



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP13/14

Implementing the Bank Recovery and Resolution Directive

July 2014

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This consultation paper proposes changes to the PRA Rulebook, and a supervisory statement, in order to implement the Bank Recovery and Resolution Directive.

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Responses by 19 September 2014.

[Please address any comments or enquiries to:](#)

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1 Overview

1.1 This consultation paper (CP) sets out proposed changes to the Prudential Regulation Authority's (PRA's) rules in order to implement the European Union (EU) Bank Recovery and Resolution Directive (2014/59/EU) (BRRD),⁽¹⁾ and amendments to a supervisory statement to reflect the PRA's expectations. The BRRD provides authorities with a common set of tools and powers for dealing with failing banks, and requires banks to facilitate this process by providing information for recovery and resolution planning purposes as well as meeting resolvability requirements.

1.2 This CP is relevant to UK banks, building societies and PRA-designated investment firms ('firms'). It is also relevant to parent undertakings of firms, which comprise financial holding companies, mixed financial holding companies and mixed activity holding companies ('holding companies').

Background

1.3 During the financial crisis, public funds were used to deal with distress in a number of banks. These bank failures revealed serious shortcomings in the existing tools available to authorities for preventing or tackling failures of systemic banks, highlighting the dilemma of 'too big to fail'. Much work has been done since the financial crisis to address this problem, both at the national and international level. Among the policy solutions has been the development of comprehensive bank recovery and resolution regimes. These are intended to provide the strategies and tools for handling national and cross-border bank failures, and seek to reduce the potential public cost of future financial crises.

1.4 At the global level, the Financial Stability Board (FSB) has been shaping the standards for recovery and resolution frameworks through its *Key Attributes of Effective Resolution Regimes for Financial Institutions*.⁽²⁾

1.5 Domestically, the United Kingdom is expanding its toolkit for dealing with financial crises by amending the Banking Act 2009 to introduce, among other things, a bail-in tool which can be used to resolve failing banks without recourse to public funds.

1.6 In June 2014, the BRRD was finalised and published in the Official Journal of the EU, creating a harmonised framework across Europe for dealing with the problem of 'too big to fail' through bank recovery and resolution. The BRRD takes effect at the end of 2014.

The BRRD

1.7 The BRRD contains provisions relating to recovery and resolution planning, intragroup financial support, early intervention, resolution tools and powers, cross-border group resolution, relations with third countries and financing arrangements.

Structure of the BRRD

1.8 The BRRD is a minimum harmonising directive. This means that, while the BRRD sets a threshold which national legislation must meet, Member States are permitted to adopt or maintain rules that are additional to those laid down in the Directive or in the technical standards adopted under the BRRD. This is provided that these rules are of general application and do not conflict with the BRRD or the technical standards adopted.

Implementation approach

PRA implementation

1.9 Member States are required to adopt and publish by 31 December 2014 the laws, regulations and administrative provisions necessary to comply with the BRRD. Transposition in the United Kingdom will be achieved by a combination of HM Treasury legislation and rules made by the PRA and the Financial Conduct Authority (FCA).

1.10 The PRA proposes to make rules concerning recovery plans, resolution packs, intragroup financial support agreements, notification of failure or likely failure, and contractual recognition of bail-in. The requirements in the BRRD regarding recovery and resolution planning will be addressed by building on the PRA's existing recovery and resolution planning framework which has been in force since 1 January 2014. In addition to new rules, the PRA also proposes to amend its Recovery Planning supervisory statement (SS18/13) to set out its expectations in relation to the proposed recovery plan rules.⁽³⁾ This CP covers the PRA's proposed approach to:

- (a) preparing, maintaining, and submitting recovery plans (Chapter 2);

(1) Directive 2014/59/EU Bank Recovery and Resolution Directive: establishing a framework for the recovery and resolution of credit institutions and investment firms: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_173_R_0008&from=EN.

(2) Report available at www.financialstabilityboard.org/publications/r_111104cc.pdf.

(3) PRA Supervisory Statement SS18/13, 'Recovery planning', December 2013; www.bankofengland.co.uk/pradocuments/publications/policy/2013/recoveryplanning1813.pdf.

- (b) providing information for resolution planning purposes (Chapter 3);
- (c) entering into intragroup financial support arrangements in advance of recovery (Chapter 4);
- (d) notifying the PRA of failure or likely failure (Chapter 5); and
- (e) recognising in the contracts for certain liabilities that they may be subject to bail-in (Chapter 6).

1.11 The proposed rules are included in Appendices 1–5. The proposed amendment to SS18/13 is included in Appendix 7.

1.12 Until the EEA Joint Committee amends the EEA Agreement, with a view to permitting simultaneous application of the BRRD in the EEA States, the BRRD only applies within the EU.⁽¹⁾ The PRA proposes to make rules on the assumption that the EEA Joint Committee will incorporate the BRRD into the EEA Agreement, but with a transitional rule that would ensure that, before that happens, any reference to the EEA/EEA States in the rules must be interpreted to mean a reference to EU Member States. The PRA proposes to revoke the transitional rule when the BRRD is incorporated into the EEA Agreement. The proposed transitional rules are set out in Appendix 6.

European Banking Authority technical standards and guidelines

1.13 In a number of areas the Directive provides for regulatory and implementing technical standards (RTS and ITS) to be drafted by the European Banking Authority (EBA). These standards are subject to adoption by the European Commission before entering into legal force as directly applicable EU regulations. The EBA is also mandated to issue guidelines (GL) in specified areas. The BRRD provides varying deadlines for delivery by the EBA of draft RTS, ITS and GL on a timetable that extends into 2015. None are finalised at the time of publication of this CP. When adopted, the RTS, ITS and GL may lead the PRA to adjust or augment its approach, and this may affect areas covered in this CP. Where potentially relevant to its proposed rules, the PRA has referred to RTS, ITS and GL in specific chapters of this CP.

HM Treasury

1.14 HM Treasury is responsible for the transposition of the resolution tools and powers required in the BRRD, and must designate which authority, or authorities, will be the resolution authority in the United Kingdom. HM Treasury is consulting on its approach to implementation at the same time as this consultation.

Holding companies

1.15 The scope of the BRRD includes financial holding companies, mixed financial holding companies and mixed activity holding companies.⁽²⁾ The PRA currently has limited powers to make rules for financial holding companies and mixed financial holding companies, and no powers to make rules for mixed activity holding companies. This CP includes proposed rules for these three kinds of holding companies of firms. These rules are subject to change depending on the approach taken by HM Treasury in implementing the BRRD requirements on holding companies in the United Kingdom.⁽³⁾ HM Treasury is consulting on extending the PRA's powers to make rules over holding companies to enable the PRA to make the proposed rules in this CP.

Other EU initiatives

1.16 A regulation creating a Single Resolution Mechanism (SRM) was agreed in April 2014.⁽⁴⁾ The SRM is the second pillar of the 'Banking Union'.⁽⁵⁾ The Regulation introduces a Single Resolution Board (SRB), which will serve as the resolution authority for eurozone countries and other Member States that have joined the Banking Union. A Single Resolution Fund will pool the national resolution funds for Banking Union members and will be administered by the SRB. The United Kingdom is not a member of the Banking Union.

1.17 The European Directive on Deposit Guarantee Schemes (DGSD)⁽⁶⁾ was recast in June 2014 and sets out a harmonised approach to deposit coverage amounts, eligibility criteria for deposit insurance coverage, and time periods for deposit payouts in a bank failure.

Statutory Obligations

1.18 In discharging its general functions of making rules, and determining the general policy and principles by reference to which it performs particular functions, the PRA must, so far as reasonably possible, act in a way that advances its general objective to promote the safety and soundness of the firms it regulates.

1.19 The purpose of the BRRD is to promote the safety and soundness of firms, which is in line with the PRA's general objectives, by providing for recovery and resolution planning and powers that minimise the adverse effect that the failure of a PRA-authorized firm might have on the stability of the

(1) EEA States include all 28 EU Member States of the EU plus Iceland, Liechtenstein and Norway.

(2) Under section 192J of FSMA the PRA may make rules requiring provision of information by parent undertakings. Section 192JB of FSMA (Rules requiring parent undertakings to facilitate resolution) is not yet in force.

(3) If the definition of qualifying parent undertaking in section 192B of FSMA is extended to include mixed activity holding companies.

(4) Available at www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2014-0341.

(5) Information about the Banking Union is available at http://ec.europa.eu/internal_market/finances/banking-union/index_en.htm.

(6) Directive 2014/49/EU Deposit Guarantee Scheme Directive.

United Kingdom's financial system. The PRA considers that in implementing the BRRD, and exercising the requirements and discretions, the policy proposals in this CP advance the PRA's general objective.

1.20 In making its rules and establishing its practices and procedures, the PRA must have regard to the Regulatory Principles as set out in FSMA, including proportionality. In addition, when consulting on draft rules, the PRA is required to consider the impact on mutuals, and equality and diversity.

Impact on mutuals

1.21 The PRA has a statutory obligation to state whether the impact on mutuals will be significantly different from the impact on other firms. The provisions in the BRRD will affect mutuals as they are required to submit recovery and resolution plans. The PRA does not expect this to be significantly different from the impact on other firms. However, it may be of interest to affected mutuals that in seeking to achieve proportionality, the PRA proposes a phased approach⁽¹⁾ to the information requirements for resolution plans. Additional 'Phase 2' information will be sought only from firms that have been deemed sufficiently systemic to require resolution rather than insolvency procedures.

Impact on competition

1.22 The PRA has a duty to facilitate competition as a secondary objective subordinate to its general safety and soundness objective. The provisions set out in the BRRD may have a small direct impact on competition by imposing a limited number of additional requirements, which may pose an additional barrier to entry. However, any additional requirements are common to all firms, and the BRRD provides for a proportional application of measures, which serves as a mitigating factor. Therefore, the PRA does not expect these changes to give rise to any adverse effects on competition, and the PRA considers the content of this consultation as compatible with its competition objective.

Equality and diversity

1.23 The PRA may not act in an unlawfully discriminatory manner. It is also required, under the Equality Act 2010, to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions. To meet this requirement, the PRA has performed an assessment of the equality and diversity implications of any new policy proposals considered. In general, the PRA's assessment suggests that the issues addressed in this CP do not give rise to equality and diversity implications.

Cost-benefit analysis

1.24 The PRA is also required to perform a cost-benefit analysis (CBA) of the impact of its policy proposals. A CBA is included in Chapter 7.

Responses and next steps

1.25 This consultation closes on 19 September 2014. The PRA welcomes views on its proposed approach for the implementation of the BRRD. Respondents are requested to structure their responses by chapter.

1.26 The PRA will publish a policy statement with a summary of feedback, final rules and updated supervisory statement by 31 December 2014, as required by the BRRD.

(1) See *PRA Supervisory Statement SS19/13*, 'Resolution planning', December 2013; www.bankofengland.co.uk/prd/Documents/publications/ss/2013/ss1913.pdf

2 Recovery planning

2.1 In December 2013, in anticipation of the BRRD, the PRA published in Policy Statement PS8/13⁽¹⁾ rules requiring firms to prepare, maintain and review recovery plans. These rules were supplemented by a supervisory statement (SS18/13),⁽²⁾ which sets out in more detail what the PRA expects firms to consider in their recovery planning. In this chapter, the PRA presents its proposed update to its recovery plan rules to reflect the finalised BRRD. These rules can be found in Appendix 1. Proposed updates to SS18/13 can be found in Appendix 7.⁽³⁾

2.2 This chapter covers the PRA's proposed approach to the replacement of the current recovery planning rules. A section at the end of this chapter covers the proposed updates to SS18/13.

