The Bank of England's approach to resolution

October 2017

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This document describes the framework available to the Bank of England to resolve failing banks, building societies and some types of investment firms. It also explains arrangements for central counterparties.

Part 1 outlines the key features of the resolution regime. Part 2 looks at how the Bank would be likely to implement a resolution. Part 3 describes the Bank's business as usual responsibilities as the United Kingdom's resolution authority.

This publication updates a previous one issued in 2014.

This 2017 version can be found on the Bank's website at www.bankofengland.co.uk/financialstability/Documents/resolution/aproct17.pdf.

Foreword

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It is ten years since the financial crisis began. Like many countries at that time, the United Kingdom did not have a regime for dealing with banks which failed. This left two choices when banks got into trouble: let them fail, risking major disruption to businesses, households and the wider economy, or bail them out. Faced with potentially disastrous consequences governments, the United Kingdom's included, felt they had no choice but to bail the banks out.

Resolution aims to change this. It ensures banks can be allowed to fail in an orderly way. Just like when any other business fails, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently.

Resolution policy has come a long way since 2007. Parliament passed legislation in 2009 to create a resolution regime for the United Kingdom, including objectives for the UK authorities and powers for the Bank of England (the Bank) as resolution authority. The regime was further reinforced by legislation in 2014 implementing the EU Bank Recovery and Resolution Directive. In 2016 the IMF assessed the United Kingdom resolution regime to be robust.

Resolution cannot be an afterthought. In order to have the option of resolution, if and when a bank fails, we need to ensure in advance that there are resources that can be bailed in and that other barriers to effective resolution have been removed.

The Bank conducts resolution planning for all banks, building societies and certain investment firms operating in the United Kingdom and is working with firms to increase their resolvability. The Bank believes that transparency about banks' resolvability is both in the public interest and will help incentivise firms to take the necessary actions. The Bank has already published the loss absorbency requirements it has set for each of the major UK banks to be met in stages starting from 2019. From 2019, the Bank will publish summaries of major UK banks' resolution plans and its assessment of their effectiveness, including any changes needed.

International co-operation remains a critical component of ensuring banks with cross-border activities can be resolved. The Bank continues to work with counterparts in other countries to develop policies to overcome the remaining barriers to resolvability. At the same time, work is under way to replicate the increased resolvability of banks in other types of financial institution. Progress has been made with respect to central counterparties and consideration will need to be given to whether, and if so, how, the resolution regime should be extended to insurance companies.

It is important that banks, their shareholders, debt investors and the public have a clear idea of how resolution works in the United Kingdom. This publication sets out the Bank's approach to resolution. In doing so, it explains the key features of the United Kingdom's resolution regime and how the Bank, as UK resolution authority, would be likely to implement a resolution.

We have seen major development in the United Kingdom on resolution over the past ten years. The way a bank failure would be dealt with today is very different from the crisis. This 'Purple Book' represents important progress on resolution that contributes to a safe and more stable financial system.

October 2017

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Executive summary

The Bank of England (the Bank) is responsible for taking action to manage the failure of financial institutions — a process known as 'resolution'.

This document is the second edition of the Bank's approach to resolution and updates the 2014 version. Part 1 explains the key features of the resolution regime. Part 2 looks at how the Bank would be likely to implement a resolution, while Part 3 explains the Bank's 'business as usual' responsibilities as the United Kingdom's resolution authority. The annexes provide detail on how the Bank is addressing some specific barriers to resolvability.

Resolution reduces the risks to depositors, the financial system and to public finances that could arise due to the failure of a bank. By ensuring losses will fall on a failed bank's investors, resolution can both reduce the risk of bank failures and limit their impact when they do occur.

The need for a financial system to have an effective resolution framework is a key lesson from the global financial crisis of 2008. During the crisis, governments had to resort to 'bailouts' as some banks had become too big, complex, and interconnected to be put into insolvency like other types of firm. Letting them fail would have meant that people or businesses would have been unable to access their money or make payments. The potential risks to the financial system and the economy meant they had become 'too big to fail'.

Resolution aims to change this by providing powers to impose losses on investors in failed banks while ensuring the critical operations of the bank can continue. Shareholders and creditors profit when a bank is healthy and should therefore take the hit when a bank gets into trouble. This relationship between risk and reward strengthens incentives for banks to demonstrate to their investors that they are not taking excessive risks. It also reduces the unfair competitive advantage of large banks that investors consider 'too big to fail' and creates the conditions for a banking sector in which both entry and exit is easier.

To be effective, a resolution authority needs powers that can be applied without risk to financial stability and to the broader economy.

As resolution authority, the Bank is responsible for developing a strategy for how it would manage the failure of every bank. These plans set out how the bank could be allowed to fail without disruption to financial stability. Resolution is 'feasible' when the authorities have the necessary legal powers and capacity to implement these 'resolution strategies'. For resolution to be 'credible', the authorities must be able to use their powers without collateral damage to the financial system and wider economy.

The Bank, as resolution authority, operates within a statutory framework that gives it legal powers to resolve banks in order to meet certain objectives.

The Banking Act 2009 sets out the objectives that the Bank must pursue when it carries out the resolution of a bank.[1] It provides the Bank with a set of legal powers to ensure resolution is an orderly process. These powers can be used to enable a failing bank's critical functions to continue while the remaining parts of the bank's business restructured to restore viability or are wound down.

Resolution takes place if a bank is 'failing or likely to fail' and it is not reasonably likely that action will be taken to change this. But resolution powers are only used if it is in the public interest.

Two conditions must be met before a firm is resolved:

(1) First, the firm is failing or likely to fail. This is assessed by the Prudential Regulation Authority (PRA) (or by the Financial Conduct Authority (FCA) for investment firms regulated solely by the FCA), following consultation with the Bank as resolution authority.

(2) Second, it is not reasonably likely that action will be taken that will result in the firm recovering. This assessment is made by the Bank, having consulted the PRA, FCA and HM Treasury (HMT).

Resolution powers are, however, only applied if the Bank judges it is in the public interest (having consulted the PRA, FCA and HMT). 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. The Bank determines whether or not the public interest test is met by assessing the objectives for resolution set out in the Banking Act 2009.

(1) The regime also applies to building societies and investment firms but for the sake of simplicity these are hereafter referred to as 'banks' or 'firms'.

The statutory regime provides the Bank with powers which may be used to resolve banks.

The bail-in tool enables the Bank to impose losses on shareholders and unsecured creditors by cancelling or reducing the value of their claims. This process must respect the order in which investors would receive compensation in insolvency. Unsecured creditors' claims will then be converted into equity to the extent needed to restore the firm's capital to the level necessary for it to continue operating. The bail-in tool ensures investors bear losses rather than the taxpayer.

The Bank also has the power to transfer all or part of a firm's business either to a private sector purchaser or to a temporary 'bridge bank', established by the Bank, pending the sale or transfer of the business to a private sector purchaser.

To achieve the public objectives of resolution, the Bank has powers that affect the contractual rights of counterparties and investors in the failed firm, so the regime provides statutory safeguards for creditors and counterparties.

As resolution powers enable the Bank to interfere with the property rights of firms' shareholders and creditors, there are important statutory safeguards regarding their use. First, an independent valuation of the firm's assets and liabilities must be carried out prior to the use of resolution powers. Second, netting, set-off or collateral arrangements should be respected. Third, no shareholder or creditor must be left worse off than they would have been in an insolvency.

The effectiveness of resolution will be reduced if on entry into resolution a firm's counterparties can cancel their contracts with it. The resolution regime prevents a firm's counterparties from terminating contracts simply because the firm enters resolution. Further, the Bank can suspend payment and delivery obligations, and impose a stay on termination rights, for up to two business days.

Shareholders and creditors must absorb losses before public funds can be used.

The resolution regime aims to ensure public funds are not put at risk by requiring that shareholders and creditors meet the costs of bank failure. Shareholders and creditors must bear losses equal to at least 8% of the liabilities of a firm before there can be any question of public funds being used to stabilise the firm by absorbing its losses or recapitalising it.

The implementation of the resolution regime follows one of three broad strategies.

Part 2 of the document explains how the Bank is likely to conduct a resolution. This follows one of three broad resolution strategies:

Bail-in

Bail-in is likely to be the resolution strategy the Bank would apply to the largest, most complex firms with balance sheets greater than £15 billion–£25 billion. Bail-in restores the solvency of a failed firm, enabling it to continue providing, without interruption, functions that are critical for the UK economy and then undertake an orderly restructuring of the business to address the underlying causes of failure.

Partial transfer

Transfer of part of the business to a private sector purchaser also aims at continuity of critical functions. It is likely to be appropriate for smaller and medium-sized firms whose operations can be sold in short order to another firm but which are nevertheless large enough, in the event of their failure, to meet the public interest test for use of resolution powers. Generally, these are firms that provide at least 40,000–80,000 transaction-based retail accounts (ie current accounts that are regularly used), but do not exceed the £15 billion–£25 billion threshold.

Insolvency

The failure of a small firm is unlikely to justify the use of resolution powers. The preferred resolution strategy for these firms is instead insolvency. Protected depositors would first be paid by the Financial Services Compensation Scheme (FSCS) or have their accounts transferred to another institution using FSCS funds (up to £85,000 at October 2017). After that the firm would be wound up in a normal insolvency process.

The Bank prepares for resolution by planning for the failure of every firm and co-ordinating with international counterparts.

Part 3 of the document summarises how the Bank prepares for resolution. The Bank, in close co-operation with the PRA and FCA, has a statutory responsibility to identify a preferred resolution strategy and develop a resolution plan for every firm or group in the United Kingdom. The Bank must provide HMT with an assessment of potential risks to public funds where the resolution plan involves the use of resolution powers.

As many groups have international activities, the Bank works with authorities in other countries through Crisis Management Groups and resolution colleges. This embeds co-operation between home authorities and host authorities and makes cross-border resolution credible.

To make sure a firm is resolvable the Bank undertakes a resolvability assessment to identify barriers to resolution.

For resolution strategies and plans to be fully effective, any significant barriers to their implementation, which could impact the 'resolvability' of the firm, must be identified and removed. Many of these barriers are generic, such as firms needing to hold sufficient resources to allow the implementation of the preferred resolution strategy and the need for firms to continue to have access to financial market infrastructure, like payment systems, in the event of resolution.

The Bank works with international bodies, such as the Financial Stability Board (FSB), to develop policies to address these issues. These policies form the basis of requirements for UK firms. Resolvability of individual firms is then assessed regularly to monitor implementation and identify substantive barriers to the execution of the resolution plan.

If the Bank finds there are barriers to resolvability it has powers to direct a firm to remove these through changes to their operations or structure.

The Bank will share the outcome of the resolvability assessment with the firm and ask it to make proposals to remove any barriers identified. If the Bank subsequently concludes the firm's proposals are inadequate, the Bank has the power to require it to take steps to remove any substantive impediments.

In the interests of transparency, the Bank will publish summaries of major UK firms' resolution plans and its assessment of their effectiveness from 2019.

The Bank believes greater transparency over the progress being made towards removing barriers to resolvability will incentivise firms to prioritise those actions. From 2019 the Bank will therefore publish summaries of major UK firms' resolution plans and summary assessments of their effectiveness.

Part 1 Framework for resolution

I Aims of resolution

Resolution reduces the risks to depositors, the financial system and to public finances that could arise due to the failure of a bank.

1.1 The Bank of England's (the Bank's) mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. As part of that mission, the Bank has had the responsibility since 2009 for taking action to manage the failure of banks, building societies and certain investment firms.(1) This process is known as 'resolution'. It is distinct from insolvency. The Bank carries out a resolution if it determines that action is needed to protect financial stability. It is designed to avoid the use of public funds to support failed banks.

1.2 This document updates one published in 2014,(2) setting out the Bank's approach to resolution. It provides guidance on the way the Bank carries out its statutory responsibilities as the United Kingdom's resolution authority. Part 1 explains the objectives of the resolution regime, its key features, the main strategies the Bank has developed to deal with failing banks and the arrangements for safeguarding the rights of depositors, clients, counterparties and creditors. Part 2 looks at how the Bank would be likely to implement these resolution strategies, while Part 3 explains the Bank's 'business as usual' responsibilities as UK resolution authority.

1.3 The arrangements in the United Kingdom have evolved since 2014, particularly following the implementation of the European Union's Bank Recovery and Resolution Directive (BRRD).(3) This document describes the statutory responsibilities and powers assigned by the BRRD to the Bank as UK resolution authority. It also refers to recent developments in enhancing the approach to resolving central counterparties (CCPs), which fall within the scope of the UK resolution regime, and insurance companies, which do not.

By ensuring losses will fall on a failed bank's investors, resolution can both reduce the risk of bank failures and limit their impact when they do occur.

1.4 The regulatory system in the United Kingdom is not designed to ensure that banks will never fail. A core feature of a stable and competitive financial system is that where banks fail, they can do so in an orderly fashion — that is without excessive disruption to the financial system or to the banking services provided to households and businesses, and without exposing taxpayers in general to loss. This principle underpins the Financial Stability Board's (FSB's) international standard for effective resolution regimes (the 'Key Attributes'), agreed by G20 leaders in 2011.(4) The arrangements for the resolution of failing banks in the United Kingdom are designed to comply with the Key Attributes.

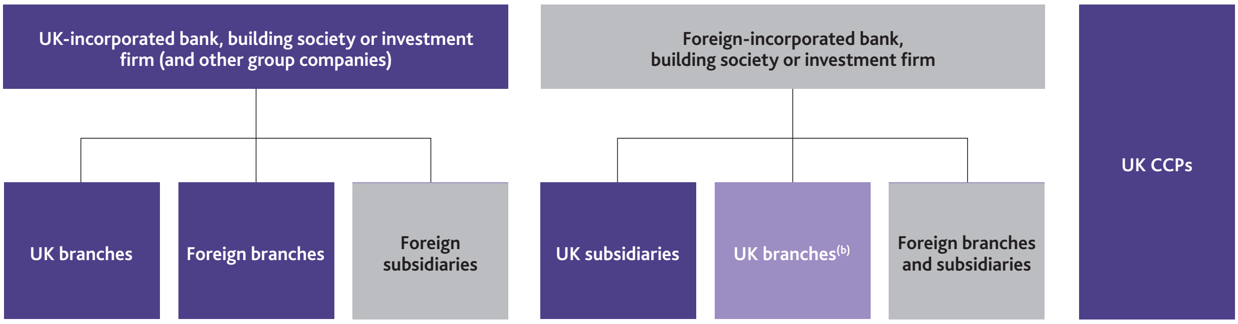
1.5 The need for a financial system to have an effective resolution framework for banks became clear during the global financial crisis of 2008. At that time the United Kingdom, like many other economies, had no resolution regime for its banking system. Without arrangements that could avoid the serious risks to financial stability that would have arisen had some failed banks entered insolvency proceedings, the authorities had to resort to 'bailouts'. This meant providing public funds to recapitalise them. The need to avoid the consequences of bankruptcy meant the costs of financial support for failing banks were imposed on the public finances rather than on the owners and creditors who had benefited from banks' profits prior to the crisis.

1.6 Resolution arrangements change this by enabling losses arising from bank failure to be borne by the shareholders and creditors of failed banks, while ensuring the critical operations of the bank can continue.

1.7 The market's perception that the biggest banks will be rescued by the government as they are 'too big to fail' creates an implicit guarantee that acts as a hidden subsidy to these firms. Credible resolution regimes should remove this perception. Doing so should improve market discipline in the pricing of risks being taken by these firms. This should, in turn, strengthen incentives for them to demonstrate to their customers, clients and investors that they are not taking excessive risks. It also encourages a more dynamic banking sector in which both entry and exit is easier.

(1) All of these are referred to hereafter, for the sake of simplicity, as 'banks' or 'firms'. The investment firms subject to the United Kingdom's resolution regime are those that deal as principal, hold client assets and are subject to a minimum capital requirement of €730,000. The scope of the resolution regime has been widened since 2009, for example to include UK central counterparties. The regime does not apply to credit unions.
(2) See Bank of England (2014a), *The Bank of England's approach to resolution*, October 2014.
(3) The Code of Practice relating to the resolution regime was also updated in consequence, see HMT (2017a).
(4) The Key Attributes were enhanced in 2014. For the latest version, see FSB (2014a), 'Key attributes of effective resolution regimes for financial institutions'.

Figure 1 Scope of the resolution regime[(a)]



(a) Purple boxes indicate entities that are within the scope of the regime, grey boxes indicate entities that are outside its scope (although such firms may fall within the scope of a group resolution strategy conducted by the home authority). Foreign here refers to both EEA and non-EEA firms.
(b) The Bank has powers to resolve branches of non-EEA firms, which are available under certain circumstances set out in the BRRD. The Bank does not have powers over the UK branches of EEA firms.

To be effective, a resolution authority needs powers that can be applied without risk to financial stability and to the broader economy.

