BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Publication

Policy Statement | PS4/22

Trading activity wind-down

May 2022

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Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 20/21 'Trading activity wind-down'.[1] It also contains the PRA's final policy, as follows:

- Supervisory Statement (SS) 1/22 'Trading activity wind-down' (Appendix 1);
- Statement of Policy (SoP) 'Trading activity wind-down' (Appendix 2); and
- updated SS9/17 'Recovery Planning' (Appendix 3).

1.2 This PS is relevant to, although may not apply directly to, all PRA-authorised UK banks, their qualifying parent undertakings, PRA-designated investment firms and third-country branches that are engaged in trading activities. This PS is also relevant to policymakers and practitioners that would expect to be involved in a firm's resolution. It is not relevant to credit unions.

Background

1.3 In CP20/21, the PRA proposed expectations on firms to:

- include a baseline set of factors when designing the scenario or scenarios used to develop and test the trading activity wind-down (TWD) option (referred to as the 'TWD scenario');
- develop information provision and decision-making capabilities and refresh capabilities (referred to as 'TWD capabilities'); and
- produce and maintain data of a breadth and granularity consistent with the templates set out in the appendices of the draft SS 'Trading activity wind-down'.

Summary of responses

1.4 The PRA received four responses to the CP. Respondents generally supported the purpose of the TWD policy. Respondents made a number of observations and requests for clarification which are set out in Chapter 2.

Changes to draft policy

1.5 Having considered the responses to the CP, the PRA has made changes to the final policy to further clarify the PRA's expectations. A summary of the key changes is set out below:

- SS1/22 Chapter 4 (paragraphs 4.27, 4.39-4.40): the PRA provides further clarification on the projection of risk-based losses (RBLs).
- SS1/22 Chapter 5 (paragraphs 5.1, 5.3-5.4): the PRA renames the non-mandatory templates as TWD templates, and clarifies its expectations for TWD firms that intend to adopt their own format of TWD templates.
- SS1/22 Chapter 6 (paragraph 6.8): additional details are provided for TWD firms that are part of third-country groups concerning their compliance with recovery and resolution requirements.

1 October 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/october/trading-activity-wind-down.

- The PRA has made some minor drafting amendments to SS1/22, SS9/17 and the Trading activity wind-down SoP to improve readability.

1.6 The PRA considers that the changes to its draft policy will not have a significant impact on firms, and will not have a significantly different impact on mutuals than for other firms. As a result, the cost benefit analysis has not been updated in respect of these changes.

Implementation and next steps

1.7 Firms will be expected to meet the expectations in SS1/22 by Monday 3 March 2025. This is approximately 2 months later than the implementation date originally proposed in CP20/21.

1.8 PRA supervisors will engage with TWD firms throughout the period until the TWD policy expectations come into force. Supervisors will want to understand that firms are making adequate preparations significantly in advance of the implementation date and have oversight of progress to implementation. Firms should expect this dialogue to commence in the second half of 2022, with the exact timing to be confirmed by PRA supervisors.

1.9 References related to the UK's membership of the EU in SS9/17 have been updated as part of this PS to reflect the UK's withdrawal from the EU. Unless otherwise stated, any remaining references to EU or EU-derived legislation refer to the version of that legislation which forms part of retained EU law.[2]

2 For further information please see Transitioning to post-exit rules and standards webpage.

2 Feedback to responses

2.1 The PRA must consider representations that are made to it in accordance with its duty to consult on its general policies and practices and must publish, in such manner as it thinks appropriate, responses to the representations.

2.2 The PRA has considered the responses received to the CP. This chapter sets out the PRA's feedback to those responses, and its final decisions.

2.3 The sections below have been structured broadly along the same lines as the chapters of the CP, with some areas rearranged to better respond to related issues. The responses have been grouped as follows:

- general comments;
- TWD option;
- TWD capabilities;
- TWD templates; and
- application of TWD policy in the context of a group.

General comments

2.4 The PRA proposed that the expectations in the TWD policy will apply to TWD firms engaged in trading activities that may affect the financial stability of the UK. The implementation date of the TWD policy was proposed to be Wednesday 1 January 2025.

