

Appendix 1: Draft update to 'Statement of Policy: The Bank of England's Approach to Assessing Resolvability'

This appendix outlines proposed amendments to ['Statement of Policy: The Bank of England's Approach to Assessing Resolvability'](#).

The amendments proposed below are consistent with amendments the PRA is proposing to make to its OCIR policy in Consultation Paper CP20/20 'Operational continuity in resolution: Updates to the policy', which are being consulted on at the same time as the proposals in this appendix. References to PRA OCIR policy in the amendments proposed below should be read as referring to the amendments that the PRA is proposing to make to its OCIR policy in CP20/20. The proposals set out in CP20/20 are not final policy and are subject to further revision in response to consultation feedback. The proposals in this SoP may change as a result of responses to this consultation and the outcome of the PRA consultation.

Underlining indicates new text, striking through indicates deleted text, and double striking through indicates moved text.

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Valuations

Policy Background

- In June 2018, the Bank published its policy on valuation capabilities to support resolvability (the 'Valuations SoP'). ~~The compliance deadline for this policy is 1 January 2021. The Bank and PRA announced on 7 May 2020 measures to alleviate operational burdens on firms in response to the Covid-19 outbreak.¹ Among these measures, the Bank announced the compliance deadline for the Bank's Statement of Policy on Valuation capabilities to support resolvability has been extended by three months from 1 January 2021 to 1 April 2021. Firms should be compliant with the Valuations Statement of Policy by 1 April 2021 unless otherwise communicated by the Bank.~~

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Operational Continuity in Resolution (OCIR)

Policy Background

- The *FSB Guidance on Arrangements to Support Operational Continuity in Resolution*, published in August 2016, describes the concept of operational continuity as the means of supporting continuity of the critical shared services that are necessary to maintain the

¹ Bank of England (2020) 'Statement by the Bank of England and Prudential Regulation Authority on resolution measures and Covid-19' available at: <https://www.bankofengland.co.uk/news/2020/may/statement-by-the-bank-of-england-and-pra-on-resolution-measures-and-covid-19>.

provision, or facilitate the orderly wind down, of a firm's critical functions in resolution.¹ This supports the principles set out in the *FSB Key Attributes of Effective Resolution Regimes*.²

- In the UK, the Banking Act sets out special resolution objectives, which relevant authorities must have regard to when using, or considering the use of, resolution stabilisation powers. One of the objectives of the special resolution objectives is to ensure the continuity of banking services in the United Kingdom and of critical functions.³
- In the UK, OCIR ~~policy is addressed by~~ set out in the Operational Continuity Part of the PRA Rulebook, and PRA ~~SS9/16~~ Supervisory Statement XX/XX (collectively the 'PRA OCIR Policy').⁴ ~~The PRA Rules require~~ OCIR policy sets requirements and expectations on firms to ensure their operational structure facilitates effective recovery and resolution planning. SS9/16 sets out expectations that firms will ensure their operational continuity arrangements facilitate recovery actions, orderly resolution and post-resolution any related restructuring within a reasonable time.

Scope of operational continuity ~~policy arrangements in the context of achieving the resolvability outcomes.~~⁵ policy

- ~~Firms' compliance with PRA OCIR Policy is an important foundation for operational continuity in resolution and represents a significant step towards resolvability. These arrangements should be maintained and embedded in business as usual.~~
- ~~Since publication of the PRA rule and Supervisory Statement on Operational Continuity in Resolution in 2016, the Bank has developed its expected approach to use of the bail-in power. Where the bail-in power is used to stabilise a firm, authorities must ensure that, through restructuring, there is a reasonable prospect of returning the firm to long-term viability.~~
- The Bank considers that the surest way to deliver the continuity objective described in this document is for most or all functions to continue through the 'resolution weekend' and the bail-in period, and for there to be continuity to allow post-resolution restructuring.

¹ FSB (2016) 'Guidance on Arrangements to Support Operational Continuity in Resolution' available at: <http://www.fsb.org/2016/08/guidance-on-arrangements-to-support-operational-continuity-in-resolution/>.

² FSB (2014) 'Key Attributes of Effective Resolution Regimes for Financial Institutions'. <https://www.fsb.org/work-of-the-fsb/policy-development/effective-resolution-regimes-and-policies/key-attributes-of-effective-resolution-regimes-for-financial-institutions/>.

