

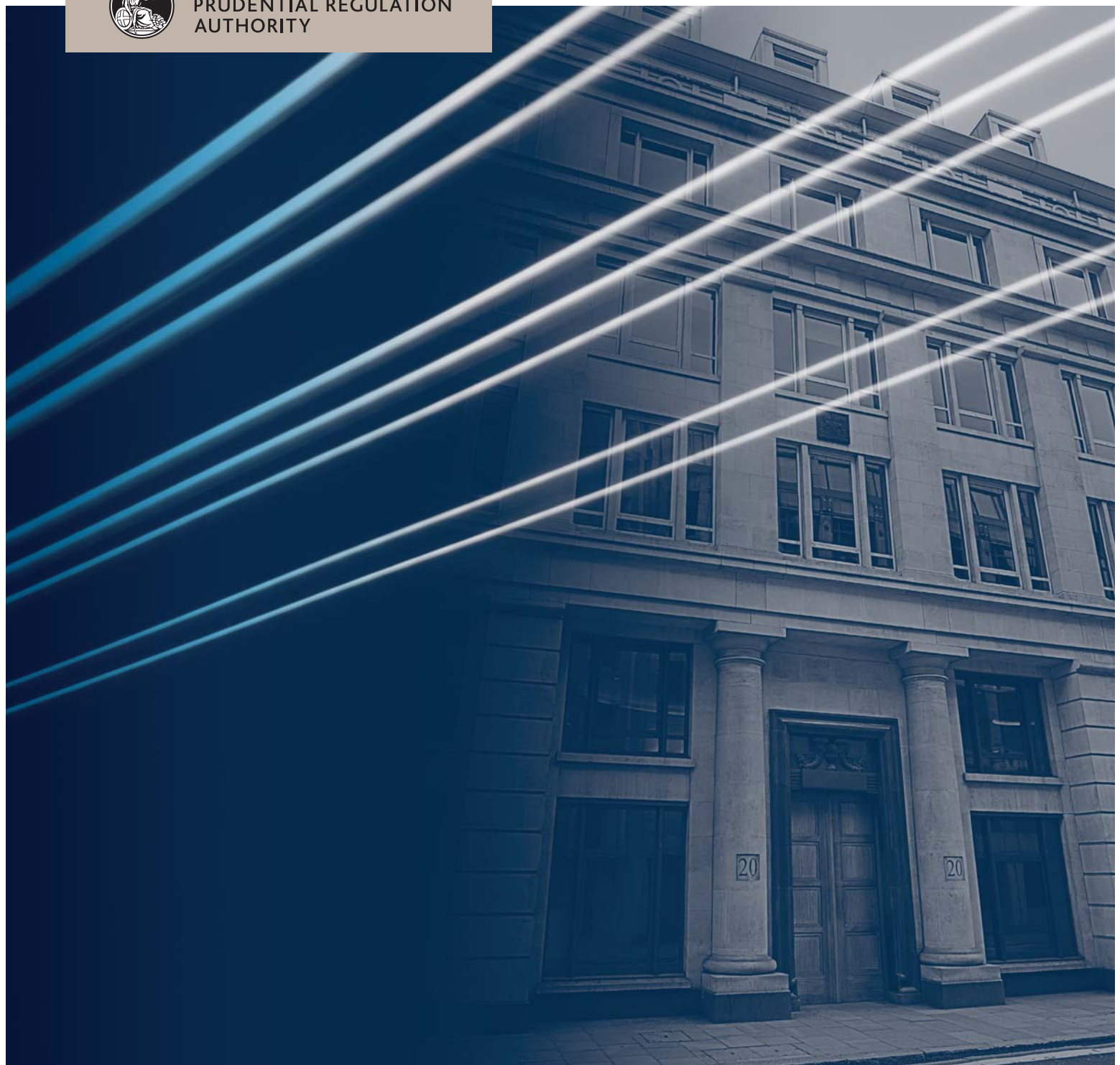
Supervisory Statement | SS18/13

Recovery planning

December 2013



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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Introduction

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.

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.

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

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.