2.5 Four respondents thought that the PRA's proposed TWD policy is overly prescriptive and does not align with other existing regulatory requirements, and submitted that the TWD policy should be principles-based. The PRA considers that the level of prescription set out is necessary. The PRA's consideration is based on the multi-phase Solvent Wind-Down supervisory exercise (SWD exercise) carried out between 2014 and 2021, which demonstrated that a certain level of prescription was required to provide sufficient clarity to firms and to increase the likelihood of achieving the desired outcomes. Relatively detailed expectations for planning are appropriate, given the potentially fast-moving nature of the wind-down of trading activities.

2.6 One respondent thought that analysis relating to the wind-down of trading activities across jurisdictions is already incorporated into the assessment that firms have undertaken under the Resolvability Assessment Framework (RAF). The PRA considers that the respondent's understanding is correct, but that does not exempt firms from needing to ensure their recovery plans and preparations for resolution are credible. For the avoidance of doubt, the PRA considers that TWD firms should be able to execute their TWD option (whether as a recovery or post-restructuring resolution option) across group entities and jurisdictions if their trading activities to be wound down span different group entities and jurisdictions.

2.7 Three respondents sought confirmation as to whether trading activity and positions used for liquidity and risk management activities for firms with a bail-in resolution strategy are excluded from the TWD policy, as well as the definition of materiality and the scope of legal entities that 'UK based bail-in firms' should consider for building TWD capabilities.

2.8 The PRA does not intend to exclude the liquidity and risk management activities referred to by respondents from the scope of the TWD policy if these activities are carried out in connection with the trading book. As set out in paragraph 2.1 of SS1/22, the TWD policy applies to firms that meet each of the following criteria:

- firms that have been identified by the PRA as an 'other systemically important institution' (O-SII);
- firms that have the full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option; and
- firms that have either been notified by the Bank of England ('the Bank') that their preferred resolution strategy is Bank-led bail-in, or have been notified by the Bank that they are a 'material subsidiary' of a third-country group for the purposes of setting internal minimum requirement for own funds and eligible liabilities in the UK (for the definition of 'material subsidiary', please refer to paragraph 7.3 of The Bank's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) SoP).[3]

2.9 Firms should contact their PRA supervisor if they are uncertain about the applicability of the TWD policy.

2.10 Four respondents suggested providing a later deadline, or additional time, for TWD firms with limited experience in previous SWD exercise to implement the TWD policy. Two respondents suggested that there is competition for resources and infrastructure driven by other regulatory change, which will make the implementation date of the TWD policy challenging.

2.11 The PRA considers that it is important for the TWD policy to be implemented without significant delay in the interest of maintaining a level-playing field internationally. However, to provide more flexibility for firms to meet PRA expectations in light of other upcoming regulatory initiatives, the PRA has decided to postpone the implementation date to Monday 3 March 2025.

TWD option

2.12 The PRA proposed in its draft SS 'Trading activity wind-down' how TWD firms should develop the TWD option in the context of recovery and post-resolution restructuring. The PRA proposed that a TWD scenario (or scenarios) should be used to develop and test the TWD option, and a baseline set of factors should be included by TWD firms when designing the TWD scenario.

2.13 Four respondents commented that the wind-down of trading activities should not be a mandatory recovery or post-resolution restructuring option. The four respondents commented that a recovery plan is owned by a firm's senior management, who determines the recovery option, the triggering and choice of the recovery plan and option, and the required information to support decision-making and execution of such plan and option. One respondent challenged the consistency between the general legal framework applicable to firms and the PRA's proposed expectations on the wind-down of trading activities during recovery. Two respondents suggested that the PRA should not expect an automatic execution of the TWD option documented within a recovery plan.

2.14 The PRA considers that under Rule 2.11 in the Recovery Plans Part of the PRA Rulebook, a firm is required to demonstrate that the implementation of the arrangements proposed in the recovery plan is reasonably likely to maintain or restore its viability and financial position. It is also required to avoid any significant adverse effect on the financial system to the maximum extent possible. Under

3 December 2021: https://www.bankofengland.co.uk/paper/2021/the-boes-approach-to-setting-mrel-sop.

Rule 8 in the Fundamental Rules Part of the PRA Rulebook, a firm must prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services.

