Resolvability assessment of major UK banks

The Bank of England (the Bank) published the findings from its first assessment of the resolvability of the major eight UK firms as part of the Resolvability Assessment Framework.

Contents

1: Foreword

This is the first assessment by the Bank of England (the Bank), as resolution authority, of the eight major UK banks' preparations for resolution under the Resolvability Assessment Framework (RAF).

The findings show that today a major UK bank could enter resolution safely: remaining open and continuing to provide vital banking services to the economy. With shareholders and investors, not taxpayers, first in line to bear the costs. This overcomes the 'too big to fail' problem of the past.

We regulate banks to ensure that they are resilient. Our prudential and financial stability frameworks ensure the UK banking sector is strong, and banks have capacity to absorb losses after a shock. We also work with banks to ensure that if they experience serious problems, we are able to deal with them safely, minimising disruption to the UK economy – this is called resolution. Planning for resolution does not mean these banks are likely to experience such problems. But it is important that banks prepare for the worst, so they are able to act if needed. Therefore, we assess their resolvability on an ongoing basis using the RAF.

In 2007–08, the UK did not have such a resolution regime and instead this left two choices when some banks got into trouble: let banks fail and cause huge disruption, or bail them out with taxpayers' money. The major banks were 'too big to fail'. The UK government was forced to use £137 billion of public funds to stabilise the banks while shareholders and investors were protected. And, even despite that support, the disruption to the financial system contributed to the UK and global recession that followed. We cannot forget these lessons.

The authorities now have more choices. We have a robust resolution regime. Banks are in a fundamentally better place thanks to their work in preparing for resolution. The Bank's assessment shows that in a resolution, customers would be able to keep accessing their accounts and business services as normal. Banks' losses and the costs of recapitalisation would be paid for by shareholders and investors, not taxpayers.

The credibility of the resolution regime is shown in market measures of the expectation of government bail-outs, which have fallen significantly since 2007–08. Credibility will be reinforced by the transparency provided by the publication of the Bank's findings and the major UK banks' first disclosures on their own preparations.

No matter how much preparation is done, resolution is always likely to be complex to execute. Maintaining a credible and effective resolution regime that is fit and ready for use is a continuous process with the authorities and the banks responding as the financial system and regulatory landscape evolves.

Major UK banks will need to address the outstanding actions identified as part of the Bank's assessment and keep their preparations ready, tested over time, and be confident in their use should the need arise. For this reason the Bank, as resolution authority, and the Prudential Regulation Authority (PRA) have made resolvability a continuing obligation for banks and required them to publish their own summaries of their preparations for resolution.

The Bank will repeat its assessment of the major UK banks in 2024, and every two years thereafter, to assess the progress they have made in addressing today's findings and enhancing their preparations for resolution. This is consistent with the Bank's aim of maintaining a fit and ready resolution regime: fit for the purpose of maintaining financial stability and market discipline, and ready to be put into action.

Today's publication of the first RAF findings is not the end of the process of ensuring that the UK has an effective resolution regime that continues to be credible, transparent, flexible and proportionate. But it marks an important milestone in ensuring the ongoing development of that regime.

Dave Ramsden
Deputy Governor, Markets and Banking

2: Background

Parliament made the Bank of England responsible for ensuring that banks, building societies and certain investment firms could be resolved in a safe manner, minimising disruption.[1] For simplicity, we refer to these as 'firms'.

This is the Bank's first public assessment of the resolvability preparations of the eight major UK firms under the Resolvability Assessment Framework (RAF) – Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest, Santander UK, Standard Chartered and Virgin Money UK. We refer to these as 'major UK firms'. This document explains the Bank's first assessment and findings in its role as the UK's resolution authority. The Bank's assessment of the resolvability preparations of each of the major UK firms is provided in Sections **4** and **5**.

The Bank is not making an assessment of the likelihood of any firm to enter resolution, or the capability of firms to respond to and recover from stress on a going concern basis. Resolution is part of having a competitive banking system and it is important that when firms do enter resolution, this can happen in a way that causes as little disruption as possible. So firms have a responsibility to ensure they are resolvable. That is, they have taken the steps necessary to ensure the Bank could undertake an orderly resolution that minimises disruption to depositors, businesses and the economy, with recapitalisation costs falling to investors and shareholders.

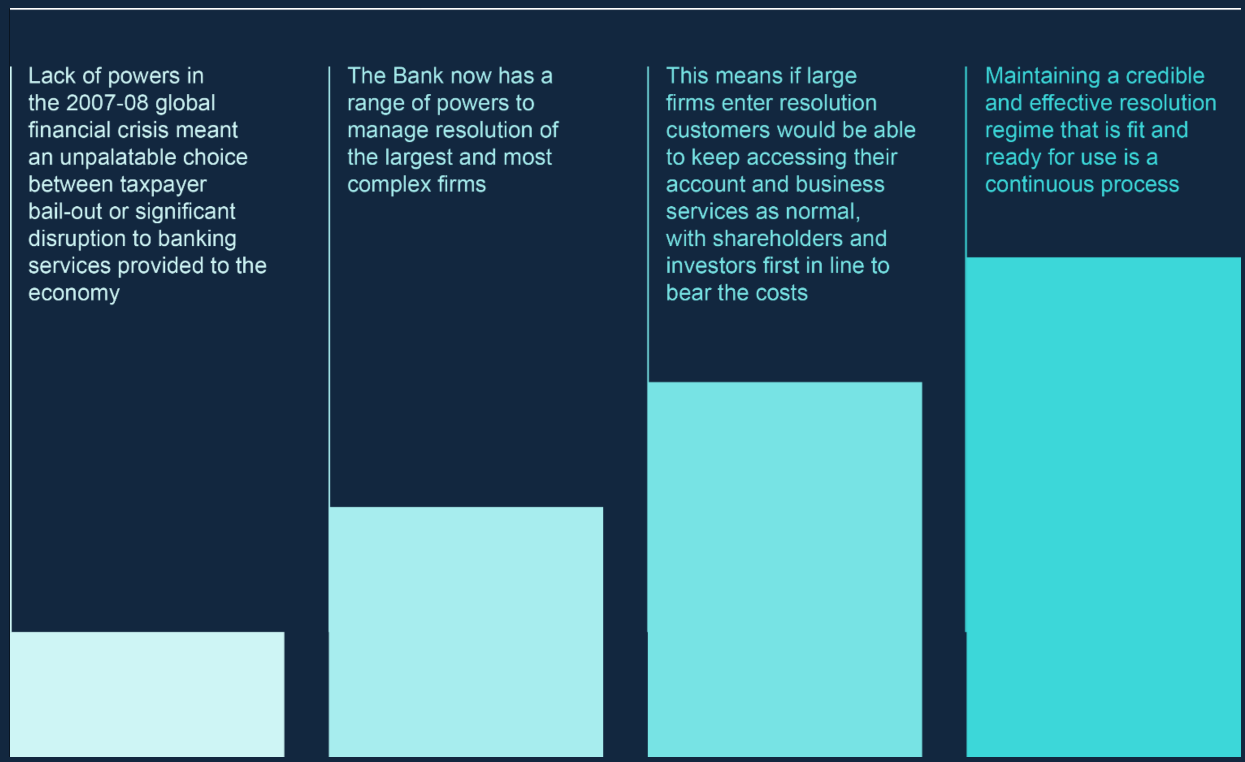
2.1: UK resolution regime

The Bank is the UK resolution authority and aims to ensure that firms can be resolved in a safe manner, minimising disruption. The UK's resolution framework is a core part of the response to the global financial crisis of 2007–08 and the approach to overcome the problem of firms being 'too big to fail'. The role and operation of the resolution regime is explained in more detail in the **Bank of England's Approach to Resolution**.

The resolution regime ensures major firms can remain open and operating with shareholders and investors bearing losses and the costs of recapitalisation. This helps to preserve financial stability as the critical functions of the firm can continue while an orderly restructuring takes place. Resolution therefore reduces risks to depositors, the financial system, and the need for public funds that could arise due to the failure of a firm.

1 The Bank of England is also the resolution authority for UK Central Counterparties (CCPs).

Figure 2.1: How the resolution regime helps address the problems of the 2007–08 global financial crisis



As the UK's resolution authority, the Bank is responsible for planning for, and executing, a resolution of every bank and building society (and some investment firms) in the UK.[2] This is different from our role as prudential supervisor of firms, which is undertaken by the Prudential Regulation Authority (PRA). The PRA sets policy and supervises firms to ensure that they are being run in a safe and sound way, but it does not operate a zero-resolution regime.[3]

2.2: How the Bank of England prepares for a resolution

The Bank aims to maintain a fit and ready resolution regime: fit for the purpose of maintaining financial stability and market discipline; and ready to deal with serious problems at one or more firms. The Bank's overall approach to resolvability supports financial stability through

[2] Resolution powers are, however, only applied if the Bank judges it is in the public interest (having consulted the PRA, Financial Conduct Authority and HM Treasury). If the public interest test is not met, firms are placed instead into a special insolvency regime if they hold deposits or client assets and normal insolvency if they do not.