1.8 To achieve orderly resolution, the resolution authority needs to develop feasible and credible resolution strategies for all firms. A 'feasible' strategy is one where the authorities have the necessary legal powers and the capacity to use them. The United Kingdom's resolution regime was initially put in place in 2009 and has been modified subsequently, including through implementation of the BRRD into UK law. The latest FSB review of resolution regimes[(1)] identified no gaps in the United Kingdom's policy toolkit for bank resolution, while the 2016 IMF United Kingdom Financial Sector Assessment Program (FSAP) report[(2)] noted that the United Kingdom's bank resolution regime was robust and the Bank's work to implement policies ensuring firms can be resolved is advanced.

1.9 A 'credible' strategy is one where the use of resolution powers does not have unacceptable consequences for the financial system and wider economy. For example, a strategy would not be credible if it was likely to result in the disruption of one or more of the critical functions[(3)] provided by the failing firm. Examples of critical functions that would have knock-on effects to the economy and financial stability if disrupted include: payments services on behalf of customers; taking deposits from, and extending loans to, households and small businesses; clearing and settling financial transactions; and providing custody services. A credible resolution strategy is one which also gives assurance that the firm can be resolved without risk to public funds. This incentivises investors and other market participants to solve problems before the conditions for resolution are met. Part 2 of this document describes how a bank resolution is likely to be conducted to implement a credible resolution strategy.

II Key features of the UK resolution regime

The Bank, as resolution authority, operates within a statutory framework that gives it legal powers to resolve banks in order to meet certain objectives.

1.10 Under the Banking Act 2009 (referred to in this document as 'the Act'), the UK resolution regime applies to banks, building societies and certain investment firms, and their financial holding companies[(4)] that are incorporated in the United Kingdom (**Figure 1**). It therefore includes the UK subsidiaries of foreign firms. The UK branches of firms that are incorporated outside the European Economic Area (EEA) are also within scope of the regime. As described in paragraphs 1.47–1.51, the UK resolution regime also covers CCPs, though for the purposes of this section, the description focuses on the bank resolution regime.

1.11 The Act sets out the objectives that the Bank must pursue when it carries out a resolution, as well as the responsibilities of the other UK authorities — the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and HM Treasury (HMT) — in relation to certain aspects of the resolution regime.

1.12 The regime confers on the Bank a set of resolution tools[(5)] to manage the failure of a firm. The regime also includes a set of separate modified insolvency procedures[(6)] for banks, building societies and investment firms, which can be used alongside the resolution tools or relied upon exclusively where

(1) See FSB (2017a), 'Ten years on — taking stock of post-crisis resolution reforms, Sixth Report on the Implementation of Resolution Reforms', 6 July 2017.
(2) See IMF (2016), 'United Kingdom Financial Sector Assessment Program — Bank Resolution and Crisis Management Technical Note'.
(3) See PRA (2015a), 'Resolution planning' and FSB (2013), 'Guidance on identification of critical functions and critical shared services'.
(4) The regime also applies to certain other group companies of banks.
(5) 'Stabilisation tools' in the Banking Act 2009.
(6) These are based on corporate liquidation and administration procedures, but are 'modified' to ensure that relevant objectives of the resolution regime, notably safeguarding deposits protected by the FSCS and ensuring continuity of banking services, can be achieved despite the firm entering insolvency. Once such objectives are fully achieved, the procedures revert to ordinary liquidation or administration. This is explained further in the section on the role of insolvency.

Figure 2 Bank of England's statutory resolution objectives

the Bank decides that resolution powers are not needed to meet the objectives of the regime.

1.13 The resolution powers are designed to allow the authorities to take action — if necessary before a bank is insolvent — to minimise any wider consequences of its failure for financial stability and ensure confidence in the financial system. The resolution regime recognises the overriding importance of these public policy objectives, unlike normal corporate insolvency arrangements, which are designed to act in the interests of the firm, its creditors and employees. Given the extent of the discretion conferred on the resolution authority, the regime includes safeguards for the owners and creditors of firms affected by the use of resolution powers.

Objectives

1.14 The Act specifies a set of objectives, to which the Bank must have regard when resolving a firm. These are illustrated in **Figure 2**.

1.15 The Bank must consider each of these objectives in selecting and using its resolution powers, but they are not ranked in any particular order. The Bank decides how to balance these objectives including which of them should be prioritised if they conflict.

Co-ordination between the financial authorities in financial crisis management and in bank resolution

The Bank and HMT have a general duty to co-ordinate in crisis management.

1.16 A crisis management Memorandum of Understanding (MoU) between the Bank and HMT[1] sets out the respective responsibilities of each authority in a crisis and the co-ordination needed for resolution planning, policy and execution. HMT has sole responsibility for any decisions involving public funds. In order to give HMT sufficient notice of plans that could have implications for public funds, the Bank is required to provide HMT with information before determining a resolution plan for a bank that involves the use of resolution tools. This includes an assessment of the systemic risks and potential risks to public funds from the bank's failure.

1.17 While the Bank is designated as the resolution authority in the United Kingdom, the financial authorities, the Financial Services Compensation Scheme (FSCS) and HMT all have formal roles under the resolution regime. In summary:

- the prudential supervisor (which may be the PRA or the FCA)[2] determines if the firm is failing or likely to fail, having consulted the Bank;
- the Bank, as resolution authority, makes the decision to put a failing bank into the resolution regime, having consulted the other authorities,[3] selects which tools to use and conducts the resolution (other than temporary public ownership);
- HMT is consulted on the decision to trigger resolution and the choice of tools. It can veto the use of powers in certain circumstances and can decide whether to put a bank into temporary public ownership — in such circumstances, HMT conducts the resolution alongside the Bank;[4] and
- in insolvency, the FSCS pays out deposits protected up to the applicable limit (currently £85,000) or else funds the

(1) See HMT (2017b), 'Memorandum of Understanding on resolution planning and financial crisis management'.
(2) The majority of investment firms are prudentially regulated by the FCA. The more complex investment firms are prudentially regulated by the PRA.
(3) See 'Triggering the resolution regime' for discussion of respective roles.
(4) The Bank must expose 8% of the liabilities of the bank in resolution to loss before HMT can put a bank into temporary public ownership. The temporary public ownership tool is a last resort, to be used only to resolve or reduce a serious threat to UK financial stability.

transfer of these deposits.[1] In resolution it can be requested to contribute up to the amount it would have paid out in insolvency. The FSCS may also protect investments up to £50,000.

1.18 The Bank also has a number of formal responsibilities and powers as resolution authority which apply outside of an actual bank failure situation and relate to general resolution planning. They include assessments of banks to identify whether there are barriers to resolving them, the exercise of powers to require the removal of substantial impediments to 'resolvability' and the setting of a minimum requirement for own funds and eligible liabilities (MREL). These responsibilities are set out in more detail in Part 3, while the purpose and approach to setting MREL is explained in Annex 1.

1.19 The Bank consults authorities in other jurisdictions when planning for, and carrying out, a resolution of a cross-border bank. This is particularly important for the United Kingdom, which is the home jurisdiction of four global systemically important banks (G-SIBs) and hosts a large number of international firms — some of which are also G-SIBs — whose headquarters are outside the United Kingdom. The arrangements established in recent years to facilitate this co-operation are wide-ranging and are also covered in more detail in Part 3.

Triggering the resolution regime

Resolution takes place if a firm is 'failing or likely to fail' and it is not reasonably likely that action will be taken to change this.

1.20 Two conditions must be met before a bank may be placed into resolution. First, the bank must be deemed 'failing or likely to fail'. This includes where a firm is failing or likely to fail to meet its 'threshold conditions'[2] in a manner that would justify the withdrawal or variation of authorisation. This assessment is made by the PRA, or by the FCA for those investment firms regulated solely by the FCA, following consultation with the Bank as resolution authority.

1.21 The second condition is that it must not be reasonably likely that action will be taken — outside resolution — that will result in the bank no longer failing or being likely to fail. This assessment is made by the Bank as resolution authority, having consulted the PRA, FCA and HMT. The Bank also has an obligation to notify the Financial Policy Committee (FPC). When making this determination, the Bank will take into account whether any remaining regulatory capital instruments of the failing bank must be written down and/or converted to common equity once the firm is no longer viable.[3]

1.22 Measures that may be taken to prevent the bank from failing or being likely to fail could involve supervisory action to help restore the bank's financial resources, such as stopping the payment of dividends to shareholders or bonuses to senior management. Or it could involve further action by the bank or its shareholders and creditors, for example a financial restructuring (such as a debt-for-equity swap negotiated with the bank's bondholders) or a sale of the whole or parts of the business. These and other options may be a feature of the bank's recovery plan.

1.23 As the regime permits resolution to be triggered when there is evidence a bank is failing or likely to fail, this can happen before it is 'insolvent'; that is, before it can no longer pay its debts as they fall due or the value of its assets falls below the value of its liabilities. The conditions for entry into the regime are designed to strike a balance between, on the one hand, avoiding placing a bank into resolution before all realistic options for a private sector solution have been exhausted and, on the other, reducing the chances of an orderly resolution by waiting until it is technically insolvent.

The public interest test

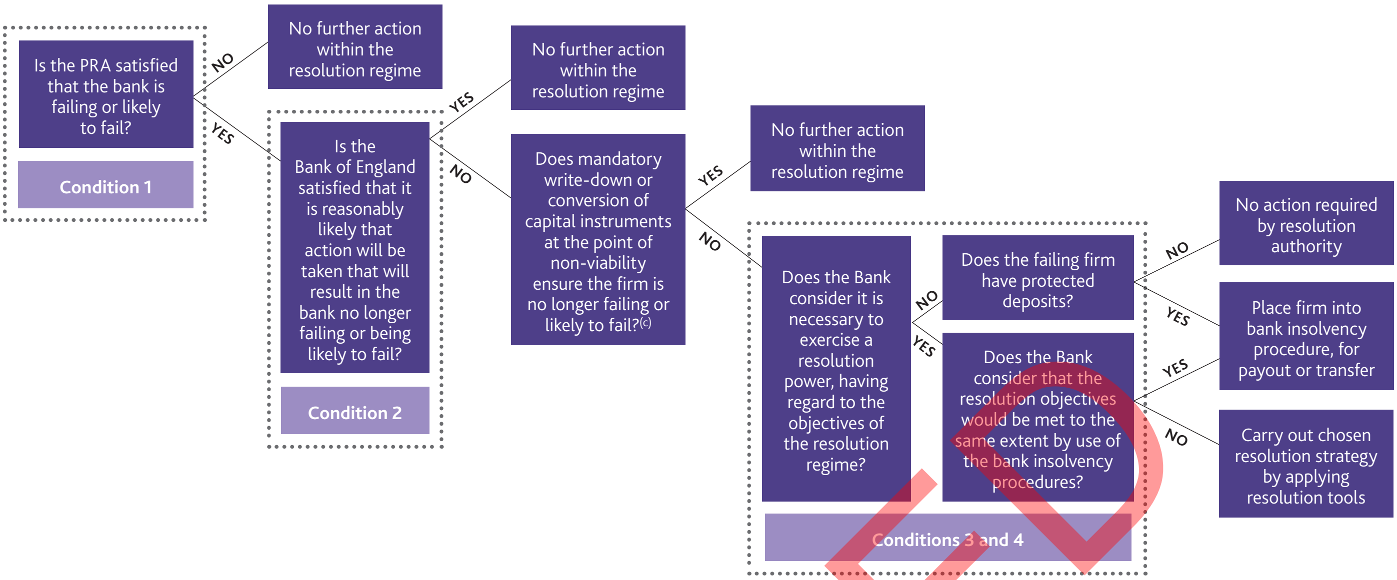
But resolution is only used if it would be in the public interest.

1.24 The determination that a bank satisfies the conditions for resolution discussed above does not, on its own, allow the use of all the resolution tools. Resolution powers allow the authorities to take actions which directly affect people's property rights and should therefore not be exercised unless justified in the public interest. Accordingly, the Bank must also determine that action is necessary to advance the statutory resolution objectives, summarised in **Figure 2**. This assessment will be influenced by the size and nature of the critical functions of the failed firm and conditions in the wider financial system at the point of failure.

1.25 The Bank must also consider whether the resolution objectives would be met to the same extent by placing the firm into the relevant statutory insolvency process — such as the bank insolvency procedure.[4] If this assessment indicates that use of the bank insolvency procedure would not meet the resolution objectives to the same extent as use of the resolution tools, then the resolution tools may be used. If the public interest test is not met, then resolution tools are

(1) FSCS protection extends to amounts up to £1 million for certain types of deposits classed as 'temporary high balances' and, in limited circumstances may be unlimited such as for payments in connection with personal injury or incapacity. The FSCS may also contribute resources to the use of resolution powers, up to the net cost to it of paying out or transferring protected deposits — see the section in Part 2 on executing a transfer.
(2) The 'threshold conditions' include that the bank must have: adequate resources to satisfy applicable capital and liquidity requirements; appropriate resources to measure, monitor and manage risk; and fit and proper management who conduct business prudently.
(3) The cases where this mandatory write-down and conversion of regulatory capital instruments applies are set out in section 6A of the Act.
(4) Or other modified insolvency procedures depending on the type of firm, ie the building society insolvency procedure (BSIP) for building societies or the special administration regime (SAR) for investment firms. These procedures are explained in the section below on the role of insolvency.

Figure 3 Example decision tree for a bank entering resolution(a)(b)



(a) Excludes temporary public ownership and public equity support, which are to be used only where HM Treasury considers this is necessary to reduce or resolve a serious threat to financial stability, or to protect existing public financial assistance to the firm in question.
(b) For simplicity, assumes the bank has no client assets, and therefore the relevant modified insolvency procedure is the bank insolvency procedure.
(c) Under the Banking Act, the Bank must write down and/or convert the firm's regulatory capital instruments in certain cases. This includes the case where Condition 1 is met and the Bank is satisfied that (ignoring the write-down or conversion) Condition 2 is met and will continue to be met unless the capital instruments are written down and/or converted.

unavailable but the relevant insolvency procedure may be used if the firm is unable, or likely to become unable, to pay its debts.

1.26 The decisions that need to be taken by the authorities in the run-up to, and during, a resolution may take place in quick succession. **Figure 3** presents a stylised decision tree, setting out the decisions that the PRA as supervisor and the Bank as resolution authority need to take in the course of the entry into resolution of a failing bank.

Resolution tools

The statutory regime provides the Bank with tools which may be used to resolve firms.

1.27 The main resolution tools are:

- **bail-in:** write-down of the claims of the bank's unsecured creditors (including holders of capital instruments) and conversion of those claims into equity as necessary to restore solvency to the bank;

- **transfer to a private sector purchaser:**(1) the transfer of all or part of a bank's business, which can include either its shares or its property (its assets and liabilities), to a willing and appropriately authorised private sector purchaser without need for consent of the failed bank, or its shareholders, customers or counterparties; and

- **transfer to a bridge bank:** the transfer of all or part of the bank's business to a temporary bank controlled by the Bank of England. The purpose is to maintain continuity of the failed bank's critical functions until the sale of the bridge bank (eg through an initial public offering or onward transfer of some or all of its business to a private sector purchaser).

1.28 Two additional tools may be used in conjunction with the resolution tools in order to wind them down in an orderly manner. These are:

- **transfer to an asset management vehicle:**(2) allows all or part of the business of a failed bank or a bridge bank to be transferred to and managed by a separate asset management vehicle, wholly or partially owned by the Bank or HMT and controlled by the Bank, with a view to maximising the value of assets through an eventual sale or orderly wind down; and

- **the bank (or building society) administration procedure:** the insolvency process by which the part of a failed firm not transferred to a private sector purchaser or bridge bank is wound up. This part of the firm can be required to continue to provide any services (for example, IT infrastructure, or mortgage servicing) needed by the new owner of the transferred business until permanent arrangements for those services can be put in place, after which it is wound up.

1.29 The Bank has provided indicative thresholds for selecting from the different resolution strategies that are based on the

(1) This tool is termed 'sale of business' in the BRRD.
(2) This tool is termed 'asset separation' in the BRRD.

Box 1
Resolution strategies: bail-in, partial transfer or modified insolvency

Bail-in: The largest and most complex UK firms are likely to have a resolution strategy that involves the use of the bail-in tool. The indicative threshold for such 'bail-in' firms is set at a balance sheet size of £15 billion–£25 billion. This covers the United Kingdom's G-SIBs and D-SIBs and a number of other medium-sized firms.

Bail-in enables a firm to be recapitalised without the need, over a short period, to find another buyer for its business or to have to split up its operations. The Bank believes that UK firms above this balance sheet size are too large for there to be sufficient comfort that these options would be available. This reflects the fact that most of the largest UK firms have complex and highly interconnected legal and operational structures.

Partial transfer: A partial transfer resolution strategy may be credible and feasible for smaller and medium-sized firms which are nevertheless large enough in the event of their failure to meet the public interest test for use of resolution tools. Analysis of these firms suggests that, in most cases, the only critical function they supply relates to accounts relied on by customers for day-to-day payments and cash withdrawals. These 'transactional accounts' are defined based on the frequency of their usage.