Proposals

2.3 Under the proposed PRA rules, firms that are not part of a group subject to consolidated supervision will be required to draw up and maintain individual recovery plans. Plans must be updated at least annually, or after any material changes, including changes in a firm's senior management, business structure, risk profile or provision of critical economic functions. For groups subject to consolidated supervision, the EEA parent undertaking⁽⁴⁾ of the group (which may be a firm, financial holding company or mixed financial holding company) will be required to draw up and maintain a group recovery plan. Unless otherwise indicated, references to 'recovery plans' below are references to both individual and group recovery plans. Firms and holding companies must notify the PRA within one month of any material changes made to the recovery plan. Firms and holding companies must submit their recovery plans directly to the PRA on a timeframe determined by the firm's supervisors.

2.4 The proposed rules on recovery plans do not apply to third-country firms with UK branches but the PRA may require a third-country firm to provide a recovery plan which accounts for the activity of the UK branch.

2.5 There are three changes to the existing rules deriving from BRRD implementation:

- firms should include an identification of critical functions in their recovery plans;

- firms must undertake scenario testing of recovery plan options; and
- firms which are part of a group headquartered elsewhere in the EEA do not have to draw up an individual recovery plan unless otherwise determined by a joint decision-making process.

2.6 As stated in paragraph 1.15, the PRA currently has limited powers to make rules over holding companies and HM Treasury is consulting on proposals to extend those powers.

Level of application

2.7 Under the BRRD, firms which are part of a group subject to consolidated supervision may be required to draw up and submit individual recovery plans. The decision that a recovery plan, on an individual basis, should be drawn up for firms that are part of the group must be made in accordance with a joint decision-making process involving the consolidating supervisor and the competent authorities of subsidiaries. If no agreement is reached, each authority may ask the EBA for binding mediation. Recovery options for individual members of the group must be included in the group recovery plan.

2.8 The BRRD requires parent undertakings to submit a group recovery plan to the consolidating supervisor for the group. If the PRA is the consolidating supervisor of a group headed by a holding company established or incorporated in an EEA State other than the United Kingdom, the proposed PRA rules would require the UK firms controlled by the holding company to draw up and submit the group recovery plan to the PRA. If the competent authority in another EEA State is the consolidating supervisor of a group headed by a holding company established or incorporated in the United Kingdom, the proposed PRA rules would require the holding company to draw up and submit a group plan to the competent authority in that other EEA State.

(1) *PRA Policy Statement PS8/13*, 'Recovery and resolution plans', December 2013; www.bankofengland.co.uk/pradocuments/publications/policy/2013/recoveryresolution8-13.pdf.

(2) *PRA Supervisory Statement SS18/13*, 'Recovery planning', December 2013; www.bankofengland.co.uk/pradocuments/publications/policy/2013/recoveryplanning1813.pdf.

(3) Appendix 7 is in two parts; a) shows the proposed SS18/13 in final form; b) shows the proposed changes to SS18/13 by way of mark-up.

(4) EEA parent undertaking is defined in the proposed rules as: an EEA parent institution, an EEA parent financial holding company or an EEA parent mixed financial holding company.

Content of recovery plans

2.9 The proposed rules would require recovery plans to include the information listed in Section A of the Annex to the BRRD which will be further specified in a RTS. In March 2013 the EBA published a consultation paper setting out draft RTS on the content of recovery plans.⁽¹⁾ The PRA proposes that firms and holding companies should comply with these draft standards pending adoption of final standards by the Commission.

2.10 The proposed PRA rules would provide that group recovery plans must include, where applicable, arrangements for intragroup financial support in the recovery options. The BRRD sets out specific conditions under which firms and holding companies may enter into intragroup financial support arrangements for recovery purposes. The PRA is also consulting on rules related to intragroup financial support in this CP. Further details are set out in Chapter 4.

2.11 Where a firm or qualifying parent undertaking has included a detailed analysis of critical functions in its resolution pack under the 'Phase 1' submission, the firm or qualifying parent undertaking may cross-refer to its resolution pack rather than repeating the analysis in its recovery plan. Firms and qualifying parent undertakings should include a reference to this information when updating their recovery plans including a statement of when the most recent resolution pack was submitted.

Scenario planning

2.12 The PRA proposed rules require recovery plans to consider a range of scenarios of severe macroeconomic and financial stress relevant to the specific conditions of the firm and the group, including at least an idiosyncratic scenario, a system-wide scenario and a combination of both. Further details on the PRA's proposed approach to scenario testing are set out in the updated draft SS18/13 in Appendix 7.

2.13 The PRA already expects recovery plans to provide an assessment of the probable success of recovery options, including a quantitative assessment of each option's benefit. Scenario testing is an incremental step in testing in practice and demonstrating the credibility of recovery plans. It should enhance the ability of firms and groups to identify appropriate recovery measures in a stress situation and increase the likelihood that a firm and a group would undertake the appropriate measures. It also represents a useful tool for supervisors to assess the likely effectiveness of the proposed recovery actions.

2.14 In May 2013, the EBA published a consultation paper setting out draft RTS on the range of scenarios to be used in recovery plans. The BRRD does not mandate technical standards on scenarios, but it does oblige the EBA to issue guidelines on the range of scenarios to be used in recovery plans by 3 July 2015. Pending the issuance of those guidelines, the PRA proposes that firms should use the approach set out in

the draft technical standards published by the EBA in May 2013.

Timing

2.15 Under the proposed PRA rules, there are no changes to timeframes for updating recovery plans. Firms and holding companies will be required to draw up and maintain recovery plans at least annually, or after any material changes, which include changes in a firm's or group's senior management, business structure, risk profile or provision of critical economic functions. Firms and holding companies must notify the PRA within one month of any material changes made to the recovery plan.

2.16 The proposed recovery plan rules would not impact the PRA's current timing of recovery plan submissions. For submissions from 1 January 2015, the PRA is proposed that firms and holding companies include the recovery plan contents as set out in the proposed PRA rules.

Recovery plan indicators

2.17 The PRA's proposed rules would require recovery plans to include a framework of indicators identifying the points at which appropriate actions referred to in the plan may be taken. The EBA will issue guidelines on a list of indicators. The PRA's proposed rules would require a firm or holding company to notify the PRA, without delay, if it decides to take action under the recovery plan or refrains from taking action.

Approach to simplified obligations

2.18 BRRD Article 4 states that authorities must determine the content and details of recovery plans, the date by which the first recovery plan is to be drawn up and how frequently it is to be updated having regard to the impact that the failure of a specific institution could have on financial markets, other institutions, funding conditions or the wider economy. Forthcoming EBA guidelines will set out a list of criteria for assessing that impact.

2.19 The PRA already has in place recovery planning rules which broadly mirror the requirements of the BRRD and apply to all firms. Accordingly, under the PRA's proposed rules, the same requirements on content and updating will apply to all firms and holding companies required to draw up a recovery plan or group recovery plan. The PRA recognises that, in meeting those requirements, the content of recovery plans should be proportionate to the nature, scale and complexity of the activities of the firm or group concerned.

Amending SS18/13

2.20 As a result of the proposed changes to recovery plan rules, the PRA also proposes to amend SS18/13, which accompanies the proposed rules. Details are set out in Appendix 7.

(1) <https://www.eba.europa.eu/documents/10180/40272/EBA-CP-2013-01-CP-on-draft-RTS-on-Content-of-Recovery-Plans.pdf>.

3 Resolution planning

3.1 In December 2013, pending finalisation of the BRRD, the PRA published PS8/13 which included its rules for recovery and resolution plans, and supporting supervisory statement SS19/13,⁽¹⁾ which further detailed the information firms should submit in their resolution packs.

3.2 The PRA is updating the resolution rules to reflect the final text of the BRRD. The proposed rules can be found in Appendix 2.

3.3 This chapter covers the proposed approach to the replacement of the current resolution planning rules only. The PRA does not propose changes to SS19/13.

Proposals

3.4 There is little practical difference in the proposed PRA rules from the current PRA rules. The amount and nature of the information to be provided by firms in resolution packs will remain the same.

3.5 The BRRD, however, introduces a change to the entity which will provide the information to the authorities as the BRRD applies to holding companies. Where the current PRA rules to prepare, maintain, and submit resolution packs apply to firms, the proposed PRA rules will apply to both firms and holding companies so that, in some cases, an EEA parent financial holding company, or an EEA parent mixed financial holding company,⁽²⁾ will be responsible for submitting resolution packs on behalf of the group. As set out in paragraph 1.15, the PRA currently has limited powers to make rules over holding companies and HM Treasury is consulting on proposals to extend those powers.

Resolution packs

3.6 Firms are expected to prepare resolution packs that contain the information set out in SS19/13. The PRA is not proposing to change this as a result of BRRD implementation.⁽³⁾

3.7 BRRD Article 10 requires the EBA to develop and submit to the European Commission RTS specifying the content of resolution plans. The resolution authority will be required to include this content in the resolution plans it draws up for firms. The EBA has provisionally scheduled the RTS for consultation later this year. Once finalised, the PRA will

consider if any further information is required from firms to ensure compliance with the RTS.

Simplified obligations

3.8 BRRD Article 4 states that the authorities must determine what level of information is required from firms for resolution planning purposes and at what frequency, having regard to the impact that the failure of the institution could have on financial markets, other institutions, funding conditions, or on the wider economy. The EBA is to issue guidelines for assessing the impact of an institution's failure on financial markets, other institutions and on funding conditions.

3.9 The PRA is proposing to maintain its current approach to collecting resolution planning information. The existing approach set out in SS19/13 considers the potential impact of the firm's failure on financial markets, other institutions and funding conditions along with the proposed resolution strategy for the firm as the factors for determining what information should be provided by firms to plan for their resolution. The PRA considers this approach to be inherently proportionate and consistent with Article 4 of the BRRD.

3.10 For operational purposes, the PRA proposes in this consultation to continue to ask firms to provide information in the 'Phase 1' resolution pack separate from any other submission. Where this requires significant duplication of effort from firms, the PRA will seek to address operational constraints in the future. For very small firms with simple business models, it may be acceptable to cross-refer to formal regulatory returns, where the returns cover off the data required to by the resolution pack.

(1) *PRA Supervisory Statement SS19/13*, 'Resolution planning', December 2013; www.bankofengland.co.uk/pradocuments/publications/policy/2013/resolutionplanning1913.pdf.

(2) The terms 'EEA parent financial holding company' and 'EEA parent mixed financial holding company' are defined in the proposed rules.

(3) The PRA will update SS19/13 to reflect the requirement on certain holding companies to provide resolution packs on behalf of the group. The current SS can be found at www.bankofengland.co.uk/pradocuments/publications/policy/2013/resolutionplanning1913.pdf.