Comments on preparation

5. For international groups, where the PRA is the home regulator, recovery plans will need to take account of overseas subsidiaries even though they are regulated by overseas regulators. When appropriate, the group plan may be complemented by local recovery plans for the subsidiaries, developed with local supervisors, in order to provide the most robust planning possible.

6. Similarly, where the PRA is host of an international group, in addition to the UK plan we expect the firm to assess and demonstrate how the UK plan fits with the group recovery plan in addressing the UK operations. It will be important for firms to understand dependencies, both financial and non-financial, with the group and how this impacts the credibility of the UK recovery plan. The PRA's expectation is that this will be proportionate to the scale of the group's UK activities and their importance to the group.

7. For small firms it is recognised that recovery options may be limited in number, but nevertheless careful thought should be given to identifying possible options including a sale of the whole business.

Table A Recovery plan content

| Number | Heading | Required data/detail |
|-------------------------------|-------------------------------------|---|
| 1 | Recovery plan overview | |
| | Summary | A firm's view of the extent that its recovery plan is credible and executable in a severe stress and an explanation of that view. Description of any material changes (including reason for changes) or action taken since the firm's last recovery plan submission. |
| 1.1 | Integration with existing processes | An overview of how the preparation of the recovery plan links to the firm's existing risk management framework. Please detail the following: <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. |
| 1.2 | Implementation of the plan | The recovery plan must include appropriate triggers and procedures to ensure the timely implementation of recovery actions. 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. 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. Describe the internal decision-making process by which the firm will identify when its recovery plan triggers are reached and how decisions are taken concerning the appropriate actions which follow as well as the process for notifying the PRA. List of key staff involved in the decision-making and activation process and selection of the individual options to be implemented. |
| 2 | Recovery plan options | |
| 2.1 | Summary of options | Summary description of each recovery option and the steps necessary to effect it. |
| | | For each recovery option, please provide the information set out in Table B below. 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. The PRA expects firms to also consider options that may have permanent structural implications including those which would likely be contemplated in extremely stressed circumstances. |
| Further detail on each option | | |
| 2.2 | Impact | A description of the impact of carrying out each recovery option, including metrics. Potential range of impact on capital, liquidity and balance sheet together with explanation of the assumptions made. The range of potential effects of each option on the ongoing business in terms of profit. The quantification of recovery action benefits should be submitted on a post-tax basis. The impact of each option on the ongoing business operations and support functions. The impact of each option on the firm's franchise and how a communication plan can mitigate this. The impact of each option on the firm's ratings. The impact of each option on resolution, eg would it create additional barriers for an orderly resolution. The systemic implication of each option on both the UK and international financial system. |
| 2.3 | Execution/implementation issues | A fully worked-up plan describing the execution of each recovery option. The estimated time to realise the benefits of the recovery option. The risks and hurdles to a successful implementation, including where relevant, any assumptions that have been made about managing foreign currency risks, for example the currency of possible outflows and possible FX swap lines which firms might use to meet those outflows. The dependencies and assumptions for the option. The key regulatory and legal issues. The executive committee which has operational ownership of the option. |

Table A Recovery plan content (continued)

| Number | Heading | Required data/detail |
|--------|--|--|
| 2.4 | Credibility | An assessment of the credibility of each recovery option. |
| | | Likely effectiveness in response to both an idiosyncratic and a market-wide stress. An assessment of the situations in which a particular option may not be feasible/appropriate. Assess which options are mutually exclusive and which options complement each other (likely groupings of options). |
| | | Factors that could reduce the likelihood of success and how these could be mitigated. |
| | | The firm's prior experience in executing each option. |
| | | The circumstances which would render the options unavailable. |
| 3 | Plan for accessing central bank facilities | <p>Firms should prepare plans for accessing central bank liquidity facilities, both at the Bank of England and overseas. Firms plans should include:</p> <ul style="list-style-type: none"> familiarising themselves with the purpose of those facilities; 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. |
| 4 | 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 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/distress level. Firms should explain their valuation methodology and main underlying assumptions. |
| | | In addition to identifying legal entity, business line and/or business unit options, we expect 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, explain why. |
| | | For each disposal option, 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. |
| 5 | 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. |