For the purpose of the policy, the Bank considers a transactional account to be one used at least nine times in the three months prior to an annual monitoring date. Firms with more than 40,000–80,000 transactional accounts can expect to be set a partial transfer strategy if their balance sheet is less than £15 billion–£25 billion. At a minimum, the resolution strategy would then involve the transfer of deposits that are preferred to senior unsecured claims in the creditor hierarchy, (ie at least all FSCS-protected deposits plus the uncovered component of deposits from individuals and small and medium-sized enterprises) from the firm, backed by good-quality assets, to a private sector purchaser or bridge bank (on a temporary basis pending onwards sale to a private sector purchaser). The rest of the firm would be placed into insolvency.

Insolvency: The smallest firms in the United Kingdom do not supply transactional accounts or other critical functions to a scale likely to justify the use of resolution tools. The preferred resolution strategy for these firms, therefore, is the applicable insolvency procedure. Under this, the firm's business and assets are sold or wound up after protected depositors have been paid by the FSCS or had their account transferred by the liquidator to another institution using FSCS funds. The proceeds of this liquidation are paid to creditors on their claims in the order that applies under a normal insolvency and once the costs of the insolvency have been deducted.

tools discussed above and setting the minimum requirements for own funds and eligible liabilities (MREL) in support of these strategies (see Box 1). Given the thresholds are indicative, the Bank will select a resolution strategy for each individual firm which best advances the statutory objectives (see **Figure 2**). This will include taking into account the impact of its failure on financial stability based on the size and nature of any critical functions it provides. For example, the Bank may consider the firm's interconnectedness with other institutions and its role in providing critical services to them (eg access to clearing) when deciding what resolution strategy to apply.

To achieve the public objectives of resolution, the Bank has powers that affect the contractual rights of counterparties and investors in the failed firm.

1.30 The resolution regime includes provisions to ensure a bank's entry into resolution does not, by itself, trigger contractual early termination rights or other events of default. Without these provisions, the failed bank's financial contracts or its critical service arrangements (for example, IT services) could be cancelled upon entry into resolution. To address this risk the resolution regime overrides a counterparty's contractual right to terminate an agreement early if the right arises solely as a result of entry into resolution (or any event directly linked to resolution). This lasts as long as the firm in resolution (or a new bank to which the contracts have been transferred) continues to perform its substantive obligations under the contract.

1.31 The Bank also has the power to suspend the failed bank's payment and delivery obligations, including preventing counterparties from terminating their contracts (known as a 'stay on termination rights'). This power can only apply for a short period — up to the end of the first business day after such a suspension is published. This may be used to provide some breathing space to facilitate bail-in or the transfer of contracts to a private sector purchaser or bridge bank. If such contracts are not transferred (eg because they are left behind with a residual bank which enters a modified insolvency procedure), they may be terminated on expiry of the stay. If the contracts are subject to a bail-in or transferred to a private sector purchaser or bridge bank, they cannot be terminated early on expiry of the stay as long as the bailed-in bank, private sector purchaser or bridge bank does not subsequently default on obligations under the contracts.

Safeguards for creditors

The regime provides statutory safeguards for creditors and counterparties.

1.32 Resolution powers enable the Bank as resolution authority to interfere with the property rights of banks' shareholders, creditors and counterparties without their consent. The Act therefore requires that use of resolution powers must be subject to certain safeguards. These are designed to achieve a balance between providing a degree of certainty to creditors about how they would be treated in a resolution and giving the authorities sufficient flexibility to effect an orderly resolution as quickly as necessary.

1.33 First, the regime requires that an independent valuer conducts a valuation of the firm's assets and liabilities prior to the use of resolution powers. If there is insufficient time ahead of resolution the Bank may conduct this valuation on a provisional basis. The valuation is intended to inform the decision that a firm is failing or likely to fail and the extent of any write-down, and to inform how much debt to convert into equity when the bail-in tool is used. Valuation will similarly be needed to inform the use of the transfer tool. Annex 2 contains more material on the valuation requirements that apply under the UK regime.

1.34 Second, the use of resolution powers could affect certain types of financial arrangements in a manner that undermines their purpose. So transactions that involve netting and set-off, collateral and certain other financial market arrangements must generally be respected in resolution. This is to ensure that arrangements whose purpose is to reduce the counterparty's loss in the event of a default by a bank are preserved in resolution. This set of safeguards effectively ensures that the resolution authority cannot 'cherry pick' when using the resolution powers, for example by transferring some contracts subject to a netting, set-off or capital markets arrangement with a given counterparty, while leaving others behind that are also part of that arrangement.

1.35 Third, the regime also contains a 'no creditor worse off' (NCWO) safeguard, which requires that no shareholder or creditor must be left worse off from the use of resolution powers than they would have been had the entity entered insolvency rather than resolution. An estimated NCWO valuation is prepared prior to resolution. After resolution an NCWO valuation of the firm is prepared by an independent valuer — appointed by a panel put in place by HMT — in order to determine whether any shareholders or creditors have received less from the resolution than they would have recovered from an insolvency. Where there is a shortfall, shareholders and/or creditors are entitled to compensation. This compensation is paid from a fund provided by HMT and recovered from the industry. The NCWO safeguard assures creditors that any losses they suffer when resolution powers are used will either be less than, or at worst the same as, in insolvency.

Use of public funds

Shareholders and creditors must absorb losses before public funds can be used.

1.36 The resolution regime aims to ensure that public funds are not put at risk in resolving a failing bank. The tools are specifically designed to ensure that shareholders and creditors must meet the costs of bank failure. Moreover, resolution planning is conducted on the assumption that no public funds will be available to cover the losses of shareholders and creditors in resolution.

1.37 Despite this, temporary access to public funds may still be needed in some circumstances. They may, for example, be required as a loan to the FSCS, should the FSCS incur costs above its capacity to support a rapid payout or transfer of protected deposits. Such a loan would be repaid through levies on the industry and recoveries made by the FSCS in the insolvency.

1.38 In the unlikely case that the resolution objectives are not met using any of the regime's resolution tools, and where at least 8% of the balance sheet as valued at the point of resolution has already been exposed to loss, the BRRD permits the use of public funds to stabilise the bank. This may be done by the government taking a failing bank into temporary public ownership. This tool can only be used as a last resort, where a serious threat to financial stability cannot be avoided or reduced by other measures or where necessary to protect public funds that have already been used to support a previously solvent and viable bank that subsequently failed and entered resolution.

1.39 The BRRD requires that Member States establish a resolution financing arrangement with funding of at least 1% of the amount of FSCS-protected deposits of all the institutions authorised in their territory by 2024. In addition, where this funding is insufficient, the BRRD requires that Member States ensure that subsequent contributions are raised. The United Kingdom is satisfying its obligations under the BRRD by raising contributions through the bank levy.(1)

(1) Monies raised via the bank levy are paid into the United Kingdom's Consolidated Fund. Section 228 of the Act provides the legal basis for HMT to pay out of the Consolidated Fund expenditure incurred in connection with the exercise of the resolution powers. This is the mechanism by which the resolution financing arrangement administered by HMT can disburse funds to the Bank as the resolution authority to support a resolution.

Role of insolvency

Insolvency is used when failure does not meet the public interest test for the use of resolution tools and to wind down parts of businesses which do not need to be maintained.

Banks and building societies

1.40 As noted above, a failed firm may be placed into insolvency if the public interest test for use of resolution powers is not met and where the firm holds protected deposits or client assets. Where the firm holds neither protected deposits nor client assets, it will be placed into the normal insolvency procedure for companies.

1.41 The bank insolvency procedure and building society insolvency procedure are designed to allow for rapid payout of deposits protected by the FSCS or the transfer of the FSCS–protected deposits to a viable firm.(1)

1.42 Under these procedures, a liquidator is appointed with two statutory objectives. The first — which takes precedence — is to work with the FSCS to facilitate rapid payout (with a target of seven days) of the protected deposits or else transfer those deposits to a viable firm. In both cases, the FSCS takes over the depositor's claim in the insolvency, equal to the total of their eligible deposits. Initially the FSCS will levy the industry if necessary to meet any claims and recoup the costs later in the insolvency. Once this objective is achieved, the second objective of the liquidator is to wind up the affairs of the firm so as to achieve the best result for its creditors as a whole.

1.43 Under the BRRD, depositors protected by EU deposit guarantee schemes and the scheme operators themselves (including the FSCS) are 'super-preferred'. This means that in insolvency the FSCS has a higher position in the insolvency creditor hierarchy to recover from the insolvency ahead of other creditors and is likely therefore to recover more of its costs than under the previous creditor hierarchy.(2) This will reduce the risk that the failure of one bank weakens other firms and reduce the overall costs to the industry. Deposits from individuals and small and medium-sized enterprises that exceed the protected amount are also preferred to other senior unsecured liabilities (including deposits not eligible for FSCS coverage) but rank behind the 'super-preferred' protected deposits. **Figure 4** sets out the creditor hierarchy that has applied since 1 January 2015.

Investment firms

1.44 An insolvency procedure called the 'special administration regime' is available to address the failure of investment firms which hold client assets or money and whose failure does not trigger the public interest test for use of resolution powers. An investment firm with no client assets or money would go into a normal insolvency. Under the special administration regime, the firm is placed into an insolvency proceeding and an administrator is appointed with specific objectives. These are: returning client money or assets as soon as possible; ensuring timely engagement with market infrastructure bodies, the Bank, HMT, the FCA and the PRA; and rescuing the firm as a going concern or winding it up in the best interests of creditors (the last being the normal administration objective). The PRA or FCA, as relevant, can direct the administrator to prioritise one or more of these objectives.

1.45 Following an independent review,(3) the Government amended the special administration regime in March 2017. The changes are intended to speed up the return of client assets and also make it easier for the administrator to transfer client assets to a healthy third-party firm if that is feasible. This should facilitate continuity of services and allow clients to have quicker access to their assets.

Figure 4 Insolvency creditor hierarchy(a)

Proceeds flow down

Losses flow up

Order of priority (from January 2015)

Fixed charge holders (ie security in the form of: mortgage, fixed charge, pledge, lien), including:
- Capital market transactions (eg covered bonds)
- Trading book creditors (eg collateralised positions)

Liquidators (fees and expenses)

Preferential creditors (ordinary), including:
- FSCS, taking the place of all protected depositors for amounts up to £85,000(b)
- Employees with labour-related claims

Preferential creditors (secondary):(b)
- Depositors that are individuals and micro, small or medium-sized businesses for amounts in excess of £85,000

Floating charge holders(c)

Unsecured senior creditors, including:
- Bondholders
- Trading book creditors (eg uncollateralised positions)
- Creditors with master netting agreements (net position only)
- Commercial or trade creditors arising from the provision of goods and services
- Depositors that are not individuals or micro, small and medium-sized businesses for amounts in excess of £85,000(b)
- FSCS, taking the place of individuals with funds invested with the insolvent firm (including protected amounts up to £50,000)(d)

Interest incurred post-insolvency(e)

Unsecured subordinated creditors (eg subordinated bondholders)

Shareholders (preference shares)

Shareholders (ordinary shares)

(a) Proceeds recovered through an insolvency are issued to meet the claims of creditors in the top row first, with any excess being passed down to meet claims of creditors in the second row, and so on. Any losses arising from a shortfall between proceeds and creditor claims are incurred firstly by shareholders, and then pass up the creditor hierarchy until they are fully absorbed. Creditors within a row are treated equally (rank '*pari passu*').
(b) Amendments to existing creditor hierarchy introduced by the Bank Recovery and Resolution Directive.
(c) Floating charges that constitute financial collateral arrangements or collateral security (pursuant to the UK Financial Collateral Arrangements Regulation and the Financial Markets and Settlement Finality Regulations) rank senior to preferential creditors and liquidators' fees and expenses.
(d) Some smaller businesses are also protected by the FSCS for investment business up to £50,000.
(e) Ranking for all statutory interest from the date of the winding-up order until a final dividend is declared or all proved debts have been paid — unless otherwise specified by the terms of the debt contract. Statutory interest may rank ahead of unsecured subordinated creditors, depending on the precise circumstances, including the terms of the subordination.

(1) The bank insolvency procedure was used in June 2011, when the Southsea Mortgage and Investment Company failed.
(2) Deposits historically ranked equally with senior unsecured debt claims in insolvency in the United Kingdom. The Banking Reform Act of 2013 introduced a 'depositor preference' regime — to take effect from 1 January 2019 — under which 'covered deposits' (ie deposits up to £85,000 which are eligible for FSCS protection — referred to as 'protected' deposits) ranked ahead of senior unsecured debt claims and all other deposits (ie of eligible depositors above £85,000 and of non-eligible depositors). This was overtaken by the implementation of the BRRD, which effectively added an additional layer to this regime, whereby covered (protected) deposits ranked ahead of deposits of individuals and small businesses above the £85,000 level, which in turn ranked ahead of senior unsecured claims and all other deposits.
(3) See Bloxham (2014), 'Final review of the Investment Bank Special Administration Regulations 2011'.

Firms with deposits and client assets

1.46 Some firms that fail and are placed into insolvency may have both deposits protected by the FSCS and client assets. In these cases the firm may be placed into a hybrid procedure which combines elements of the bank insolvency procedure and the special administration regime. In this procedure, although the administrator must immediately begin to work on the objectives relating to client assets, the objective relating to protected deposits takes precedence. This means that the administrator must, as the first priority, work with the FSCS to ensure that protected deposits are either paid out in full quickly or transferred to another viable firm. Once that is done, the procedure reverts to an ordinary special administration regime process.

Resolution of CCPs

Similar arrangements are available to resolve CCPs.

1.47 The United Kingdom's resolution regime was extended to cover central counterparties (CCPs) in 2014. CCPs play an essential role in the global financial system. They reduce risk in financial markets by interposing themselves between trading counterparties and guaranteeing the obligations agreed between the two parties. They operate in accordance with contractual rules agreed between the CCP and its clearing members (which will typically include large banks). These rules, among other things, set out how the CCP will manage the default of a clearing member and allocate losses to participants of the CCP.

1.48 The same resolution powers are available for CCPs as for banks in the UK regime, with the exception of the bail-in tool and the asset management vehicle tool. The Bank also has the power to transfer ownership of the CCP to any person. These powers may need to be augmented once international work on the best approach to resolving CCPs has concluded. In 2014, an annex on the resolution of financial market infrastructures (FMIs) and FMI participants was added to the Key Attributes and in July 2017 the FSB published further guidance on CCP resolution.(1)

1.49 The FSB guidance sets out that, in order to carry out an orderly resolution of a CCP, a designated resolution authority should have powers to:

- enforce any outstanding contractual obligations, including under the CCP's rules and arrangements;
- operate the CCP temporarily;
- return the CCP to a 'matched book' in a clearing member default (for example, by terminating contracts);
- address any outstanding default and non-default losses, for example, through requirements for clearing members to contribute funds ('cash calls');
- replenish financial resources;
- write down the equity of the CCP and, where appropriate, its unsecured liabilities and convert unsecured liabilities into equity or other instruments of ownership of the CCP or a successor entity;
- transfer critical functions to a solvent third party or bridge CCP; and
- wind down operations not judged to be critical functions.

1.50 The United Kingdom has set up Crisis Management Groups (CMGs) for two CCPs (see Part 3). These provide a forum for information exchange and co-ordination between the Bank of England, as both supervisor and resolution authority of those CCPs, and authorities whose actions may have a bearing on the resolution of the CCP. The CMG will share information with the CCP's supervisory college. As CCP resolution can arise from the failure of its clearing members to meet their obligations to it, there is an important interaction between the resolution planning for CCPs and the resolution planning for clearing members. The CMGs therefore include the resolution authorities of the CCPs' largest clearing members. This reflects the importance of continuity of access to CCPs to the effectiveness of resolution strategies for banks that are clearing members and the need to ensure that the resolution of a clearing member does not itself threaten the viability of the CCP.

1.51 The European Commission published in November 2016 a legislative proposal for a European Union framework for CCP recovery and resolution. That is designed to be broadly consistent with the FSB's approach.

Resolution of insurance companies

1.52 The United Kingdom's resolution regime does not extend to insurance companies. This reflects the fact that it should be possible to rely on run-off and portfolio transfer procedures for most failed insurance companies engaged in traditional insurance activities. These procedures are available in the United Kingdom, although administered by a court.

1.53 Existing powers may not necessarily be sufficient to mitigate the systemic impact of a failure of a larger, complex insurance group. This was the conclusion of the FSB which included an annex in the Key Attributes in 2014 to cover the resolution of systemic insurers.

(1) See FSB (2017b), 'Guidance on central counterparty resolution and resolution planning', 5 July 2017.

1.54 The International Monetary Fund (IMF), in its last UK Financial Sector Assessment Program, recommended that the United Kingdom work with international partners to develop an integrated regime of resolution powers for insurance companies.(1) This international work continues. Further FSB guidance on insurer resolution was published in June 2016(2) and the International Association of Insurance Supervisors consulted on resolution as part of the revisions to the Insurance Core Principles in March 2017.(3) In the European Union, the European Commission is due to respond to an opinion of the European Insurance and Occupational Pensions Authority on whether to propose a recovery and resolution framework for insurers.