2.15 Given the systemic importance of TWD firms, the PRA considers that a TWD firm, which engages in trading activities but does not include the TWD option as a recovery and post-resolution restructuring option, would not be reasonably likely to maintain or restore its viability and financial position while avoiding, to the maximum extent possible, any significant adverse effect on the financial system. The PRA also considers that these firms would not be prepared to be resolved in an orderly manner. Therefore, not preparing a TWD option may make these firms not recoverable or resolvable, and is likely to put these firms in breach of requirements in the Recovery Plans Part, and the Fundamental Rules Part, of the PRA Rulebook.

2.16 TWD firms may contact PRA supervisors to clarify the need for a TWD option and provide justification for not preparing a TWD option. In the event of executing the TWD option, the wind-down of trading activities may be full or partial, depending on firm-specific factors (including business model, trading activities engaged in by the firm, and specific regulatory requirements to which the firm is subject). For the avoidance of doubt, the PRA's expectation is that TWD firms develop TWD capabilities based on having to execute a full wind-down of their trading activities in post-resolution restructuring. TWD capabilities developed on this basis should be adaptable to deal with less severe circumstances. For a TWD firm which only includes partial wind-down of trading activities as a recovery and post-resolution restructuring option, the firm is still expected to demonstrate and provide assurance to the PRA that the TWD capabilities it has developed, can support the potential execution of a full wind-down of trading activities in post-resolution restructuring.

2.17 The PRA considers that the focus of the TWD policy is for firms to build the TWD capabilities. The PRA is not requiring the automatic execution of the TWD option documented within a recovery plan. However, firms are required to include in their recovery plans appropriate conditions and procedures to ensure the timely implementation of recovery actions.

2.18 One respondent considered that the 'viability' of a TWD option is a more important factor than whether it is geared towards a particular optimisation (eg capital, liquidity). The PRA considers that when a TWD firm develops its TWD option, it should ensure that the execution of its TWD option is reasonably likely to maintain or restore its financial position (see Rule 2.11 in the Recovery Plans Part of the PRA Rulebook), taking capital and liquidity into consideration. The PRA considers that if there are factors which reduce the likelihood of success or effectiveness of the recovery option (eg the TWD option), firms should detail these issues. Firms should also identify and have a plan to conduct measures that could be taken to improve the credibility of the option.[4]

2.19 Four respondents commented that the PRA's expectations on the design, development, and testing of the TWD scenario are too prescriptive, departing from existing stress testing frameworks. Two respondents suggested that firms should be informed by their own views of firm-specific risks and vulnerabilities.

2.20 The PRA encourages firms to leverage existing stress testing capabilities in designing and testing the TWD scenario. However, the PRA considers that a certain level of prescription is required to provide firms with sufficient clarity, and to increase the likelihood of achieving the desired outcomes, based on the experience of the SWD exercise. The PRA considers that relatively detailed expectations for planning are appropriate, given the potentially fast-moving nature of the wind-

4 Paragraph 2.9, SS9/17.

down of trading activities. The PRA considers that firms should ensure that the minimum baseline set of factors and any firm-specific factors are accounted for in the scenario design in order to meet the PRA's expectations in the TWD policy. This can help firms ensure, and demonstrate, that their TWD scenario is a sufficiently robust test of the TWD option, and that the recovery plan is credible as a whole.

TWD capabilities

2.21 The PRA proposed a set of expectations for the TWD capabilities which TWD firms should have to enable them to develop and execute the TWD option in a variety of real-life circumstances. Such capabilities included information provision and decision-making capabilities, as well as refresh capabilities.

2.22 One respondent sought clarification as to whether the TWD capabilities should be built to support recovery planning only, or should support both the recovery and resolution period. Two respondents requested clarification on the definition of 'recent available' data and the scope of such data. One respondent suggested that the date at which valuations will be produced at the start of the valuation process be used for the purpose of the TWD policy. The respondent further proposed that if an intra-month date is required, firms should have the flexibility to develop an approach to inform the date determined by the valuer, based on the date as close as possible before the expected date that a firm will be put into resolution.

2.23 The PRA considers that:

- TWD capabilities should support the development and execution of the TWD option in a variety of real-life circumstances, including both in recovery and post-resolution restructuring;

- 'recent available' data refers to data calculated as at the date of the refresh (for more details, please refer to paragraph 4.18 of SS1/22) and the scope of such data should cover TWD firms' balance sheet and the TWD scenario; and

- for the purpose of the TWD policy, the relevant date should be the date from which the valuation of TWD firms' trading activities are used to project their financial resources throughout the wind-down period (see footnote 28 of SS1/22).

