The Bank of England's approach to resolution

This publication describes the framework available to the Bank of England to resolve failing banks, building societies and some investment firms.

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Foreword

It is 10 years since the Bank of England (the Bank) first published its 'Approach to resolution', known as the Purple Book.

The absence of a credible resolution regime during the global financial crisis meant that the UK government had to step in, injecting £137 billion of public money to stabilise the financial sector, and that the financial system acted as an amplifier, intensifying the UK economic downturn at great economic and fiscal cost. Many other countries around the world also had to take extraordinary actions.

Resolution aims to ensure banks and other financial institutions can be allowed to fail in an orderly way. Just like when any other business fails, losses arising from bank failure would be borne in resolution by shareholders and unsecured creditors. This protects public funds from loss, protects ordinary depositors, and incentivises banks to operate more prudently.

Parliament passed legislation in 2009 to create a lasting resolution regime for the UK, including objectives for the UK authorities and powers for the Bank of England (the Bank) as resolution authority. The regime continues to be enhanced to give the Bank a flexible set of tools to respond to a crisis. This year, our resolution powers for central counterparties have also been enhanced. HM Treasury has also consulted on a possible resolution regime for insurers.

2023 has been a significant year for the UK's resolution regime and this is reflected in this updated Purple Book. The regime is built on the principles of credibility, transparency, flexibility and proportionality. Transparency around what is likely to happen if a bank fails is a fundamental part of a credible resolution regime. That is why we place such importance on publications such as this one, explaining the key features of the UK's resolution regime and how the Bank would be likely to implement a resolution.

A credible and transparent resolution regime is in firms' interests, further increasing the resilience of the UK banking system by reducing systemic risk and giving the public and investors confidence that should a failure occur any disruption would be minimised. We aim to ensure our resolution requirements are proportionate and appropriate for the UK banking system: proportionate to the impact of failure, and appropriate to the institutions to which they are applied.

To realise the benefits to growth and competition from financial stability, firms of all sizes need to be 'resolvable': able to fail in an orderly manner with investors, not the public purse, bearing losses. So in 2019 the Bank introduced its Resolvability Assessment Framework, with outcomes in resolution which larger banks in the UK must demonstrate they would be able to achieve; and the major UK banks must publish summaries of their own preparations for resolution. We publicly communicated the findings from our resolvability assessment for the major UK firms for the first

time in 2022. This was a major step forward in ending too big to fail.

Flexibility in times of crisis or when contingency planning, including the ability to run different options in parallel, allows us to respond more effectively to the specific circumstances. This means we can deliver a better outcome for depositors and other customers of the bank in resolution, and for overall UK financial stability.

Further, the UK's role as a global financial centre means we really value having strong and effective common global regulatory standards and cross-border co-operation. The UK continues to play a proactive role in global fora such as the Financial Stability Board, supporting the development and effective implementation of resolution standards across the world and practical cross-border resolution planning, testing and exercising to maintain operational readiness to execute and co-ordinate cross-border resolutions effectively. Keeping resolution readiness in the spotlight on the international stage continues to be important.

In 2023, we saw the first major test of the post-crisis international resolution framework. In the UK, this included the effective resolution of Silicon Valley Bank UK (SVBUK). It showed the key tools, including writing down shareholders and creditors to protect public funds and transfer powers to maintain operational continuity are both credible and feasible. They work.

No matter how much preparation is done, resolution is always likely to be complex and challenging to execute. Maintaining a transparent, credible and proportionate resolution regime that is fit for purpose and ready for use is a continuous process, with the authorities and firms responding as the financial system and regulatory landscape evolves. Keeping this Purple Book up-to-date is just one of things that we at the Bank do to help achieve this, as part of our broader mission to maintain the stability of the UK financial system for the public good.

Earlier this year, Mel Beaman, the Executive Director for Resolution who led the team through the SVBUK resolution, sadly passed away. Mel worked at the Bank and Financial Services Authority for over 25 years and was an outstanding public servant who touched the lives of so many people. She will be missed greatly, but not forgotten.

Dave Ramsden
Deputy Governor, Markets and Banking
December 2023

Executive summary

The Bank of England (the Bank) is responsible for taking action to manage the failure of certain types of financial institution – a process known as 'resolution'.

This document is the third edition of the Bank's approach to resolution and updates the 2017 version. It focuses on banks, building societies and designated investment firms regulated by the Prudential Regulation Authority (PRA); for simplicity we refer to these institutions as 'firms' or 'banks'. The special resolution regime and the powers of the Bank also apply to group companies within the same group as a bank, subject to certain modifications. Part 1 explains the key features of the resolution regime. Part 2 looks at how the Bank is likely to implement resolution. Part 3 explains the Resolvability Assessment Framework (RAF) which the Bank has put in place for firms while Part 4 describes the Bank's approach to resolution planning, third-country recognition and international co-ordination. Annexes 1–3 provide detail on how the Bank addresses some specific barriers to resolvability.

