to be greater than estimated immediately prior to the start of the resolution by updated or revised valuations, a subsequent additional write down of bail-in liabilities may be required. The Supplemental Bail-in Resolution Instrument would effect this further write-down, and set out the terms of the further write-down and cancellation and the conversion of the relevant amount into further CEs of the relevant class.

4.7 The Exchange Ratios will enable the calculation of the fractional entitlement to shares (and in the case of a deferred bail-in the reduced bailed-in liabilities) to which each CE of each class of CEs will be entitled. The Exchange Ratios will be determined by a number of factors, including that losses should be borne in accordance with the order of priority of the corresponding bailed-in liabilities under normal insolvency proceedings; and that the Exchange Ratios should be set such that no preference shareholder or creditor is expected to receive worse treatment than they would have received in an insolvency of the firm in resolution (the 'no creditor worse off' safeguard).

Figure 6: Simplified example of treatment of instruments at the end of the bail-in period^(a)


(a) The example is purely illustrative and is not intended to provide a guide as to which classes of CE holders may receive shares at the end of the bail-in period.

4.8 The Bank expects that CEs issued in respect of all bailed-in liabilities would be exchanged for the highest quality of capital ie CET1,⁵⁴ in the form of the ordinary shares that have been transferred to, and are held on trust by, the depositary. However, in some circumstances it may be appropriate for CEs issued in respect of bail-in liabilities which have been bailed-in to be exchanged for compensation in other forms, such as new debt instruments issued by the resolved firm.

4.9 The announcement of the Exchange Ratios will mean CE holders will be able to assess more accurately the value of the compensation they will be entitled to and therefore the potential value of their CEs. CEs will remain tradable for a short period to be specified in the Supplemental Bail-in Resolution Instrument, should the holder wish to dispose of their CEs rather than exchange them. Once this period has elapsed and final transactions settled, the CEs will cease to be tradable and will be frozen in the securities accounts of the holders of such CEs at the relevant CSD(s) on the record date at the end of such period.

4.10 Following the making of the Supplemental Bail-in Resolution Instrument and the announcement of the CE exchange terms and timetable, CE holders will be able to come forward to claim their CE entitlements by submitting statements of beneficial ownership. A form of statement of beneficial ownership will be included in the Bail-in Resolution Instrument and a draft form is included in the Template Bail-in Resolution Instrument. The submission of statements of beneficial ownership is expected to be conducted electronically

⁵⁴ The *Financial Stability Report December 2019* stated that 'the Bank, in its capacity as the UK resolution authority, is also clarifying that, in the event of a bank resolution, it expects all debt that is bailed in to be written down or converted to the highest quality of capital, CET1.' Available at www.bankofengland.co.uk/financial-stability-report/2019/december-2019.

rather than in paper form. The statement of beneficial ownership will require the CE holder to confirm their ownership of the relevant CEs and provide relevant personal information including to confirm instructions for delivery of the shares and any other securities, ie the CSD account into which they should be transferred.

4.11 Only one statement of beneficial ownership must be submitted by a CE holder and it must relate to all classes of CE held by such person. A deadline will be set by which CE holders must come forward and submit their statements of beneficial ownership. Any CE holder that does not submit a duly completed statement of beneficial ownership by the expiration date for the exchange of CEs will no longer be entitled to exchange such CEs for shares or other securities to which such CEs relate.

4.12 The process of submission of statements of beneficial ownership and reconciliation of CEs held with the CSDs/ICSDs is likely to be a significant operational undertaking, especially where there are large numbers of CE holders and multiple classes of CE.

4.13 Depending on the number of shares that the CE holder is entitled to based on the CEs they hold, this may trigger certain 'controller' thresholds as defined in section 422 of FSMA 2000. Where this is the case or expected to be the case, it is the CE holder's responsibility to ensure that they have the necessary approvals from the PRA and FCA in place. The statement of beneficial ownership will require confirmation and evidence that the beneficial owner has obtained the necessary approvals.