4 Intragroup financial support

4.1 This chapter sets out the proposed PRA implementation of the BRRD provisions relating to intragroup financial support (IGFS).⁽¹⁾ These provisions set out conditions under which financial support may be provided between entities in cross-border groups with a view to ensuring the financial stability of the group as a whole without jeopardising the liquidity or solvency of the group entity providing the support. They do not affect existing prudential requirements governing intragroup commitments, which remain unchanged.

4.2 Member States are required by the BRRD to ensure that firms, or relevant holding companies and their subsidiaries may enter into an agreement *ex ante* to provide financial support (such as a loan, a guarantee or assets to use as collateral), subject to meeting certain conditions. Firms can provide financial support to any other party to that agreement at a time when that party meets the conditions for early intervention.

4.3 The scope of the BRRD's IGFS provisions includes financial holding companies, mixed financial holding companies and mixed activity holding companies. The proposed rules relating to IGFS are therefore drafted to apply to these three entities.⁽²⁾ As set out in paragraph 1.15, the PRA currently has limited powers to make rules over holding companies and HM Treasury is consulting on proposals to extend those powers.

Proposals

4.4 The following paragraphs summarise the PRA's proposed new rules which are contained in Appendix 3.

Terms and conditions for IGFS agreements

4.5 The proposed PRA rules set out the required terms and conditions for an IGFS agreement. These include specifying the principles for the calculation of the consideration for any transaction made under the agreement.

Review and approval of IGFS agreements

4.6 BRRD Article 20 sets out the procedures for the review and authorisation of proposed IGFS agreements by the competent authorities.

4.7 The PRA proposes to extend the scope of application of the notification requirement in Article 20(1) to relevant holding companies. This is to ensure that a firm is not

excluded from the obligation to submit a proposed IGFS agreement merely on account of being within a group without an EU parent institution.

Disclosure of IGFS agreements

4.8 The proposed PRA rules require that group entities entering into IGFS agreements make public whether they have entered into such agreements, including the general terms of the agreement, and the names of the group entities that are party to that agreement. The EBA has been tasked with drafting ITS in relation to this disclosure obligation by 3 July 2015.

Conditions for provision of IGFS

4.9 BRRD Article 23 sets out the conditions for the provision of IGFS, which the PRA is proposing to implement through rules.

4.10 These conditions include:

- economic considerations (eg a reasonable prospect that a consideration will be paid, and whether the support will significantly redress the financial difficulties of the receiving entity); and
- regulatory considerations (ie whether the entity providing support will continue to comply with the capital and liquidity requirements of CRD IV and large exposures requirements of CRR and that the provision of support does not undermine resolvability of the providing entity).

4.11 The EBA is required by 3 July 2015 to develop draft RTS to specify the conditions for the provision of IGFS, which may cause the PRA to amend its rules.

Decisions to provide or accept IGFS

4.12 The proposed PRA rules require the firm or relevant holding company to ensure that the decision to provide the proposed IGFS is taken by its management body.

(1) Articles 19–26.

(2) If, for the purposes of implementation of the IGFS provisions, the definition of qualifying parent undertaking in section 192B of FSMA is extended to include mixed activity holding companies.

4.13 The proposed rules also set out the notification requirements by a firm or holding company wishing to provide IGFS. The PRA proposes that notification should be made to:

- the PRA;
- a firm's or holding company's consolidating supervisor (if different);
- the competent authority of the receiving entity (if different); and
- the EBA.

4.14 This notification should include a reasoned decision of the firm's or holding company's management body, that explains how the support complies with the conditions for the provision of IGFS.

4.15 The PRA has five business days to permit or, if it assesses that the conditions have not been met, restrict or prohibit the IGFS. The decision to prohibit or restrict the IGFS is subject to EBA non-binding mediation. The management body of the entity receiving IGFS must decide whether to accept support.

5 Notification of failure or likely failure

5.1 This chapter sets out the proposed PRA implementation of notification requirements under BRRD Article 81 that arise when the management body of a firm or holding company considers that it is failing or likely to fail.

5.2 These notification requirements are intended to contribute towards a timely entry into resolution before a financial institution is balance sheet insolvent and before all equity value is lost.

5.3 The scope of the BRRD's notification of failure, or likely failure provisions, includes financial holding companies, mixed financial holding companies and mixed activity holding companies. The PRA's proposed rules in this area would apply not just to firms but also to these entities. The proposed rules may be subject to change depending on the approach taken by HM Treasury to the UK implementation of BRRD requirements on holding companies.⁽¹⁾

Proposals

5.4 The PRA proposes to implement BRRD Article 81(1) by inserting rules into the Notifications Part of the PRA Rulebook. The proposed PRA rules require firms to notify the PRA if the firm's management body considers that the firm is failing or likely to fail.

5.5 The proposed PRA rules require firms and qualifying parent undertakings to notify the PRA if its management body considers that:

- the assets of the firm are, or will be, less than its liabilities;
- the firm is, or will be, unable to pay its debts or other liabilities as they fall due; or
- extraordinary public financial support is required.

5.6 The proposed rules are set out in Appendix 4.

(1) If the definition of qualifying parent undertaking in section 192B of FSMA is extended to include mixed activity holding companies.

6 Contractual recognition of the bail-in tool

6.1 This chapter sets out the proposed PRA implementation of BRRD Article 55 on the contractual recognition of the bail-in tool.

Proposals

6.2 The PRA's proposed rules would require firms and holding companies to include a term in the provisions governing their liabilities by which the creditor recognises that the liability may be subject to the exercise of the bail-in tool by the resolution authority. The rules would apply to all liabilities that are governed by the law of a third country provided such a liability is not excluded from the scope of the bail-in tool and is not a deposit referred to in BRRD Article 108(a).

6.3 In addition, the EBA has a mandate to develop draft RTS in order to further determine the list of liabilities that are excluded. The PRA will review, and if appropriate, amend its rules in light of any such determination by the resolution authority or the forthcoming technical standards.

6.4 The second sub-paragraph of BRRD Article 55 provides that the requirements will not apply where the resolution authority determines that the liabilities or instruments are subject to special bail-in provisions pursuant to the law of the third country or to a binding agreement concluded with that third country.

6.5 The PRA's proposed rules would only apply to liabilities that have been issued or entered into after the date on which the United Kingdom applies the provisions adopted in order to transpose the bail-in tool of the BRRD.

6.6 The PRA's proposed rules are drafted on the basis that they will apply to firms and holding companies from the same date HM Treasury implements the bail-in tool. HM Treasury are proposing to implement the bail-in tool from 1 January 2015.

6.7 To allow firms more time to introduce these changes, the PRA is also considering whether it should introduce the proposed rule on contractual recognition of the bail-in tool in two stages, with the rule taking effect for some financial contracts from 1 January 2015 and from 1 January 2016 for all other relevant liabilities. Those contracts in the first stage could include regulatory capital, bonds and other debt market instruments.

6.8 The scope of Article 55 includes financial holding companies, mixed financial holding companies, and mixed activity holding companies. As set out in paragraph 1.15 of the Overview chapter, the PRA currently has no powers to make rules for mixed activity holding companies, and powers to make rules requiring parent undertakings to facilitate resolution have yet to commence. The draft rules in this CP may be subject to change depending on the approach taken by HM Treasury in implementing the BRRD requirements on holding companies in the United Kingdom.

6.9 The proposed rules are set out in Appendix 5.

7 Cost-benefit analysis

7.1 This section sets out an analysis of the costs and benefits of implementing the BRRD provisions in the United Kingdom by means of the proposed PRA rules set out in this CP.

7.2 The United Kingdom has already introduced many of the provisions stipulated by the BRRD, either immediately in response to the recent financial crisis or following the recommendations of the Independent Commission on Banking.⁽¹⁾

7.3 Therefore, the incremental costs and benefits of the policy for consultation in this paper are limited.⁽²⁾

Affected firms and markets

7.4 The BRRD applies to banks, building societies, and investment firms — around 2,200 in total in the United Kingdom. Additionally, the BRRD applies to holding companies of these firms.

7.5 The markets within which the affected firms operate cover those associated with credit intermediation (eg retail and commercial lending), as well as wholesale market activity (eg investment banking) and payments services.

Impact on competition

7.6 The measures proposed in this consultation are likely to have a limited impact on competition because they are either already in place (recovery and resolution plans), are voluntary (firms can choose whether they would like to enter into IGFS) or their impact is likely to be negligible (notification requirements). The PRA sees only provisions concerning contractual recognition of bail-in as having some impact on competition (see paragraph 7.25).

Outline of particular measures

Recovery and resolution plans

7.7 For most firms these measures do not create changes in requirements related to the updating, reviewing and submitting of recovery plans. Some specific content to be included in recovery plans which was previously covered by SS18/13 will now be covered by rules.

7.8 The BRRD extends the requirements to include information on, and from, holding companies. This is unlikely to have a significant impact as, in practice, all relevant institutions already provide recovery plans and resolution packs that take the wider group context into account.

7.9 The proposed new rules specify in more detail what the plans need to include. Much of this information is currently being provided by firms in line with SS18/13 on recovery planning. In addition, the BRRD contains a requirement for firms to test their recovery options against scenarios which is a new requirement for UK firms. Firms are already required to show the expected success of recovery options in a range of scenarios and can leverage existing processes for developing scenarios. Therefore, the PRA expects the additional compliance cost to be insignificant — both initially and as an ongoing cost of updating plans annually for the firms which are already covered by the requirement to produce recovery plans.⁽³⁾

7.10 The impact on holding companies is unlikely to be material as all the relevant operating companies are already covered by the requirement to produce a recovery plan.

7.11 The additional cost of producing recovery plans is likely to be negligible.

7.12 Plans are confidential and so producing them will not in itself have any immediate economic impact on market perceptions.

7.13 Recovery and resolution planning is important to all institutions. The impact of producing recovery plans and resolution information is likely to be similar irrespective of a firm's business model — including the impact on mutuals. The recovery plan options are proportionate to the firm's scale and complexity of its business model.

Resolution

7.14 The proposed rules are not materially different to existing rules. The PRA expects the impact of changes to resolution rules, as with recovery plans, to be minimal.

(1) www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/icb-final-report/.

(2) For the initial cost-benefit analysis conducted by the Financial Services Authority (FSA) on recovery and resolution plans, see www.fsa.gov.uk/pubs/cp/cp11_16_dp_annexes.pdf.

(3) The FSA has previously estimated the total cost of introducing recovery and resolution plans to be £150 million–£400 million annually; www.fsa.gov.uk/static/pubs/cp/cp11_16_dp_annexes.pdf.

IGFS

7.15 This measure does not create any significant additional requirements on UK firms as IGFS agreements are voluntary. However, the BRRD requires that firms entering into these agreements on an *ex-ante* basis must secure the approval of the shareholders and the PRA, and this may constrain the ability of firms to enter into such agreements and increase their compliance costs.

7.16 If a firm opts to sign an IGFS agreement with another firm in the group, it will need to follow the rules proposed in Appendix 3. Compliance costs are unlikely to be significant.

7.17 Given that IGFS agreements will need to be public, firms receiving support may face lower funding costs, particularly when they are small and protected by a large and healthy parent. Institutions signing up to provide support may face higher funding costs relative to what would have been the case if the agreement had been private. If the effect was to be significant, they would most likely not sign the agreement, ie the cost to firms is the smaller of foregone benefits of offering an IGFS and compliance costs.