2.24 Four respondents considered the PRA's expectations on TWD capabilities too prescriptive. Four respondents commented that granular modelling and sensitivity analysis, as well as the resultant refreshes, may be misleading during market-wide stress. Four respondents suggested that producing front-to-back hypothetical results with overlays from different exit strategies within a number of days would not deliver an optimal outcome in reality. Four respondents also commented that the TWD capabilities should focus on producing information which can support decision-making. One respondent suggested that a higher-level approximation between month ends with respect to the refresh capabilities and sensitivity analysis is considered to be sufficient for internal decision-making. Two respondents suggested that expert judgement, instead of a TWD model, should be used to bridge gaps between dynamic market conditions and a conservative modelled baseline. The two respondents also suggested that there is limited value from a data refresh of wind-down costs which rely heavily on expert judgement.

2.25 The PRA considers that its expectations for TWD capabilities is proportionate. TWD firms need to be able to provide reliable information which can support decision-making and the execution of the TWD option. The PRA further considers that firms need to be able to refresh data and the components of the TWD option in a timely manner to respond to changing real-life circumstances. The PRA considers this is important, given the fast-moving nature and complexity of trading activities. The PRA considers that this should ensure that decision-making by TWD firms, the PRA, and the Bank (as the resolution authority) is based on a materially accurate reflection of the real-life circumstances faced by firms. The PRA considers that information used for decision-making will have to rely on underlying data of sufficient granularity and quality as well as the capability of refreshing relevant information in a matter of days or weeks as stated in Chapter 4 of SS1/22. The PRA considers that lack of TWD capabilities may result in the TWD firm's inability to support informed decision-making for the potential execution of the TWD option.

2.26 The PRA considers that TWD firms should have refresh capabilities as expected in the TWD policy. The PRA considers that data refresh is generally anticipated to be conducted based on firms' initial plan (prepared before stress) on the execution of the TWD option. With full plan refresh (which may be based on a plan more tailored to the live stress situation faced by firms), the projections produced by firms as part of the data refresh output should become more accurate. The PRA considers that the capability to refresh a TWD model and a firm's judgement (including any adjustments or approximations applied) should be used together in modelling and making projections. However, judgement should not be used as a substitute for updating a model with more current data and making appropriate adjustments.

Financial resources and risk projections

2.27 The PRA proposed an expectation that TWD firms be able to forecast the impact of the TWD scenario on capital requirements, capital resources, and liquidity. The PRA elaborated how different factors should be projected throughout the wind-down period.

2.28 Regarding exit costs, one respondent commented that a counterparty view is required for economic value evaluation for bail-in recapitalisation under other regulatory requirements, and that trades are more commonly conducted on a counterparty basis. Therefore, the PRA's Exit Costs Template which is structured as product analysis seems incompatible and inconsistent. Three respondents considered it more appropriate to update exit costs in the full plan refresh, with one of the respondents citing that exit costs remain relatively stable based on the previous SWD exercise. The respondent similarly suggested that operational costs do not require shorter order refreshes.

2.29 The PRA considers that 'Products' and 'Counterparty Types' are both included as the segmentation dimension in the Exit Costs Template.[5] The product segmentation in the Exit Costs Template may still be appropriate and applicable in covering the situation where counterparties exposure is novated. The PRA considers that costs which appear to be stable in going concern or a business-as-usual (BAU) situation may become volatile during stress. Therefore, the PRA considers that TWD firms should have the TWD capabilities to refresh such costs within a matter of days, in order to provide timely information to support decision-making during stress.

2.30 Two respondents sought technical clarifications on RBLs, asking whether instantaneous or non-instantaneous market shock should be modelled and the appropriateness of the loss-spreading, and whether a scenario-based or distributional-based approach should be adopted. The two respondents suggested that the comparison against RBLs equal to Pillar 1 plus Pillar 2A, appears to be inconsistent and unreasonable.