4.14 Transfers of shares as part of resolution actions under the Banking Act do not currently incur stamp duty or stamp duty reserve tax.⁵⁵

4.15 This stage of the bail-in will conclude with the making of one or more Onward Transfer Instruments by the Bank. These instruments will give effect to the transfer of shares, any reduced bail-in liabilities in the case of a deferred bail-in and any other securities, as applicable, to the relevant CE holders who have duly submitted statements of beneficial ownership to exchange their CEs.

4.16 The Onward Transfer Instrument will specify the time and date at which the transfer of the shares and other securities as applicable takes effect. Depending on factors such as the number and rate of claimants submitting their statements of beneficial ownership and speed of processing, the Bank may effect transfers in tranches through more than one Onward Transfer Instrument.

4.17 Like the Bail-in Resolution Instrument, the Supplemental Bail-in Resolution Instrument and Onward Transfer Instrument will contain instructions to be followed by parties such as CSDs, common depositaries/safekeepers and registrars to implement the measures contained in it.

⁵⁵ See section 49 of the Finance Act 2019.

Box D: Building society bail-in

The bail-in stabilisation tool is also available in respect of building societies. Whilst not mandated by the Banking Act, the resolution of a building society by bail-in may involve the demutualisation of the society as the most effective way to achieve the special resolution objectives and return the entity to viability post-resolution.

Building societies have different corporate structures to banks. Individuals who have an account or a mortgage with a building society which confers membership have certain rights including rights to vote (with some limited exceptions) and to receive information. Each member of a building society has one vote, regardless of how much money they have invested or borrowed, or how many accounts they hold. Unlike a company, shares in a building society can generally be withdrawn by investors in line with the society's rules and terms of issue and are therefore more like deposits.

Some building societies issue Core Capital Deferred Shares (CCDS), which are a form of CET1 instrument. Holders of CCDSs also have one vote each, regardless of the number or value of CCDSs they may hold. In resolution, CCDSs would be bailed-in to absorb losses as CET1 instruments as set out in the Banking Act.

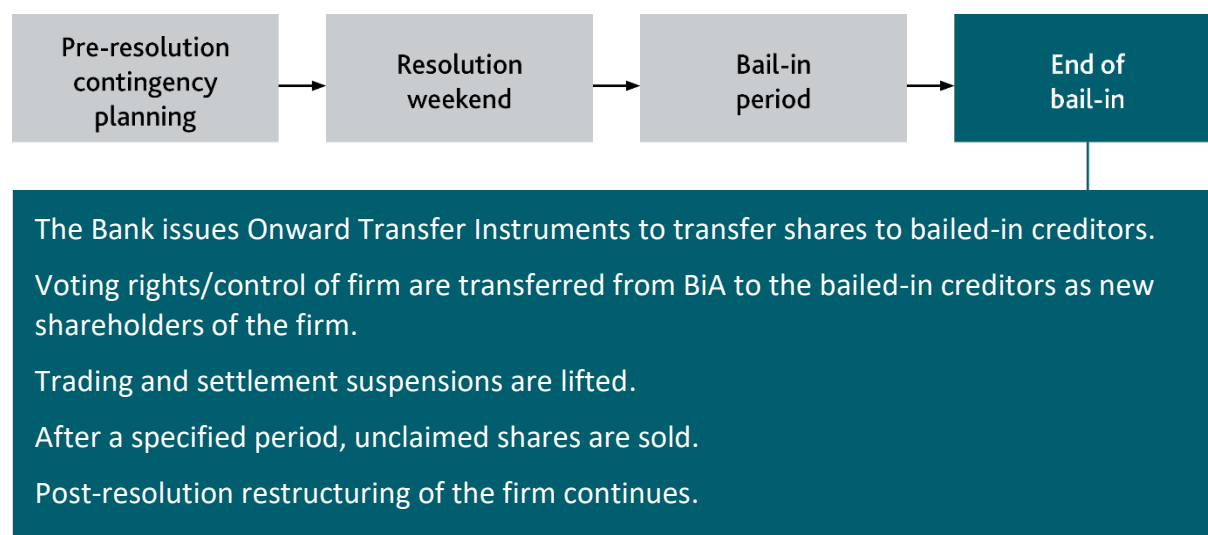
Section 84A of the Banking Act provides that the Bank by resolution instrument may (a) convert a building society into a company or (b) transfer all the property, rights and liabilities of the building society to a company. Both of these options would involve demutualisation. The ownership rights of members would be replaced by shares in the company which could be allocated to bailed-in creditors. The Bank could also establish a holding company for this company, and compensate bailed-in creditors with shares in the holding company of the operating firm itself.