7.18 There is an additional economic impact to the firm as there is now a structured framework for when IGFS can be provided to entities within a group, where no such framework existed before the BRRD. Firms will have some direct costs associated with getting these agreements signed-off and meeting all of the requirements set out in the PRA rules. Firms may find the requirements have an impact on their ability to get such agreements in place. The explicit expectation that such agreements should be permitted, subject to conditions being met, may also facilitate the provision of IGFS in some circumstances.

7.19 As the United Kingdom is a home (parent) and a host (for subsidiaries), the effect of IGFS agreements in the United Kingdom depends on the nature of the crisis and where it originates. IGFS could potentially expose UK parent firms to crises in other Member States where the group operates, but could also allow subsidiaries in the United Kingdom to benefit from support from parent firms in other jurisdictions. Having an agreement in place is not in itself a guarantee of support, as the institution signing up to provide support may decide against it, or the authorities may decide that the transfer would breach the rules and would not allow it. Therefore, these agreements risk providing a false sense of security for some investors.

7.20 By definition, IGFS are aimed at cross-border groups and so any impact will fall on these institutions. The direct impact on smaller, domestic institutions, including mutuals, is deemed to be negligible.

Contractual recognition of bail-in tool

7.21 Including contractual language on the treatment of liabilities in resolution enhances the feasibility of bail-in in cross-border situations. It also provides the market with greater transparency.

7.22 There will be compliance costs as firms will need to introduce contractual recognition of bail-in into certain newly issued contracts governed by third-country law.

7.23 In theory, the introduction of contractual recognition of bail-in would make some forms of funding governed by third-country law more expensive for banks, as investors are made aware of the possibility of bail-in. However, as the bail-in tool has already been introduced in the United Kingdom, including the requirements to make all liabilities, including those governed by third-country law (except for those on the list of exclusions) bail-inable, institutional investors should be aware of the possibility of bail-in already. Therefore, the incremental impact to banks' debt funding cost due to the contractual recognition requirements is deemed to be minimal.

7.24 In addition, to the extent purchasers of debt governed by third-country law may have thought they might escape bail-in, the requirement to insert contractual terms should reduce that expectation. Therefore, if this leads to some increase in the interest rate investors are willing to accept, the increase reflects greater recognition of the risk of bank failure and the probability of a given liability being bailed-in.

7.25 There will be some impact on competition with third-country firms as UK firms may find it relatively more expensive to access funding governed by third-country law *vis-à-vis* third-country firms where there is no bail-in power.

7.26 In the EU, the introduction of contractual recognition of bail-in would allow debt purchasers to price the risk properly. This, in turn, would force the banks to make decisions based on more accurate funding costs, which would help mitigate excessive risk-taking. In consequence, this facilitates effective competition. This impact is likely to be restricted to large institutions as smaller institutions are less likely to issue liabilities governed by third-country law.

7.27 The direct impact on mutuals, which are relatively reliant on domestic deposit funding, is deemed to be negligible.

Notifications

7.28 This measure introduces an additional requirement on firms to notify relevant authorities when they are failing or likely to fail. The incremental cost will be negligible. There will be few benefits. This measure will have a similar impact on all institutions, including mutuals.

Appendices

1	PRA Rulebook — Recovery Plan Instrument 2014
2	PRA Rulebook — Resolution Pack Instrument 2014
3	PRA Rulebook — Group Financial Support Instrument 2014
4	PRA Rulebook — Notifications (Bank Recovery and Resolution Directive) Instrument 2014
5	PRA Rulebook — Contractual Recognition of Bail-in Instrument 2014
6	PRA Rulebook — BRRD Transitional Rules 2014
7a	Supervisory Statement — Recovery Planning SS18/13
7b	Supervisory Statement — Recovery Planning SS18/13 with tracked changes

PRA RULEBOOK: RECOVERY PLAN INSTRUMENT [DATE]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (the PRA’s general rules);
 - (2) section 137T (general supplementary powers);
 - (3) section 192J (rules requiring provision of information by parent undertakings); and
 - (4) **[any other relevant sections]**.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: Recovery Plan Instrument [DATE]

- D. The PRA makes the rules in Annex A, Annex B and Annex C to this instrument.
- E. The Recovery and Resolution Part of the PRA Rulebook is deleted.

Commencement

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

Citation

- G. This instrument may be cited as the PRA Rulebook: Recovery Plan Instrument [DATE].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex A

PRA RULEBOOK - GLOSSARY

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

BRRD

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

BRRD undertaking

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

MiFID II

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

MiFIR

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

qualifying parent undertaking

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

Annex B

Amendments to the Interpretation Part of the PRA Rulebook

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

1 APPLICATIONS AND DEFINITIONS

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

Annex C

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

Part

Recovery Plans

Chapter content

1. APPLICATION AND DEFINITIONS
2. RECOVERY PLANS
3. GROUP RECOVERY PLANS
4. REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN
5. GOVERNANCE
6. RECOVERY PLAN AND GROUP RECOVERY PLAN INDICATORS

1 APPLICATION AND DEFINITIONS

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

1.2 In this Part, the following definitions shall apply:

Article 1(1)(b) entity

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

Article 1(1)(c) entity

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

Article 1(1)(d) entity

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

competent authority

means a public authority or body officially recognised by national law which is empowered by national law to supervise *institutions* as part of the supervisory system in operation in the *EEA State* concerned or the European Central Bank with regard to the specified tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

conditions for early intervention

means where an *institution* infringes or, due inter alia to a rapidly deteriorating financial condition, including deteriorating liquidity situation, increasing level of leverage, non-performing loans or concentration of exposures, as assessed on the basis of a set of triggers, which may include the *institution's own funds requirement* plus 1.5 percentage points, is likely in the near future to infringe the requirements of the *CRR*, *CRD*, *MiFID II* or any of Articles 3 to 7, 14 to 17 and 24, 25 and 26 of *MiFIR*.

control

has the meaning given in point (37) of Article 4(1) of the *CRR*.

EEA consolidating supervisor

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

(1) an *EEA parent institution*; or

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

EEA parent financial holding company

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

EEA parent institution

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

EEA parent mixed financial holding company

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

EEA parent undertaking

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

extraordinary public financial support

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

group recovery plan

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

management body

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

own funds requirement

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

parent financial holding company in an EEA State

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

parent mixed financial holding company in an EEA State

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

parent institution in an EEA State

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

parent undertaking

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

recovery plan

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

significant branch

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

State aid

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

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

2 RECOVERY PLANS

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

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

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

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

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

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

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

- (1) email; or
- (2) the appropriate systems made available to *firms*.

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

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

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

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

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

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

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

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

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

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

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

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

- 2.11 A *firm* must demonstrate to the *PRA* that the *recovery plan* meets the requirements set out in this Chapter and the following criteria:
- (1) the implementation of the arrangements proposed in the *recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *institution* or of the *group*, taking into account the preparatory measures that the *institution* has taken or has planned to take;
 - (2) the *recovery plan* and specific options within the *recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *recovery plans* within the same period.

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

3 GROUP RECOVERY PLANS

- 3.1 This Chapter applies to a *BRRD undertaking* which is:
- (1) an *EEA parent undertaking*; or
 - (2) a *firm controlled by an EEA parent financial holding company* or an *EEA parent mixed financial holding company* if:

- (a) the *EEA parent financial holding company* or *EEA parent mixed financial holding company* is not a *qualifying parent undertaking*; and
- (b) the *PRA* is the *EEA consolidating supervisor* of the *firm*.

3.2 A *BRRD undertaking* must draw up a *group recovery plan* and submit the *group recovery plan* to the *EEA consolidating supervisor*.

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

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

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

- (1) email; or
- (2) the appropriate systems made available to *BRRD undertakings*.

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

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

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

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

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

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

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

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

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

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

3.10 For each scenario, the *group recovery plan* must identify whether there are obstacles to the implementation of recovery measures within the *group*, including at the level of individual

entities covered by the plan, and whether there are substantial practical or legal impediments to the prompt transfer of *own funds* or the repayment of liabilities or assets within the *group*.

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

- 3.11 A *BRRD undertaking* must demonstrate to the *EEA consolidating supervisor* that the *group recovery plan* meets the requirements set out in this Chapter and the following criteria:
- (1) the implementation of the arrangements proposed in the *group recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *group* or of an individual *subsidiary* in the *group*, taking into account the preparatory measures that the individual *subsidiary* has taken or has planned to take; and
 - (2) the *group recovery plan* and specific options within the *group recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *group recovery plans* within the same period.

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

4 REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN

- 4.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.
- 4.2 A *BRRD undertaking* must:
- (1) review its *recovery plan* or *group recovery plan* at least once a year; and
 - (2) keep its *recovery plan* or *group recovery plan* up to date, which includes ensuring that it is updated to reflect any change to the legal or organisational structure of the *firm* or *group*, its business or its financial situation, which could have a material effect on, or necessitates a change to, the *recovery plan* or *group recovery plan*.

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

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

5 GOVERNANCE ARRANGEMENTS

- 5.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or a *group recovery plan* under 2 or 3.
- 5.2 A *firm* which is required to draw up a *recovery plan* must, taking into account the nature, scale and complexity of its business, establish and maintain appropriate internal processes regarding the governance of its *recovery plan* and must:

- (1) ensure that its *management body* oversees, assesses and approves the *recovery plan* before the *firm* submits the *recovery plan* to the *PRA*;
 - (2) ensure that its audit committee periodically reviews the *recovery plan*; and
 - (3) nominate an executive director who is a member of the *firm's management body* to have responsibility for the *recovery plan* and for overseeing the internal processes regarding its governance.
- 5.3 A *BRRD undertaking* which is required to draw up a *group recovery plan* must, taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of the *group recovery plan* and must:
- (1) ensure that its *management body* oversees, assesses and approves the *group recovery plan* before the *BRRD undertaking* submits the *group recovery plan* to the *PRA*;
 - (2) ensure that its audit committee periodically reviews the *group recovery plan*; and
 - (3) nominate an executive director who is a member of the *BRRD undertaking's management body* to have responsibility for the *group recovery plan* and for overseeing the internal processes regarding its governance.

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

6 RECOVERY PLAN AND GROUP RECOVERY PLAN INDICATORS

- 6.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.
- 6.2 A *recovery plan* and a *group recovery plan* must include a framework of indicators established by the *BRRD undertaking* which identifies the points at which appropriate actions referred to in the *recovery plan* or *group recovery plan* may be taken.

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

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

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

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

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

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

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

- 6.6 A *BRRD undertaking* must notify the *EEA consolidating supervisor* without delay if it (or any member of its *group*) decides to take action under the *group recovery plan* or to refrain from taking action.