³ Section 4(3A) of the Banking Act 2009.

⁴ Bank of England (2016) 'Ensuring operational continuity in resolution' PRA Supervisory Statement SS9/16 available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/ensuring-operational-continuity-in-resolution-ss>. Prudential Regulation Authority (2020) Consultation Paper 20/20 'Operational continuity in resolution: Updates to the policy', available at <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/operational-continuity-in-resolution>. At the time of publication of these draft amendments, the draft Supervisory Statement 'Ensuring operational continuity in resolution' has not been finalised. Subject to the final form of that SS, the final version of these SoP amendments may be updated accordingly.

⁵ Box 4 within Bank of England (2018) 'Consultation Paper – The Bank of England's approach to assessing resolvability' <https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/bank-of-englands-approach-to-assessing-resolvability-cp.pdf?la=en&hash=8B0357C32E2C7D6CF5E6C295BD1F2FA16928CBEF>.

- In addition to critical functions, other business lines may need to continue to support the franchise and future viability of a firm. Furthermore, the disruption of banking services to customers and counterparties may undermine the process of restoring viability, even if these banking services are not themselves critical functions (for instance, due to loss of confidence or customer attrition). Given the cause of failure or the wider economic circumstances cannot be known in advance, the Bank cannot foresee the best way to restructure the firm to deliver a viable business that protects the critical functions required for financial stability and to meet the Bank's objectives.
- ~~To achieve the resolvability outcomes, firms may need to ensure that the scope of operational continuity arrangements supports the execution of their preferred resolution strategy over the 'resolution weekend' and facilitates post-resolution restructuring. For UK firms whose preferred resolution strategy is bail-in, this may mean that the scope of operational continuity arrangements would need to support continuity of most or all functions in order to ensure continuity of critical functions and support restructuring. This may require arrangements to ensure continuity of a broader set of functions than solely those identified as critical.~~
- ~~In addition, given the Bank's responsibility as a home resolution authority for UK-based international banking groups, the Bank may need to ensure firms' operations would be able to continue in other material jurisdictions without destabilising the group preferred resolution strategy.~~
- ~~Under the Operational Continuity Part of the PRA Rulebook, firms are required to ensure operational arrangements for continuity of critical services. As noted in the PRA CP, the PRA is intending to review the PRA OCIR Policy, and in doing so will consider the Bank's current thinking as set out above, as well as experience from firms' implementation. The outcome of the PRA's review cannot be known in advance, and would be subject to usual processes including consultation.~~
- ~~In the RAF cycle in 2020/21, firms will be assessed, and should themselves assess as to how their compliance with current PRA OCIR Policy is helping them towards ensuring continuity in resolution. The Bank would welcome firms' engagement and comments on their readiness to deliver a broader scope of operational continuity than the existing PRA OCIR policy, in line with the stated continuity outcome, but this will not be a formal part of the Bank's assessment in 2020. Clarification of how the Bank will assess firms' submissions beyond 2020 will be communicated following the review of PRA OCIR policy.~~
- PRA OCIR policy sets requirements and expectations with respect to both critical services supporting critical functions and essential services supporting core business lines.

5.9 Objective: To be considered resolvable firms should achieve the outcome of continuity by ensuring their operational continuity arrangements ensure continuity at the point of entry into resolution and permit post-stabilisation restructuring, to ensure the continuity of banking services and critical functions.

5.10 A firm's compliance with PRA OCIR policy is important for operational continuity in resolution and represents a significant step towards resolvability. In assessing whether a

firm has met ~~this~~the objective in paragraph 5.9, the Bank will consider how ~~firms~~a firm ~~have~~ has implemented the PRA OCIR policy.