Under section 84A the Bank may also make other provisions in respect of a society, including cancelling the shares and membership rights in the building society, converting shares of the building society into deposits with the successor company and conferring rights and imposing liabilities in place of cancelled shares and membership rights. Such provisions would also be likely to result in the society being demutualised.

Upon a demutualisation, customers would lose their voting and other membership rights. Eligible deposits in the successor company would be covered by the FSCS subject to normal limits and otherwise treated in accordance with the creditor hierarchy. The resulting entity – the successor bank – would then be bailed in in the same way as a bank under the bail-in stabilisation option.

When using the bail-in stabilisation tool, the Bank is required to ensure that the shares of the institution being placed into resolution are cancelled, transferred or diluted in line with the principle that losses should be borne first by the holders of such instruments. For a building society, shares in the form of member deposits are excluded from bail-in up to the coverage limit under the FSCS. As noted in HM Treasury's SRR Code of Practice, for this reason in a bail-in the value of the deposit will not be affected as part of the demutualisation but may be affected by bail-in in accordance with the creditor hierarchy in the same way as a bank (subject to the exclusion for deposits covered by the FSCS).

5: The end of bail-in and exit from resolution



5.1 The making of the Onward Transfer Instrument(s) marks the end of the bail-in period. Once a sufficient majority of the firm's shares have been transferred to CE holders who have exchanged their CEs or after a set period has elapsed, the BiA will cease to be entitled to exercise voting rights in respect of the shares. Such rights will be exercisable by the new equity holders and the firm will have been returned to private sector control. This is effectively exit from resolution; the appointment of the BiA may be brought to an end at this stage and the firm will be run by the new management under the supervision of the PRA. The timing of this will depend on the circumstances of the case.

5.2 The BiA will continue to control voting rights for any unclaimed shares, until those shares are sold into the market. Unless otherwise instructed by the Bank or the BiA, within a specified number of days of the expiry of the exchange period, the depositary bank will appoint a broker to sell the shares and any other securities which have not been exchanged for CEs.⁵⁶ The proceeds of sale, net of all costs and expenses of sale, will be held by the depositary bank until they can be credited to the cash account of the CE holder, for example at the CSD where the CE holder held its CEs.

5.3 CE holders who have come forward and submitted statements of beneficial ownership but whose CEs have not been exchanged for shares after the sale of shares would be entitled to their share of the net cash proceeds of the sale of share (or other securities). Any proceeds of sale of shares and other securities in respect of CEs which have not been the subject of duly completed statement of beneficial ownership submitted to the depositary

⁵⁶ None of the Bank of England, the BiA or the bank depositary will have any liability in respect of the sale of the shares or other securities.

bank within the exchange period will be held by the depositary bank until such time as it is instructed by the Bank to pay or transfer such proceeds as the Bank may direct.

5.4 Alongside the return of the firm to private control, listings which have been suspended will be restored, in co-ordination with the FCA. Where shares and other instruments were frozen in CSDs/ICSDs during the bail-in period but not fully written down or converted, these will be unfrozen and settlement in these will be able to resume.

5.5 Even once the resolved firm has been returned to private control, some actions which were identified as required to be implemented as part of the resolution of the firm may in practice continue beyond the end of the resolution period. Most importantly, implementation of post-resolution restructuring, as set out in the business reorganisation plan, may start during the bail-in period but is likely to extend beyond the point at which the firm has exited from resolution. The length of time required to undertake the restructuring will vary depending on the specific case. The implementation of such residual or continuing measures would be supervised by the PRA.

Abbreviations and glossary

AT1 – Additional Tier 1.

BiA – Bail-in Administrator.

CCDS – Core Capital Deferred Share.

CE – Certificate of Entitlement.