PRA RULEBOOK: RESOLUTION PACK INSTRUMENT [DATE]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (the PRA’s general rules);
 - (2) section 137T (general supplementary powers);
 - (3) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (4) **[any other relevant sections]**.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: Resolution Pack Instrument [DATE]

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

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: Resolution Pack Instrument [DATE].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex

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

Part

RESOLUTION PACK

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. RESOLUTION PACK**
- 3. GROUP RESOLUTION PACK**
- 4. REVIEW OF RESOLUTION PACK AND GROUP RESOLUTION PACK**
- 5. GOVERNANCE ARRANGEMENTS**

1 APPLICATION AND DEFINITIONS

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

1.2 In this Part, the following definitions shall apply:

competent authority

means a public authority or body officially recognised by national law which is empowered by national law to supervise *institutions* as part of the supervisory system in operation in the *EEA State* concerned or the European Central Bank with regard to the specific tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

control

has the meaning given in point (37) of Article 4(1) of the *CRR*.

EEA consolidating supervisor

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

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

EEA parent financial holding company

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

EEA parent institution

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

EEA parent mixed financial holding company

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

EEA parent undertaking

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

group-level resolution authority

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

group resolution pack

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

group resolution plan

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

parent financial holding company in an EEA State

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

parent mixed financial holding company in an EEA State

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

parent institution in an EEA State

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

resolution authority

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

resolution pack

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

resolution plan

means a resolution plan for a *firm* drawn up by the *Bank of England* in accordance with [to insert relevant provision of the UK legislation implementing Article 10 of the *BRRD*].

1.3 In this Part:

- (1) references to the taking of action include the taking of action by:
 - (a) a *BRRD undertaking*;
 - (b) any other *person* in the same *group* as a *BRRD undertaking*; and

- (c) a *partnership* of which a *BRRD undertaking* is a member;
- (2) references to the business of a *BRRD undertaking* include references to the business of:
 - (a) any other *person* in the same *group* as the *BRRD undertaking*; and
 - (b) a *partnership* of which the *BRRD undertaking* is a member.
- 1.4 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 RESOLUTION PACK

- 2.1 This Chapter applies to every *firm* which is not required to prepare, maintain and submit a *group resolution pack* under 3.
- 2.2 A *firm* must prepare and maintain a *resolution pack*.
- 2.3 A *firm* must provide its *resolution pack* to the *PRA* by online submission through:
 - (1) email; or
 - (2) the appropriate systems made available to *firms*.
- 2.4 A *resolution pack* must contain sufficient information and analysis to facilitate the planning for or taking of action in the event of:
 - (1) circumstances arising in which it is likely that the business (or any part of the business) of the *firm* will fail; or
 - (2) the failure of the business (or any part of the business) of the *firm*.
- 2.5 In 2.4 references to the planning for or taking of action include the planning or taking of action by *The Treasury* or the *Bank of England* in relation to the possible exercise of any of their powers under the Banking Act 2009.
- 2.6 A *resolution pack* must take into account the wider business of the *group* of which the *firm* is a member.

3 GROUP RESOLUTION PACK

- 3.1 This Chapter applies to a *BRRD undertaking* which is:
 - (1) an *EEA parent undertaking*; or
 - (2) a *firm controlled by an EEA parent financial holding company* or an *EEA mixed financial holding company* if:
 - (a) the holding company is not a *qualifying parent undertaking*; and
 - (b) the *PRA* is the *EEA consolidating supervisor* of the *firm*.

- 3.2 A *BRRD undertaking* must prepare and maintain a *group resolution pack*.
- 3.3 A *BRRD undertaking* must submit its *group resolution pack* to the *PRA* if the *PRA* is the *EEA consolidating supervisor* and, in any other case, to the *group-level resolution authority*.
- 3.4 A *BRRD undertaking* required by 3.3 to submit its *group resolution pack* to the *PRA* must provide the *group resolution pack* to the *PRA* by online submission through:
- (1) email; or
 - (2) the appropriate systems made available to *BRRD undertakings*.
- 3.5 A *group resolution pack* must contain sufficient information and analysis to facilitate the planning for or taking of action in the event of:
- (1) circumstances arising in which it is likely that the business (or any part of the business) of the *BRRD undertaking* or any other member of its *group* will fail; or
 - (2) the failure of the business (or any part of the business) of the *BRRD undertaking* or any other member of its *group*.
- 3.6 In 3.5 references to the planning for or taking of action include the planning or taking of action by *The Treasury* or the *Bank of England* in relation to the possible exercise of any of their powers under the Banking Act 2009 in respect of any member of the *group*.
- 3.7 The *group resolution pack* must contain information concerning:
- (1) the *BRRD undertaking*; and
 - (2) each of the other members of its *group*.

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

4 REVIEW OF RESOLUTION PACK AND GROUP RESOLUTION PACK

- 4.1 A *firm* required to prepare, maintain and submit to the *PRA* a *resolution pack* under 2 must:
- (1) keep the *resolution pack* up to date, which includes ensuring that the *resolution pack* is updated to reflect any material developments in the *firm's* business; and
 - (2) notify the *PRA* of any material changes made to the *resolution pack* promptly and, in any event, within one month of making any such change.
- 4.2 A *BRRD undertaking* required to prepare, maintain and submit a *group resolution pack* under 3 must keep the *group resolution pack* up to date, which includes ensuring that the *group resolution pack* is updated to reflect any material developments in its business and the business of other member of its *group*.
- 4.3 A *BRRD undertaking* required to prepare, maintain and submit to the *PRA* a *group resolution pack* under 3 must notify the *PRA* of any material changes made to the *group resolution pack* promptly and, in any event, within one month of making any such change.

5 GOVERNANCE ARRANGEMENTS

- 5.1 A *firm* required to prepare, maintain and submit to the *PRA* a *resolution pack* under 2 must:
- (1) taking into account the nature, scale and complexity of its business, establish and maintain appropriate internal processes regarding the governance of its *resolution pack*;
 - (2) ensure that its *governing body* is responsible for assessing, approving and overseeing the *firm's* arrangements in place to produce the *firm's resolution pack*;
 - (3) ensure that its audit committee periodically reviews these arrangements; and
 - (4) nominate an executive *director* who is a member of the *firm's governing body* to have responsibility for the *resolution pack* and for overseeing the internal processes regarding its governance.
- 5.2 A *BRRD undertaking* required to prepare, maintain and submit a *group resolution pack* under 3 must:
- (1) taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of its *group resolution pack*;
 - (2) ensure that its *governing body* is responsible for assessing, approving and overseeing the arrangements in place to produce the *group resolution pack*;
 - (3) ensure that its audit committee periodically reviews these arrangements; and
 - (4) nominate an executive *director* who is a member of its *governing body* to have responsibility for the *group resolution pack* and for overseeing the internal processes regarding its governance.

PRA RULEBOOK: GROUP FINANCIAL SUPPORT INSTRUMENT [DATE]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (the PRA’s general rules);
 - (2) section 137T (general supplementary powers);
 - (3) section 192J (rules requiring provision of information by parent undertakings); and
 - (4) **[any other relevant sections pursuant to new powers granted to PRA by HMT]**.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: Group Financial Support Instrument [DATE]

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

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: Group Financial Support Instrument [DATE].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex

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

Part

GROUP FINANCIAL SUPPORT

Chapter content

1. APPLICATION AND DEFINITIONS
2. GROUP FINANCIAL SUPPORT AGREEMENT
3. SUBMISSION OF GROUP FINANCIAL SUPPORT AGREEMENT
4. CONDITIONS FOR GROUP FINANCIAL SUPPORT
5. DECISION TO PROVIDE OR ACCEPT GROUP FINANCIAL SUPPORT
6. NOTIFICATION OF PROPOSED GROUP FINANCIAL SUPPORT
7. PROVISION AND NOTIFICATION OF GROUP FINANCIAL SUPPORT
8. DISCLOSURE

1 APPLICATION AND DEFINITIONS

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

1.2 In this Part, the following definitions shall apply:

competent authority

means a public authority or body officially recognised by national law which is empowered by national law to supervise *institutions* as part of the supervisory system in operation in the *EEA State* concerned or the European Central Bank with regard to the specific tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

conditions for early intervention

means circumstances in which an *institution* infringes or, due inter alia to a rapidly deteriorating financial condition, including deteriorating liquidity situation, increasing level of leverage, non-performing loans or concentration of exposures, as assessed on the basis of a set of triggers, which may include the *institution's own funds* requirement plus 1.5 percentage points, is likely in the near future to infringe the requirements of the *CRR*, the *CRD*, *MiFID II* or any of Articles 3 - 7, 14 - 17 and 24, - 26 of *MiFIR*.

control

has the meaning given in point (37) of Article 4(1) of the *CRR*.

EEA consolidating supervisor

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

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

EEA parent financial holding company

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

EEA parent institution

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

EEA parent mixed financial holding company

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

EEA parent undertaking

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

group

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

group financial support agreement

means an agreement between:

- (1) a *parent institution in an EEA State*, an *EEA parent institution* or a *qualifying parent undertaking*, a *financial holding company*, *mixed financial holding company* or *mixed-activity holding company* established in an *EEA State*; and
- (2) a *subsidiary* of an entity referred to in (1) set up in a different *EEA State* to that of the entity referred to in (1) or in a *third country* and that is an *institution* or a *financial institution* covered by the consolidated supervision of the entity referred to in (1),

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

management body

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

own funds requirement

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

parent institution in an EEA State

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

parent financial holding company in an EEA State

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

parent mixed financial holding company in an EEA State

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

- 1.3 This Part does not apply to:
- (1) financial arrangements between a *BRRD undertaking* and other members of its *group*, including funding arrangements and the operation of centralised funding arrangements, provided that no *institution* that is party to such arrangements meets the *conditions for early intervention*; and
 - (2) financial support provided by a *BRRD undertaking* to a member of its *group* that experiences financial difficulties if the *BRRD undertaking* decides to do so on a case-by-case basis and according to *group* policies if it does not represent a risk for the *group*.

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

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

2 GROUP FINANCIAL SUPPORT AGREEMENT

- 2.1 A *BRRD undertaking* must not enter into a *group financial support agreement* unless the following conditions are satisfied:
- (1) the *group financial support agreement* specifies the principles for the calculation of the consideration for any transaction made under it, which:
 - (a) need not take into account any anticipated temporary impact on market prices arising from events external to the *group*;
 - (b) may take into account information unavailable to the market in the possession of the party providing financial support based on it being in the same *group* as the party receiving financial support; and
 - (c) must require that the consideration is set at the time of the provision of financial support;
 - (2) each party acts freely in entering into the *group financial support agreement*;
 - (3) in entering into the *group financial support agreement* and in determining the consideration for the provision of financial support, each party acts in its own best interests which may take account of any direct or any indirect benefit that may accrue to a party as a result of the provision of the financial support;
 - (4) each party providing financial support has full disclosure of relevant information from any party receiving financial support prior to determination of the consideration for the provision of financial support and prior to any decision to provide financial support;

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

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

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

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

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

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

- (1) the *EEA consolidating supervisor* has not granted permission to do so; or
- (2) at the time the proposed agreement is made, a *competent authority* has decided that a party to the agreement that is an *institution* meets the *conditions for early intervention*.

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

3 SUBMISSION OF GROUP FINANCIAL SUPPORT AGREEMENT

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

- (1) an *EEA parent institution*; or
- (2) an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*, where the *PRA* is the *EEA consolidating supervisor* of a firm that is controlled by that holding company.

3.2 If a *BRRD undertaking* or any member of its *group* intends to enter into a *group financial support agreement*, the *BRRD undertaking* must submit to the *PRA* an application for authorisation of the proposed agreement.