2.31 The PRA does not expect TWD firms to develop complex modelling (such as market-driven risk changes and trading behaviour throughout the wind-down period) to calculate RBLs. The PRA considers that firms are expected to adapt existing risk measures (such as BAU stress losses and the

5 Appendices, SS1/22.

projected capital requirements described in paragraphs 4.41-4.43 of SS1/22) using their own judgement to derive an appropriate level of insight into the potential magnitude of losses during the wind-down.

2.32 The PRA considers both scenario-based and distributional-based approaches acceptable for the projection of RBLs. The PRA considers that firms may use simple techniques to adjust losses calculated on an instantaneous basis to reflect the non-instantaneous nature of RBLs. For example, under a scenario-based approach, firms could apply a multiplier to a suitable BAU stress number to reflect risk changes, a different time frame and other points of difference between the BAU and TWD scenarios. Alternatively, the evolution of loss distributions implied by components of the capital projection could be converted using statistical approximations into a loss distribution for the wind-down period from which RBLs can be derived. The PRA considers that firms may make appropriate assumptions about how RBLs are spread throughout the wind-down period. However, firms are expected to be capable of refreshing these assumptions.

2.33 The PRA clarifies the comparison of RBLs against Pillar 1 and Pillar 2A is only intended to serve the purpose of setting context for understanding the results of a firm's RBL calculation as part of the PRA's assessment. The PRA agrees that Pillar 1 and Pillar 2A may not be an appropriate measure of RBLs and will consider relevant factors in its assessment.

2.34 The PRA has revised paragraphs 4.27, 4.39-4.40 of SS1/22 to provide further clarification on the projection of RBLs.

2.35 Two respondents commented that the existing regulatory requirements on liquidity coverage ratio (LCR) will not be able to be met by a firm executing the TWD option during severe stress or resolution. One respondent commented that the LCR rules are based on pre-stress contractual maturities which are unlikely to apply during the TWD scenario. Two respondents suggested that the focus should not be on granular monthly forecasting of the LCR. One respondent believed that it is not possible to conduct daily run of order of allocation, to which LCR is sensitive, and suggested that approximate methodologies be permitted for LCR projection. One respondent commented that intra-day flow data is unhelpful because it becomes out of date quickly. Another respondent suggested that granular cash flow projections present a capacity challenge when the strategy is largely based on short-term risk neutral novation.

2.36 The PRA considers that the TWD policy does not impose requirements on TWD firms regarding the maintenance of LCR, but rather an expectation on firms to have the TWD capabilities to forecast the impact of the TWD scenario on the firm's liquidity throughout the wind-down period. Firms should refer to paragraph 2.17 of SS9/17 which states that firms are expected to quantify financial impact of recovery options (such as the TWD option) in terms of LCR.

2.37 Firms are required by the Rule 3.1 in the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook to have the ability to identify, measure, manage and monitor liquidity risk, and funding risk over an appropriate set of time horizons, including intra-day, as part of the overall liquidity adequacy rule. According to paragraph 2.24 of SS24/15 'The PRA's approach to supervising liquidity and funding risks',[6] firms are expected to demonstrate robust analysis of their intra-day liquidity risk profile both in BAU and stress scenarios. For the purpose of the TWD policy, the PRA considers that intra-day flow data should enable TWD firms to identify the portion of liquidity resources needed to be ring-fenced to meet intra-day liquidity needs. TWD firms should be able to demonstrate to the PRA that the cash flow projection throughout the wind-down period is of a

6 July 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-supervising-liquidity-and-funding-risks-ss.

sufficient granularity to provide a materially accurate estimation of cash flows as a result of positions being exited so as to support decision-making.

2.38 Where a TWD firm has no, or only a very small non-trading book, the PRA does not expect the firm to spend disproportionate effort in LCR projection. The PRA therefore considers it acceptable to adopt approximate methodologies in such cases. In contrast, the PRA considers it important for firms with a material non-trading book that will continue to exist after the wind-down to have the capabilities to forecast LCR, which will be a requirement continuously relevant to the firm. Firms can refer to the Liquidity Analysis Template[7] and the accompanying Guidance for Completing the Liquidity Analysis Template[8] for guidance concerning the breadth and granularity of data that the PRA expects firms to be able to produce regarding liquidity.

Sensitivity analysis

2.39 The PRA proposed an expectation that TWD firms be capable of performing sensitivity analysis using an appropriate level of modelling. The PRA also proposed that sensitivities of capital and liquidity should include a minimum set of factors.