3 The Bank also assesses firms' resilience to extreme shocks as part of its annual stress testing, which informs the setting of capital buffers by the Financial Policy Committee and PRA. This again is separate to the assessment of resolvability.

strong, effective and proportionate standards appropriate for maintaining a credible resolution regime.

Resolving a major firm will always be complex to execute, therefore the Bank works to ensure it is as prepared as possible. As part of maintaining its own preparedness, the Bank undertakes resolution planning for each firm, maintains operational readiness for a resolution and co-ordinates with other authorities. The Bank has set out how it would expect to use its resolution powers in its **Approach to Resolution** and has published **operational guidance on how it would undertake a bail-in**.

As explained in the Bank's Approach to Resolution, the Bank has a flexible Resolution Liquidity Framework (RLF) to lend to banks, building societies or investment firms where the entity is in a Bank of England led resolution. In the first instance, liquidity would be expected to come from the firm's own resources. But where those resources are temporarily insufficient, and access to private sector funding is disrupted, the Bank has put in place a flexible approach for the provision of liquidity in order to support the resolution. Such liquidity support may be secured against a wide range of collateral, which builds on the collateral eligible for Sterling Monetary Framework operations. The terms of RLF lending are designed to incentivise a return to private sources of funding as soon as possible.

The Bank also has a heightened contingency planning function, the core objective of which is to improve continuously the Bank's capability to execute a resolution transaction. This includes maintaining and regularly testing the operational processes to execute a resolution transaction and ensure readiness for a resolution.

Given the importance of co-ordination and co-operation in a resolution, the Bank has co-operation agreements in place with domestic and international authorities and undertakes regular engagement with them on resolution planning, operational testing and policy development. For example, a series of exercises involving senior officials from the United States and the European Banking Union have taken place. The progress the Bank and other UK authorities have made to operationalise co-operation and co-ordination arrangements was highlighted in the **2022 UK IMF FSAP technical note on crisis management**.

As part of its resolution planning, the Bank participates in regular Crisis Management Groups (CMGs) for Global Systemically Important Banks with a material presence in the UK. Now that CMGs are well-established, the Bank considers operational testing of co-ordination arrangements to be a priority, for example through simulation exercises.

Although it is impossible to predict exactly how a live resolution will unfold, the Bank's aim is to ensure that there are credible and well-tested plans in place. The UK has not had to resolve a large firm since the resolution regime was introduced after the global financial crisis,[4] so planning and testing with key stakeholders is particularly important to ensure that we can use our powers to execute the resolution transaction.

2.3: Resolvability Assessment Framework (RAF)

The RAF is the Bank's approach to assessing whether firms operating in the UK are prepared for resolution. It applies to all firms for whom the Bank sets a bail-in or partial transfer preferred resolution strategy, but is designed to be proportionate.[5] The RAF has three components:

1. The RAF sets three outcomes firms need to achieve to support a resolution if they fail (see **Box A**).
2. The PRA requires major UK firms with more than £50 billion in retail deposits (as detailed in **Figure 3.1**) to perform an assessment of their preparations for resolution and publish a summary of this every two years. As being prepared for resolution is a continuing obligation on firms, the Senior Managers and Certification Regime includes a prescribed responsibility for resolution assessments.
3. A public statement by the Bank concerning the resolvability of the firms with more than £50 billion in retail deposits. This is the first of these statements following the first assessment.

The Bank will repeat the RAF assessment every two years, with the Bank and eight major firms each making a public disclosure at the end of each assessment.

The three outcomes, set out in Box A, reflect the key lessons from the global financial crisis of 2007–08. Firms did not have sufficient financial resources to absorb losses and allow them to be recapitalised. They did not have enough liquidity, or the capabilities to forecast and mobilise their liquidity needs. Their financial and operational contracts were not structured to support continuity. And, some firms had large and complex interconnected operations, meaning their subsequent restructuring and reorganisation took a very long time and came at high cost.

Achieving the three outcomes is not a tick-box activity. Firms must think about how their business works and identify what systems and processes they would need to achieve the three resolvability outcomes in a resolution. All of this must be considered in the context of their preferred resolution strategy and how a resolution would be executed. Larger, more

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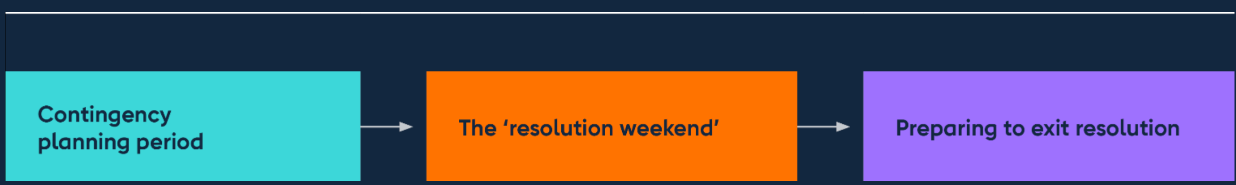
[4] The Bank has carried out resolutions for two firms (Southsea Mortgage and Investment Company Limited and Dunfermline Building Society). These firms were substantially smaller in scale than the major UK banks. Additional information on these **resolutions is on our website.**

[5] The RAF also applies to firms the Bank has notified, in its capacity as host resolution authority, that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK.

complex firms – particularly those with large international footprints – are likely to require more sophisticated systems and processes than smaller, less complex firms. Firms are also required to identify any idiosyncratic barriers to their resolvability, specifically related to their operating structure or business model.

To help firms plan, the Bank has published a stylised resolution timeline (Figure 2.2). The timeline has three phases: the pre-resolution contingency planning period, the 'resolution weekend' and finally preparing to exit resolution (also known as the 'bail-in period') after which the orderly post-resolution restructuring of the firm can continue. In each of these periods, the timeline provides an illustration of what the main steps for the resolution of one of the largest firms might be. It includes the actions required from the failing firm and explains how a firm's systems and people might be utilised.

Figure 2.2: Our stylised resolution timeline outlines the three key phases of resolution



Some of the capabilities needed by the larger firms for resolution are similar to those they would use to execute corporate finance transactions, such as debt for equity swaps. However, given the need for resolution to be implemented quickly by the authorities and the unknown nature and timing of future shocks, there is a much greater emphasis on preparation and flexibility. For example, firms have made preparations ahead of time like establishing financial holding companies and implementing ring-fencing arrangements (where relevant) as well as implementing flexible capabilities developed as part of the RAF.

To ensure the Bank can respond to different scenarios flexibly, it is important that firms' preparations are kept up to date. Under the RAF, firms need to embed assurance and controls, and continually review, assess and test their preparations for resolution and their ability to achieve the three resolvability outcomes as their businesses and the regulatory landscape evolve.

Transparency around the findings of our assessment of major UK firms' preparations for resolution is important. It will help foster a better understanding of the resolution regime and firms' preparedness. Information provided in this document and in firms' own disclosures will help allow investors and counterparties to assess the risks they face should a firm fail and to make more informed decisions. Transparency also creates incentives for firms to continue to maintain and improve their resolvability.

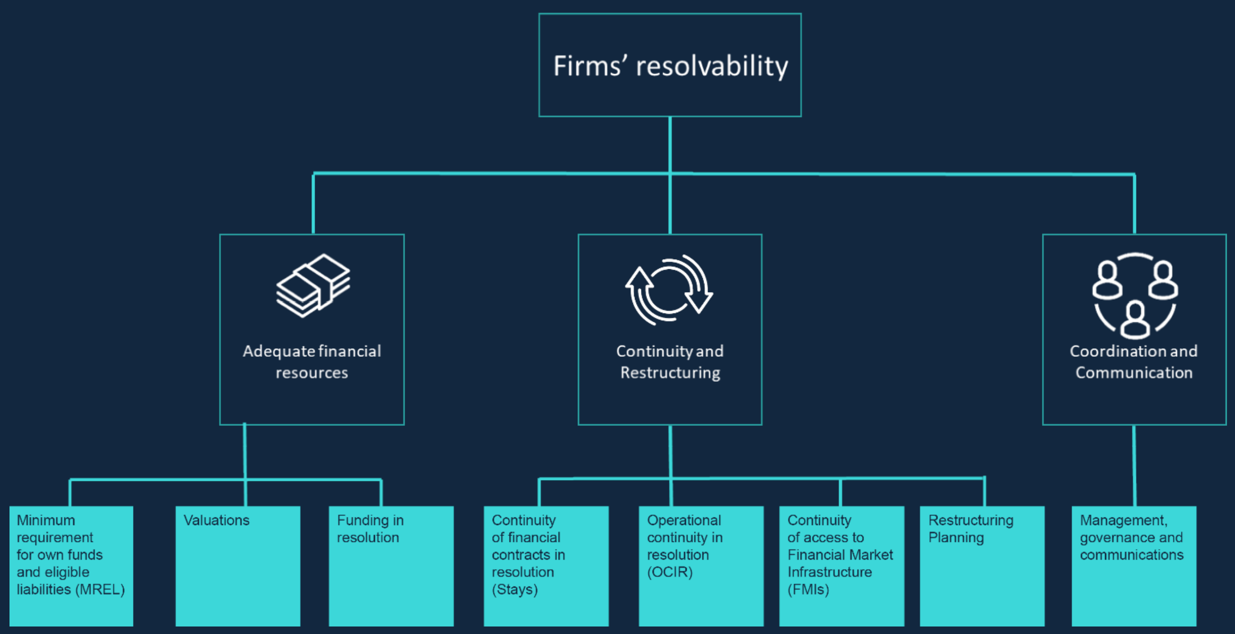
Box A: The RAF resolvability outcomes

The RAF draws together Bank and PRA policies into three outcomes which firms need to be able to achieve so they are prepared for a resolution.