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

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

4 CONDITIONS FOR GROUP FINANCIAL SUPPORT

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

- (1) there is a reasonable prospect that the financial support provided significantly redresses the financial difficulties of the *group* member receiving the support;
- (2) the provision of financial support has the objective of preserving or restoring the financial stability of the *group* as a whole or any of the members of the *group* and is in the interests of the *BRRD undertaking* providing the support;
- (3) the financial support is provided on terms, including consideration, in accordance with 2;

- (4) there is a reasonable prospect, on the basis of the information available to the *management body* of the *BRRD undertaking* providing financial support at the time when the decision to grant financial support is taken, that the consideration for the financial support will be paid and, in particular:
- (a) if the financial support is given in the form of a loan, the loan will be repaid by the *group* entity receiving the support; and
 - (b) if the financial support is given in the form of a guarantee or any form of security, the liability of the *group* entity receiving the support that arises in the event that the guarantee is called upon or the security is enforced, will be paid.
- (5) the provision of the financial support would not jeopardise the liquidity or solvency of the *BRRD undertaking* providing the financial support;
- (6) the provision of the financial support would not create a threat to financial stability, in particular in the *UK*;
- (7) where a *firm* provides the financial support, it complies at the time the financial support is provided, with the requirements of the *CRR* relating to capital or liquidity and any requirements imposed pursuant to Article 104(2) of the *CRD* and the provision of the financial support does not cause the *firm* to infringe those requirements;
- (8) where a *firm* provides the financial support, it complies at the time when the financial support is provided, with the requirements relating to large exposures laid down in the *CRR* and in the Large Exposures Part, and the provision of the financial support must not cause the *firm* to infringe those requirements; and
- (9) the provision of the financial support would not undermine the resolvability of the *BRRD undertaking* providing the financial support.

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

5 DECISION TO PROVIDE OR ACCEPT GROUP FINANCIAL SUPPORT

- 5.1 A *BRRD undertaking* that intends to provide financial support in accordance with a *group financial support agreement* must ensure that the decision to provide financial support is taken by its *management body*.
- 5.2 The decision must be reasoned and indicate the objective of the proposed financial support; in particular, the decision must indicate how the provision of the financial support complies with the conditions in 4.1.
- 5.3 A *firm* that intends to accept financial support in accordance with a *group financial support agreement* must ensure that the decision to accept financial support is taken by its *management body*.

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

6 NOTIFICATION OF PROPOSED GROUP FINANCIAL SUPPORT

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

- (1) the *PRA*;
- (2) where different from the authorities in (1) and (3), where applicable, the *EEA consolidating supervisor*;
- (3) where different from the authorities in (1) and (2), the *competent authority* of the *group member* receiving the financial support; and
- (4) the *EBA*,

before it provides that financial support.

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

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

7 PROVISION AND NOTIFICATION OF GROUP FINANCIAL SUPPORT

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

- (1) the *PRA* has not, within five *business days* from the date of receipt by the *PRA* of the complete notification in 6.1, prohibited or restricted the provision of the financial support; or
- (2) the *PRA* has agreed to the provision of the financial support.

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

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

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

- (1) the *PRA*;
- (2) where different from the authorities in (1) and (3), where applicable, the *EEA consolidating supervisor*;
- (3) where different from (1) and (2), the *competent authority* of the *group member* receiving the financial support; and
- (4) the *EBA*.

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

8 DISCLOSURE

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

- (1) whether or not it has entered into a *group financial support agreement*,
- (2) a description of the general terms of any such agreement; and
- (3) the names of the *group* members that are party to the agreement.

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

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

**PRA RULEBOOK: NOTIFICATIONS (BANK RECOVERY AND RESOLUTION DIRECTIVE)
INSTRUMENT [DATE]**

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (the PRA’s general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) section 192J (rules requiring provision of information by parent undertakings).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

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

Amendments

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

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: Notification (Bank Recovery and Resolution Directive) Instrument [DATE].

By order of the Board of the Prudential Regulation Authority

[date]

Annex

Amendments to the Notifications Part of the PRA Rulebook

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

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

extraordinary public financial support

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

BRRD management body

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

own funds

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

State aid

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

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

1 APPLICATIONS AND DEFINITIONS

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

...

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

...

(9) 6-9 apply in full.

...

8 SPECIFIC NOTIFICATIONS

8.0 This Chapter applies to a *BRRD undertaking*.

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

8.2 A *BRRD undertaking* must notify the *PRA* immediately if its *BRRD management body* considers that:

- (1) the assets of the *BRRD undertaking* are or there are objective elements to support a determination that the assets of the *BRRD undertaking* will, in the near future, be less than its liabilities;
- (2) the *BRRD undertaking* is or there are objective elements to support a determination that the *BRRD undertaking* will, in the near future, be unable to pay its debts or other liabilities as they fall due; or
- (3) *extraordinary public financial support* is required for the *BRRD undertaking* or the group of which the *BRRD undertaking* forms part.

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

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

...

PRA RULEBOOK: CONTRACTUAL RECOGNITION OF BAIL-IN INSTRUMENT [DATE]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (the PRA’s general rules);
 - (2) section 137T (general supplementary powers); and
 - (3) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: Contractual Recognition of Bail-In Instrument [DATE]

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

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: Contractual Recognition of Bail-In Instrument [DATE].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex

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

Part

CONTRACTUAL RECOGNITION OF BAIL-IN

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. CONTRACTUAL RECOGNITION OF BAIL-IN**

Links

1 APPLICATION AND DEFINITIONS

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

1.2 In this Part, the following definitions shall apply:

excluded liability

has the meaning given to this term in section 48B(8) of the Banking Act 2009.

preferential debt

means [Art 108(a) BRRD]¹.

special bail-in provision

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

2 CONTRACTUAL RECOGNITION OF BAIL-IN

2.1 A *BRRD undertaking* must include in the contractual provisions governing any liability that is owed by the *BRRD undertaking* a term by which the creditor or party to the agreement creating the liability recognises and agrees that the liability may be subject to the exercise of any *special bail-in provision* by the Bank of England, provided that such liability is:

- (1) not an *excluded liability*;
- (2) not a *preferential debt*;
- (3) governed by the law of a country that is not an *EEA State*; and
- (4) issued or entered into after [insert date]².

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

¹ Replace with reference to provisions transposing Art 108(a) BRRD into UK law.

² Insert the date on which the UK applies the provisions adopted in order to transpose Section 5 of Chapter IV, Title IV of the BRRD.

PRA RULEBOOK: BANK RECOVERY AND RESOLUTION DIRECTIVE TRANSITIONAL INSTRUMENT [DATE]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (the PRA’s general rules);
 - (2) section 137T (general supplementary powers);
 - (3) section 192J (rules requiring provision of information by parent undertakings); and
 - (4) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: Bank Recovery and Resolution Directive Transitional Instrument [DATE]

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

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: Bank Recovery and Resolution Directive Transitional Instrument [DATE].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex

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

Part

BANK RECOVERY AND RESOLUTION DIRECTIVE TRANSITIONAL

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. TRANSITIONAL PROVISIONS**

1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to a *BRRD undertaking*.

2 TRANSITIONAL PROVISION

- 2.1 In the provisions of the *PRA* Rulebook set out in 2.2:
- (1) any reference to *EEA* is to be read as a reference to *EU*; and
 - (2) any reference to *EEA State* is to be read as a reference to *Member State*.
- 2.2 The provisions referred to 2.1 are:
- (1) the Recovery Plan, Resolution Pack and Group Financial Support Parts of the *PRA* Rulebook; and
 - (2) Notifications 8.2.

Supervisory Statement I SS18/13

Recovery planning

December 2013

1 Introduction

- 1.1 This statement is aimed at UK banks, building societies, UK designated investment firms and qualifying parent undertakings ('firms') to which the Recovery Planning Part of the PRA Rulebook applies.
- 1.2 This statement sets out the PRA's expectations on the content of recovery plans and group recovery plans (jointly referred to as 'recovery plans'). This statement complements and should be read together with requirements set out in the Recovery Planning Part of the PRA Rulebook. In addition, the BRRD provides for the Commission to adopt regulatory technical standards (RTS) specifying information to be contained in recovery plans and for the European Banking Authority (EBA) to issue guidelines (GL) specifying the range of scenarios to be used in recovery plans and a minimum list of recovery plan indicators.
- 1.3 This statement may be revised in the light of international policy developments and experience gained through the assessment of recovery plans.

2 Recovery Plans

- 2.1 Recovery plans must contain the information set out in the Recovery Planning Part of the PRA Rulebook. In meeting those requirements, the content of recovery plans should be proportionate to the nature, scale and complexity of the activities of the firm and its group.
- 2.2 In March 2013, the EBA published a consultation paper setting out draft RTS on the content of recovery plans.¹ Firms should comply with these draft standards pending adoption of the RTS by the Commission.
- 2.3 The BRRD does not mandate technical standards on scenarios, but it does oblige the EBA to issue GL on the range of scenarios to be used in recovery plans. Pending the issuance of those GL, the PRA expects firms to use the approach set out in the draft technical standards published by the EBA in May 2013.²
- 2.4 Further PRA guidelines on the content of recovery plans are set out in Table A relating to scenario planning, access to central bank facilities, disposal options and trading book wind-down. Recovery plans should include a summary of proposed recovery options using a consistent framework (see Table B). The quantum and time frame to achieve benefits should be prudently estimated.

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

² EBA's Consultation Paper-Draft Regulatory standards specifying the range of scenarios to be used in recovery plans available at <http://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/draft-regulatory-technical-standards-specifying-the-range-of-scenarios-to-be-used-in-recovery-plans>.

- 2.5 The PRA expects firms that are members of an international group headquartered in third countries to assess and demonstrate how the UK plan submitted to the PRA fits with the group recovery plan in addressing the UK operations. As part of this process, it will be important for firms to understand dependencies, both financial and non-financial, with the group and the effect on the credibility of the UK recovery plan.
- 2.6 In assessing the credibility of recovery options, firms should consider the factors that could reduce the likelihood of success and how these could be mitigated. Prior experience in executing a recovery option should be included together with information on the circumstances which might render recovery options unavailable.
- 2.7 For small firms the PRA recognises that recovery options may be limited in number, but nevertheless expects firms to give careful thought to identifying possible options, including a sale of the whole business.
- 2.8 Where a firm has included a detailed analysis of critical functions in its resolution pack under the Phase 1 submission, it may cross-refer to its resolution pack rather than repeating the analysis in its recovery plan. Firms should include a reference to this information when updating their recovery plans including a statement of when the most recent resolution pack was submitted.