2.40 Four respondents commented that the PRA's expectations on sensitivity analysis are too prescriptive. One respondent suggested the minimum set of factors be considered as examples only. One respondent argued that sensitivity analysis should be applied where it is simple to achieve and where outputs can support decision-making. Three respondents commented that sensitivity analysis should be permitted to be iterative and adjusted in a timely manner during the execution of the TWD option. Three respondents suggested that firms should be permitted to use credible approximations.

2.41 The PRA's expectation is that, instead of applying sensitivity analysis where it is simple to achieve as argued by a respondent, sensitivity analysis should be incorporated, where possible and proportionate, into the model for the projections based on the TWD scenario. This reflects the PRA's consideration that it may not be possible to incorporate some types of sensitivity without generating undue modelling complexity that is disproportionate to the extra informational value.

2.42 The PRA considers that sensitivity analysis incorporating factors listed in paragraph 4.49 of SS1/22 provides relevant information and improves planning as well as decision-making for the development and execution of the TWD option. The PRA considers that TWD capabilities should enable TWD firms to produce information and data to support decision-making before, during, and after a firm-specific and/or market-wide stress. For the purpose of executing the TWD option, the PRA anticipates that firms will use sensitivity analysis to produce information (eg a range of plausible impacts on the firm's capital and liquidity projections following the execution of the TWD option) that feeds into the decision-making process in the run-up to the execution of the option.

2.43 The PRA considers that approximate methodologies and bounding techniques may be useful and appropriate in determining the level of modelling complexity for sensitivity analysis. The PRA considers that when TWD firms conduct sensitivity analysis, changing the design of the TWD scenario and comparing results in different iterations may enable firms to better quantify the impact of alternative key assumptions to those assumed under the TWD scenario. This also validates approximate methodologies and any potential judgements made.

2.44 Respondents made specific technical comments on the list of minimum set of factors to be included for sensitivities of capital and liquidity. One respondent suggested that most actions

7 Appendices, SS1/22.
8 Appendices, SS1/22.

provide the benefit of risk reduction as well as the maintenance of capital and liquidity. Another respondent challenged the value of estimations made under certain scenarios that require significant judgement to be made.

2.45 The PRA considers that TWD firms should seek to conserve both capital and liquidity in selecting actions to be taken, and to adopt a prudent approach to risk management. The PRA considers that capital or liquidity may have to be respectively prioritised if needed. However, firms should have the TWD capabilities to set out the alternative actions, arrangements, and measures the firms will take if the prioritisation changes.

2.46 The PRA considers that there are actions, arrangements or measures which do not benefit the dimension of risk, capital, and liquidity concurrently. For example, the PRA considers that selling securities held as delta hedges to a derivative portfolio and replacing with derivatives may generate liquidity but also market risk (ie basis risk) at the same time.

2.47 Moreover, the PRA considers that judgement or approximation may be needed by TWD firms in certain circumstances, and if applied appropriately, the result of the sensitivity analysis can still be of informational value and able to support decision-making by firms, the PRA, and the Bank (as the resolution authority).

Testing

2.48 The PRA proposed that its expectations on governance arrangements for recovery planning set out in SS9/17 apply to a TWD firm's TWD capabilities.

2.49 Two respondents supported appropriate governance arrangements regarding the testing of TWD capabilities. Two respondents suggested that the timetable for testing be allowed to be integrated with group testing. The PRA considers it would be acceptable for TWD firms to choose to align their local testing timing with their group, provided that such arrangements do not impede the firms' compliance with the TWD policy and other existing regulatory requirements.

2.50 One respondent commented that firms should apply their own arrangements regarding the testing of TWD capabilities to ensure they have the necessary measures in place to support resolvability. The PRA considers that firms' arrangements should be able to support the execution of the TWD option during both recovery and post-resolution restructuring, instead of only having the measures to support resolvability. Therefore, the PRA expects TWD firms to perform testing of TWD capabilities in a way that aligns with the PRA's existing recovery and resolution requirements.