The three outcomes firms must achieve are:

1. having adequate financial resources in the context of resolution;
2. being able to continue to do business through resolution and restructuring; and
3. co-ordinating and communicating effectively internally and with the authorities and markets so that resolution and subsequent restructuring are orderly.

Figure 2.3: The Resolvability Assessment Framework requires firms to achieve the three resolvability outcomes and is supported by eight barrier policies



3: Findings and next steps

The eight major UK firms have made a great deal of progress in enhancing their preparations for resolution and embedding these within their organisations. The results published today show that the major UK firms are in a fundamentally better place than in the global financial crisis of 2007–08. Even so, there are still further improvements to be made. Where we refer in this document to 'the sector' or 'firms', hereafter we mean these eight firms.

Resolution of a major firm is always going to be complex to execute, but the improvements made to date mean that if a major UK firm entered resolution today it could do so safely: remaining open and continuing to provide vital banking services to the economy; and with investors, not taxpayers, first in line to bear the costs, overcoming the 'too big to fail' problem.

Firms have dedicated significant time and resource to this work, recognising the importance of the outcomes and the need for them to take ownership of their own resolvability. The improvements already made include:

- holding more loss-absorbing capacity;[6]
- being able to monitor liquidity needs and mobilise liquid resources throughout resolution;
- 'resolution-proofing' contracts and critical service arrangements to enable continuity through resolution;
- changes to group structure to keep banks open and operating in a resolution;
- the ability to plan at speed for further restructuring changes to return the firm to long-term viability; and
- greater planning for communications in a resolution to ensure public confidence is maintained.

The findings from the assessment reflect the progress made by firms up until February 2022 and are structured thematically (**Section 4**) and by firm (**Section 5**), including guidance about how to interpret these (**Section 5.1**).

Resolvability is best understood as a spectrum, not a binary judgement, and therefore the Bank has not made a pass-or-fail assessment. We have identified a number of thematic and firm-specific areas where further work is needed for firms to meet our expectations and ensure they remain ready for resolution; some firms have more to do than others. These findings are consistent both with this being the first assessment, and with Covid-19 related

[6] The major UK firms now report over £500 billion of MREL resources that could be used to absorb losses and recapitalise them if they fail.

delays to the programmes of work and the assessment.[7] The thematic findings explain progress by the sector against the Bank's resolution policy expectations, and also where more work is needed. Funding in Resolution and Restructuring Planning, in particular, are areas requiring relatively more work across the sector.

Section 5.1 explains the issues we have identified with each firm's ability to achieve the three resolvability outcomes and how we have classified the findings using five terms to describe the issues. Although the findings are specific to individual firms, their business models and resolution strategies, and cannot be compared directly with one another, these terms provide a consistent way of describing the impact the issues identified would have on the Bank's ability to execute a firm's preferred resolution strategy. In this first assessment the Bank has not identified any 'deficiencies' or 'substantive impediments', both of which are serious issues likely to impede the Bank's ability to execute the preferred resolution strategy for a firm in a manner consistent with our statutory resolution objectives.

The Bank has identified 'shortcomings' for three firms. These are issues that may complicate unnecessarily the Bank's ability to undertake a resolution. We have also found 'areas for further enhancement' for six firms. These are specific areas where continued work is needed by firms to enhance or embed capabilities in order to further reduce execution risks associated with resolution. Further improvements by firms against the firm-specific and thematic areas identified in this first assessment will help to smooth the execution of a resolution, should one occur.

In addition to addressing the firm-specific and thematic findings, all firms will need to keep their preparations for resolution 'live' through assurance. This will ensure that their capabilities keep pace with the evolution of their business, changes in market and economic conditions, and the regulatory landscape so the authorities have credible choices and the flexibility to respond to a crisis. Firms' boards and senior management must keep testing and refining their preparations for resolution, so these preparations remain fit for purpose and ready to respond to events.

The Bank will repeat its assessment in 2024 to review the progress the major UK firms have made in addressing the findings from this assessment and enhancing their preparations for resolution. Future assessments are likely to be focused on particular areas of importance or weakness, and will include more detailed verification of firms' preparations by the Bank, building on the Bank's review of firms' own assurance arrangements considered as part of

[7] To provide operational relief to firms during Covid-19, **the Bank and PRA postponed the deadline** for major UK firms to submit their first reports on their preparations for resolution from October 2020 to October 2021. The Bank and PRA also postponed the deadline for the first disclosures by the major UK firms on their preparations for resolution from June 2021 to June 2022. The Bank and PRA did not alter the deadline for major UK firms to achieve the RAF outcomes but did postpone the deadline for mid-tier firms to do so until 1 January 2023.

this first assessment. For more information about how we conducted this assessment see **Section 4.5** and **Section 5.1** for further detail on the findings on the quality of assurance conducted by firms. This is consistent with the Bank's aim to maintain a fit and ready resolution regime.

Even with all this progress, the system cannot be fully resilient to all possible shocks or combinations of shocks that threaten financial stability. Use of public funds to stabilise failed firms as a last resort remains a decision for the UK government. But the preparations made by firms for resolution mean shareholders and investors would bear losses first in a situation where any public funds were required to counter a very severe threat to financial stability.

The firm findings are specific to individual firms, their business models and resolution strategies, and cannot be compared directly with one another. As set out above, firms should tailor their preparations for resolution with larger, more complex firms requiring a more sophisticated approach. The RAF also only assesses whether firms have done what they need to do to prepare for resolution and does not take into consideration other factors relevant to a resolution, for example the authorities' preparedness. More detail on how the Bank prepares for resolution is provided in **Section 2.2**.

Table A: Progress made by firms to address the problems of the 2007–08 financial crisis

Problems	Progress made
Public money used to bail out firms considered 'too big to fail'.	The major UK firms now report over £500 billion of MREL resources that could be used to absorb losses and recapitalise them.
Lack of clarity about the availability of liquid resources to meet obligations during and following a resolution.	Firms are better able to analyse and mobilise liquidity for resolution. Firms also have access to the Bank's liquidity facilities, including the Resolution Liquidity Framework.
Disruption to the financial system (eg market contagion) from the early termination of financial contracts.	Legislative and contractual changes have been made so that resolution does not trigger the early termination of financial contracts.

Problems	Progress made
Failing firms may have suffered operational disruption that would stop them providing critical services.	Firms have arrangements in place to ensure critical functions they provide to the economy continue in resolution, and that they maintain their own access to payment and other services during resolution.
Difficult to identify options for and execute restructuring to address the causes of a firm’s failure.	Firms must be able to plan for restructuring to restore long term viability in the event of a resolution. The largest UK banks must also ‘ring-fence’ retail banking services from the rest of their groups.
No senior management accountability or obligation to prepare for resolution.	Boards and senior management are accountable for resolvability and must prepare for the actions they would need to take in a resolution.

Figure 3.1: Overview of the eight major UK firms [(a)]

Firm	Value of group assets as at 31 December 2021	Resolution strategy
Barclays	£1,384 billion	Single point of entry (SPE) bail-in
HSBC	$2,958 billion	Multiple point of entry (MPE) bail-in
Lloyds Banking Group	£887 billion	Single point of entry (SPE) bail-in
Nationwide	£272 billion as at 4 April 2022	Single point of entry (SPE) bail-in
NatWest	£782 billion	Single point of entry (SPE) bail-in
Santander UK	£294 billion	Multiple point of entry (MPE) bail-in
Standard Chartered	$828 billion	Single point of entry (SPE) bail-in
Virgin Money UK	£89 billion as at 30 September 2021	Single point of entry (SPE) bail-in

(a) This contains information previously published by the major UK firms.