Table A Recovery plan content

Number	Heading	Required data/detail
1	Scenario planning	<p>Scenarios should be severe enough to activate the recovery plan while being plausible in considering the business and risk profile of the firm. Firms may use stress testing which takes place as part of existing risk management processes and regulatory requirements (eg FPC/PRA, ICAAP and ILAA) as a foundation for scenarios. Firms may consider the use of reverse stress testing as a helpful starting point for developing scenarios which would lead the firm to 'near-default' allowing recovery options to be implemented to restore the firm's viability.</p> <p>Firms should provide:</p> <ul style="list-style-type: none"> (i) a description of each stress scenario; (ii) an estimate of the quantitative and qualitative impacts of each scenario on the firm's and group's capital and liquidity as a minimum, but also consider impacts on the firm's or the group's profitability, business model, provision of payment services and (iii) an estimate of the impact of each scenario on the relevant recovery plan indicators resulting in the activation of the recovery plan; (iv) a list and reasoned explanation of the recovery options that would be effective at improving the firm's or the group's financial position under each scenario and quantification of the benefit of each option on the firm's or the group's capital and liquidity; and (v) an assessment of the final aggregate impact of recovery options that, under each scenario, could be taken together to restore the firm's financial position and relevant recovery indicators.
2	Plan for accessing central bank facilities	<p>Recovery plans should include plans for accessing central bank liquidity facilities, both at the Bank of England and overseas. This should include:</p> <ul style="list-style-type: none"> • demonstrating that they have familiarised themselves with the purpose of those facilities; • considering the circumstances in which they would need to access those facilities and discuss options with the Bank of England at an early planning stage; • testing the operational aspects of their plan for accessing central bank facilities (including by carrying out periodic test trades with central banks where required, and internal testing of the speed of collateral processing etc.); • regularly 'realising' a representative proportion of the assets they would expect to receive from the use of central bank facilities (eg gilts if using the Bank of England's Discount Window Facility), either through repo or outright sale; • undertaking an analysis of eligible assets and the drawing capacity against these; • ensuring that an appropriate amount of assets are pre-positioned; and • undertaking preliminary work to identify the range of options they would have, over time, for repaying central bank liquidity support, recognising that the nature and timing of such repayment

Number	Heading	Required data/detail
3	Disposals	<p>For disposals, a fully worked-up plan to execute that particular disposal.</p> <p>On disposals, while the PRA realises that the choice will be dependent on the market opportunities at the time of the stress, the PRA believes that all possible disposal options should be identified and execution plans developed ahead of the stress and included in the recovery plan. Firms are expected to be conservative in valuing their disposals including assuming disposals at a discount or distress level. They should explain their valuation methodology and main underlying assumptions.</p> <p>In addition to identifying legal entity, business lines and business unit options, the PRA expects firms to consider whether a disposal of the whole of the business is feasible. If so, this should be included as a recovery option. Where this is not feasible, the recovery plan should explain why.</p> <p>For each disposal option, firms should outline the potential purchasers (at least by type). The PRA expects firms to assess the availability of strategic investors and to set out who they are and why they could be interested.</p> <p>Describe any third-party consent/approvals or notices required.</p> <p>Comment on potential competition issues.</p> <p>Describe any contractual obstacles that might restrict the disposal.</p> <p>Assess the tax implications of the disposal.</p> <p>Assess any significant pensions or HR issues that need to be dealt with.</p> <p>Explain what due diligence information would need to be available and confirm whether the information could be quickly assembled and whether there would be any barriers to sharing it.</p> <p>Include a separability analysis, describing any issues with unplugging the business unit from the rest of the group or the financial infrastructure and how these should be dealt with.</p> <p>State if there were disposals that have been considered but dismissed and, if so, a clear explanation as to why.</p> <p>Where a merger or sale of the whole firm is a relevant recovery option, firms should consider fair valuation of the balance sheet, data room capabilities and how these impact the credibility of the recovery option.</p>
4	Wind-down analysis	<p>A trading book wind down is likely to be a consideration in recovery planning. The analysis should consider the capital, liquidity and operational impacts.</p> <p>The trading book wind-down plan should include a method to identify the liquid and illiquid positions within the portfolios of the trading book and the expected associated profit and loss impact (e.g. exit costs) together with the balance sheet and risk-weighted assets impact over a recovery period. A portfolio segmentation type analysis will assist firms in identifying those positions which are linked (embedded in the balance sheet) and others that may be transferrable or sold:</p> <ul style="list-style-type: none"> • Linked positions (eg hedges for asset and liability management, structured loans and credit management of loan portfolios) are less likely to be easily transferrable or liquidated. The types, amounts and locations should be separately identified, as needing to be held to maturity, particularly if significant adverse structural and profit and loss consequences would arise from moving or separating these in a recovery. • The remaining inventory (being the transferable or saleable positions) would then be split into segments based on product types and business lines. The positions in each segment would be sub-divided by types of disposal strategy allocations based on ease and cost of exit, to identify the illiquid segment. The estimates of exit costs and the amounts of inventory that can be <p>Illiquid inventory will comprise the 'hold to maturity' positions, and any other transactions that cannot be disposed of, within a three year time frame. Together with the linked and embedded positions, these would be identifiable as a run-off portfolio.</p>

Table B Comparative framework for recovery plans

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

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

Market-wide scenario

Recovery options	Capital impact (in nominal amount and % CET1 and total capital)	Risk-weighted and total asset impact (in nominal amount and %)	Liquidity impact (£m and % of applicable regulatory liquidity metric ³)	Leverage ratio exposure impact (using CRR as base for calculations)	Assumptions to quantify liquidity/ capital impact	Timing to realisation of the benefits	Summary of hurdles/risks to implementation	Franchise impact (Low, Medium, High)	Likely effectiveness (Low, Medium, High)	Ownership of the recovery option within the firm
Option 1										

Idiosyncratic scenario

Recovery options	Capital impact (in nominal amount and % CET1 and total capital)	Risk-weighted and total asset impact (in nominal amount and %)	Liquidity impact (£m and % of applicable regulatory liquidity metric ³)	Leverage ratio exposure impact (using CRR as base for calculations)	Assumptions to quantify liquidity/ capital impact	Timing to realisation of the benefits	Summary of hurdles/risks to implementation	Franchise impact (Low, Medium, High)	Likely effectiveness (Low, Medium, High)	Ownership of the recovery option within the firm
Option 1										

Combined scenario

Recovery options	Capital impact (in nominal amount and % CET1 and total capital)	Risk-weighted and total asset impact (in nominal amount and %)	Liquidity impact (£m and % of applicable regulatory liquidity metric ³)	Leverage ratio exposure impact (using CRR as base for calculations)	Assumptions to quantify liquidity/ capital impact	Timing to realisation of the benefits	Summary of hurdles/risks to implementation	Franchise impact (Low, Medium, High)	Likely effectiveness (Low, Medium, High)	Ownership of the recovery option within the firm
Option 1										

³ Until the liquidity coverage ratio (LCR) is introduced through the European Commission's Delegated Act in 2015, the PRA's liquidity regime will continue to apply to PRA-authorized banks, building societies and designated investment firms and therefore firms should refer to individual liquidity guidance (ILG). The PRA will consult on changes to its liquidity regime in due course.

Supervisory Statement I SS18/13

Recovery planning

December 2013

1 Introduction

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

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

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

~~1.1 This supervisory statement sets out the Prudential Regulation Authority's (PRA's) expectations on recovery planning. This statement should be read in conjunction with the Recovery and Resolution Part of the PRA Rulebook.~~

~~1.2 Firms are required to maintain and update recovery plans that outline credible recovery actions to implement in the event of severe stress. The objective of the plan is to enable firms to restore their business to a stable and sustainable condition.~~

~~1.3 The recovery plan is a firm's complete menu of options addressing a range of severe financial stresses caused by idiosyncratic problems, market-wide stress or both. The PRA expects the recovery plan to include all credible options for addressing both liquidity and capital difficulties.~~

Key elements Recovery Plans

~~1.4 Below are key elements of a recovery plan. Further guidelines on the content are in Table A.~~

- ~~• Confirmation that the firm's Board of Directors or other appropriate senior governance committee or group has reviewed and approved the recovery plan.~~
- ~~• A summary of a firm's complete list of recovery options and an overview of the full range of further possible options. In addition to the more obvious and straightforward recovery options firms should consider radical options which could alter the firm's structure and business model. Firms should also identify any remedial actions that should be taken to improve the credibility and effectiveness of individual recovery options.~~
- ~~• A description of each recovery option using a consistent framework (see Table B), including the firm's assessment of the probable success and quantitative estimate of each option's benefits. The quantum and time frame to achieve benefits should be prudently estimated, though the PRA accepts that these aspects of recovery actions will depend on the specific stressed~~

circumstances at the time. A firm should consider the implications of the option on the franchise and viability of the firm.

- Embedding the recovery plan into the firm's existing risk management framework. This will allow the plan to be implemented efficiently and effectively when firms encounter severe stress conditions.
- Identification of a range of triggers to activate the implementation of the recovery plan. Triggers should go beyond regulatory capital and liquidity ratios and include internal quantitative and qualitative metrics from the firm's overall risk management framework. Firms should also consider early warning indicators to identify emerging signs of stress. The calibration of triggers should be forward looking to allow sufficient time for corrective actions to be taken.
- A sufficiently clear description of the escalation and decision-making process. This should ensure effective action is taken in a timely manner and should include procedures to be followed during recovery, including identification of the key people involved and their roles and responsibilities.
- An operational plan for accessing central bank liquidity facilities. The Bank of England's presumption is that all banks and building societies that meet the PRA's threshold conditions for authorisation may sign up for the Sterling Monetary Framework and have full access to borrow in the facilities they have signed up for.
- A communication plan to ensure that stakeholders (internal and external) are given timely and appropriate information during the firm's recovery process.

2 Recovery Plans

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

2.2 In March 2013, the EBA published a consultation paper setting out draft RTS on the content of recovery plans.¹ Firms should comply with these draft standards pending adoption of the RTS by the Commission.

2.3 The BRRD does not mandate technical standards on scenarios, but it does oblige the EBA to issue GL on the range of scenarios to be used in recovery plans. Pending the issuance of those GL, the PRA expects firms to use the approach set out in the draft technical standards published by the EBA in May 2013.²

2.4 Further PRA guidelines on the content of recovery plans are set out in Table A relating to scenario planning, access to central bank facilities, disposal options and trading book wind-down. Recovery plans should include a summary of proposed recovery options using a consistent framework (see Table B). The quantum and time frame to achieve benefits should be prudently estimated.

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

2.6 In assessing the credibility of recovery options, firms should consider the factors that could reduce the likelihood of success and how these could be mitigated. Prior experience in executing

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

² EBA's Consultation Paper-Draft Regulatory Technical Standards specifying the range of scenarios to be used in recovery plans available at <http://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/draft-regulatory-technical-standards-specifying-the-range-of-scenarios-to-be-used-in-recovery-plans>.

a recovery option should be included together with information on the circumstances which might render recovery options unavailable.

2.7 For small firms, the PRA recognises that recovery options may be limited in number, but nevertheless expects firms to give careful thought to identifying possible options, including a sale of the whole business.

2.8 Where a firm has included a detailed analysis of critical functions in its resolution pack under the Phase 1 submission, it may cross-refer to its resolution pack rather than repeating the analysis in its recovery plan. Firms should include a reference to this information when updating their recovery plans including a statement of when the most recent resolution pack was submitted.