1.55 The United Kingdom will need to consider whether, and if so how and when, to extend its resolution regime to insurers in the light of these developments.

Implications of EU withdrawal for the UK resolution regime and policies

1.56 The United Kingdom's future relationship with the European Union following its withdrawal from the European Union will be shaped by the negotiation currently under way. It is not possible, therefore, to reach definitive conclusions about the implications for the resolution regime in the United Kingdom. The Bank will monitor the outcome of the negotiation and any impact of this for the United Kingdom's resolution regime.

(1) IMF (2016), 'United Kingdom Financial Sector Assessment Program — Bank Resolution and Crisis Management Technical Note'.
(2) See FSB (2016a), 'Developing effective resolution strategies and plans for systemically important insurers'.
(3) International Association of Insurance Supervisors (2017), Consultation: Revised Insurance Core Principles (ICPs) and ComFrame material integrated with ICPs, 3 March 2017.

Part 2 Conducting a resolution

2.1 This part explains how the Bank is likely to use the powers described in Part 1. While it is intended to assist in an understanding of how the resolution regime operates, it should be remembered that the Bank retains discretion when deciding how best to resolve a firm in pursuit of the resolution objectives, based on the circumstances at the time.

2.2 The use of resolution tools (eg bail-in or transfer) has three broad, and sometimes overlapping, phases:

- stabilisation, in which the continuity of critical functions is assured, either through a bail-in to recapitalise the failed firm or a transfer of part, or all, of its business to a private sector purchaser or bridge bank;
- restructuring, in which a plan is drawn up to restructure the firm (or successor entity) and change its business model where necessary to address the causes of its failure and restore its viability; and
- exit from resolution, in which the Bank's implementation of the resolution has been completed and any further restructuring is carried out by the firm's board and management according to the new business plan.

2.3 The resolution tools are similar in effect to corporate restructuring transactions and follow some similar principles. Unlike corporate restructuring transactions, however, the resolution authority is empowered to act without the consent of shareholders, creditors or the senior management of the firm. This feature of the regime recognises that the firm has failed and is designed to ensure that action can be taken quickly and effectively to protect financial stability. As part of the process, the Bank will expect to remove or replace senior management where retention (collectively or individually) is considered unnecessary or detrimental to the continuing operations of the firm.

III Stabilisation phase

Resolution tools are used to stabilise the bank by restoring solvency.

2.4 In the stabilisation phase, the Bank will employ one or more of the resolution tools to secure continuity of the firm's critical functions. The firm will be stabilised either through a bail-in and/or a transfer of some or all of the firm or its business. In either approach, there will need to be some form of loss absorbency (in the form of the firm's equity, subordinated debt and other unsecured debt) available to the resolution authority at the point of resolution, so that solvency can be restored.

2.5 Under either bail-in or transfer, the Bank may need to provide liquidity temporarily to the firm in resolution if the firm's own liquid resources are insufficient and it is unable immediately to access market funding. Box 2 sets out the Bank's Resolution Liquidity Framework that will apply in such circumstances.

As part of the stabilisation, the Bank will need to ensure the firm's existing arrangements for accessing financial market infrastructures (FMIs) — payment, clearing and settlement systems — remain intact (see Annex 3).(1) This includes any services provided by the failing firm to its clients, including customer banks.

2.6 In most cases, it will be important for the authorities to have time outside normal market hours to effect the necessary transactions. This is often referred to as the 'resolution weekend'. In resolutions of smaller firms which do not require the use of resolution tools, however, it may not be essential to have an actual weekend. More broadly, the amount of time required will depend on the amount of advance planning that has been carried out and the speed of the firm's failure.

Resolution requires co-ordination with resolution authorities in key host jurisdictions.

2.7 In the case of a large cross-border UK firm, developing and implementing an effective resolution will require co-operation

(1) The Bank will draw on FSB guidelines designed to ensure that banks in resolution that are participants in such systems have continued access to them for as long as they meet their obligations to the relevant FMI or CCP. See FSB (2017c), 'Guidance on continuity of access to financial market infrastructures ('FMIs') for a firm in resolution'.

Box 2
The Bank's approach to providing liquidity in resolution

Ensuring that a firm in resolution continues to have sufficient liquidity to meet its obligations is an essential part of an effective resolution regime. The Bank's approach below takes into account FSB guidance published in 2016.(1) 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 group resolution strategy.

First, a firm in resolution would have access to the Bank's published facilities, as set out in the 'Red Book',(2) subject to meeting the necessary eligibility criteria.

Second, to supplement those arrangements, the Bank also has a flexible Resolution Liquidity 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.(3) Such liquidity support may be secured against a wide range of collateral, building on the collateral eligible in Sterling Monetary Framework operations.(4) The Bank's objective would be to provide liquidity in sterling or foreign currency as required, in the necessary scale and for a sufficient period of time to allow the firm to make the transition to market-based funding. The terms and conditions of any lending, including the cost of drawing, would be set in a way designed to support the effectiveness of the resolution regime, incentivise the transition of the firm back to market-based funding, and protect public money.

Under the United Kingdom's resolution framework, the Chancellor of the Exchequer and HMT are responsible for authorising the use of any resolution tool where it would have implications for public funds and for authorising any associated temporary or permanent use of public funds, including temporary liquidity support from the Bank via the Resolution Liquidity Framework. The governance arrangements for such lending are set out in the Memorandum of Understanding on Resolution Planning and Financial Crisis Management.(5) The Bank is required to inform HMT of any draft resolution plan involving the exercise of a resolution tool and the implications for public funds of the draft resolution plan, ahead of the plan being adopted or updated. As part of this, the Bank will identify if the draft plan anticipates a potential need for indemnified liquidity support via the Resolution Liquidity Framework. Given the potential size of lending relative to the Bank's resources, an indemnity is likely to be requested by the Bank in a range of scenarios. HMT would consider any request by the Bank for an indemnity on a case-by-case basis in the context of the resolution plan and need to use resolution tools. Any losses incurred by the Bank or HMT in connection with the provision of liquidity support via the Resolution Liquidity Framework would be recovered from industry in line with FSB guidance and requirements in the Bank Recovery and Resolution Directive (BRRD).

(1) See FSB (2016b), 'Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank ('G-SIB')'.
(2) See Bank of England (2015a), *The Bank of England's Sterling Monetary Framework*, updated in June 2015.
(3) Resolution Liquidity Funding would not be available to any firm subject to an insolvency or administration procedure.
(4) See www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx.
(5) A revised version of the 'Memorandum of Understanding on resolution planning and financial crisis management' will be laid in Parliament and published in due course.

and co-ordination between the Bank, as home resolution authority, and resolution authorities in key host jurisdictions where the firm has substantial operations (referred to as 'host authorities'). Part 3 sets out how the Bank works with other authorities to develop preferred resolution strategies in such cases. These strategies are based either on a 'single point of entry' (SPE) or 'multiple point of entry' (MPE) approach.

2.8 An SPE resolution involves the application of resolution tools to a single legal entity within the group, generally the parent or financial holding company of the group (termed the 'resolution entity'). An SPE resolution strategy is appropriate for the majority of G-SIBs, both in the United Kingdom and overseas, because they are structured and managed in a centralised and interdependent manner. Box 3 describes how the bail-in power might be applied in an SPE strategy.

2.9 A few G-SIBs, however, operate in key jurisdictions through subsidiaries or sub-groups under an intermediate holding company that are managed and funded in local markets. An MPE resolution strategy may be more appropriate for them, with resolution powers applied by the relevant resolution authorities to two or more resolution entities in a resolution co-ordinated by the home authority.

Planning and executing a bail-in

Larger firms are likely to be subject to bail-in which would be implemented in a number of phases.

2.10 A bail-in would be planned and executed in a number of stages:

- the run-up to the resolution, where preparations are put in place for the resolution weekend;
- the stabilisation period, including the resolution weekend, when the bail-in tool is used;
- the determination and subsequent implementation of the necessary restructuring of the bank after the bail-in; and
- the exit from resolution when the final bail-in terms and compensation arrangements are announced, some months after the resolution weekend.

2.11 In the run-up stage, the Bank would draft a 'resolution instrument', a legal order that gives effect to the bail-in, including the write-down and/or conversion to equity of any outstanding capital instruments. The Bank would initiate the necessary valuation work (see Annex 2 for more information about this) and identify which liabilities were expected to be within scope of the bail-in (for example shares, subordinated debt and senior unsecured debt, informed by the independent valuation). The Bank would also prepare for the appointment of a resolution administrator, and consider steps needed to stabilise the firm and ensure continuity of critical functions, including possible senior management changes.

2.12 During the weekend, and in general prior to the re-opening of financial markets, the Bank would expect to announce that:

- the firm has entered resolution;
- the resolution is being effected through a bail-in and, if applied at the financial holding company level, would not cause any immediate changes to the structure and functioning of the key operating companies;
- certain identified liabilities will be affected by the bail-in (and if applicable certain identified liabilities will be excluded from the bail-in on a discretionary basis);
- the firm's core functions will continue without disruption and those depositors and investors protected by the FSCS will continue to be fully protected; and
- the firm will open for business on Monday morning, regulated as before by the PRA or FCA, and providing information on any new senior management brought in to replace previous senior management.

2.13 The Bank expects to publish the resolution instrument during the resolution weekend. This would confirm which liabilities are within scope of the bail-in. Box 3 and Annex 1 explain how the Bank requires firms with bail-in resolution strategies to subordinate their loss-absorbing capacity in the form of MREL to the operating liabilities of the business. The MREL resources would be the first liabilities subject to bail-in. If the level of losses and recapitalisation needs exceed the available MREL, the Bank has the power to bail-in other liabilities following the creditor hierarchy.

2.14 Certain liabilities cannot be bailed-in, such as protected deposits and fully secured liabilities. Others may be excluded from a specific bail-in at the discretion of the Bank in one or more exceptional circumstances set out in statute.(1) In summary, these are: (a) it is not possible to bail in the liability within a reasonable time; (b) it is necessary and proportionate not to bail-in the liability to maintain continuity of critical functions; (c) this is necessary and proportionate to avoid widespread contagion; or (d) not to exempt the liability would destroy value and losses borne by other creditors would be higher than if the liability were excluded. The resolution instrument would identify any liabilities that have been excluded under this discretion. The objective of MREL is to ensure firms have sufficient liabilities which can be subject to bail-in to stop such circumstances arising.

2.15 On entry to resolution, the FCA as UK listing authority or the Bank may choose to suspend trading in those instruments which are within scope of the bail-in. Via the resolution instrument the Bank would transfer the shares in the firm to a third party appointed by the Bank to act as a depositary bank. The depositary bank would hold the shares of the failed bank on trust. Once the valuation process is complete and the final terms of the bail-in are announced they can be distributed to those former creditors identified as being entitled to compensation. This period might last several months but would need to be as short as possible, while allowing sufficient time to ensure that the valuation, on which the extent of the write-downs and conversions to equity or other securities for each creditor class are based, is robust.

2.16 Annex 2 provides more detail on the provisions relating to valuation and debt-equity exchange mechanics that will be necessary to execute a bail-in. After the resolution weekend, the firm's reorganisation plan would be developed, and detailed valuation work informed by this plan would need to be carried out before the Bank can announce the final terms of the bail-in. During this period, the creditors in each class would be issued with 'certificates of entitlement', enabling them to be provided with shares or other instruments once the final valuation is complete. The Bank, informed by the valuations, would indicate the terms on which certificates of entitlement may then be exchanged for shares or other securities in the firm.

2.17 In the interval while the valuation is being undertaken and until the bail-in exchange is complete, the Bank would be likely to appoint a resolution administrator to assist in overseeing the firm in resolution, acting under the Bank's direction. The duties of the resolution administrator may

(1) Any such discretionary exemptions could mean that the bail-in will depart from the *pari passu* treatment that would apply in an insolvency proceeding. As such they will be subject to the risk of having to compensate bailed-in creditors in order to meet the NCWO safeguard. This helps to explain why the BRRD stipulates that they should only occur in exceptional circumstances and that in general bail-in should proceed on the same *pari passu* basis as would apply in an insolvency proceeding.

Box 3
Single point of entry bail-in

Bail-in is the Bank's preferred resolution strategy for the largest UK firms, including all the UK G-SIBs and D-SIBs. Bail-in stabilises a failing firm by ensuring the existing shares are cancelled, diluted or transferred, and the claims of unsecured creditors (including holders of other capital instruments) are written down sufficiently to absorb the losses. Creditor claims are converted into equity to recapitalise and restore solvency to the firm. This means the essential functions of the firm can continue, without any need to attempt the very complex task of splitting up the firm over a resolution weekend.

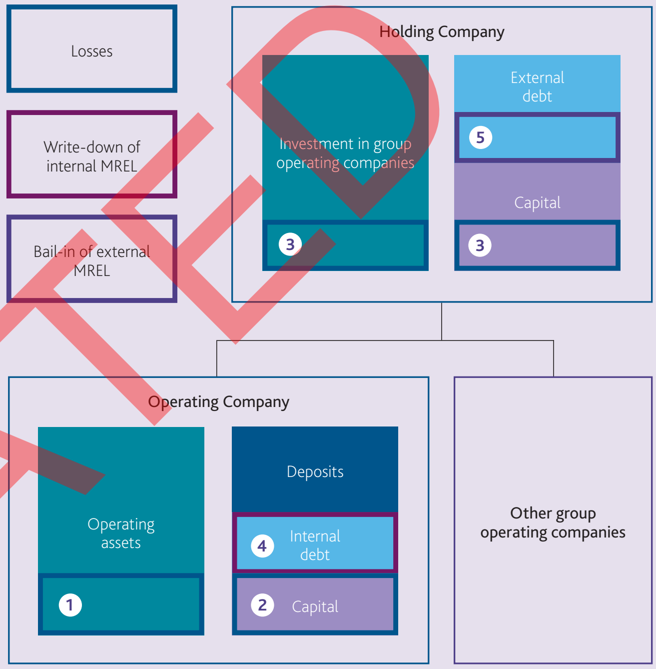
For most of the UK bail-in firms, the bail-in tool will be used on a single entity within the group, generally the top financial holding company of the group. That entity will have issued shares and debt instruments externally to the market, while the key operating companies (eg banks) will have issued shares and subordinated debt instruments internally to the holding company in an amount and form consistent with the corresponding BRRD provisions on the minimum requirement for own funds and eligible liabilities (MREL).(1) In this way, TLAC or MREL instruments will be structurally subordinated to the senior external liabilities of those operating companies. This is the case whether the firm is a single point of entry group or the UK resolution entity in a multiple point of entry group.(2)

This structural subordination of the resources issued by the holding company and the contractual subordination of the resources downstreamed to the operating company are essential to the success of the bail-in strategy. They ensure that if losses at a major operating company make it unviable, the operating company can be recapitalised through the triggering of the internal MREL instruments it has issued to its parent.

This ensures that the operating company remains fully operational. Its liabilities owed to counterparties and creditors outside the group — including deposits and senior liabilities which are essential to the maintenance of the firm's critical functions — do not have to be bailed in. If the operating company's losses are large enough, the passing of these losses up to the financial holding company may mean that it meets the conditions for entering resolution. After being placed into resolution, its external liabilities will suffer losses through use of the bail-in tool. This greatly simplifies the resolution and reduces the incentive for host authorities to ring-fence local assets for the protection of local depositors and creditors. The key steps in this process are illustrated in **Figure A**.

Following the bail-in, the firm will continue to be authorised and regulated by the PRA and FCA. The Bank's expectation is that the amount that is bailed in would be calibrated to ensure that the firm meets at least minimum regulatory capital requirements. Once creditors whose debt has been converted into equity have received their shares the firm can be returned to private control. After the bail-in, a restructuring plan will be implemented to address the causes of the firm's failure and to ensure viability of critical functions.

Figure A Illustrative bail-in at an SPE holding company



1. An Operating Company experiences losses.
2. This results in the Operating Company's capital being used up — it is now failing.
3. As the Holding Company owns the Operating Company, it makes a loss as its investment is now worth less. The group is now failing or likely to fail.
4. The Bank of England triggers a write-down of the Operating Company's internal debt to recapitalise it. This means it can continue to deliver critical functions to the economy.
5. At the same time, the Bank of England puts the Holding Company into resolution. The Bank 'bails-in' the external MREL, imposing losses on investors, replacing the Holding Company's capital. The group is no longer failing or likely to fail.

(1) In the case of G-SIBs this MREL must comply with the eligibility and quantum requirements of the FSB's international standard on 'total loss-absorbing capacity' (TLAC). See FSB (2015a), 'Principles on loss-absorbing and recapitalisation capacity of G-SIBs in resolution: total loss-absorbing capacity (TLAC) Term Sheet'.
(2) Building societies cannot establish holding companies. As such, they must subordinate their MREL through other means.

include overseeing the management of the business of the firm, supporting the preparation of a business restructuring plan and controlling the voting rights of all shares in the firm until the terms of the bail-in are finalised and a sufficient majority of the equity has been transferred to the new holders.