Box B: How the Bank undertook the first RAF assessment

The eight major UK firms submitted reports on their preparations for resolution to the PRA and the Bank in October 2021. Further updates to these reports, following the 1 January 2022 implementation deadline, were provided in February 2022. These reports, along with other supervisory materials received from the firms ahead of and during the cycle, were reviewed by the Bank in developing its assessment.

The Bank undertook a desktop review of the reports and other materials. Taking each firm's structure and business model into account as well as the preferred resolution strategy set for each firm, we assessed firms' arrangements and capabilities against the **Bank's resolution policy expectations** to identify any gaps or weaknesses in firms' ability to achieve the three outcomes in the event of their resolution (**Box A**).

In addition, consistent with the expectation that firms take responsibility for their own resolvability, the Bank reviewed the governance and assurance processes firms have followed when performing their resolvability assessments and preparing their reports. The review explored how firms gained assurance that they had adequately identified, designed and tested their resolvability capabilities and could achieve the three resolvability outcomes. There was some variation in the degree and quality of assurance and testing carried out by each firm as part of this assessment, representing a limitation on the findings and comparability across firms (**Section 4.5**).

The Bank did not directly test firms' resolvability capabilities as part of this assessment, although we expect to do so in future. We have relied on the information provided to us by firms about their capabilities and assurance work they have undertaken. Future assessments are likely to examine specific areas of firms' preparations in more detail, which may include walkthroughs or fire drills. This, as well as firms' own future assurance work, may lead to future RAF assessments identifying additional gaps or weaknesses in firms' resolvability preparations.

The Bank's assessment is in its capacity as UK resolution authority and is therefore focused on firms' resolvability and is on a point in time basis. It is not a supervisory assessment of firms, their likelihood of resolution, or capability to recover from a stress on a going-concern basis. The Bank has based its assessment on the current structure of firms and has not assessed their compliance with UK statutory or regulatory requirements (including, but not limited to, any prudential capital, liquidity, or structural requirements including ring-fencing), or any other legal or regulatory requirements imposed by jurisdictions outside of the UK. The findings from the RAF are an input to the Bank's statutory requirement to assess whether it would be feasible and credible to place a firm into resolution and implement its preferred resolution strategy, while avoiding to the maximum extent possible any significant adverse effect on the financial system or the continuity of the firm’s critical functions. The RAF assessment only considers issues within a firm’s control.

4: Thematic findings

The findings in Sections 4 and 5 reflect the Bank's assessment of the eight major UK firms.

4.1: Adequate Financial Resources

To meet the Adequate Financial Resources outcome, firms need to ensure that they have resolution-ready financial resources available to absorb losses and recapitalise them without exposing public funds to loss. Firms must also have access to sufficient liquid resources to meet their financial obligations in resolution. Both are necessary to keep the firm operating. Firms need to:

- meet the 'minimum requirement for own funds and eligible liabilities' (MREL) and to ensure that these resources are appropriately distributed across their business;
- be able to support a timely assessment of their capital positions and recapitalisation needs (Valuations); and
- be able to analyse and mobilise liquidity in resolution (Funding in Resolution).

MREL

Firms should maintain a sufficient amount of resources that can credibly and feasibly be used to absorb losses and recapitalise them to a level that enables them to continue to comply with the conditions for regulatory authorisation and sustain market confidence. In assessing firms, the Bank considered how they have implemented the Bank and PRA's policies relating to MREL.

All of the major UK firms have reported they are currently meeting their end-state 2022 MREL requirements. The **requirements for each firm have been published** by the Bank. The major UK firms now report over £500 billion of MREL resources that could be used to absorb losses and recapitalise them. Firms now need to maintain robust issuance plans so they continue to meet the Bank's requirements. This includes ensuring that resources are eligible as MREL and do not pose risks to resolvability (eg difficulties in writing down and/or converting MREL resources in resolution).

Firms have met their MREL requirements by issuing resources appropriately so that they can be 'bailed in' or otherwise exposed to loss in a resolution. This includes shares and debt instruments issued externally to the market, typically from a holding company.[8] Key operating companies (eg deposit-taking banks) also issue shares and subordinated debt instruments

[8] Mutually owned institutions such as building societies may not be able to operate with holding companies.

internally to their holding company. This allows losses in the operating company to be borne by the holding company, allowing any resolution action to take place at the level of the holding company and the operating company to remain operational and continue to provide services to customers and the wider economy throughout resolution.[9] Resolution at the holding company level also helps to ensure efficient and effective home and host authority co-ordination.

The Bank has considered how firms have assessed, and are managing, risks to resolvability posed by certain legacy capital instruments.[10] These instruments may pose a risk to the orderly execution of a resolution, including to confidence in the resolution action, which could consequently affect financial stability. For example, contractual recognition of bail-in clauses, which are not included in the contracts governing some of these legacy instruments, can help improve certainty and timeliness in the implementation of resolution actions. Moreover, some of these instruments are not, or will soon no longer be, eligible as regulatory capital. This could affect how the Bank's resolution powers may be applied to them. The Bank welcomes actions taken so far to reduce the stock of these instruments and expects firms to continue to manage and mitigate the risks. This includes, where appropriate and proportionate to do so, taking steps to reduce the remaining stock of these instruments. In the case of instruments without statutory or contractual recognition of UK bail-in requirements, the Bank considers that these instruments will nevertheless be available to absorb losses if it were to use its resolution powers to write down or convert them.

Valuations

Firms should have valuation capabilities that would enable an independent valuer to carry out sufficiently timely and robust valuations to support effective resolution.[11] In assessing firms, the Bank has considered how they have implemented the Bank's Statement of Policy on Valuations.

Firms have made substantial progress with respect to their valuation capabilities for resolution. Valuations in a resolution require a large amount of analysis to be undertaken in a relatively short timeframe. Firms therefore need to ensure that relevant data and information supporting such valuations are robust and could be made readily available. This might include, where appropriate, increased automation of data production and enhancements of corresponding modelling capabilities. Firms should have models in place, where necessary,

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[9] For further information about the framework used by the Bank for setting MREL see '**The Bank of England's approach to setting MREL'**.
[10] Such instruments include those issued by UK entities (including both resolution entities and non-resolution entity UK subsidiaries) that are governed by non-UK law where there is no statutory or contractual recognition of UK bail-in requirements, and also those issued from non-resolution entity UK subsidiaries to holders outside the group and that are ineligible as own funds or will be ineligible as own funds after 28 June 2025.
[11] For UK-led resolutions, the Bank would be required to appoint an independent valuer responsible for producing the valuations required for resolution. Further details of this role are detailed in a **Dear CFO letter**.

ahead of time to produce valuations and forecasts needed in a resolution scenario. These models should be flexible and dynamic, to respond to a wide range of scenarios reflecting the uncertainty of how a resolution would unfold.

Some firms need to do more work to increase automation of data production and enhance modelling capabilities (in particular, sensitivity analysis and flexibility). In some cases, firms are overly reliant on existing data and modelling capabilities. In resolution, the value of their assets and liabilities may move outside normal bounds and prices may fluctuate or be unavailable. For any resolution involving a bail-in, a comparison of a new equity value reflecting such possible changes with a counterfactual insolvency valuation is needed in order to establish the ‘no creditor worse off’ position applicable. Firms need to consider the context of resolution ahead of time, in particular a potentially stressed and accelerated timeline, so they are ready to support the required actions throughout any resolution.

In addition, the Bank’s assessment found that firms had not always fully considered how their capabilities would be used in practice, for example how an independent valuer appointed by the Bank would be given prompt access to the firm’s documentation and systems. It is particularly important that firms enhance this aspect of their capabilities, where appropriate, to avoid delays in a resolution. This analysis is needed so that valuers can understand the size of losses incurred during failure and the recapitalisation costs to be imposed on shareholders and investors.

Firms also need to understand the interaction of their valuation capabilities with other resolution capabilities, for example how valuations inform the assessment of post-resolution restructuring options and the resources required to deliver them. Firms need to ensure their capabilities operate as intended in practice, as this will reduce operational frictions in a resolution and support relevant parties working together more effectively.

Funding in Resolution

Firms should ensure they can continue to meet their obligations as they fall due, are able to estimate, anticipate and monitor their potential liquidity resources and needs, and mobilise liquidity resources in the approach to, and throughout, resolution. In assessing firms, the Bank has considered how they have implemented the Bank’s Statement of Policy on Funding in Resolution.