Table A Recovery plan content

	Heading	Required data/detail
	Recovery plan overview	
	Summary	A firm's view of the extent that its recovery plan is credible and executable in a severe stress and an explanation of that view. Description of any material changes (including reason for changes) or action taken since the firm's last recovery plan submission.
	Integration with existing processes	<p>An overview of how the preparation of the recovery plan links to the firm's existing risk management framework.</p> <p>Please detail the following:</p> <ul style="list-style-type: none"> • how the plan is integrated into the firm's risk management process (including Management Information Systems) and/or crisis management framework; and • details of the process undertaken to ensure appropriate governance; confirmation of board approval; and nomination of the accountable executive director responsible for the firm's recovery plan and for acting as the firm's contact point with the authorities on its recovery plan.
	Implementation of the plan	<p>The recovery plan must include appropriate triggers and procedures to ensure the timely implementation of recovery actions.</p> <p>These triggers can comprise a combination of quantitative and qualitative indicators, need to be timely (ie forward looking to provide enough notice to take corrective action), capable of being monitored and it should be clear when they are not being met.</p> <p>The triggers can be based on internal early warning indicators that firms currently monitor. An appropriate number of triggers should be monitored in line with the firm's complexity and business profile.</p> <p>Describe the internal decision-making process by which the firm will identify when its recovery plan triggers are reached and how decisions are taken concerning the appropriate actions which follow as well as the process for notifying the PRA.</p> <p>List of key staff involved in the decision-making and activation process and selection of the individual options to be implemented.</p>
	Recovery plan options	
	Summary of options	Summary description of each recovery option and the steps necessary to effect it.
	Further detail on each option	<p>For each recovery option, please provide the information set out in Table B below.</p> <p>The PRA expects comprehensive recovery planning that includes all credible options for addressing both liquidity and capital difficulties, and therefore should include actions identified as part of BIPRU liquidity planning requirements.</p> <p>The PRA expects firms to also consider options that may have permanent structural implications including those which would likely be contemplated in extremely stressed circumstances.</p>
	Impact	<p>A description of the impact of carrying out each recovery option, including metrics.</p> <p>Potential range of impact on capital, liquidity and balance sheet together with explanation of the assumptions made.</p> <p>The range of potential effects of each option on the ongoing business in terms of profit. The quantification of recovery action benefits should be submitted on a post-tax basis.</p> <p>The impact of each option on the ongoing business operations and support functions.</p> <p>The impact of each option on the firm's franchise and how a communication plan can mitigate this.</p> <p>The impact of each option on the firm's ratings.</p> <p>The impact of each option on resolution, eg would it create additional barriers for an orderly resolution.</p> <p>The systemic implication of each option on both the UK and international financial system.</p>

Execution/implementation issues	A fully worked-up plan describing the execution of each recovery option.
	The estimated time to realise the benefits of the recovery option.
	The risks and hurdles to a successful implementation, including where relevant, any assumptions that have been made about managing foreign currency risks, for example the currency of possible outflows and possible FX swap lines which firms might use to meet those outflows.
	The dependencies and assumptions for the option.
	The key regulatory and legal issues.
	The executive committee which has operational ownership of the option.
Heading	Required data/detail
Credibility	An assessment of the credibility of each recovery option.
	Likely effectiveness in response to both an idiosyncratic and a market-wide stress. An assessment of the situations in which a particular option may not be feasible / appropriate. Assess which options are mutually exclusive and which options complement each other (likely groupings of options).
	Factors that could reduce the likelihood of success and how these could be mitigated.
	The firm's prior experience in executing each option.
	The circumstances which would render the options unavailable.
Scenario planning	<u>Scenarios should be severe enough to activate the recovery plan while being plausible considering the business and risk profile of the firm. Firms may use stress testing which takes place as part of existing risk management processes and regulatory requirements (e.g. FPC/PRA, ICAAP and ILAA) as a foundation for scenarios. Firms may consider the use of reverse stress testing as a helpful starting point for developing scenarios which would lead the firm to 'near-default' allowing recovery options to be implemented to restore the firm's viability.</u>
	Firms should provide:
	(i) <u>a description of each stress scenario;</u>
	(ii) <u>an estimate of the quantitative and qualitative impacts of each scenario on the firm's and group's capital and liquidity as a minimum, but also consider impacts on the firm's or the group's profitability, business model, provision of payment services and reputation;</u>
	(iii) <u>an estimate of the impact of each scenario on the relevant recovery plan indicators resulting in the activation of the recovery plan;</u>
	(iv) <u>a list and reasoned explanation of the recovery options that would be effective at improving the firm's or the group's financial position under each scenario and quantification of the benefit of each option on the firm's or the group's capital and liquidity; and</u>
(v) <u>an assessment of the final aggregate impact of recovery options that under each scenario could be taken together to restore the firm's financial position and relevant recovery indicators.</u>	
Plan for accessing central bank facilities	Firms or qualifying parent undertakings should prepare plans for accessing central bank liquidity facilities, both at the Bank of England and overseas. This includes: <u>Recovery plans should include plans for accessing central bank liquidity facilities, both at the Bank of England and overseas. This should include:</u> <ul style="list-style-type: none"> • <u>familiarising demonstrating that they have familiarised</u> themselves with the purpose of those facilities; • <u>considering</u> the circumstances in which they would need to access those facilities and discuss options with the Bank of England at an early planning stage; • testing the operational aspects of their plan for accessing central bank facilities (including by carrying out periodic test trades with central banks where required, and internal testing of the speed of collateral processing etc.); • regularly 'realising' a representative proportion of the assets they would expect to receive from the use of central bank facilities (eg gilts if using the Bank of England's Discount Window Facility), either through repo or outright sale; • undertaking an analysis of eligible assets and the drawing capacity against these; • ensuring that an appropriate amount of assets are pre-positioned; and • undertaking preliminary work to identify the range of options they would have, over time, for repaying central bank liquidity support, recognising that the nature and timing of such repayment plans would depend on the nature of the initial liquidity shock. These options should be able to be drawn largely from the recovery plan.
Disposals	For disposals, a fully worked-up plan to execute that particular disposal.
	On disposals, while the PRA realises that the choice will be dependent on the market opportunities at the

		<p>time of the stress, the PRA believes that all possible disposal options should be identified and execution plans developed ahead of the stress and included in the recovery plan. Firms are expected to be conservative in valuing their disposals including assuming disposals at a discount/or distress level. They should explain their valuation methodology and main underlying assumptions.</p> <p>In addition to identifying legal entity, business line and/or business unit options, <u>we the PRA</u> expects firms to consider whether a disposal of the whole of the firm's business is feasible. If so, this should be included as a recovery option. Where this is not feasible, <u>the recovery plan should</u> explain why.</p>
		For each disposal option, <u>firms should</u> outline the potential purchasers (at least by type). The PRA expects firms to assess the availability of strategic investors and to set out who they are and why they could be interested.
		Describe any third-party consent/approvals or notices required.
		Comment on potential competition issues.
		Describe any contractual obstacles that might restrict the disposal.
		Assess the tax implications of the disposal.
		Assess any significant pensions or HR issues that need to be dealt with.
		Explain what due diligence information would need to be available and confirm whether the information could be quickly assembled and whether there would be any barriers to sharing it.
		Include a separability analysis, describing any issues with unplugging the business unit from the rest of the group or the financial infrastructure and how these should be dealt with.
		State if there were disposals that have been considered but dismissed and, if so, a clear explanation as to why.
		Where a merger or sale of the whole firm is a relevant recovery option, firms should consider fair valuation of the balance sheet, data room capabilities and how these impact the credibility of the recovery option.
	Remediation measures	Identify actions (including structural changes) that should be taken to improve the credibility and effectiveness of the recovery plan. This should include a plan articulating a list of measures aimed at overcoming the barriers to the effectiveness of identified recovery actions with target completion dates and estimated costs for outstanding work.
	Wind-down analysis	<p><u>A trading book wind down is likely to be a consideration in recovery planning. The analysis should consider the capital, liquidity and operational impacts.</u></p> <p><u>The trading book wind-down plan should include a method to identify the liquid and illiquid positions, within the portfolios of the trading book and the expected associated profit and loss impact (eg exit costs), together with the balance sheet and risk-weighted assets impact over a recovery period. A portfolio segmentation type analysis will assist firms in identifying those positions which are linked (embedded in the balance sheet) and others that may be transferrable or sold:</u></p> <ul style="list-style-type: none"> <u>Linked positions (eg hedges for asset and liability management, structured loans and credit management of loan portfolios) are less likely to be easily transferrable or liquidated. The types, amounts and locations should be separately identified, as needing to be held to maturity, particularly if significant adverse structural and profit and loss consequences would arise from moving or separating these in a recovery.</u> <u>The remaining inventory (being the transferable or saleable positions) would then be split into segments based on product types and business lines. The positions in each segment would be subdivided by types of disposal strategy allocations, based on ease and cost of exit, to identify the illiquid segment. The estimates of exit costs and the amounts of inventory that can be disposed would be undertaken on a one year and three year timeframe under normal market conditions.</u> <p><u>Illiquid inventory will comprise the 'hold to maturity' positions and any other transactions that cannot be disposed of within a three year time frame. Together with the linked and embedded positions, these would be identifiable as a run-off portfolio.</u></p>

Table B Comparative framework for recovery plans supporting 2.1 'Summary of options' in Table A of this statement

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

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

Market-wide scenario

Recovery options	Capital impact (in nominal amount and % CET1 and total capital)	Risk-weighted and total asset impact (in nominal amount and %)	Liquidity impact (£m and % of applicable regulatory liquidity metric ³ (ILG))	Expected balance sheet contraction (£m and %) Leverage ratio exposure impact (using CRR as base for calculations)	Assumptions to quantify liquidity/ capital impact	Timing to realisation of the benefits	Summary of hurdles/risks to implementation	Franchise impact (Low, Medium, High)	Likely effectiveness (Low, Medium, High)		Ownership of the recovery option within the firm
									Firm-specific stress	Market-wide stress	
Option 1											

Idiosyncratic scenario

Recovery options	Capital impact (in nominal amount and % CET1 and total capital)	Risk-weighted and total asset impact (in nominal amount and %)	Liquidity impact (£m and % of applicable regulatory liquidity metric ²⁶)	Leverage ratio exposure impact (using CRR as base for calculations)	Assumptions to quantify liquidity/ capital impact	Timing to realisation of the benefits	Summary of hurdles/risks to implementation	Franchise impact (Low, Medium, High)	Likely effectiveness (Low, Medium, High)		Ownership of the recovery option within the firm
									Firm-specific stress	Market-wide stress	
Option 1											

Combined scenario

Recovery options	Capital impact (in nominal amount and % CET1 and total capital)	Risk-weighted and total asset impact (in nominal amount and %)	Liquidity impact (£m and % of applicable regulatory liquidity metric ²⁶)	Leverage ratio exposure impact (using CRR as base for calculations)	Assumptions to quantify liquidity/ capital impact	Timing to realisation of the benefits	Summary of hurdles/risks to implementation	Franchise impact (Low, Medium, High)	Likely effectiveness (Low, Medium, High)		Ownership of the recovery option within the firm
									Firm-specific stress	Market-wide stress	
Option 1											

³ Until the liquidity coverage ratio (LCR) is introduced through the European Commission's Delegated Act in 2015, the PRA's liquidity regime will continue to apply to PRA-authorized banks, building societies and designated investment firms and therefore firms should refer to individual liquidity guidance (ILG). The PRA will consult on changes to its liquidity regime in due course.