Resolutions involving a transfer

Resolution powers may be used to transfer deposits of smaller and medium-sized firms to a purchaser.

2.18 The transfer tools give the Bank a number of options to resolve a firm in circumstances where it is feasible to find a buyer to take over ownership of the firm or all or part of its business. The Bank could transfer the whole of the firm to a private sector purchaser or, if potential purchasers need more time to carry out due diligence on the assets and liabilities of the failing firm, to a bridge bank pending an onward sale to a private sector purchaser. If an acquirer had not emerged, or it is unlikely an acquirer could be found quickly, the alternative would be a 'partial property transfer' prioritising the transfer of the critical functions of the firm. Again, the transfer could either be effected directly to a private sector purchaser or to a temporary bridge bank in preparation for an onward sale. Any part of the firm not transferred, such as poor-quality assets, would be placed into insolvency under the bank or building society administration procedure or transferred to an asset management vehicle.

2.19 A transfer (whole or partial) would generally follow an auction process in the run-up to the resolution weekend, unless it proved necessary to forgo an auction on financial stability grounds or in order to complete the transaction more speedily. As noted in Box 1, the critical function likely to be provided by firms in this partial transfer category is transactions-based accounts. That would suggest transferring all assets and liabilities connected to these accounts, plus any other good-quality assets, to a private sector purchaser. The transfer is likely to include at least all deposits that are preferred to senior unsecured claims in the creditor hierarchy, ie all FSCS-protected deposits plus the uncovered component of deposits of individuals and small and medium-sized enterprises.

2.20 If a private sector purchaser could not be found immediately, a bridge bank could be used to ensure continuity of access for depositors. The bridge bank would remain in place for as long as necessary to arrange an eventual transfer to a private sector purchaser once it had had time to complete due diligence or until an initial public offering of the bridge bank could be arranged.

Executing a transfer

2.21 A transfer would be given effect through one or more property transfer instruments. Transfer instruments set out which parts of the business have been transferred and to whom — for example to one or more private sector purchasers or to a bridge bank. An application to court would also be prepared if the rest of the firm were to be placed into the bank or building society administration procedure. This would also provide for the appointment of an insolvency practitioner as administrator.

2.22 During the weekend, and again prior to the opening of financial markets, the Bank would expect to announce that:

- the firm has entered resolution;
- the resolution is being effected by a partial transfer of the business and the destination of the various parts of the business (including which liabilities and assets are being transferred and which left behind);
- the firm's core functions will continue without disruption. Those depositors and investors protected by the FSCS[1] will continue to be protected up to the applicable limits;
- the business of the firm corresponding to these critical functions will continue to be operated by the purchaser or the bridge bank on the Monday morning, and will be supervised as usual by the PRA and FCA; and
- in the event of a bridge bank being established, new senior management and a new board may be put in place.

2.23 The FSCS can be required to provide a contribution to the cost of resolving the failed firm, including by making payments towards the transfer to the purchaser or bridge bank, up to the amount that it would otherwise have incurred — net of recoveries — in a payout.

2.24 As an example, the FSCS contributed to the costs of the resolution of Dunfermline Building Society in March 2009. This firm was resolved by transferring some of its business to a willing buyer (Nationwide Building Society), temporarily transferring another part of the business to a bridge bank until an auction process was completed to sell it, and placing the remainder of its business into a building society administration procedure.

Role of asset management vehicles

2.25 The 'asset separation' tool gives the Bank the power to transfer assets and liabilities of a failed firm to an asset management vehicle. It must be used alongside another resolution power, and only if (i) liquidating the assets using normal insolvency proceedings would have adverse effects on financial markets; (ii) the transfer is necessary either to ensure

(1) In the event that the purchaser is a UK branch of an EEA bank, then deposit protection would be provided by the local deposit guarantee scheme rather than FSCS.

the proper functioning of a bridge bank or bank from which the transfer is made; or (iii) it would maximise the recoveries available for distribution.

2.26 The asset management vehicle must be wholly or partially owned by the authorities and must manage the assets transferred to it with a view to maximising their value through eventual sale or orderly wind-down.

2.27 The asset management vehicle tool could be used together with both bail-in and transfer resolutions. In a bail-in, the tool could be used to support a rapid restructuring after the firm has been stabilised, by separating out any business lines that caused the failure, thereby improving the viability of the recapitalised firm. In a transfer, the tool could be used to transfer poor-quality assets to the asset management vehicle, simplifying and reducing the risk profile of the remaining business, which may help to improve market interest and the likelihood of a sale of that part of the business.

IV Restructuring phase

Once stabilised, the firm needs to be restructured to address the causes of failure.

2.28 In a bail-in, once a firm has been stabilised, the Bank needs to undertake a restructuring to the extent necessary to address the causes of its failure and restore its viability. The extent of restructuring will depend on the causes and consequences of failure. It may be quite limited if losses have occurred in just one business line rather than many or are caused by a specific event (such as a major fraud). In other cases, where the underlying business model of the firm has been compromised, a wider restructuring would be expected.

2.29 A post bail-in restructuring will be initiated through the Bank requiring either the resolution administrator appointed to oversee the resolution, or the directors of the failed firm, to prepare and submit a 'business reorganisation plan'. The plan must provide a diagnosis of the causes of the firm's failure, a set of measures aimed at restoring the long-term viability of the firm and a timetable for the implementation of those measures.

2.30 One crucial objective of the business reorganisation plan is that it should help to restore market confidence in the firm. This will be informed by the bail-in valuations to ensure that the firm has sufficient capital to support its operations during the restructuring period and beyond. This means the expected costs of restructuring the firm will be considered when determining the extent of the bail-in that is required. The proposed plan will have implications for the valuation of the specific business lines to be continued, as well as the franchise value of the firm as a whole.

2.31 The business reorganisation plan must be submitted to the Bank as resolution authority who must consult the PRA and FCA. It has to be reviewed by the Bank, in agreement with the PRA and/or the FCA[1], until the authorities are content that it will succeed in restoring viability to the failed firm. The plan would then be implemented by the firm.

2.32 Some form of restructuring is also likely to occur in partial transfer resolutions. Part of this is likely to take place over the resolution weekend, when critical functions (such as transaction-based accounts) are transferred to a private sector purchaser or bridge bank, backed by supporting assets. If a bridge bank is used, some additional restructuring may take place to maximise the chances of selling the bridge bank through an onward transfer or initial public offering.

V Exit from resolution and implementation of restructuring

The purpose of resolution is to restore long-term viability; the timing of the firm's exit from resolution will depend on the resolution tools used.

2.33 Identifying how the Bank will bring its direct involvement with an individual firm to a close is a key part of the resolution. The precise route out of resolution will be shaped by the nature of the intervention that has taken place through the use of resolution tools.

2.34 Where the bail-in tool is used to recapitalise a firm, the Bank's direct involvement as resolution authority will end following the return of a sufficient majority of the equity to the new shareholders (see Annex 2). Subsequent implementation of the plan may take considerable time and will extend beyond the point at which the firm is returned to the new shareholders. It may involve some parts of the business being wound down or sold as well as a possible restructuring of the remaining business. This will be completed by the new management and board under the supervision of the PRA and/or FCA.

2.35 Where all or part of the business of a failed firm is transferred to a private sector purchaser, the exit from resolution is clear. Where a bridge bank is used, it must be a temporary bridge to a more permanent arrangement. Similarly, when all or part of the business is put into insolvency or administration, that procedure will run its course with Bank involvement ending when the payout of the bulk of protected deposits is complete.

(1) Where the firm is part of an EEA group, the Bank must review the plan jointly with the other resolution authorities.

Part 3 Resolution planning

3.1 The Bank has a statutory responsibility to draw up resolution plans and to assess resolvability for all UK firms. This part explains how the Bank approaches resolution planning in co-operation with the PRA and FCA and international counterparts as well as the legal obligations underpinning this approach.

VI Resolution strategies and plans

The Bank identifies a preferred resolution strategy and develops a resolution plan for all firms and UK groups as well as UK subsidiaries of groups outside of the European Economic Area (EEA).

3.2 The Bank sets a resolution strategy for every firm. This follows one of three broad resolution strategies: bail-in, partial transfer or insolvency (see Box 1). The choice of preferred resolution strategy for any firm is made on the basis of the resolution planning for that firm. This choice is made by the Bank, working with the PRA, the FCA and relevant overseas authorities, based primarily on information supplied by the firm. In business as usual, the PRA and FCA will generally gather the relevant information from firms and provide it to the Bank as resolution authority.

3.3 For example, firms are required to submit 'resolution packs' containing information on their financial, legal and operational structures, as well as the critical functions they provide.(1) The choice of strategy will be informed by the complexity of the firm's balance sheet and the extent of its foreign operations. These resolution packs are supplemented with specific information requests tailored to the firms.

3.4 The Bank has its own information gathering power for this purpose, which enables it to request specific information reasonably required in connection with its functions as resolution authority. Information gathering in this way may be particularly relevant for contingency planning as a firm moves towards possible failure. The Bank can also use other powers to commission reports and investigations by skilled persons or advisers. The Bank has a procurement framework for resolution advisers, with panels of advisers appointed for different kinds of activity.

3.5 On the basis of the preferred resolution strategy, the Bank must develop a resolution plan for every relevant firm in the United Kingdom. Where the firm is part of an EEA group, only a group resolution plan is required. The plan sets out the preferred resolution strategy and the arrangements that need to be in place inside the firm to achieve these including adequate financial resources and contractual arrangements to provide for continuity.

3.6 As noted in Part 1, the Bank is required to provide HMT with a public funds assessment where the resolution plan involves the use of one or more resolution tools. In such cases, before adopting the resolution plan each year for a firm, the Bank is required to share with HMT:

- a copy of the draft resolution plan;
- the Bank's assessment of the systemic risk of the firm failing;
- the Bank's initial assessment of the implications for public funds of the exercise of any resolution tool set out in the resolution plan (including the need for the potential delivery of indemnified emergency liquidity assistance or other funding support); and
- any analysis considered by the Bank to be material to its assessment of the implications of the resolution plan for public funds.

VII Resolvability assessments

To make sure a firm is resolvable the Bank undertakes a resolvability assessment to identify barriers to resolution. A number of barriers to resolvability are generic and have been addressed by international policy which is implemented as UK requirements to remove impediments to resolvability.

Impediments to resolvability

3.7 For resolution strategies and plans to be fully effective it needs to be feasible and credible for the Bank to implement them in the event of a firm's failure. This involves the identification and removal of barriers to resolvability. There are a number of barriers to resolvability which it has become clear apply generally:

(1) See PRA (2015a), 'Resolution planning', *Supervisory Statement SS19/13*, first issued in December 2013 then updated in January 2015.

- the amount of TLAC/MREL resources and their quality and location within groups. Annex 1 sets out the requirements that need to be met in order to achieve this;
- operational continuity in resolution (related to the critical services needed to maintain the firm's critical functions in resolution). Annex 3 explains how best to ensure operational continuity in resolution;
- continuity of access of a firm in resolution to financial market infrastructure (see Annex 3);
- cross-border application of stays on early termination of financial or other contracts of a firm in resolution. The progress on this work is also summarised in Annex 3;
- funding in resolution (see Box 2); and
- valuation (see Annex 2) and other management information capabilities.(1)

3.8 The potential barriers to resolvability are generally far fewer for firms for which insolvency is the preferred resolution strategy. In such cases, the Bank may develop a simplified resolution plan.(2)

3.9 Where a modified insolvency procedure is the preferred resolution strategy, the Bank will need to determine whether the firm's systems are able to provide the information needed by the FSCS to effect a rapid payout or transfer of protected deposits. This will include an assessment of whether the firm has the capability to support such a payout or transfer by distinguishing between protected and uncovered balances on deposit accounts. PRA rules require relevant firms to maintain a 'single customer view' file, which they can provide to the FSCS within 24 hours.(3) This is designed to provide the FSCS with the information needed to make a rapid payout within seven days to protected depositors in a bank or building society insolvency procedure.

Process for identifying barriers to resolvability

3.10 The process of identifying barriers to resolvability of a firm is undertaken annually through 'resolvability assessments' carried out by the Bank — in consultation with the PRA or FCA as appropriate — as part of resolution planning for each firm.(4)

3.11 In carrying out a resolvability assessment, the Bank must not assume that the firm will receive any extraordinary public financial support, central bank emergency liquidity assistance or any other extraordinary central bank assistance.

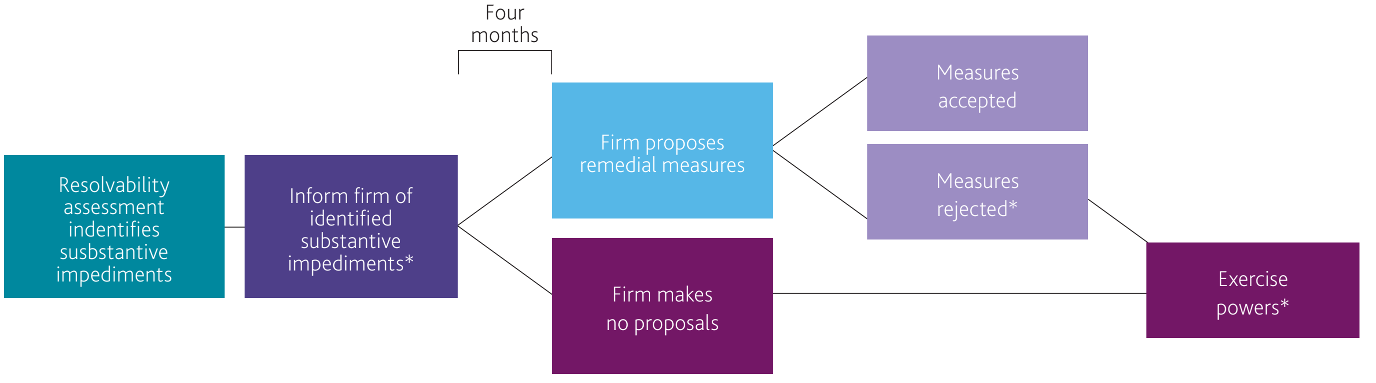
3.12 In delivering resolvability, the Bank has looked to international principles and guidelines developed by the FSB and European Union. The Bank has then developed domestic policy with the intent of achieving the same objective. The domestic policy will allow a period of time for firms in scope of the rules to implement and meet the requirements. In some areas — for example TLAC and operational continuity in resolution — firms have until 1 January 2019 to take necessary action. In other cases, deadlines have not yet been specified and firms may have longer than that to take the actions needed.

If the Bank finds there are substantive barriers to resolvability it has powers to direct a firm to remove these through changes to their operations or structure.

3.13 The Bank assesses individual firm performance to remove barriers to its resolution. If a firm's implementation does not meet the standard within the necessary time frame the Bank has powers to address this barrier, and any other barrier to

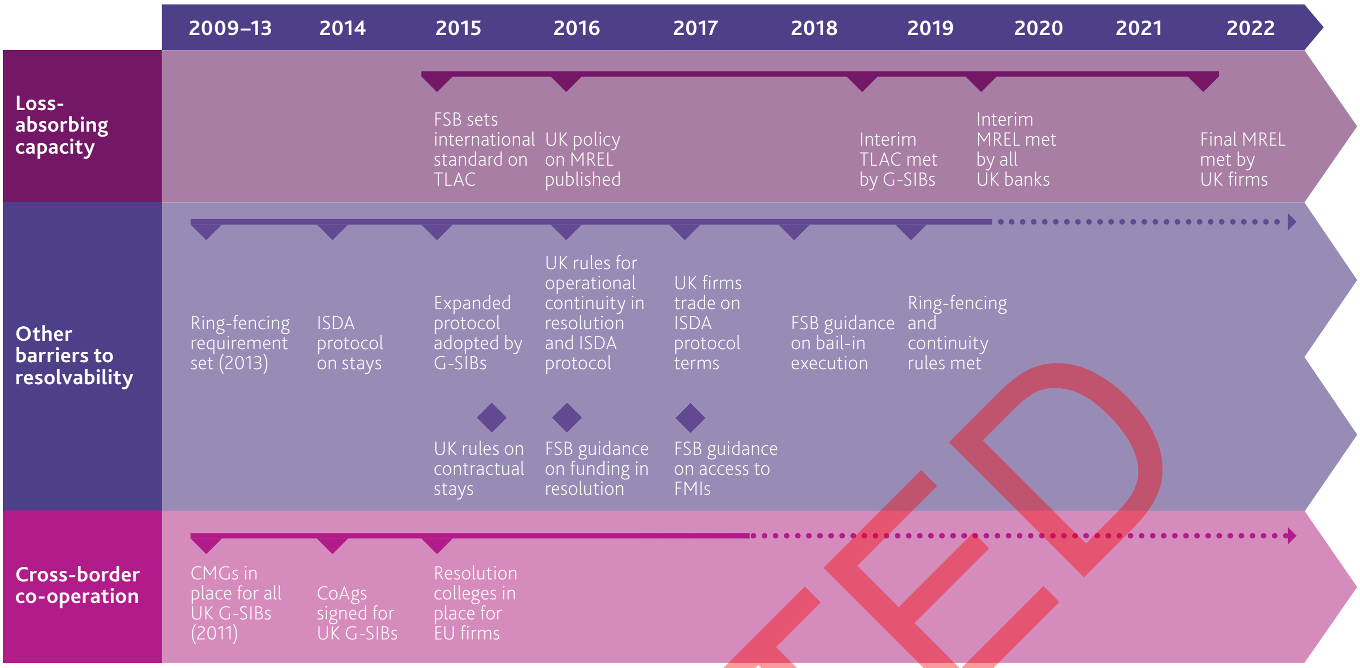
(1) See Bank of England (2017a), 'The Bank of England's proposed policy on valuation capabilities to support resolvability'.
(2) See EBA (2015a), 'Guidelines on the application of simplified obligations under Article 4(5) of Directive 2014/59/EU', *EBA/GL/2015/16*.
(3) The PRA Rulebook (12.1, 12.2) outlines these requirements (available at www.prarulebook.co.uk). See Chapters 8 and 10 of PRA (2017a), 'Depositor and dormant account protection', *Supervisory Statement SS18/15*.
(4) The Bank conducts these assessments annually but may determine it needs to carry out a new resolvability assessment after major changes in the firm's business or structure.