CET1 – Common Equity Tier 1.

CFI – Classification of Financial Instruments (ISO 10962).

CSD – Central Securities Depository.

D-SIB – Domestic Systemically Important Bank.

FCA – Financial Conduct Authority.

FISN – Financial Instrument Short Name (ISO 18774).

FSCS – Financial Services Compensation Scheme.

FSMA 2000 – Financial Services and Markets Act 2000.

G-SIB – Global Systemically Important Bank.

ICSD – International Central Securities Depository.

ISIN – International Securities Identification Number (ISO 6166).

MGC – Management, Governance and Communication.

MREL – Minimum Requirement for own funds and Eligible Liabilities.

OCIR – Operational Continuity in Resolution.

PONV – Point of Non-Viability.

PRA – Prudential Regulation Authority.

RAF – Resolvability Assessment Framework.

SoP – Statement of Policy.

SRR – Special Resolution Regime.

Bail-in – A resolution tool that enables shares, debt and other liabilities of a firm to be transferred, written down or converted to absorb losses and recapitalise the firm.

Bail-in administrator – A person or entity appointed by the Bank of England as a resolution administrator to perform functions as specified in the Bail-in Resolution Instrument. This could include powers of shareholders, senior management and directors.

Bail-in liabilities – Capital instruments and liabilities that both do not qualify as CET1, AT1 or Tier 2 instruments, and are not excluded liabilities as set out in section 48B(8) of the Banking Act.

Bail-in period – The period from the resolution time, until the return to private sector control of the firm in resolution.

Bail-in Resolution instrument – An instrument made by the Bank under the Banking Act putting the firm into resolution and containing actions to give effect to the bail-in.

Banking Act 2009 – Primary UK legislation that established the UK's resolution regime and sets out the responsibilities and powers of the Bank of England as UK resolution authority.

Business reorganisation plan – A plan that must be developed and implemented after a bail-in to address the causes of the firm's failure and a description of the measures to be adopted with a view to restoring long-term viability.

Central securities depository – A specialist organisation that holds financial instruments such as shares and bonds in a form that can easily be transferred without physical certificates.

Certificate of Entitlement – An instrument given to creditors after a bail-in which entitles them to potential compensation once the terms of exchange are announced.

Common depository/safekeeper – An entity providing safekeeping and asset services for ICSDs for issues of international debt instruments.

Core Capital Deferred Share – A type of regulatory capital instrument issued by building societies

Crisis management group – A forum bringing key supervisory and resolution authorities of a G-SIB together periodically and in a crisis, to plan for a cross-border financial crisis affecting the firm.

Critical functions – Activities (such as deposit-taking and lending) that some firms provide, which would lead to an impact on the real economy if they immediately stopped.

Custodian – An entity, usually a bank, that safekeeps and administers securities or other assets for its customers and that may provide various other services, including clearing and settlement, cash management and collateral management.

Deferred bail-in – A shorthand term for when bail-in liabilities are not written down at the start of the resolution but are transferred to a depository to hold during the bail-in period, with the write-down being determined at a later point in the bail-in period.

Depository – An entity (which may be a bank) appointed by the firm and the Bank to hold the shares in the firm on trust to provide various other services in connection with the CE programme, including assisting with the transfer of shares to CE holders who have validly exchanged their CEs.

CE registrar – An entity with the primary role of recording securities either physically or electronically and keeping records of the ownership of these securities.

Custodian – An entity, often a bank, which provides securities custody services to its customers.

Eligible liabilities – Non-regulatory capital instruments eligible to meet MREL requirements.

Exchange adviser – An agent appointed to support the process of exchanging MREL for CEs, and then CEs for shares (or other compensation) as part of the bail-in process.

Exchange Ratio – The ratio of shares (or other compensation) as determined by the Bank (which may be zero) that each CE of a particular class will entitle the holder to following Valuation 3.

Exchange Record Date – The date as set out in the Supplemental Bail-in Resolution Instrument on which transfers of CEs will no longer be recognised and CEs will cease to be tradable. Only the holders of CEs on the register on the Exchange record date will be potentially eligible to receive shares (or other compensation) on exchange of the CEs registered in their name on that date.

