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Recovery and Resolution Plans - Remarks by Andrew Bailey

In remarks made today at the Santander International Banking Conference in Madrid, Andrew Bailey - Executive Director for Banking Services and Chief Cashier - discusses the role of Recovery and Resolution Plans (RRPs) as part of the response to the banking crisis. He notes that ".fire prevention is better than fire-fighting. We cannot justify having a banking system that depends on the use of public money to douse the fire when the crisis comes. And we also cannot allow conditions to exist where risks are taken on the basis that this backstop exists."

In terms of correcting the situation, Andrew Bailey says there are three elements to the debate - regulation, structure and resolution. Regulation seeks to re-build fire prevention systems with action on capital and liquidity requirements. Prevention might also involve re-drawing the financial landscape - its structure. But better prevention, he says, ".cannot guarantee that there will be no fires in the future. this is the resolution element. In short, we need better fire prevention and better fire-fighting."

Andrew Bailey notes that the introduction of the UK's Special Resolution Regime has been a major step but the next stage is introduce recovery and resolution plans as ".critical tools both for banks themselves, and for banking supervisors and resolution authorities". On recovery plans, he welcomes international support for contingency plans and wind-down procedures. He argues that they ".need to be owned by financial institutions at Board level. At the heart of the role of these plans is taking a forward-looking view of the threats that should be tackled". He notes that recovery plans complement and build on stress testing work: "The objective of a recovery plan should be to set out how a bank may react to a whole range of stresses and the steps that it could plausibly take to head off the impact of these stresses in order to avoid formal resolution actions in the event of failure. Recovery plans should encompass contingency funding plans and the use of contingent capital instruments as well as the sale of assets and/or business lines."

On resolution plans, Andrew Bailey says they ". must be produced and owned by the authorities. But firms have a vital role to play in these plans". They have two key objectives: "First, to make it more straightforward and less costly for resolution authorities to resolve firms by creating a permanent state of readiness. Second, as a means to deal with the 'too complex to resolve' state by demonstrating where structures need to be changed. This is all about reducing the cost of resolution and thereby the risk to the stability of the system."

He stresses that the Bank of England, in its role as a resolution authority, "will be placing great emphasis on the existence of credible and useable resolution plans". He says that together recovery and resolution plans will be a "device to enable tough questioning of structures and business models".

Andrew Bailey - who is also head of the Bank of England's Special Resolution Unit - uses the examples of Northern Rock and Lehman Brothers to illustrate the role recovery and resolution plans might play. He concludes that "the UK authorities are very keen to see real implementation of RRP, alongside the continuing international work on them."

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech412.pdf>