Figure 5 Stylised process for exercising the power of direction following a resolvability assessment



* The asterisks indicate where a right of appeal is available.

Figure 6 Progress on resolution



resolvability, if it is viewed as a substantive impediment to the resolution of the institution.(1) **Figure 5** summarises the process which applies if the Bank exercises its power to direct a firm to remove an impediment to its resolution.

Transparency on resolution plans and resolvability assessments

In the interests of transparency, the Bank will publish summaries of major UK firms' resolution plans and its assessment of their effectiveness from 2019.

3.14 **Figure 6** summarises the overall progress on bank resolution in the United Kingdom (see annexes for more detail). The figure divides up the work into three key components needed to ensure that UK firms are resolvable: adequate loss-absorbing capacity; elimination of other barriers to resolvability; and effective cross-border co-operation. It is intended that the bulk of this work will be complete by 2022.

3.15 The Bank believes greater transparency over progress towards resolvability will strengthen incentives for firms to remove any remaining barriers. From 2019 the Bank will therefore publish summaries of the resolution plans for major UK firms and its summary assessment of their effectiveness, including any further steps that need to be taken. These summaries will be based on the resolvability assessments carried out by the Bank. As a first step, the Bank published details of the MRELs for the major UK firms on 5 May 2017.(2)

VIII Planning for a cross-border resolution: operation of Crisis Management Groups and resolution colleges

The Bank works with international counterparts to develop resolution plans, assess impediments to resolvability and co-ordinate in carrying out resolutions.

Crisis Management Groups

3.16 International co-operation is crucial in delivering credible resolution plans for cross-border firms. Substantial progress has been made in recent years, with the establishment of Crisis Management Groups (CMGs) for G-SIBs. These groups bring together resolution, supervisory and other authorities of home and key host jurisdictions of a G-SIB and meet periodically to discuss the preferred resolution strategy and review resolution planning work carried out by the Bank and the PRA (in the case of the UK G-SIBs) and the firm.

3.17 Resolution strategies are underpinned by seeking consensus in CMGs on the setting of external and internal TLAC and by firm-specific co-operation agreements (CoAgs). These agreements are designed to ensure there is co-operation between home and host jurisdictions of highly connected cross-border groups to avoid them seeking to save 'their' parts of the firm in an actual failure.

(1) The Bank's approach to using this power is set out in a Statement of Policy — see Bank of England (2015b), 'The Bank of England's power to direct institutions to address impediments to resolvability'. The use of the Bank's power will follow a resolvability assessment, but may also arise independently of a resolvability assessment where the Bank considers it necessary.
(2) The data are available at www.bankofengland.co.uk/financialstability/Documents/resolution/mrel_disclosure.xlsx.

3.18 Where the United Kingdom is a host of a non-UK G-SIB, the Bank expects to co-ordinate closely with the home resolution authority in developing and implementing a resolution plan. The Bank (with the consent of HMT), where certain conditions are met, has formal powers to recognise legally and give effect to the resolution actions of a resolution authority outside of the EEA.(1) These powers help to underpin co-operative cross-border resolution planning.

3.19 The Bank (with the consent of HMT) also has the right to refuse such support and take independent action in relation to UK branches of non-EEA firms. This includes where the home country's proposed action (or inaction) is deemed not likely to maintain financial stability in the United Kingdom or would treat UK depositors or creditors differently compared with home country depositors or creditors. But the Bank's aim is where possible to maintain a co-operative approach with host authorities, in line with the approach to cross-border resolution set out in the Key Attributes.

3.20 The CMGs prepare resolvability assessments for G-SIBs, using a common framework established by the FSB, to identify barriers to resolvability and the measures needed to remove those barriers.(2)

3.21 As noted in Part 1, the United Kingdom has also established CMGs for certain CCPs in accordance with the Key Attributes. CMGs have also been established in recent years for the two UK global systemically important insurers.

Resolution colleges

3.22 In addition to CMGs for G-SIBs, the BRRD requires resolution colleges to be established for all EU firms with at least one subsidiary or significant branch in another EU country.(3)

3.23 As part of the tasks carried out within resolution colleges,(4) the home resolution authority and the host resolution authorities in other Member States are required to reach joint decisions annually on the:

- group resolution plan;
- resolvability assessment;
- identification of substantive impediments to resolvability and agreement of measures to address those impediments; and
- setting of MREL at consolidated and subsidiary levels.

3.24 The BRRD establishes a joint decision-making process within the resolution colleges on the group resolution plan, resolvability assessment and MREL. If the Bank identifies substantive impediments to resolvability as part of the resolvability assessment, it would suspend the joint decision-making process on the group resolution plan and resolvability assessment in order to reach a joint decision on measures to address the substantive impediments. The joint decision-making process on MREL would continue, unless the substantive impediments identified directly affect the determination of MREL.

> **Box 4**
> **International co-ordination on resolution**
>
> The Bank and PRA, alongside other authorities, recognise that co-ordination is required to deliver co-operative resolutions on a cross-border basis. This is of particular importance for the largest, most complex G-SIBs. The United Kingdom engages with other jurisdictions on a regular basis to support cross-border resolution planning and policy development.
>
> This engagement has included a series of exercises involving senior officials from a number of jurisdictions, including the United States and the euro area. These exercises are designed to establish the co-ordinated decision-making processes necessary to execute a G-SIB resolution.
>
> The United Kingdom proactively contributes to cross-border policy development, in particular via the FSB. The FSB has published guidelines on a number of policy areas that the United Kingdom considers in its own policy development. These guidelines are available on the FSB's website.

IX Contingency planning as risks increase

Recovery plans

3.25 UK firms have been required to produce credible recovery plans since 2011. These set out options available to the firm's senior management to restore a business under stress to a stable and viable position. The plans are developed by the firms themselves, subject to oversight by the PRA or FCA.

3.26 The plans need to contain a complete menu of options for supporting capital and liquidity positions. They must not require taxpayer support and should be tested against a range of severe but plausible idiosyncratic and system-wide scenarios. Should it become necessary, supervisors may

(1) Resolution actions taken by resolution authorities within the EEA are recognised in the United Kingdom in accordance with the BRRD and the Credit Institutions Regulation and Winding Up Directive (2001/24/EC).
(2) A first full round of the resolvability assessment process was undertaken for all G-SIBs in 2014/15. Reviews are now also undertaken for global systemically important insurers. The 2017 results were published in FSB (2017a), 'Ten years on — taking stock of post-crisis resolution reforms, Sixth Report on the Implementation of Resolution Reforms'.
(3) It also requires 'European resolution colleges' to be established for third-country firms that have EU subsidiaries in two or more Member States, or two or more EU branches that are regarded as significant by two or more Member States.
(4) See EBA (2015b), 'EBA Final draft Regulatory Technical Standards on resolution colleges under Article 88(7) of Directive 2014/59/EU', *EBA/RTS/2015/03*.

instruct the firm to take specific action to reduce the likelihood of failure.

The level of contingency planning for resolution increases as firms encounter stress.

3.27 Resolution contingency planning is a counterpart to actions taken by firms to implement their recovery plans and heightened supervision undertaken by supervisors. As a firm's difficulties increase, it is likely to be placed on 'watchlists' maintained by the PRA and FCA. It may then become subject to heightened supervision by the PRA or FCA, together with more intensive contingency planning by the Bank as resolution authority. This period may also include the firm activating its recovery plan.

Proactive Intervention Framework

3.28 As a firm comes under increasing stress, the PRA will assess its 'proximity to failure', which is captured by the firm's position within the PRA's Proactive Intervention Framework (PIF).[(1)] The PIF is designed to guide the PRA's heightened supervision as competent authority and the Bank's more intensive contingency planning as resolution authority as the firm's performance deteriorates.

3.29 The PIF is summarised in **Figure 7** below. It consists of five 'stages', each denoting a different proximity to failure, with each supervised firm placed into one of the five stages. A firm's PIF stage is reviewed at least annually and in response to relevant, material developments.

Figure 7 The PRA's Proactive Intervention Framework

Stage 1 — Low risk to viability of firm

Stage 2 — Moderate risk to viability of firm

Stage 3 — Risk to viability of firm

Stage 4 — Imminent risk to viability of firm

Stage 5 — Firm in resolution or being actively wound up

Contingency planning

3.30 When a firm moves to a higher PIF stage, the Bank would expect to intensify its contingency planning for a resolution, to be implemented in the event that remedial actions do not arrest the firm's deteriorating performance. The Bank maintains a 'watchlist', drawing on PRA and FCA supervisory assessments, to inform its contingency planning as resolution authority.

3.31 The amount of time available for contingency planning will vary — for example, depending on the nature of the difficulties being experienced and the actions to recover being taken by the firm. The Bank would generally look to update the existing resolution plan, to reflect the circumstances of the failure during contingency planning. The regime is designed to be sufficiently flexible to adapt to such situations.

3.32 In-depth resolution contingency work may include information requests to support decision-making and require appointment of advisers in multiple capacities, including independent valuers, corporate finance advisers and a resolution administrator. The Bank may recoup certain costs related to the activities of these advisers during contingency work from the firm. As noted in Part 1, the MoU on resolution planning and financial crisis management outlines how HMT, the Bank and the PRA will co-ordinate with each other in the run-up to and during the resolution of a firm.

(1) For more information on the PIF, see PRA (2016a), *The Prudential Regulation Authority's approach to banking supervision*.

Annex 1 Loss-absorbing capacity: TLAC and MREL

1 For resolution plans to be feasible and credible, UK firms require sufficient resources in a form that can be used in the event of a failure to absorb losses and allow recapitalisation. This may require a firm to have additional financial resources beyond the going-concern capital that it is required to maintain.

2 This annex gives an overview of the FSB's total loss-absorbing capacity (TLAC) standard and the United Kingdom's implementation of the BRRD minimum requirement for own funds and eligible liabilities (MREL). Together they establish the requirements UK banks must satisfy to ensure that they have sufficient loss-absorbing capacity.

The TLAC standard

3 The FSB's TLAC standard requires resolution authorities to set loss-absorbing capacity requirements for firms whose failure would have a systemic impact on financial stability globally.(1)

4 The standard's provisions cover two concepts: external TLAC and internal TLAC:

- External TLAC: comprises the resources that need to be maintained by resolution entities — those entities within G-SIBs to which resolution powers will be applied under the preferred resolution strategy.

- Internal TLAC: the instruments that need to be issued by 'material' subsidiaries or sub-groups to resolution entities — so losses at failing key operating subsidiaries can be pushed up to the resolution entities without the subsidiaries needing to enter resolution (see Box 3 and paragraphs 18–25 below).(2)

The Bank of England's Statement of Policy on MREL

5 The Bank published a Statement of Policy on MREL on 8 November 2016 that applies to all UK firms.(3) The Statement of Policy clarifies that the United Kingdom will implement the TLAC standard for the UK G-SIBs through setting an MREL for them that is fully consistent with the TLAC requirement. While the Statement of Policy, broadly summarised below, sets out how the Bank expects to use its powers to set MREL, MREL is an institution-specific requirement and may also be subject to discussion and/or joint decision with other resolution authorities as part of a CMG or resolution college.

6 The Bank's approach calibrates MREL as the sum of a loss absorption amount and a recapitalisation amount.(4) The loss absorption amount is equal to a firm's minimum capital requirements and is predicated on all going-concern capital being lost up to and following the resolution valuation that accompanies a firm's entry into resolution. Although the UK resolution regime envisages placing a failed firm into resolution before it is balance sheet insolvent, the experience of the 2008 crisis was that a valuation of its assets immediately following entry into resolution can uncover additional losses which wipe out any remaining capital.

7 The recapitalisation amount must restore the capital that a firm in resolution — or a successor entity to which its critical functions have been transferred — is likely to require to comply with the conditions for authorisation and command market confidence post-resolution. Firms must also ensure that the part of the capital buffers that sits above both risk-weighted asset (RWA) and leverage going-concern minimum requirements remain usable. Accordingly, any capital that is meeting these buffers cannot be double counted towards MREL.(5)

8 The calibration of the recapitalisation amount of MREL and quality of MREL are dependent on whether the preferred resolution strategy for a firm is bail-in, partial transfer or insolvency (see Box 1).

Quantum of MREL

9 For 'bail-in' firms — including the UK G-SIBs and D-SIBs — the indicative recapitalisation amount of MREL is equal to minimum capital requirements. As the loss amount is also equal to the minimum capital requirement, this implies at least a 'doubling-up' approach to MREL for bail-in firms. This reflects an expectation that it is unlikely the firm's size, risk profile or minimum capital requirement will be reduced immediately as a result of resolution action.

(1) See FSB (2015a), 'Principles on loss-absorbing and recapitalisation capacity of G-SIBs in resolution: total loss-absorbing capacity (TLAC) term sheet'.
(2) See FSB (2017d), 'Guiding principles on the internal total loss-absorbing capacity of G-SIBs ('Internal TLAC')'.
(3) Bank of England (2016), 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)', *Responses to Consultation and Statement of Policy*.
(4) This approach derives from the EBA's Regulatory Technical Standard on MREL — see EBA (2015c), 'Final draft Regulatory Technical Standards on criteria for determining the minimum requirement for own funds and eligible liabilities under Directive 2014/59/EU', *EBA/RTS/2015/05*.
(5) See PRA (2016b), 'The minimum requirement for own funds and eligible liabilities — buffers and Threshold Conditions', *Supervisory Statement SS16/16*. The PRA consulted on a clarification to this approach in July 2017, see PRA (2017b), 'The minimum requirement for own funds and eligible liabilities (MREL) — buffers', *Consultation Paper CP15/17*.

10 The recapitalisation amount of MREL may not need to be set as high for firms subject to a partial transfer strategy (using the private sector purchaser or bridge bank tools). It may be scaled down to reflect that only part of the balance sheet is being transferred. The MREL is needed to ensure the transfer does not undermine the capital position of a private sector purchaser or to enable a new bridge bank to be adequately capitalised. Part of this capitalisation may be provided if it is possible to transfer more assets than liabilities from the failed firm to the private sector purchaser or bridge bank.

11 The partial transfer strategy involves the transfer of at least all preferred deposits. The Bank expects that the transfer of these deposits will be backed by good-quality assets. The rest of the firm's liabilities would be placed into the bank or building society administration procedure.

12 For firms subject to an insolvency resolution strategy, the Bank expects to set the recapitalisation amount of MREL to zero, on the assumption that no part of the balance sheet would need to be recapitalised. In such a scenario, MREL for such firms would be met simply by meeting their minimum capital requirements.

Quality of MREL

13 The Bank adjusts the quality of MREL instruments to reflect the preferred resolution strategy. Full subordination of MREL is required for all bail-in firms, in order to reduce the likelihood that the Bank would need to depart from equal treatment of senior liabilities in a bail-in — something that comes with legal risks under the NCWO safeguard.(1)

14 Subordination of MREL may not be necessary, however, for any partial transfer or insolvency firms where the strategy assumes that only deposits or other liabilities benefiting from preference in insolvency would be transferred. In those circumstances, the liabilities remaining in the bank administration or bank insolvency procedures will all be junior to the deposits that are transferred.