5.11 ~~In particular,~~The Bank will focus on whether a firm's OCIR operational continuity arrangements, both those arrangements that a firm ~~maintained~~maintains and ~~embedded~~embeds in business-as-usual, and the arrangements it makes and planning it undertakes specifically in preparation for actions in resolution, support resolvability-by. In particular, the Bank will consider:

- ~~providing rapid access to the information needed to identify potential risks resulting from entry into resolution, and to develop the firm's business reorganisation plan. A service catalogue is a means by which the information mapped by firms is gathered and can be accessed reliably in a stressed scenario for resolution planning purposes.[‡] This could be achieved through a comprehensive and searchable service catalogue, which includes the information above for all functions and services as captured in the mapping, so that information is readily available. It will also be important that information is kept up to date;~~
- a firm's identification and documentation of its services and operational arrangements. The Bank considers this an essential component of a firm's ability to ensure operational continuity. Before and during resolution, it is important that relevant documentation and other information be accessible to the PRA, the Bank, and any Bank-appointed bail-in administrator. The information may need to be extracted, searched and leveraged for the purposes of ensuring continuity in resolution (e.g. to identify key staff required to maintain operations), and related restructuring (e.g. to support the preparation of the business reorganisation plan);
- ~~helping to facilitate timely divestments of entities or business lines as part of post-resolution restructuring. Supporting resolvability includes, but is not limited to, the timely provision of information or documentation to a potential acquirer or other relevant parties. It will also be important that the firm can develop transitional service agreements at short notice or convert the service contracts into third party contracts at short notice;[‡] and~~
- ~~ensuring that divestments do not unduly disrupt the viability of the rest of the business. To support resolvability, it will be important that this includes having adequate financial resources available to fund service provision throughout resolution and restructuring.[‡]~~
- arrangements that a firm has put in place to ensure continuity through the 'resolution weekend' and stabilisation period, especially in its early stages, such as resolution-resilient contracts. By remediating contracts, a firm ensures that resolution cannot be a cause of contracts ending while the firm is being resolved. Also, the Bank considers that, if unmitigated, there is a risk that entry into resolution could lead to temporary delays in payments from a firm to its service providers. The Bank will focus on arrangements a firm has made to ensure that payments are made in a timely manner and that its service providers would be financially resilient in resolution;
- arrangements a firm has in place to ensure continuity through restructuring. During resolution, and subsequent restructuring, the firm is likely to undergo changes, and operational continuity will have to be maintained throughout to ensure a successful

[‡] Such mapping is part of meeting the expectations on facilitating recovery and resolution under SS9/16.

[‡] As expected under paragraph 10.1 SS9/16.

[‡] In line with PRA expectations on financial resilience in SS9/16.

resolution. A firm should be able to demonstrate how it would be able to implement transitional service agreements (TSAs) in resolution and restructuring. These arrangements will enable services to be transferred from one provider to another with minimal disruption, as may be necessary to restructure a firm and return it to long-term viability. Elements such as objective service-level agreements, predictable and transparent charging structures, and change capabilities all contribute to the design and implementation of TSAs.

Operational continuity policy for cross-border resolution groups

5.11A Paragraphs 2.5-2.6 of this SoP set out that the Bank considers firms will be able to rely on capabilities across the resolution group and, in the case of hosted material subsidiaries, the Bank will assess whether group-wide capabilities would deliver broadly comparable outcomes to those set out in this SoP.

5.11B In addition, in assessing a hosted material subsidiary's resolvability, the Bank will consider how the identification and documentation of the firm's services, operational arrangements and resolution-resilient clauses in operational contracts, as well as predictable and transparent charging structures enable the resolution group to deliver broadly comparable outcomes to those set out in this SoP.

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Restructuring planning

Policy Background

- c) Operational Continuity in Resolution. This is addressed in the UK in the PRA's OCIR policy. Firms' arrangements to meet OCIR requirements should facilitate and can inform post-stabilisation restructuring, such as objective service level agreements that help identify operational interdependencies and clear and transparent charging structures that aid decision-making in restructuring. As part of OCIR, firms are expected to structure themselves so that they can execute post-stabilisation restructuring within a reasonable time.⁴
[Proposing to delete footnote 1]

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8 The Bank's public statements

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~~Disclosure in 2021~~

~~8.5 The Bank does not expect firms to be fully resolvable until 2022. Four of the Bank's SoPs to address impediments to resolvability do not come into force until 1 January 2022.¹ Therefore, in 2021, the Bank's public statements will include separate sections that differentiate these SoPs from those areas where a firm's capabilities, resources, and arrangements should be more developed.~~

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~~¹ In the RAF cycle in 2020/21, firms will be assessed, and should assess themselves against, how their compliance with current PRA OCIR Policy supports ensuring continuity in resolution.~~

9 How the RAF fits within the existing legal framework

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9.9 In October 2017 the EBA consulted on changes to the Implementing Technical Standards on information for resolution planning. The Bank and PRA recognised that the ITS requirements could lead to duplicative reporting and have delayed resolution pack submissions under SS19/13 for relevant firms until 2020. In order to alleviate operational burden on firms, the delay was extended to the end of 2022.¹ During this period, resolution planning information can still be requested from firms under SS19/13 Phase 2 requirements and MREL reporting continues.