2.51 In the context of resolution, the PRA would like to additionally clarify that while firms should apply their own arrangements to support resolvability in the first instance, the Bank (as the resolution authority) will consider the effectiveness of firms' own arrangements when carrying out the Bank's own resolvability assessments. To gain assurance, the Bank may ask firms for further evidence. It is important for firms to read the TWD policy in conjunction with, amongst others,[9] SS9/17 and The Bank's Approach to Assessing Resolvability SoP.[10]

TWD templates

2.52 The PRA proposed to publish templates[11] as a guide for TWD firms to understand the breadth and granularity of data that they should be able to produce using their TWD capabilities.

9 Paragraph 1.20, SS1/22.
10 May 2021: https://www.bankofengland.co.uk/financial-stability/resolution/resolvability-assessment-framework/resolvability-assessment-framework-policy-documents.
11 Appendices, SS1/22.

2.53 One respondent sought clarification on the purpose of the templates. Another respondent was of the view that the templates are in substance mandatory because the templates set the benchmark on the level of data granularity expected. Four respondents commented that, in their opinion, granular data in the templates do not support decision-making in general, and firms should be allowed to determine the data granularity and use existing systems and reports. One respondent suggested that summarised information can better serve the purpose of decision-making. One respondent suggested that the policy expectation should be for firms to develop reporting to support decision-making.

2.54 The PRA considers that the purpose of the templates is to provide a guide to TWD firms as to the breadth and granularity of data that the PRA expects firms to be able to produce so that they can conduct meaningful analysis. It is important for firms to build and maintain the capabilities to produce the data in the TWD templates before any stress so that firms will be able to provide information in a timely manner for decision-making by the firms' management, the PRA and the Bank (as the resolution authority) in recovery and resolution. The PRA considers that it is inadequate for firms to only start building such capabilities in the firms' run-up to or during recovery and resolution.

2.55 The TWD policy imposes no requirements on firms regarding the preferred presentation format of information to senior management. In practice, the PRA considers that firms will use less granular data, summarising the data from the templates (or from their own granular analytical work, if they have not used the templates) to report to senior management and support decision-making. However, the PRA considers that information used to support informed decision-making will rely on underlying data of sufficient granularity and quality.

2.56 The PRA considers that firms are also permitted, and indeed encouraged, to leverage existing BAU management information systems and reports in building up their TWD capabilities. The PRA expects firms to have controls in place to ensure proper quality assurance on data and have appropriate cross referencing and reconciliation to other BAU data sources such as regulatory reporting data.

2.57 While TWD firms will be able to demonstrate that they meet the PRA's expectations in the TWD policy with the use of the templates, firms may present the relevant data in a different format than has been set out in the templates. Firms should be able to satisfy the PRA that taking a different approach with reference to the size and complexity of their trading activities would meet the PRA's expectations in the TWD policy. In such cases, the PRA would expect firms to conduct an analysis on their own format of data templates against the PRA's TWD templates. Firms should be able to explain that their own format of data templates achieve the same outcomes and level of completeness as expected in the TWD policy.

2.58 Paragraph 5.3 of SS1/22 has been revised to reflect the PRA's expectations on firms which intend to adopt their own format of data templates. Moreover, the PRA has renamed the data templates as 'TWD templates' to make it more consistent with the nature of a PRA's SS, which sets expectations on firms as opposed to mandatory requirements.

Application of TWD policy in the context of a group

2.59 The PRA proposed that its expectations contained within the TWD policy do not apply to third-country branches. The PRA also proposed that TWD firms which are UK subsidiaries of third-country groups leverage their group capabilities to meet the TWD policy where possible, but develop local TWD capabilities of their own in the case of insufficient group capabilities and be able to provide local-level assurance of local TWD capabilities.

2.60 Two respondents suggested that the TWD policy should not apply to third-country branches, whether directly or indirectly. One respondent sought clarification on the PRA's approach to the subsidiarisation of a branch if there is a lack of commitment from the home authority for developing a broadly equivalent framework. The PRA reiterates that the TWD policy does not apply to third-country branches. However, the contents of the TWD policy may be of interest to a range of other firms outside the scope of the TWD policy with large trading books. The PRA considers that the exclusion of third-country branches from the TWD policy reflects a proportionate approach based on their legal status, as opposed to an acceptance for them to act on a less prudent basis. The PRA considers subsidiarisation of a branch on case-by-case basis. Further details on the PRA's expectations in this area can be found in SS5/21 'International banks: The PRA's approach to branch and subsidiary supervision'.[12]