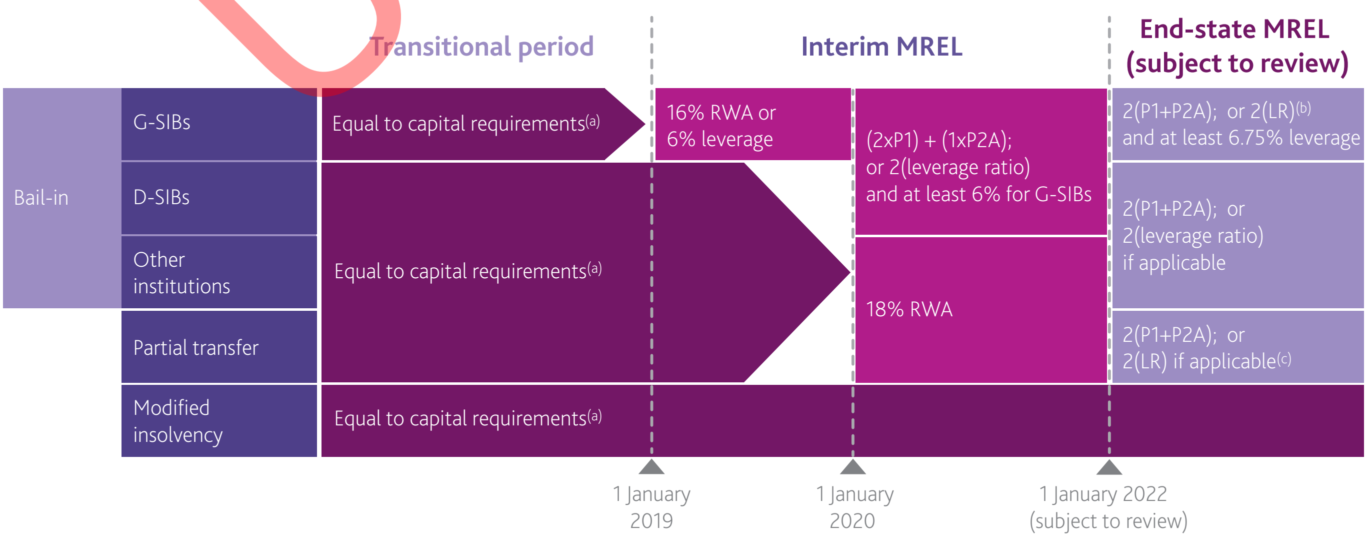
MREL: transitional arrangements

15 Banks will need to issue new instruments or restructure existing funding to meet the eligibility criteria for MREL, in particular the need for it to be subordinated. The Statement of Policy therefore phases in MREL over a period of years, in a similar way to the TLAC standard. It prescribes interim MRELs to take effect in 2019–20, before the full requirements apply from 1 January 2022. In addition the Bank has committed — before the end of 2020 — to review the calibration of MREL, and the final transition date, prior to setting end-state MRELs. In the review, the Bank will consider any changes to the United Kingdom's general regulatory framework, in particular as a result of the United Kingdom's withdrawal from the European Union. It will also take into account UK firms' experience in issuing MREL resources to meet their interim MRELs.

16 The UK G-SIBs will be required to meet the interim MREL prescribed in the TLAC standard from 2019.(2) By 2020, all UK G-SIBs and D-SIBs will need to meet an MREL equal to double the minimum Pillar 1 capital requirement of 8% of RWAs, plus a single (rather than doubled-up) Pillar 2A

(1) Setting a robust MREL of equity and subordinated debt for bail-in firms makes it less likely that the bail-in will need to extend beyond subordinated liabilities to the senior creditor layer at an operating bank. It thus reduces the risk of having to depart from *pari passu* treatment of all creditors in that layer on financial stability or contagion grounds. *Pari passu* treatment would apply in liquidation, so avoiding departing from *pari passu* in resolution reduces the risk of some creditors being left worse off in resolution than in liquidation. It thereby also reduces the risk of compensation being payable to such creditors under the NCWO safeguard.
(2) The higher of 16% of risk-weighted assets or 6% leverage from 2019 and 18% of risk-weighted assets or 6.75% leverage from 2022.

Figure 8 Summary of MREL calibration and transition



(a) Pillar 1 + Pillar 2A add-ons or any higher applicable leverage ratio or Basel I floor. Capital and leverage buffers are treated separately.
(b) LR refers to leverage ratio requirement.
(c) Adjusted to reflect resolution strategy.

firm-specific element.(1) All other bail-in or transfer firms will be required to meet an MREL of 18% of RWAs from this date. The full MRELs of two times the total Pillar 1 plus Pillar 2A firm-specific capital requirement (which may be adjusted downwards in the case of transfer firms according to the proportion of the balance sheet that would be transferred) will take effect only from 1 January 2022. **Figure 8** summarises the requirements.

17 The Bank published the MRELs for the major UK firms — the G-SIBs and D-SIBs — on 5 May 2017.(2) It also published an average MREL for all other firms subject to a bail-in or partial transfer resolution strategy at the same time.

Internal MREL

18 The Bank has published a consultation paper on its approach to the setting of internal MREL.(3) It also discusses restrictions on firms investing in each other's loss-absorbing resources and how MREL might be disclosed to investors; final proposals on these issues will be published in due course taking into account global standards(4) as well as the forthcoming amendments to EU law to implement TLAC and amend the BRRD.(5)

19 Internal MREL comprises equity and subordinated debt issued directly or indirectly to the resolution entity by a subsidiary. It can be written down and/or converted to equity in order to transmit the losses arising at a subsidiary to a resolution entity without the subsidiary itself entering resolution. The Bank proposes that internal MREL greater than capital requirements should apply to a subsidiary or sub-group of a banking group that delivers critical functions where that subsidiary or sub-group is:

- 'material' in terms of its size relative to the rest of the group; or
- otherwise 'material', either directly or through its subsidiaries, to the delivery of a group's critical functions.

20 The Bank will decide on a case-by-case basis whether or not a subsidiary operating in the United Kingdom is 'material', having regard to the particular circumstances of the group. The Bank expects a subsidiary will be material if it meets at least one of the following criteria, consistent with the TLAC standard:

(a) has more than 5% of the consolidated risk-weighted assets of the banking group;

(b) generates more than 5% of the total operating income of the banking group; or

(c) has a total leverage exposure measure larger than 5% of the banking group's consolidated leverage exposure measure.

21 Exceptionally, there may be subsidiaries or sub-groups that are essential to the performance of critical functions and so should have internal MREL above regulatory capital requirements even though they do not meet the materiality criteria (a) to (c).

22 Internal MREL for material subsidiaries will be scaled in the range of 75%–90% of the full amount of MREL that they would be required to maintain if they were a resolution entity in their own right.(6) This reflects the range set in the FSB's internal TLAC standard for internal TLAC. In deciding whether to set internal MREL for a material subsidiary above 75% scaling, the Bank will consider:

- the resolution strategy applicable to the group and the credibility of the resolution plan for delivering it;
- the availability of other uncommitted resources within the group that could be readily deployed to support the material subsidiary; and
- the scaling of internal loss-absorbing resources applied by overseas authorities.

23 The Bank proposes that critical service providers supporting the delivery of the group's critical functions must maintain loss-absorbing capacity for operational continuity in resolution equivalent to at least 25% of the annual operating costs of providing services.

24 Internal MREL can be met with regulatory capital instruments and internal MREL eligible liabilities. To qualify as internal MREL eligible liabilities, instruments will need to meet certain criteria. These include the same criteria as external MREL eligible liabilities. In particular, internal MREL eligible liabilities must be subordinated to operating liabilities. They must be issued directly or indirectly to the resolution entity.

(1) For simplicity, the numbers quoted here focus solely on the RWA requirements, although it is possible the leverage requirements may be the binding constraint on the firm.
(2) The data are available at www.bankofengland.co.uk/financialstability/Documents/resolution/mrel_disclosure.xlsx.
(3) See Bank of England (2017b), 'Internal MREL — the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) within groups, and further issues', www.bankofengland.co.uk/financialstability/Documents/resolution/mrelconsultation2017.pdf.
(4) BCBS (2016), 'Standard: TLAC holdings'; and BCBS (2017), 'Pillar 3 disclosure requirements — consolidated and enhanced framework'. Both standards take effect from 1 January 2019.
(5) The European Commission is currently in the process of implementing the TLAC standard into EU law and has proposed amendments to the MREL framework. But it is unclear at this stage when the relevant changes will be agreed and come into effect.
(6) Note that where a ring-fenced body is part of a material sub-group, the Bank proposes to scale the internal MREL at 90% as a starting point, unless the Bank is satisfied that the wider group has sufficient readily deployable resources to justify moving to lower calibration in the 75% to 90% range. Note that for UK groups with a simple structure, the Bank would expect to scale internal MREL at 100%.

And they must contain contractual provisions that enable the Bank to convert them to equity or write them down without placing the subsidiary into resolution, where:

- the resolution authority determines that the subsidiary is failing or likely to fail and will, disregarding any write down and/or conversion of the instruments, continue to be so;

- and for internal MREL for subsidiaries of non-UK groups, the home resolution authority consents or does not object to the write down or conversion following 24 hours' notice; or

25 In the Bank's view there are resolvability benefits where both regulatory capital and eligible liabilities comply with the same criteria to ensure that they are available to absorb losses and/or recapitalise entities as needed in order to support the group resolution strategy. Therefore the internal MREL eligibility criteria specified by the Bank should be common to both regulatory capital instruments (except common equity) and eligible liabilities that comprise an entity's internal MREL.

Annex 2 Valuation and bail-in mechanic

1 This annex sets out the Bank's approach to valuation, specifically in the context of a bail-in resolution (although valuations are also required for a transfer strategy). It also explains the process the Bank has designed for conducting a bail-in.

Valuations

2 Valuations are critical for any resolution. A successful resolution will require valuations that are both timely and robust. In a bail-in, valuations will be the cornerstone of the critical decisions taken by the Bank, including on: the level of recapitalisation required; the scope of liabilities to be subject to the bail-in; and the exchange terms for bailed-in liabilities.

3 The valuations required to support a bail-in resolution can broadly be divided into those carried out in three discrete time periods: prior to resolution, during resolution and after resolution.

Prior to resolution

4 During contingency planning, the Bank will appoint an independent valuer to carry out valuations to inform the decisions taken on entry into resolution. These valuations must comply with requirements set out in the Act and in the EBA Regulatory Technical Standard (RTS) on resolution valuations.(1)

5 The first valuation required will be an updated and independent assessment of the firm's financial position under relevant accounting and regulatory standards. This valuation will help inform the PRA's determination of whether the firm is failing or likely to fail.

6 In addition, valuations will be required to inform the Bank's decision on the scope of liabilities to be bailed in to absorb losses, recapitalise the firm and restore it to long-term viability. These additional valuations will include:

- a valuation of the firm's assets and liabilities on a hold value or disposal value basis, reflecting the intended resolution strategy — for the purposes of determining the necessary write-down, conversion, or transfer and, in a bail-in, informing the firm's restructuring plan;

- where applicable, an estimate of the market value of equity in the resolved firm — for the purposes of determining the allocation of shares to creditors in a bail-in or informing what constitutes commercial terms for a transfer of shares; and

- an estimate of the likely recovery each class of creditor would have received in insolvency — for the purposes of assessing the potential compensation to be paid under the no creditor worse off (NCWO) safeguard.

During resolution

7 In a bail-in, the Bank may require further valuation analysis following the resolution weekend to inform the restructuring plan, and based on the restructuring plan assess equity value and inform the terms of exchange.

8 These valuations will need to be updated in a timely way during the resolution to inform the Bank's decisions around the final terms of the bail-in, including the ratios at which classes of debt will be exchanged for equity. Updated valuations will take into account the firm's business reorganisation plan. That will help ensure that the Bank's final decisions are based on valuations that are as robust as reasonably possible.

9 The updated asset and liability valuation will determine the total losses that will need to be absorbed by the write-down of bailed-in liabilities. The updated equity and insolvency valuations will help ensure that the determination of exchange terms is in line with the NCWO safeguard (discussed below).

After resolution

10 Once the bail-in has been completed, two further valuations will be required to protect the interests of the shareholders and creditors affected by the resolution, by ensuring that no relevant creditor is worse off than they would have been if the entity placed into resolution had instead entered insolvency. These NCWO valuations will involve: (1) an estimate of the hypothetical financial outcome for each class of creditor in an insolvency of the entity placed into resolution at the date of resolution; and (2) an assessment of the actual financial outcome for each class of shareholder and creditor as a result of the resolution.(2) They must also be carried out by an independent valuer. To avoid any perceived conflict of interest this valuer is appointed by a panel that is itself appointed by HMT.

11 If this independent valuer concludes that a relevant creditor would have received a better outcome from insolvency than they actually received from resolution, that

(1) See EBA (2017a), 'Final Draft Regulatory Technical Standards on valuation for the purposes of resolution and on valuation to determine difference in treatment following resolution under Directive 2014/59/EU on recovery and resolution of credit institutions and investment firms', *EBA/RTS/2017/05-06*.
(2) These valuations must comply with requirements set out in EBA Regulatory Technical Standard (RTS) on post-resolution valuations. See EBA (2017a), *ibid*.

Figure 9 Sequencing of valuations in a bail-in

	Stage 1 Pre-resolution	**Stage 2** During resolution	**Stage 3** Post-resolution
1 Failing or likely to fail valuation Updated regulatory balance sheet (on an accounting basis)	Informs assessment of conditions for use of resolution tools		
2 Asset and liability valuation Fair, prudent and realistic basis – hold or disposal basis	Assesses the extent of losses that need to be addressed in resolution	Informs restructuring plan through scenario analysis	
3 Equity valuation Estimated market value of equity reflecting resolution and restructuring	Provides an indication of the post-resolution value of the firm	Informs the allocation of equity to bailed-in creditors	Determines NCWO compensation
4 Estimated insolvency Estimated recoveries to creditors in a hypothetical insolvency counterfactual	Provides a preliminary indication of potential NCWO risks	Provides an updated indication of potential NCWO risks	Determines NCWO compensation

creditor would be entitled to compensation under the NCWO safeguard.

12 **Figure 9** sets out how the various valuations fit into the resolution timelines in a bail-in.

Key considerations for authorities

13 Timely and robust valuations will be crucial to ensuring resolution decisions are fair and restore the bailed-in firm to long-term viability. They also support financial stability in a crisis, by providing greater clarity to counterparties and the wider financial markets as to the scale of losses at failed firms and the expected impact of resolution actions.

14 To enable robust valuations to be produced on a timely basis, it will be crucial for firms to have relevant data, systems and processes in place ahead of resolution. The Bank has published a consultation paper setting out its proposed policy on the valuation capabilities firms will be expected to have in place to support resolvability.(1)

15 To support the resolution of the largest global firms, valuation work will need to be co-ordinated across jurisdictions. The valuation work required to resolve these firms is expected to be more complex due to the size and breadth of their activities, their interconnectedness across the financial system, and the challenges to authorities in co-ordinating valuations under different accounting, capital and regulatory requirements. Resolution authorities expect to work closely with these firms, and each other, to develop robust valuation frameworks.

16 For material UK sub-groups of overseas-based single point of entry (SPE) banking groups (see Box 3), the stabilisation of the sub-group is expected to involve the use of intragroup loss-absorbing capacity held for the purposes of meeting minimum requirements for own funds and eligible liabilities (ie internal MREL — see Annex 1). In these cases, the Bank will need valuations to understand the full extent of expected losses in the sub-group and to assess whether, following any recapitalisation, the sub-group will meet, and continue to meet, its UK capital requirements. In the event of the parent entity also entering resolution, group-wide valuations would be required by the firm's home authority to inform resolution action, including the extent of recapitalisation necessary for the group as a whole. In the first instance, the Bank would look to use home-led valuations to assess the need for, and adequacy of, recapitalisation via internal MREL. In some instances, the Bank may need to obtain its own valuations of the sub-group.

Bail-in exchange mechanic

17 There are several steps involved in conducting a bail-in. The liabilities within scope of the bail-in must be identified, the terms of the bail-in decided and equity delivered to the new owners. This may take several months. The Bank has developed a process designed to deliver equity to affected creditors as quickly as possible while ensuring the final terms of the bail-in is based on robust valuations. It is intended to overcome management and change of control issues which may arise from the allocation of shares to creditors.

18 The 'exchange mechanic' is based on 'certificates of entitlement' (CEs). These are tradable instruments that will be issued by the firm, when it enters resolution, to investors holding a liability that is potentially within scope of the bail-in. They represent a right to potential compensation. For example, where the associated liability is converted into equity, the CE represents a potential claim to a share of that equity.

(1) Bank of England (2017a), 'The Bank of England's proposed policy on valuation capabilities to support resolvability'.

Prior to resolution

19 In contingency planning prior to resolution, the Bank will identify liabilities which could potentially be bailed in. This work will also identify the International Standard Identification Numbers (ISINs) for the securities as well as the relevant paying agents, depositary banks and settlement systems. The Bank will also prepare the legal documentation necessary to effect the bail-in (see Part 2).

Resolution weekend

20 Over the course of the resolution weekend, the Bank will announce which instruments and liabilities may be in scope of the bail-in and suspend trading, or cancel the listing of, relevant instruments (in co-ordination with the UK listing authority). At this stage, the relevant instruments will also be frozen within the relevant central securities depository (CSD) accounts.