While progress has been made on Funding in Resolution, relatively more work is required across the sector than on other barriers and this will need to be a key area of focus for firms. Many firms rely on their existing systems and processes and need to do more to demonstrate these can fully deliver the additional analysis needed in resolution scenarios, over and above business-as-usual requirements. Understanding how their liquidity needs and resources may change through a resolution transaction will support firms in standing ready to meet their obligations. Firms also need to do more to ensure their capabilities are sufficiently flexible to provide timely and granular analysis. For example, they need to be able to adjust the estimated point of entry into resolution (following a period of prolonged stress) within their forecasts without compromising the granularity of the analysis, and to be able to answer in sufficient detail other ‘what if’ questions to establish liquidity needs during resolution. This flexibility is key to ensure timely action can be taken throughout all phases of any resolution transaction.

Firms’ ability to identify and forecast collateral available to support funding in a resolution was an area of particular weakness, where firms need to continue to improve their capabilities. Ensuring these capabilities are robust will support liquidity in resolution coming in the first instance from the firm’s own resources, as the Bank expects. These capabilities may also be used if the Bank needs to provide liquidity under its Resolution Liquidity Framework. The Bank intends to continue to engage with firms on this topic, in particular testing their ability to provide information on unencumbered collateral, including collateral beyond what is routinely eligible for Sterling Monetary Framework operations.

Consistent with the overall findings that more work is needed on assurance, a number of firms now need to move their resolution specific systems and processes onto a more sustainable long-term footing. Firms also need to ensure they have introduced robust testing as part of their ongoing work to demonstrate their capabilities can be relied upon. Any resolution transaction is likely to require the use of capabilities in stressed operating conditions. A failing firm may, for example, be seeking liquidity from new source, and need to rely on a wider range of collateral or face significant changes in the values of assets and liabilities. Firms’ testing strategies should be appropriately challenging to reflect this.

4.2: Continuity and Restructuring

To meet the Continuity and Restructuring outcome, firms need to ensure that they can continue activities while the authorities execute a resolution. This includes ensuring that the resolution does not result in the firm’s financial and operational contracts being materially disrupted or terminated (Continuity of Financial Contracts in Resolution and Operational Continuity in Resolution ‘OCIR’), and that direct or indirect access to services delivered using Financial Market Infrastructure is maintained (Continuity of Access to FMIs). Firms also need to be able to plan so that they can execute post-resolution restructuring effectively (Restructuring Planning). Firms should be capable of continuing to operate, serve their clients and customers, and return to long-term viability as a restructured business.

Continuity of Financial Contracts in Resolution

Firms should suitably address the risk of early termination of financial contracts upon entry into resolution to limit any impact on their stability and the wider financial system (ie market contagion) that may otherwise occur as a result of resolution. In assessing firms, the Bank has considered how they have implemented the PRA's Stays in Resolution Rules and principles on the continuity of financial contracts in the Bank's Statement of Policy on the RAF.

The Bank has not identified any areas where material further work is required in relation to the continuity of financial contracts in resolution. Firms have worked to update relevant financial contracts governed by non-UK laws so that they include provisions to ensure a firm's entry into resolution does not, by itself, trigger contractual early termination rights normally triggered by an 'event of default'. Most firms have also put in place processes to ensure that they can produce key information on their financial contracts within a suitable timeframe to support pre-resolution contingency planning and communications with counterparties in a resolution. Where firms have international operations, they should continue developing their understanding of any risks to the early termination of financial contracts in resolution arising in those foreign jurisdictions. This includes understanding the potential implications for their continuity and financial resilience if those contracts are materially disrupted or terminated.

Operational Continuity in Resolution

Firms should ensure their operational continuity arrangements provide continuity at the point of entry into resolution and permit post-stabilisation restructuring, to ensure the continuity of banking services and critical functions. In assessing firms, the Bank has considered how they have implemented the PRA OCIR policy and rules published in 2016.

The Bank has not identified any areas where further material work is required in relation to the current OCIR policy. Most firms have put in place systems that 'map' the critical service providers for their business and have revised most of their existing contracts with these providers to include resolution-specific clauses. Firms should continue to focus on ensuring that they have up-to-date and accurate records of their service providers and contracts.

In May 2021, the PRA updated its OCIR policy to improve firms' resolvability.[12] This includes extending the scope to include more activities vital to the firm's business that are expected to continue through resolution. Firms should continue to work on implementation of the updated policy, due to come into effect from 1 January 2023. The Bank will assess firms against the revised OCIR policy in the next RAF cycle.

[12] Both the existing OCIR policy (Supervisory Statement 9/16) and the updated OCIR policy (Supervisory Statement 4/21) can be found on **the Bank's website.**

Continuity of Access to FMIs

Firms should take all reasonable steps available to facilitate continued access to clearing, payment, settlement, and custody services (through Financial Market Infrastructure ‘FMI’) in order to keep functioning in resolution (recognising that providers of these services may retain a degree of discretion over their ability to terminate a firm’s membership). In assessing firms, the Bank has considered how they have implemented the Bank’s Statement of Policy on Continuity of Access to FMIs.

More work is required by firms on Continuity of Access to FMIs. In order to plan how they will maintain access to critical FMI service providers in stress and during resolution, firms are dependent on information from FMIs (for example, membership requirements and how these may change should a firm be placed into resolution). Firms have engaged bilaterally with their critical FMI service providers to understand the FMI service providers’ potential responses to the firm entering stress or resolution and have used the resulting information as an input into their contingency plans. However, in some cases, the information requested from the FMIs has been delayed, or was not sufficiently comprehensive. This has presented some challenges to firms. These challenges have in most cases been overcome, but some are still being addressed. Firms should continue to engage with their FMI service providers as necessary to continue to develop and maintain their contingency plans for ongoing FMI access.

The Financial Stability Board has taken an active role in promoting clarity from FMIs about their response to a firm being placed into resolution. This included publishing a questionnaire in August 2020 to help FMIs communicate information about their expected response to their members. The Bank, as operator of the Real Time Gross Settlement (RTGS) service and CHAPS, the UK’s high-value payment system, published its **comprehensive response in December 2020**.

Restructuring Planning

Firms should be able to plan and execute restructuring effectively and on a timely basis in the event of resolution. In assessing firms, the Bank has considered how they have implemented the Bank’s Statement of Policy on Restructuring Planning.

Relatively more work is required across the sector on Restructuring Planning than other barriers, and this will need to be a key area of focus for firms. Firms have built upon their existing recovery planning arrangements to put in place the capabilities needed to deliver a business reorganisation plan (no later than one month after entry into resolution) which, once implemented, would aim to address the causes of failure and return the firm to a viable business model.

Firms have used their recovery planning capabilities to identify and evaluate potential restructuring options to seek to understand their expected benefits in a resolution and regulatory capital, liquidity and other financial impacts in a resolution.

Consistent with the overall findings on assurance, firms need to do more to assure themselves of the effectiveness of their restructuring planning capabilities, including how they produce an overall business reorganisation plan under time pressure, and analyse the impacts of combining multiple restructuring options. Firms' assurance should reflect that they are likely to have already deployed recovery options prior to any entry to resolution.

Firms' restructuring planning capabilities, and the assurance of these capabilities, should reflect idiosyncratic factors specific to their individual business models and structures. As part of this, firms should consider the interdependencies between Restructuring Planning and other capabilities, such as those for Valuations and Funding in Resolution. Where relevant, firms should also continue to develop their trading activity wind-down capabilities to support restructuring. Additionally, where relevant, firms should consider further the operational arrangements that would be needed to execute restructuring options, and, in turn, how executing restructuring options may affect their operational structures.

Restructuring a firm following resolution is an inherently complex task and will result in uncomfortable decisions, potentially including significant changes to its business model and structure in order to address the causes of failure. Firms need to understand the different set of challenges and potential context-specific implications of a resolution, including for the identification of restructuring options to support the restoration of a viable business model that is sustainable in the long-term.

4.3: Co-ordination and Communication

To meet the co-ordination and communication outcome, firms need to have capabilities, resources, and arrangements in place to meet the objectives set out in the Bank's Statement of Policy on Management, Governance and Communication.

Management, Governance and Communication

Firms should be able – during the execution of a resolution – to ensure that their key roles are suitably staffed and incentivised, that their governance arrangements provide effective oversight and timely decision-making, and that they deliver timely and effective communications to staff, authorities, customers and other external stakeholders. In assessing firms, the Bank has considered how they have implemented the Bank's Statement of Policy on Management, Governance and Communication.

The Bank has not identified any areas where material further work is required in relation to management, governance and communications in resolution. Firms should continue to improve these capabilities, ensuring that they are not overly reliant on business-as-usual capabilities to deliver the barrier objectives and that these capabilities are suitable for resolution. Specifically, firms should continue to refine their communications capabilities to ensure that these are sufficiently robust and well-tested for resolution. Firms should ensure that these capabilities are able to handle the unique demands of resolution, considering how different stakeholders across the world can be best served, and how communications plans across other barriers should be linked.