¹ See 'Statement by the Bank of England and Prudential Regulation Authority on resolution measures and Covid-19', 7 May 2020: <https://www.bankofengland.co.uk/news/2020/may/statement-by-the-bank-of-england-and-pra-on-resolution-measures-and-covid-19>.

Appendix 2: Draft update to 'The Bank of England's Statement of Policy on Restructuring Planning'

This appendix outlines proposed amendments to ['The Bank of England's Statement of Policy on Restructuring Planning'](#).

The amendments proposed below are consistent with amendments the PRA is proposing to make to its OCIR policy in Consultation Paper 20/20 'Operational continuity in resolution: Updates to the policy', which are being consulted on at the same time as the proposals in this appendix. References to PRA OCIR policy in the amendments proposed below should be read as referring to the amendments that the PRA is proposing to make to its OCIR policy in CP20/20. The proposals set out in CP20/20 are not final policy and are subject to further revision in response to consultation feedback. The proposals in this SoP may change as a result of responses to this consultation and the outcome of the PRA consultation.

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Principle 2: Evaluation of restructuring options

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- (c) information on the operational arrangements that would support or be impacted by restructuring options, as set out in the PRA's rules and expectations on operational continuity in resolution;¹ and

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¹ This includes the Operational Continuity part of the PRA Rulebook and Supervisory Statement ~~SS9/16XX/XX~~ 'Ensuring operational continuity in resolution'. www.bankofengland.co.uk/prudential-regulation/supervisory-statement/2016/ss916 Prudential Regulation Authority (2020) Consultation Paper 20/20 'Operational continuity in resolution: Updates to the policy', available at <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/operational-continuity-in-resolution>. At the time of publication of these draft amendments, the draft Supervisory Statement 'Ensuring operational continuity in resolution' has not been finalised. Subject to the final form of that SS, the final version of these SoP amendments may be updated accordingly. ~~At the point of publication these policies were under review. References to this policy will updated as appropriate following the outcome of this review.]~~

Appendix 3: Draft update to 'The Bank of England's Statement of Policy on Management, Governance and Communication'

This appendix outlines proposed amendments to ['The Bank of England's Statement of Policy on Management, Governance and Communication'](#).

The amendments proposed below are consistent with amendments the PRA is proposing to make to its OCIR policy in Consultation Paper 20/20 'Operational continuity in resolution: Updates to the policy', which are being consulted on at the same time as the proposals in this appendix. References to PRA OCIR policy in the amendments proposed below should be read as referring to the amendments that the PRA is proposing to make to its OCIR policy in CP20/20. The proposals set out in CP20/20 are not final policy and are subject to further revision in response to consultation feedback. The proposals in this SoP may change as a result of responses to this consultation and the outcome of the PRA consultation.

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Principle 3: Communication in resolution

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Identifying stakeholders

4.27 Firms should identify groups of relevant stakeholders where communication would be necessary or desirable in resolution. This should include external stakeholders (such as customers, counterparties, investors, FMIs, and providers of ~~outsourced~~ critical and essential services) as well as internal stakeholders (such as staff and contractors). As part of this, firms should consider those stakeholders identified to meet relevant rules and expectations regarding operational continuity, continuity of access to financial market infrastructure, and continuity of financial contracts in resolution.

Appendix 4: Draft update to ‘The Bank of England’s Statement of Policy on valuation capabilities to support resolvability’

This appendix outlines proposed amendments to [‘The Bank of England’s Statement of Policy on valuation capabilities to support resolvability’](#). Underlining indicates new text and striking through indicates deleted text.

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5 Timeframe for compliance

5.1 Firms should be compliant with this Statement of Policy by ~~1 January~~ April 2021.