Independent valuer – A person appointed by the Bank of England to carry out valuations to support resolution as required by the Banking Act.

International central securities depository (ICSD) – A central securities depository (CSD) that settles domestic and international securities transactions and typically offers additional services such as securities lending and collateral management. ICSDs are usually run on direct or indirect (through correspondent banks) links to local CSDs.

Issuing and paying agent – An agent appointed by an issuer to assist with issuing securities and processing payments such as coupons and redemptions.

Mandatory reduction – A statutory process under the Banking Act whereby the Bank must cancel, dilute or transfer a firm's CET1 instruments away from the original owners and write down or convert AT1 and Tier 2 regulatory capital instruments issued by the firm into CET1, if certain conditions are met.

Master CE – The certificate of entitlement in registered form representing all CEs of a particular class to be issued by the firm, the form of which will be contained in the Bail-in Resolution Instrument.

Minimum requirement for own funds and eligible liabilities – A requirement set by the Bank in accordance with section 3A of the Banking Act to maintain a minimum amount of equity and liabilities which meet certain criteria, so that if a firm fails the resolution authority can implement the resolution strategy.

National Numbering Agency (NNA) – An organisation responsible for issuing International Securities Identification Numbers (ISIN) as well as CFIs and FISNs. The National Numbering Agency for Great Britain, Jersey, Guernsey and Isle of Man is the London Stock Exchange Plc – UK NNA.

Onward Transfer Instrument – An instrument made by the Bank under the Banking Act to give effect to the transfer of shares (or other compensation) to the CE holders who have exchanged their CEs.

Registrar – An entity that records the ownership of equities and/or other securities.

Resolution powers/ tools – The Banking Act gives the Bank a number of resolution powers – or stabilisation options to resolve a firm. These include the bail-in option. The other options are: transfer to private sector purchaser, transfer to a bridge bank and transfer to an asset management vehicle. HM Treasury also has a last resort power to transfer the failed firm to temporary public ownership.

Resolution Time – The precise time and date at which the firm is placed into resolution, as defined in the Bail-in Resolution Instrument.

Resolution weekend – The period immediately prior to and in which a firm is put into resolution by the Bank using its statutory powers.

Supplemental Bail-in Resolution Instrument – An instrument made by the Bank under the Banking Act setting out Exchange Ratios and establishing the Exchange Record Date, Exchange Period and other terms relating to the exchange of CEs for shares (or other compensation).

Annex 1: Template Resolution Instruments

These draft template resolution documents (the ‘Template Resolution Instruments’) have been included to give an indication of how a bail-in might be operationalised. They are being published to provide further understanding of the kinds of actions the Bank might take, and how it might take them, in a resolution. However, the Template Resolution Instruments are for illustrative purposes only. In light of the fact that bail-in is a crisis management tool, the Bank must be able to retain the full discretion accorded to it under the Banking Act 2009 as to how to respond to the circumstances of a particular case. Any use of the Bank’s bail-in powers will depend on the facts and circumstances of the particular case, and may be different from the actions and approach set out in these Template Resolution Instruments. Accordingly, the Template Resolution Instruments are not, and should not be regarded as, indicative of the Bank’s settled view in relation to any aspect of bail-in or resolution generally or as indicative that any actual bail-in resolution instruments which may be required in connection with the resolution of a particular firm would be in this form or would contain provisions the same as or similar to any of the provisions therein.

The Template Resolution Instruments have been drafted on a hypothetical basis in relation to a firm where the bail-in would be a single point of entry bail-in of a listed holding company or listed operating bank. For the purpose of illustrating how the mechanics of a bail-in might work, a simplified hypothetical capital structure has also been assumed, with the bail-in affecting MREL instruments, including Common Equity Tier 1 (CET1), Additional Tier 1 (AT1), Tier 2 (T2) and Eligible Liabilities. It is possible that in an actual resolution, other categories of debt instrument issued by a firm could also be bailed in.

[Template Bail-in Resolution Instrument](#)

[Template Supplemental Bail-in Resolution Instrument](#)

[Template Onward Transfer Instrument](#)