Some firms have further enhancements to make in order to identify more clearly their internal triggers to start pre-resolution contingency planning. Some firms also need to ensure that they have a flexible governance framework for how they would interact with a Bail-in-Administrator (BIA) appointed by the Bank. In particular, we expect firms to consider and plan for various roles that the BIA could potentially perform in a resolution, as well as to ensure suitable on-boarding and support is provided to the BIA to ensure an orderly resolution.

4.4: Other barriers to resolution

The barriers described above are not an exhaustive list. In order to achieve the resolvability outcomes, firms also need to consider how their specific structure and/or business model may prevent the resolvability outcomes from being achieved. Some firms identified idiosyncratic barriers to their resolvability, and these are documented in their own published disclosures. The Bank has not identified any of these as being sector-wide issues.

4.5: Firms' own assurance arrangements

A key principle of the RAF is that firms are responsible for their own resolvability. Therefore it is important for firms, at a minimum, to have robust internal governance processes and testing arrangements to ensure that they meet the three resolvability outcomes on an ongoing basis. Our assessment showed that there was variation across firms in the degree and quality of assurance that had been carried out.

Governance processes

Firms generally had clearly defined governance processes and accountability models to design and implement resolvability capabilities. Work within firms on this was generally managed on a project basis. All the firms have allocated the prescribed responsibility for recovery and resolution to a member of the Executive Committee (for example the Chief Financial Officer) in line with the Senior Managers and Certification Regime, and clearly allocated responsibilities within their organisations for ascertaining whether they are able to meet the objectives of each barrier.

In most of the firms, the board and senior management appeared to be suitably engaged on the adequacy of firms' resolution capabilities. In a minority of firms there was limited evidence that the board and senior management had been sufficiently engaged. It will be important for boards and senior management to ensure that resolvability has appropriate attention as governance arrangements for resolvability are moved into the existing business-as-usual arrangements.

Most firms had an adequate process for identifying the capabilities required to meet the barrier objectives and three resolvability outcomes. However, for a number of firms the design of some capabilities is heavily reliant on existing systems and processes with insufficient forethought over whether they are adequate for resolution.

Testing arrangements

The scope of firms' testing of individual capabilities has varied. It has ranged from testing capabilities in isolation and at different points in time in some firms, whereas in others there is more extensive capability testing, incorporating capability interdependencies and testing the flow of capability processes from start to finish. For some firms there was insufficient oversight from Risk and/or Internal Audit. A number of firms engaged independent third parties to provide additional assurance on their capabilities and guidance on technical areas, for example on Valuations.

More extensive testing of whether capabilities would likely work as intended in a resolution, taking into account their resolution strategies and the Bank's stylised resolution timeline, should be an area of focus for firms. The Bank encourages firms to conduct or continue to conduct resolution scenario-based testing focused on the interaction between barrier capabilities, interdependencies between barriers and the activation of governance in a time-pressured environment. While testing of individual capabilities is particularly useful during the design phase, more integrated and scenario-based testing helps identify how well a firm's preparations would stand up to being used, and highlights where improvements may be needed. The Bank expects that firms' testing of resolvability capabilities (including resolution scenario-based testing) will be refined over time, increasing in complexity and scope, following this first RAF assessment.

4.6: Next steps

Consistent with resolvability being a continuing obligation, firms need to continue to embed resolvability in their governance processes, so that their capabilities for a resolution are kept live and firms' boards and senior management are confident that their firms can, at a minimum, continue to meet the resolvability outcomes. For example, governance processes should ensure that resolvability considerations are part of strategic decision-making to ensure that the firm's resolvability is maintained as its business and structure evolves. Similarly, boards and senior management should continue to consider what further testing and/or exercises are required to maintain a sufficient level of assurance of their firm's resolvability.

Firms should consider further testing of their resolvability capabilities conducted under time and resource constraints, as would be the case in a resolution. Firms should consider the roles of their Risk and Internal Audit functions, and business subject matter experts as well as third parties in conducting testing. Areas of focus for firms could include testing whether crucial processes common across barriers (such as the financial forecasting processes) are sufficient to deliver each element of the resolution process, and that interdependencies between capabilities are fully considered and tested eg between Funding in Resolution, Valuations, OCIR and Restructuring Planning.

The Bank expects to conduct its own direct verification of firms' resolvability preparedness in future, consistent with the objective of maintaining a fit and ready resolution regime. For example, as mentioned in the Funding in Resolution section above, the Bank intends to test firms' ability to provide information on unencumbered collateral.

The Bank will continue to engage firms regarding these issues ahead of the next RAF assessment in 2024.

5: Firm-specific findings

The findings are specific to individual firms, their business models and resolution strategies, and cannot be compared directly with one another. As set out above, firms should tailor their preparations for resolution. Larger, more complex firms – particularly those with large international footprints – are likely to require more sophisticated systems and processes than smaller or less complex firms. And firms need to tailor their preparations to their resolution strategy, including, where applicable, having the ability to restructure and separate their group structure to facilitate a multiple point of entry resolution strategy.

We set out in **Box B** how we undertook the assessment, and that there was variation in the degree and quality of assurance carried out by each firm as part of this assessment. Although this represents a limitation on the findings and reduces comparability across firms the Bank has been able to reach the following conclusions.

5.1: How to read the Bank's firm-specific findings

This is the Bank of England's first public statement concerning the resolvability of the eight major UK firms. The findings should be read in conjunction with the Bank's thematic findings from the first RAF assessment **Section 4**. This sets out that firms have made a great deal of progress since the financial crisis to improve their resolvability. The RAF makes firms' boards and senior management responsible for their resolvability and preparations for the decisions and actions they would need to take in a resolution.

The improvements already made across the sector include:

- holding more loss-absorbing capacity;[13]
- being able to monitor liquidity needs and mobilise liquid resources throughout resolution;
- 'resolution-proofing' contracts and critical service arrangements to enable continuity through resolution;
- changes to group structure to keep banks open and operating in a resolution;
- the ability to plan at speed for further restructuring changes to return the firm to long term viability; and
- greater planning for communications in a resolution to ensure public confidence is maintained.

[13] The major UK firms now report over £500 billion of MREL resources that could be used to absorb losses and recapitalise them if they fail.

While recognising the progress firms have made over recent years, the firm-specific findings identify any issues that could prevent each firm from achieving the three resolvability outcomes expected of firms by the Bank in its role as UK resolution authority. The assessment is of the adequacy of an individual firms' preparations for resolution. The Bank is not making an assessment of the likelihood of failure of any firm, or the capability of firms to respond to and recover from stress on a going concern basis.

The Bank has based its assessment on the current structure of firms and has not assessed their compliance with UK statutory or regulatory requirements (including, but not limited to, any prudential capital, liquidity, or structural requirements including ring-fencing), or any other legal or regulatory requirements imposed by jurisdictions outside of the UK. This assessment does not make pass-or-fail judgments as resolvability is best considered as a spectrum, rather than a binary judgment.

The findings relate to a point-in-time assessment reflecting information submitted to the Bank by firms up until February 2022. Further information about the assessment undertaken by the Bank can be found in **Box B**. The Bank has not tested firms' resolvability capabilities as part of its assessment, although it expects to do so in future. We have relied on the information provided to us by firms about their capabilities and assurance work they have undertaken.

Firms have a continuing obligation to maintain and continuously improve their resolvability capabilities and ensure these respond to changes in their business model, structure and external environment. Future assessments are likely to examine specific areas of firms' preparations in more detail, which may include scenario based tests, walkthroughs or fire drills. We may review work on a thematic or firm specific basis. This, as well as firms' own future assurance work, may lead to future RAF assessments identifying additional gaps or weaknesses in firms' resolvability preparations.

The findings from the Bank's assessment have been expressed using the following terminology in Table B.

Table B: Terminology used to describe firm-specific issues identified

Terminology	Meaning
'No material issues currently identified'	No shortcoming, deficiency or area for further enhancement identified to date with the firm's implementation of the RAF. The Bank will continue to test firms' capabilities and the Bank reserves the right to subsequently identify issues with a bank's approach.

Terminology	Meaning
'Area for further enhancement'	Issues not identified by the Bank as a shortcoming or deficiency to date, but where continued work is needed by the bank to enhance and/or embed capabilities within the business in order to further reduce execution risks associated with resolution.
'Shortcoming'	An issue which **may impede** the Bank's ability to execute the bank's preferred resolution strategy in a manner consistent with its statutory resolution objectives.
'Deficiency'	An issue which **is likely to impede** the Bank's ability to execute the bank's preferred resolution strategy in a manner consistent with its statutory resolution objectives.
'Substantive Impediment', as per Section 3A and 3B of the Banking Act 2009	The formal statutory process through which the Bank, as UK resolution authority, can direct banks to remove substantive impediments to resolvability. Further information on how the Bank would exercise these powers is set out in '**Statement of Policy** on the Bank of England's power to direct institutions to address impediments to resolvability.'

