



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

24 July 2014

Prudential Regulation Authority consults on implementing the Bank Recovery and Resolution Directive

The Prudential Regulation Authority (PRA) has today proposed changes to its rules to implement the EU Bank Recovery and Resolution Directive (BRRD). The BRRD provides a common set of tools and powers for dealing with failing banks and will take effect at the end of 2014.

Andrew Bailey, Deputy Governor, Prudential Regulation and Chief Executive Officer of the PRA said

“The financial crisis demonstrated that the authorities did not have the powers or tools needed to deal with failing banks. This meant that public funds had to be used to prop up the banks, which is unacceptable. The UK authorities have taken a number of important steps since the crisis to increase the resilience of our banking sector, including stress testing the major banks and strengthening the capital framework. The BRRD provides a framework and tools to deal with banks in distress and builds on the steps we have already taken to ensure firms have recovery and resolution plans that minimise disruption to the wider financial system.”

The requirements in the BRRD will be addressed by developing the PRA’s existing recovery and resolution planning framework, which has been in force since 1 January 2014. In the consultation paper published today, the PRA proposes to make rules concerning recovery plans, resolution packs, intragroup financial support agreements, notification of failure or likely failure and contractual recognition of bail-in.

Although the Bank of England as the UK resolution authority already has a tool to bail-in liabilities of banks in distress, implementation of the BRRD means that this bail-in tool must be contractually recognised in liabilities governed by the law of a third country, and which are not excluded from the scope of bail-in. The PRA is therefore proposing that firms include a term in their contracts so that the creditor recognises that the liability may be subject to the UK bail-in regime. This will provide transparency for creditors and mitigate the legal risk of cross-border resolutions where it concerns bailing in creditors.

One further proposal is that firms should undertake scenario testing of recovery plan options. The PRA already expects firms to assess how successful different recovery options may be. Scenario testing, which should include an idiosyncratic scenario, a system-wide scenario and a combination of both, will help firms know which recovery measure would be most appropriate in different situations and allow them to take the best course of action. The PRA expects that the scenarios should be severe enough to activate the recovery plan while being plausible in considering the business and risk profile of the firm.

The consultation paper also sets out how financial support could be provided between entities within groups to improve the stability of the group as a whole without jeopardising the entity providing the support. The PRA proposes to require firms to make these agreements public at least annually and to allow them only if certain conditions are met.

These proposed rules will apply to banks, building societies and investment firms. They will also apply to the holding companies of these firms.

Note to Editors

The bail-in tool was granted to the Bank of England in the Financial Services (Banking Reform) Act 2013
<http://www.legislation.gov.uk/ukpga/2013/33/contents/enacted>.