BANK OF ENGLAND

News release

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

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Bank of England sets out how it will resolve failed institutions

The Bank of England is today publishing its approach to resolving a failed bank, building society or investment firm. Resolution is the process by which the authorities can intervene to manage the failure of a firm.

The need for a robust set of resolution arrangements was made clear during the financial crisis. Given the risks to financial stability that would have arisen had individual institutions been allowed to fail and enter normal insolvency, it was necessary for the public authorities to intervene to limit the disruption, including by providing public funds to recapitalise some banks.

The Bank of England has a remit to maintain financial stability: to protect and enhance the resilience of the UK financial system. As part of achieving that, firms must be able to fail in an orderly way without causing systemic consequences or critical disruption to economic activity. This publication explains how the Bank would use its resolution powers to do this in practice.

The publication sets out the Bank of England's toolkit and provides detail about how it would be applied. It explains the purpose and objectives of the UK's resolution regime, its key features, the approach that the Bank would take to resolve a failed firm and the arrangements for safeguarding the rights of depositors, clients, counterparties and creditors.

To achieve orderly resolution, individual firms need to have feasible and credible resolution strategies and the financial authorities need to have the necessary resolution powers, and the capacity to apply them. The UK's permanent resolution regime was put in place in 2009 and has been enhanced subsequently, including through the Banking Recovery and Resolution Directive.

The approach document sets out three key stages of resolution which firms would go through. These are:

•Stabilisation phase: Once a firm has entered resolution, the Bank must decide on the most appropriate method to stabilise the firm. This may be through transferring some of its business to a third party or through bail-in to recapitalise the failed firm;

•Restructuring phase: Once the firm has been stabilised, it will need to restructure to address the causes of failure and restore confidence; and

•Exit from resolution: This is the end of the Bank's involvement with a firm in resolution – either the firm will cease to exist or they will be restructured and no longer require liquidity support.

Commenting on the publication, Andrew Gracie, Executive Director of Resolution, Bank of England said:

"This is a significant milestone in our resolution regime. It sets out exactly how we would go about resolving a bank, building society or investment firm in practice. The failure of these firms should have the same impact as that of the failure of any other institution i.e. the rest of the system is not impacted and taxpayers do not bear the cost. This is what resolution achieves."

Key Resources

The Bank of England's approach to resolution