Although the findings are specific to individual firms, their business models and resolution strategies, and cannot be compared directly with one another, these terms provide a consistent way of describing the impact the issues identified would have on the Bank's ability to execute the firm's preferred resolution strategy.

The Bank has not identified any 'deficiencies' or 'substantive impediments', both of which are serious issues likely to impede the Bank's ability to execute the preferred resolution strategy in a manner consistent with its statutory resolution objectives.

The findings in this assessment are classified as 'shortcomings' or 'areas for further enhancement'. Further improvements in the areas identified will help to smooth the execution of a resolution. In addition the Bank has found 'no material issues' in a number of areas.

Firms have also published their own disclosures setting out a summary of their preparations for resolution. The Bank's findings for each firm refer to actions or commitments described by firms in these disclosures to address shortcomings identified by the Bank.

5.2: Resolvability Assessment Framework 2022: Barclays

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for Barclays PLC (Barclays) is a single point of entry (SPE) bail-in at Barclays PLC, the group holding company, led by the home resolution authority, the Bank of England.

Adequate Financial Resources – Area for Further Enhancement

The Bank's assessment has identified an area for further enhancement with respect to Barclays' approach to achieving the Adequate Financial Resources outcome, relating to Barclays' Valuations capabilities. This area for further enhancement relates to Barclays' approach to the assurance expectations set out in the Valuations Statement of Policy. The Bank will continue to engage with Barclays on this issue.

Continuity and Restructuring – Area for Further Enhancement

The Bank's assessment has identified an area for further enhancement with respect to Barclays' approach to achieving the Continuity and Restructuring outcome, relating to Barclays' Restructuring Planning capabilities. This area for further enhancement relates to Barclays' approach to the assurance expectations set out in the Restructuring Planning Statement of Policy. The Bank will continue to engage with Barclays on this issue.

Co-ordination and Communication – No material issues currently identified

The Bank's assessment has not currently identified any material issues in Barclays' approach to achieving the Co-ordination and Communication outcome. Barclays needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

5.3: Resolvability Assessment Framework 2022: HSBC

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for HSBC Holdings plc (HSBC) is a multiple point of entry bail-in (MPE) (see **Section 5** setting out how banks with an MPE strategy need to build capabilities for use in a resolution). In the UK, the Bank of England will apply its resolution powers at HSBC Holdings plc, the group holding company.

Adequate Financial Resources – Shortcoming

The Bank's assessment has identified a shortcoming in HSBC's approach to achieving the Adequate Financial Resources outcome that may impede the Bank's ability to execute the preferred resolution strategy, relating to HSBC's Funding in Resolution capabilities. The Funding in Resolution shortcoming relates to the production of resolution specific liquidity analysis, including analysis that identifies and projects collateral balances that may be available to HSBC in resolution. This may impact the ability of HSBC's senior management and the Bank to take timely and robust decisions in a resolution. The Bank notes HSBC has committed in its **RAF disclosure** to improve its Funding in Resolution capabilities. The Bank expects HSBC to address this shortcoming and will closely monitor progress as part of ongoing engagement with HSBC. The Bank will assess progress and report on this in the next RAF assessment in 2024.

In addition, the Bank's assessment has identified an area for further enhancement with respect to HSBC's Valuations capabilities. This relates to the availability of sufficiently granular data and the flexibility of resolution specific models to adapt to different inputs and assumptions. The Bank will continue to engage with HSBC on this issue.

Continuity and Restructuring – Shortcomings

The Bank's assessment has identified shortcomings in HSBC's approach to achieving the Continuity and Restructuring outcome that may impede the Bank's ability to execute the preferred resolution strategy, relating to HSBC's Restructuring Planning, and Continuity of Access to FMI capabilities. The Restructuring Planning shortcoming relates to how HSBC plans to execute the restructuring actions which could be required in some resolution scenarios for an MPE group. Specifically, HSBC's capabilities need to be improved to support delivery of a wide range of potential actions that could be required in different resolution scenarios within a reasonable timeframe, including those that go beyond what would be considered in recovery planning. This includes actions in an MPE structure that may require significant changes to business models and structure to address the causes of failure. This shortcoming may limit authorities' options in a resolution. The Continuity of Access to FMI shortcoming relates to HSBC's lack of centralised information about non-critical FMI relationships. The absence of these capabilities may cause delays and legal risk in a resolution.

The Bank notes HSBC has committed in its **RAF disclosure** to improve its Restructuring Planning and Continuity of Access to FMI capabilities. The Bank expects HSBC to address these shortcomings and will closely monitor progress as part of ongoing engagement with HSBC. The Bank will assess progress and report on these in the next RAF assessment in 2024.

Co-ordination and Communication – Area for further enhancement

The Bank’s assessment has identified an area for further enhancement with respect to HSBC’s approach to achieving the Co-ordination and Communication outcome, relating to HSBC’s Management, Governance and Communication capabilities. This area for further enhancement relates to HSBC’s flexibility to support the wide range of potential roles a Bail-in-Administrator could undertake during a resolution. The Bank will continue to engage with HSBC on this issue.

5.4: Resolvability Assessment Framework 2022: Lloyds Banking Group

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for Lloyds Banking Group plc (LBG) is a single point of entry (SPE) bail-in at Lloyds Banking Group plc, the group holding company, led by the home resolution authority, the Bank of England.

Adequate Financial Resources – Shortcoming

The Bank’s assessment has identified a shortcoming in LBG’s approach to achieving the Adequate Financial Resources outcome that may impede the Bank’s ability to execute the preferred resolution strategy, relating to LBG’s Funding in Resolution capabilities. The shortcoming relates to the production of resolution specific liquidity analysis and may impact the ability of LBG’s senior management and the Bank to take timely and robust decisions in a resolution. The Bank notes that **LBG’s RAF disclosure** sets out the additional remedial work conducted to address this issue since the Bank’s assessment. The Bank will assess this progress in LBG's Funding in Resolution capabilities and report on this in the next RAF assessment in 2024.

Continuity and Restructuring – No material issues currently identified

The Bank’s assessment has not currently identified any material issues in LBG’s approach to achieving the Continuity and Restructuring outcome. LBG needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

Co-ordination and Communication – No material issues currently identified

The Bank’s assessment has not currently identified any material issues in LBG’s approach to achieving the Co-ordination and Communication outcome. LBG needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

5.5: Resolvability Assessment Framework 2022: Nationwide Building Society

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for Nationwide Building Society (Nationwide) is a single point of entry (SPE) bail-in at the group parent level, led by the Bank of England as resolution authority.

Adequate Financial Resources – Area for further enhancement

The Bank's assessment has identified an area for further enhancement with respect to Nationwide's approach to achieving the Adequate Financial Resources outcome, relating to Nationwide's Funding in Resolution capabilities. This relates to the production of resolution specific liquidity analysis. The Bank will continue to engage with Nationwide on this issue.

Continuity and Restructuring – No material issues currently identified

The Bank's assessment has not currently identified any material issues in Nationwide's approach to achieving the Continuity and Restructuring outcome. Nationwide needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

Co-ordination and Communication – No material issues currently identified

The Bank's assessment has not currently identified any material issues in Nationwide's approach to achieving the Co-ordination and Communication outcome. Nationwide needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

5.6: Resolvability Assessment Framework 2022: NatWest

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for NatWest Group plc (NatWest) is a single point of entry (SPE) bail-in at NatWest Group plc, the group holding company, led by the home resolution authority, the Bank of England.

Adequate Financial Resources – Area for further enhancement

The Bank's assessment has identified an area for further enhancement with respect to NatWest's approach to achieving the Adequate Financial Resources outcome, relating to NatWest's Funding in Resolution capabilities. This area for further enhancement relates to NatWest's approach to the assurance expectations set out in the Funding in Resolution Statement of Policy, specifically for newly completed capabilities. The Bank will continue to engage with NatWest on this issue.

Continuity and Restructuring – Area for further enhancement

The Bank's assessment has identified an area for further enhancement with respect to NatWest's approach to achieving the Continuity and Restructuring outcome, relating to NatWest's Operational Continuity in Resolution capabilities. This relates to NatWest's record keeping for critical services and contracts. The Bank will continue to engage with NatWest on this issue.

Co-ordination and Communication – No material issues currently identified

The Bank's assessment has not currently identified any material issues in NatWest's approach to achieving the Co-ordination and Communication outcome. NatWest needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

5.7: Resolvability Assessment Framework 2022: Santander UK

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for Santander UK Group Holdings plc (Santander UK) is a multiple point of entry (MPE) bail-in (see **Section 5** setting out how banks with an MPE strategy need to build capabilities for use in a resolution). In the UK, the Bank of England will apply its resolution powers at Santander UK Group Holdings plc, the UK intermediate holding company.