21 CEs are issued by the firm into the accounts at the CSD of the creditors that may be bailed in. Different classes of CEs will be allocated to different classes of creditor based on their position in the creditor hierarchy. This will allow for different debt-equity exchange rates to be set once final valuations are completed. For example, senior debt may receive compensation which is higher than that for junior debt.(1) The Bank will also seek to comply with relevant EBA guidelines in this area.(2)

22 A resolution administrator would be appointed by the Bank who will control the voting rights of all shares in the firm during the bail-in period. The existing shares will be transferred to a third-party depositary bank appointed by the Bank to be held on trust on behalf of the CE holders who will be the future owners of the firm.

Bail-in period

23 Following the resolution weekend, the Bank and its advisers will finalise the valuations (see above). During this phase, legal title to the equity will be held by the depositary bank. Beneficial ownership will reside with the CE holders and the resolution administrator, under ultimate direction of the Bank, will control the voting rights of the shares.

Bail-in terms announced

24 Once the valuation work has been completed, the Bank will announce the terms of the exchange for each class of CE.

25 At the same time as the Bank announces the terms of the bail-in, CE holders will be invited to come forward to claim their equity by submitting statements of beneficial ownership. These statements will require them to (i) evidence their beneficial ownership; (ii) evidence that any necessary regulatory approvals (ie change in control) have been obtained; and (iii) confirm instructions for delivery of equity.

26 On receipt of these statements, the exchange agent (appointed by the Bank to assist in the bail-in transaction)(3) will populate the share register and the depositary bank will ensure that any shares or other compensation due are credited to the holders' accounts at the relevant CSD. The relevant CEs will be cancelled once the equity is delivered to the CE holders.

Completion of exchange

27 Once a sufficient majority of the firm's equity has been returned to CE holders, or after a set period has elapsed, voting rights for the firm's equity will then be transferred from the resolution administrator to the new equity holders and the firm will be returned to private sector control. Following comprehensive disclosure of the financial conditions of the firm, the restructuring plan and any other relevant information, the suspension on trading of shares is also expected to be lifted.

28 The resolution administrator will continue to control voting rights for any unclaimed shares, until those shares are returned to private ownership or unclaimed shares are sold into the market. **Figure 10** provides an end-to-end representation of the overall processes.

(1) The use of differential conversion rates might be necessary to ensure that the NCWO safeguard is respected, for example if subordinated debt has been treated *pari passu* in the bail-in but certain senior debt claims have been exempted from the bail-in on discretionary grounds. Setting a higher conversion rate for those senior creditors who have been bailed in than for the subordinated creditors would, by providing the bailed-in senior creditors with proportionately more equity in the resolved firm, help to ensure they are no worse off than they would have been in insolvency.
(2) See EBA (2017b), 'Final guidelines on the rate of conversion of debt to equity in bail-in', *EBA/GL/2017/03*.
(3) The exchange agent may also be the depositary bank.

Figure 10 Responsibilities during a bail-in resolution

	Stage 1 Pre-resolution	**Stage 2** During resolution	**Stage 3** Post-resolution
Authorities	Planning work in preparation for resolution	Authorities assess restructuring plan and determine exchange ratio for certificates of entitlement	Authorities monitor implementation of business restructuring plan
Independent valuer	Valuations to inform entry, assess extent of losses and estimate NCWO	Valuations to assess losses, allocation of equity and NCWO counterfactual	Post-resolution NCWO valuation completed by independent valuer appointed by HMT
Bail-in administrator	Bail-in administrator provisionally appointed and preparing for resolution	Bail-in administrator controls voting rights and oversees development of restructuring plan	Voting rights returned to shareholders. Bail-in administrator's appointment terminates
Bail-in mechanic	Preparatory work on the extent of liabilities within scope of bail-in	Liabilities within scope suspended from trading. Certificates of entitlement issued to those bailed-in	Certificates of entitlement exchanged for legal title of shares in the resolved entity

Annex 3 Ensuring contracts are resolution-proof

1 A number of barriers to resolvability stem from the risk that counterparties may seek to terminate contracts with a bank as soon as it enters resolution. This risks undermining the continuing provision of critical functions or the successful use of resolution tools.

2 The drawbacks of 'early termination' were demonstrated in the Lehman Brothers insolvency, where the rapid close-out of derivatives contracts caused disruption to financial markets and financial stability.

3 This annex considers developments in making contractual arrangements compatible with resolution in three key areas: operational continuity in resolution; prohibitions and stays on early termination rights in financial contracts; and continued access to FMI facilities for firms in resolution.

Operational continuity in resolution

4 It is essential that, in stress or resolution, firms can continue to supply critical functions to the economy. This requires that their operational arrangements enable them to continue providing the critical services which underpin those critical functions. Barriers to this may arise from insufficient clarity on services involved with the delivery of critical functions; inadequate contractual arrangements that permit service providers to terminate services to a firm as soon as it enters resolution; and an inability to provide timely and accurate information relating to the critical services that are needed to maintain a firm's critical functions in resolution.

5 The FSB identified continuity of critical services as a key part of resolution planning for firms, irrespective of the resolution strategy and resolution powers to be used.(1) FSB guidance noted that approaches to maintaining operational continuity in resolution should take into account the different service models that firms use, depending on whether the services are provided in-house by a division within a regulated entity, from a group service company or a third-party provider. Whatever the service model adopted by a firm, a comprehensive, up-to-date mapping of critical functions, shared services and operational assets is essential to support resolution planning and execution.

6 The service model will need to provide continuity at the point of entry into resolution and in any post-resolution restructuring. This may include facilitating the disposal of business units or legal entities with continued provision of services to the acquirer under a transitional service agreement. This requires:

- clearly documented contractual arrangements and service-level agreements which remain valid and enforceable in resolution provided the firm in resolution does not default on its payment obligations;
- management information systems allowing for timely reporting on critical services on a legal entity and business line basis;
- sufficient financial resources at group service companies;
- robust cost and transparent pricing structures for services, which are predictable, transparent and set on an arm's length basis, and which do not alter solely as a result of the firm's entry into resolution;
- appropriate governance and clearly defined reporting lines for delivery of critical services; and
- adequate rights of continued access to operational assets.

7 The PRA published final rules on maintaining operational continuity in resolution in July 2016.(2) These are closely aligned with the FSB guidance. The PRA rules require firms to be able to demonstrate how their operational arrangements support delivery of critical services in recovery and resolution.

Stays on termination rights

8 Another barrier to resolvability relates to stays on termination rights in financial contracts. The prospects of an orderly resolution could be seriously undermined if counterparties seek to exercise termination rights in financial contracts with a firm that enters resolution. As such, most resolution regimes contain statutory provisions that ensure a firm's entry into resolution (including the occurrence of any event directly linked to resolution) does not, by itself, constitute an event of default or grounds to terminate the contract.

9 Resolution regimes also contain statutory provisions enabling resolution authorities to enforce a temporary suspension of the failed firm's payment and delivery obligations, and powers to prevent counterparties from terminating their contracts (known as a 'stay on termination rights'). The stay may last until the end of the business day following its implementation.

(1) See FSB (2016c), 'Guidance on arrangements to support operational continuity in resolution'.
(2) See PRA (2016c), 'Ensuring operational continuity in resolution', *Supervisory Statement SS9/16*.

10 But these provisions may not be effective in relation to contracts under foreign (that is, non-EEA) law. The risk of foreign law contracts being terminated has therefore been identified as a barrier to resolvability by the FSB. The FSB issued guidance in 2015 to highlight the benefits of contractual and regulatory measures that ensure foreign law contracts are not terminated on entry into resolution.(1) The United Kingdom has taken the lead in adopting rules. The PRA published rules in November 2015 which requires new financial contracts subject to foreign law to contain contractual terms requiring the counterparty to recognise the application of a stay applied to a firm under the UK resolution regime.(2) The rules took effect from 1 June 2016 for foreign law contracts with bank and investment firm counterparties and from 1 January 2017 for foreign law contracts with all other counterparties. At the time of writing, rules have also been published by regulatory authorities in Germany, Japan, Switzerland and the United States. Other FSB countries have committed to putting in place their own rules.

11 Public sector action has been aided by private sector work through a joint trade association working group, led by the International Swaps and Derivatives Association (ISDA). This has led to the development of protocols under which firms enter a contractual commitment to respect a stay imposed by the home resolution authority of another adhering party on its entry into resolution.(3) The FSB announced in August 2016 that 23 systemically important banks had adhered to the *ISDA 2015 Universal Resolution Stay Protocol*.(4)

12 ISDA has also developed a separate *ISDA Resolution Stay Jurisdictional Modular Protocol* providing market participants with a standardised means of complying with the regulatory stay requirements as they are implemented. This provides for jurisdiction-specific Modules to be adopted in each relevant jurisdiction, through which the application of a stay on termination rights would have cross-border effect. A UK module to the Jurisdictional Modular Protocol was published to enable firms to achieve compliance with the PRA rule in 2016.(5)

13 Jurisdiction-specific Modules have been introduced in a number of other markets. The ultimate goal involves completion of regulatory measures to cover all jurisdictions. This would result in substantively all of G-SIBs' financial contracts being subject to statutory or contractual stay provisions to prevent early termination.

14 The Bank is monitoring compliance with the UK requirements and working to ensure that the risk of early termination in resolution due to cross-border activities is addressed.

FMI access

15 Ensuring that a firm in resolution has continued access to financial market infrastructures (FMIs), such as payment, settlement and clearing systems, for as long as it meets its obligations to the FMI, is another critical aspect of resolution planning.

16 Preserving access to FMI services is essential to ensure that the firm's critical functions can be maintained in resolution and to avoid disruption to financial stability and market confidence. As with stays on termination rights, the firm's entry into resolution should not by itself constitute an event of default under the rules of the FMI that would result in its membership being terminated or suspended.

17 The FSB published guidance on this subject in July 2017.(6) This is spilt into three main areas applying to: providers of critical FMI services; firms that receive such services; and supervisory and resolution authorities of both the FMI providers and the firms.

18 The guidance suggests that providers of critical FMI services should take appropriate steps to consider and plan for the resolution of a user of their services, taking into account the interaction between the resolution arrangements of the firms that use their services and their own risk management frameworks. They should thereby clarify the actions they may take in a resolution scenario to support firms and authorities in enhancing resolution readiness.

19 G-SIBs should take measures to facilitate their continued access to critical FMI services in resolution. This should be based on analysis of how the firm would maintain access to such services by ensuring that obligations to FMI service providers continue to be met throughout resolution. These analyses should be informed through the provision of information by the firm to the relevant authorities, both as part of resolution planning and in contingency planning by the firm ahead of, and during, resolution.

20 Finally, the relevant authorities of firms and providers of critical FMI services should play a significant role in facilitating continuity of access to critical FMI services for a firm in resolution and should therefore have adequate co-operation and information sharing arrangements in place.

(1) See FSB (2015b), 'Principles for cross-border effectiveness of resolution actions'.
(2) See PRA (2015b), 'Contractual stays in financial contracts governed by third country law', *Policy Statement PS25/15*.
(3) *The ISDA 2014 Resolution Stay Protocol* was expanded to form the *ISDA 2015 Universal Resolution Stay Protocol*. See https://www2.isda.org/functional-areas/protocol-management/protocol/22.
(4) See FSB (2016d), 'Resilience through resolvability — moving from policy design to implementation', *5th Report to the G20 on Progress in Resolution*. Since then two more G-SIBs have adhered, which means that all but one of the non-Chinese G-SIBs now adhere to this protocol (the Chinese G-SIBs have been permitted up to six additional years to meet the TLAC standard).
(5) See https://www2.isda.org/functional-areas/protocol-management/protocol/25.
(6) See FSB (2017c), 'Guidance on continuity of access to financial market infrastructures ('FMIs') for a firm in resolution'.

21 The Bank will take forward implementation of the FSB guidance through the resolution planning which is undertaken for individual firms on an annual basis (see Part 3 for further details).

Glossary

Asset management vehicle (AMV) – A resolution tool that allows assets of a failing firm to be transferred to a separate entity controlled by the Bank with the objective of maximising value.

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.

Bank (or building society) administration procedure (BAP) – A modified insolvency procedure for the part of a failed firm not transferred in resolution. It prioritises maintaining the failed firm's services to support the transferred business.

Bank (or building society) insolvency procedure (BIP or BSIP) – A modified insolvency procedure for banks or building societies that prioritises the rapid payout or transfer of insured deposits.

Bank Recovery and Resolution Directive (BRRD) – European law establishing a common approach within the EU to the recovery and resolution of banks and investment firms.

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.

Bridge bank – An entity set up and controlled by the Bank of England. It acquires a failed firm's critical functions temporarily, until an onward sale can be completed.

Business reorganisation plan (BRP) – A plan that must be developed and implemented after a bail-in to address the causes of the firm's failure and restore long-term viability.

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

Central securities depositary (CSD) – A specialist organisation that holds financial instruments such as shares in a form that can easily be transferred without physical certificates.

Certificate of entitlement (CE) – An instrument given to creditors after a bail-in which entitles them to be compensated once the terms of exchange are announced.

Co-operation agreement (CoAg) – An agreement supporting the exchange of information and co-operation for a CMG.

Crisis Management Group (CMG) – A forum bringing key supervisory and resolution authorities of a G-SIB together periodically and in a crisis, to plan for a cross-border financial crisis affecting the firm.

Critical functions (CFs) – 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.

Domestic systemically important banks (D-SIBs) – Firms whose failure has been identified as likely to have a major impact on domestic financial stability.

European Banking Authority (EBA) – An EU body that works to ensure effective and consistent regulation and supervision across the European banking sector. See www.eba.europa.eu.

Failing or likely to fail – An assessment made as part of the trigger for resolution by the PRA or FCA about a firm. This includes whether the firm is failing or likely to fail to meet its minimum requirements to be authorised.

Financial market infrastructure (FMI) – Payment systems, securities settlement systems and central counterparties.

Financial Services Compensation Scheme (FSCS) – The United Kingdom's deposit guarantee scheme. See www.fscs.org.uk.

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

Global systemically important banks (G-SIBs) – Banks identified as being systemic to global financial stability. They are subject to additional regulation and each have a Crisis Management Group (CMG).

Home authority – The resolution authority that co-ordinates the resolution of a cross-border group, which would usually be the resolution authority in which the bank is headquartered.

Host authority – A resolution authority in a jurisdiction in which the firm provides services through one or more subsidiaries or branches.

Internal MREL – Resources issued from subsidiaries, important to a group's resolution, to the group resolution entity. These resources can be written down in order to move the losses from subsidiaries to a resolution entity enabling the subsidiary to continue to operate. Internationally, these resources are referred to as internal TLAC.

International Standard Identification Numbers (ISINs) – Unique twelve-digit codes which identify specific securities including bonds, stocks, futures and options.

International Swaps and Derivatives Association (ISDA) – An association for participants of derivatives markets.

Minimum requirement for own funds and eligible liabilities (MREL) – A requirement established by the BRRD to maintain a minimum amount of equity and liabilities which meet certain criteria so that if a firm fails the resolution authority can implement the resolution strategy.

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

No creditor worse off (NCWO) – A legal safeguard in the Banking Act 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.

Operational continuity in resolution (OCIR) – A regulatory requirement that firms' operational arrangements allow the continuity of critical services during stress or resolution.

Partial transfer – A resolution power that transfers part or all of a failing firm to a purchaser or, temporarily, to a bridge bank.

Proactive Intervention Framework (PIF) – The PRA's framework for judging a firm's proximity to failure.

Protected deposits – Eligible deposits covered by the FSCS (currently up to £85,000).

Public funds assessment – An assessment provided by the Bank to HMT outlining the risks to public funds if a bank fails.

Public interest test – An assessment made by the Bank in consultation with HMT and a failing firm's supervisors to determine whether it is necessary for the Bank to use resolution powers.

Residual bank – The part of a failed firm not transferred to a purchaser or bridge bank.

Resolution colleges (RCs) – Group established for EU firms with two or more EU countries. RCs are required to reach joint decisions on several aspects of resolution, including group resolution plans, resolvability assessments and MREL calibration.

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

Resolution plan – A plan developed by the Bank for each firm which provides detail on the implementation of that firm's resolution strategy.

Resolution powers/tools – The Banking Act gives the Bank a number of statutory powers to resolve a firm. These include the bail-in and partial transfer tools.

Resolution strategy – The Bank identifies firm-specific preferred resolution strategies, which indicate the Bank's intended approach in resolution (ie bail-in, transfer, modified insolvency).

Single point of entry (SPE) – 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.

Special administration regime (SAR) – An insolvency process to address the failure of investment firms which hold client assets or money and whose failure does not trigger the public interest test for use of resolution powers.

Temporary public ownership (TPO) – The use of statutory powers by HMT to take temporary ownership of a failing bank.

Temporary stay – The suspension by the resolution authority of termination rights under a contract for up to two business days.

Uncovered deposits – That amount of an eligible deposit protected by the FSCS that exceeds the protection limit (currently £85,000).

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