2.61 Two respondents sought clarification on how the TWD option should be assessed or applied in recovery planning and post-resolution restructuring for UK subsidiaries in third-country groups. One respondent assumed that the PRA would rely on the group's home resolution plan to demonstrate that UK subsidiaries already have the wind down of their trading activities as a recovery option. Another respondent suggested that the PRA assess group plans and capabilities against the TWD policy, and discuss perceived gaps with the resolution authority at group level, rather than seeking to liaise indirectly via the relevant firms. Three respondents commented that local TWD capabilities are not required under certain circumstances (such as when the group has certain TWD capabilities, or when the entities or businesses would have been wound down during recovery or resolution).

2.62 Regarding the interplay between the TWD option and recovery and post-resolution restructuring planning, the PRA considers that firms' work on recovery and resolution should be consistent and viewed as complementary. Firms (including UK subsidiaries of third-country groups) should include in their recovery plans the impact of taking recovery options (including the TWD option). Concerning preparatory measures for recovery options, the PRA considers that firms should explicitly consider how they can reduce or mitigate the impact of recovery options on resolvability. Similarly, firms should consider the possibility that some recovery options may have been undertaken in an attempt to recover and so may no longer be available once the firm is in resolution. Firms may refer to SS9/17 and The Bank's SoP on Restructuring Planning[13] for more details.

2.63 The PRA considers that TWD firms are responsible for ensuring their compliance with the TWD policy, and should not assume group capabilities will make them compliant. The PRA further considers firms should also be able to execute the TWD option (whether as a recovery or post-restructuring resolution option) across group entities and jurisdictions if the trading activities to be wound down span different group entities and jurisdictions.

2.64 The PRA expects that the set of TWD capabilities to be developed by TWD firms is based on having to execute a full wind-down of trading activities in post-resolution restructuring. Capabilities developed on this basis should be adaptable and useable in a variety of real-life circumstances (eg during recovery instead of post-resolution restructuring, or execution of a partial instead of full wind-down of trading activities).

2.65 The PRA and the Bank recognise the importance of cooperation with relevant home state supervisors and home resolution authority in the context of supervision of international banks. However, the PRA also supervises individual firms to advance its objectives under the Financial

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12 July 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/july/pra-approach-to-branch-and-subsidiary-supervision-ss.

13 May 2021: https://www.bankofengland.co.uk/financial-stability/resolution/resolvability-assessment-framework/resolvability-assessment-framework-policy-documents.

Services and Markets Act 2000. Similarly, the Bank has a statutory responsibility to assess resolvability of individual UK firms.

2.66 For the avoidance of doubt, the PRA provides further explanation on how the TWD policy will be applied to TWD firms in the context of a group:

- For UK subsidiaries and branches within third-country O-SIIs groups, the Bank considers and assesses TWD capabilities at group level and has to be satisfied that the group capabilities deliver broadly comparable resolvability outcomes under the RAF. The PRA also has to be satisfied that the TWD capabilities used by TWD firms deliver the outcomes as expected in the TWD policy. If the group does not have sufficient capabilities to meet the expectations in the TWD policy, the UK subsidiary is expected to develop local TWD capabilities of its own and provide local-level assurance of local TWD capabilities.

- UK subsidiaries of third-country O-SII groups are subject to requirements in the Recovery Plans Part of the PRA Rulebook to draw up, maintain and submit to the PRA a recovery plan providing for measures to be taken by the firm during recovery stage. In line with the PRA's expectations in SS9/17 'Recovery planning', these UK subsidiaries are expected to include the TWD option and other recovery options at the legal entity level in their own recovery plans.

- TWD firms which are part of Capital Requirements Regulation (CRR) consolidation entities are expected to meet the expectations in the TWD policy at the group level and include the TWD option in the group recovery plan.

2.67 Paragraph 6.8 of SS1/22 has been added to provide details on TWD firms that are subsidiaries of third-country groups concerning their compliance with recovery and resolution requirements.

Appendices

1	**SS1/22 'Trading activity wind-down', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2022/april/trading-activity-wind-down-ss.**
2	**Statement of Policy 'Trading activity wind-down', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2022/april/trading-activity-wind-down.**
3	**Updated SS9/17 'Recovery planning', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2017/recovery-planning-ss.**