Adequate Financial Resources – No material issues currently identified

The Bank's assessment has not currently identified any material issues in Santander UK's approach to achieving the Adequate Financial Resources outcome. Santander UK needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

Continuity and Restructuring – No material issues currently identified

The Bank's assessment has not currently identified any material issues in Santander UK's approach to achieving the Continuity and Restructuring outcome. Santander UK needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

Co-ordination and Communication – No material issues currently identified

The Bank's assessment has not currently identified any material issues in Santander UK's approach to achieving the Co-ordination and Communication outcome. Santander UK needs to maintain and continuously improve its capabilities and ensure that they are adapted to reflect any changes in its operations. The Bank will review this as part of future RAF assessments.

5.8: Resolvability Assessment Framework 2022: Standard Chartered

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for Standard Chartered PLC (Standard Chartered) is a single point of entry (SPE) bail-in at Standard Chartered PLC, the group holding company, led by the home resolution authority, the Bank of England.

Adequate Financial Resources – Shortcomings

The Bank's assessment has identified shortcomings in Standard Chartered's approach to achieving the Adequate Financial Resources outcome that may impede the Bank's ability to execute the preferred resolution strategy. These relate to Standard Chartered's Funding in Resolution and Valuations capabilities.

The Funding in Resolution shortcoming relates to the production of resolution specific liquidity analysis, including analysis that identifies and projects collateral balances that may be available to Standard Chartered in resolution. The Valuations shortcoming relates to the preparation of sensitivity analysis under different scenarios concurrently and the flexibility of resolution specific models to adapt to different inputs and assumptions, and may impact the ability of the Independent Valuer to carry out resolution valuations. These shortcomings may impact the ability of Standard Chartered's senior management, the Bank and other authorities to take timely and robust decisions in a resolution. The Bank notes Standard Chartered has committed in its **RAF disclosure** to improve its Funding in Resolution and Valuations capabilities. The Bank expects Standard Chartered to address these shortcomings and will closely monitor progress as part of ongoing engagement with Standard

Chartered. The Bank will assess progress and report on this in the next RAF assessment in 2024.

Continuity and Restructuring – Shortcoming

The Bank's assessment has identified a shortcoming in Standard Chartered's approach to achieving the Continuity and Restructuring outcome that may impede the Bank's ability to execute the preferred resolution strategy, relating to Standard Chartered's Restructuring Planning capabilities. The shortcoming relates to Standard Chartered's identification and evaluation of all available restructuring options in a wide range of resolution scenarios and may limit the restructuring options that could be executed in a resolution. The Bank notes Standard Chartered has committed in its **RAF disclosure** to improve its Restructuring Planning capabilities. The Bank expects Standard Chartered to address this shortcoming and will closely monitor progress as part of ongoing engagement with Standard Chartered. The Bank will assess progress and report on these in the next RAF assessment in 2024.

Co-ordination and Communication – Area for further enhancement

The Bank's assessment has identified an area for further enhancement with respect to Standard Chartered's approach to achieving the Co-ordination and Communication outcome, relating to Standard Chartered's Management, Governance and Communication capabilities. This relates to further embedding of its resolution specific capabilities, in line with its multi-jurisdictional business model. The Bank will continue to engage with Standard Chartered on this issue.

5.9: Resolvability Assessment Framework 2022: Virgin Money UK

Please read in conjunction with **Section 5.1**.

Preferred Resolution Strategy

The preferred resolution strategy for Virgin Money UK PLC (Virgin Money UK) is a single point of entry (SPE) bail-in at Virgin Money UK PLC, the group holding company, led by the Bank of England as resolution authority.

Adequate Financial Resources – Areas for further enhancement

The Bank's assessment has identified areas for further enhancement with Virgin Money UK's approach to achieving the Adequate Financial Resources outcome, relating to Virgin Money UK's Funding in Resolution and Valuations capabilities. The Funding in Resolution area for further enhancement relates to the production of resolution specific liquidity analysis. The Valuations area for further enhancement relates to the processes to produce robust data and flexibility of resolution specific models to adapt to different inputs and assumptions. The Bank will continue to engage with Virgin Money UK on these issues.

Continuity and Restructuring – Area for further enhancement

The Bank's assessment has identified an area for further enhancement with respect to Virgin Money UK's approach to achieving the Continuity and Restructuring outcome, relating to Virgin Money UK's Restructuring Planning capabilities. This relates to planning for the execution of restructuring options and flexibility to cost options. The Bank will continue to engage with Virgin Money UK on this issue.

Co-ordination and Communication – Area for further enhancement

The Bank's assessment has identified an area for further enhancement with respect to Virgin Money UK's approach to achieving the Co-ordination and Communication outcome, relating to Virgin Money UK's Management, Governance and Communication capabilities. This relates to communications capabilities in a resolution and flexibility to support the wide range of potential roles a Bail-In-Administrator could undertake during a resolution. The Bank will continue to engage with Virgin Money UK on this issue.

6: Link to firms' disclosures

Firms have also published their own disclosures setting out a summary of their preparations for resolution, which can be accessed via the following links.

Barclays

HSBC

Lloyds Banking Group

NatWest

Nationwide

Santander UK

Standard Chartered

Virgin Money UK

Glossary

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

Bail-In-Administrator (BIA) – An individual or body corporate appointed by the Bank to perform specified functions in relation to a firm in resolution, such as controlling the voting rights of all shares in the firm.

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

Barrier – An impediment to the effective implementation of a firm's resolution strategy, which could impact the resolvability of the firm.

Central Counterparty (CCP) – An institution that reduces risk in financial markets by interposing themselves between trading counterparties and guaranteeing the obligations agreed.

Clearing House Automated Payment System (CHAPS) – A payment system operated by the Bank of England which allows payments made between UK accounts to arrive the same day they are made.

Crisis management group (CMG) – A forum bringing key supervisory and resolution authorities of a major international firms together periodically and in a crisis, to plan for a cross-border financial crisis affecting the firm.

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

Financial Market Infrastructure (FMI) – Payment systems, securities settlement systems and central counterparties.

Financial Policy Committee (FPC) – A Bank of England committee that identifies, monitors and takes action to remove or reduce risks in the financial system to protect and enhance its resilience.

Financial Sector Assessment Program (FSAP) – Comprehensive and in-depth analysis of a country's financial sector.

Financial Stability Board (FSB) – An international body that monitors and makes recommendations about the global financial system. See **Financial Stability Board**.

Independent valuer – For UK-led resolutions, the Bank of England would be required to appoint an independent valuer responsible for producing the valuations required for resolution.

Loss-absorbing capacity – Firms must ensure that sufficient loss-absorbing and recapitalisation capacity would be available in resolution for an orderly resolution to be implemented.

Multiple point of entry (MPE) bail-in – A resolution strategy that envisages applying resolution powers to multiple entities within a group.

No creditor worse off (NCWO) – A legal safeguard that requires that no shareholder or creditor is left worse off from the use of resolution powers than they would have been had the whole bank been placed into an insolvency process.

Prudential Regulation Authority (PRA) – The PRA is responsible for the prudential regulation and supervision of 1,500 banks, building societies, credit unions, insurers and major investment firms.

Real-time gross settlement (RTGS) – An infrastructure operated by the Bank of England that holds accounts for banks, building societies and other institutions. The balances in these accounts can be used to move money in real time between these account holders.

Resolution – A way to manage the failure of a bank, building society, central counterparty or certain types of investment firm, to minimise the impact on depositors, the financial system and public finances.

Resolution authority – The Bank of England is the UK's resolution authority.

Resolution contingency period – The period of intensified contingency planning for resolution, starting from when there is a heightened risk to a firm's viability and ending when either the firm enters resolution or there is no longer a heightened risk to its viability.

Resolution entity – An entity within a group to which powers would be applied under the group resolution plan.

Resolution Liquidity Framework – The framework providing the tools to lend to banks, building societies or investment firms subject to the resolution regime, where the entity or its holding company is in a Bank of England led resolution (but not subject to an insolvency or administration procedure).

Resolution weekend – The period from the point when the Bank determines that a firm has met the conditions for resolution, and that the relevant resolution entity will be placed into resolution, until the start of the next business day. The Bank will endeavour to ensure that this phase takes place over a weekend, but in exceptional circumstances resolution may need to take place mid-week.

Resolvability Assessment Framework (RAF) – A policy framework that places responsibility with firms to demonstrate their preparedness for resolution. Some firms and the Bank of England must make biennial public statements on firms' resolvability.

Senior Managers and Certification Regime – Aims to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

Single point of entry (SPE) bail-in – A single point of entry resolution involves the application of resolution powers at a single resolution entity within the group, generally the parent or holding company.

Sterling Monetary Framework – The Bank's set of official operations in sterling short-term money markets. This includes operations and facilities that help the Bank to achieve both its monetary policy and financial stability objectives, which are available to a range of eligible financial firms. For further information see the **Bank of England Market Operations Guide**.