The Banking Act 2009 (the Banking Act) special resolution regime also applies to central counterparties (CCPs). The Financial Services and Markets Act 2023 (the FSM Act) expands the UK's regime for the resolution of CCPs. Following the secondary legislation for the CCP resolution regime being put in place, the Bank will separately publish a description of the CCP resolution regime.

> **Resolution reduces the risks to depositors, the financial system and public finances that could arise due to the failure of a bank. By ensuring losses 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 was a key lesson from the global financial crisis of 2007–09. 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 firms. Without a resolution regime, 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 changes this by providing powers to impose losses on investors in failed banks while ensuring the critical functions of the bank continue. Shareholders and creditors profit when a bank is healthy and should therefore bear losses when a bank gets into trouble. The Bank's resolution regime also aims to make firms' responsibilities for their resolvability more transparent to the public and firms' investors. The PRA's Fundamental Rule 8 requires firms to prepare for resolution so that if the need arises, they can be resolved in an orderly manner with a minimum

disruption of critical services. 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 helps to create 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 credibly and feasibly and without risk to financial stability and to the broader economy.

As the UK resolution authority, the Bank is responsible for developing a strategy for how it would manage the failure of every bank, building society and designated investment firm within its remit. Managing the failure of a bank of any size is unlikely to be a straightforward process, but these strategies set out how the bank could be allowed to fail without risks to financial stability. The Bank has established a RAF under which the largest banks are expected to assess and report on their preparations for resolution. Resolution is 'feasible' when the authorities have the necessary legal powers and the capacity to implement these resolution strategies, and where any substantive impediments to resolvability have been addressed. For resolution to be 'credible', the authorities must be able to use their powers without threatening the stability of the financial system and wider economy.

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

The Banking Act sets out the objectives that the Bank must pursue when it carries out the resolution of a bank. It provides the Bank with a set of legal powers to ensure resolution is an orderly process. These powers are used to enable a failing bank's critical functions to continue while the remaining parts of the bank's business are 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 that will result in a change to this. But resolution powers can only be 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 PRA, 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, **Financial Conduct Authority** (FCA) and **HM Treasury** (HMT).[1]

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 may be put into a bank or building society insolvency process. Designated investment firms may be placed instead into a special insolvency regime if they hold deposits or client assets, and normal insolvency if

they do not. The Bank must have regard to the objectives for resolution set out in the Banking Act in considering whether to use the resolution powers or the bank or building society insolvency or administration procedure. The resolution objectives are set out in Figure 2.

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

The Banking Act establishes five stabilisation tools to resolve a failing bank:

- **bail-in**;
- transfer of a failed firm or all or part of its business to a **private sector purchaser**;
- transfer of a failed firm or all or part of its business to a **bridge entity** controlled by the Bank;
- transfer of all or part of the business of a failed firm or of a bridge entity to an **asset management vehicle** controlled by the Bank; and
- **temporary public ownership**, which would be decided on and implemented by HMT and can only be used as a last resort.

In addition, there are modified insolvency procedures which are available to resolve failing firms: the bank or building society insolvency procedure and, where there has been a partial transfer of the business from a failing firm, the bank administration procedure.

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

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, where the bail-in or partial property transfer tool is used, it is a requirement that the compensation arrangements to be put in place by HMT ensure that no shareholder or creditor is left worse off than they would have been in a hypothetical counterfactual 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, suspend the right of a secured creditor to enforce security 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 first.

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, transfer and modified insolvency.

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. The bail-in tool enables the Bank to impose losses on shareholders and to write down or convert into equity the value of the claims of certain unsecured creditors. The exposure of shareholders and creditors to losses in resolution should respect the order in which they would have received distributions in an insolvency of the firm and leave them no worse off than they would have been if the firm had been placed into an insolvency process. This is a key protection for investors in firms and known as the 'no creditor worse off' safeguard. The bail-in tool ensures investors bear losses before taxpayer funds can be used.

Transfer of the shares in a failed firm or transfer of the business or part of the business of the firm to a private sector purchaser also aims to ensure continuity of critical functions. This resolution strategy is likely to be appropriate for smaller and medium-sized firms whose operations can be sold in short order to another firm, but which nevertheless, in the event of their failure, 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 (eg current accounts that are regularly used), but do not exceed the £15 billion–£25 billion balance sheet threshold. However, in some cases of smaller bank failure the public interest and resolution objectives, particularly in respect of continuity of banking services, may also be better served by the use of the transfer powers.

The Bank can also transfer the shares in a failing firm or transfer the business or part of the business of the firm temporarily to a bridge entity, pending a sale to a private sector purchaser. Assets and liabilities of the firm not transferred to a temporary bridge entity, or a private sector purchaser, can be transferred to an asset management vehicle to be run off.

Alternatively, where there has been a partial transfer from a failing firm, the firm could be placed into administration using the bank administration procedure if this is needed to ensure that essential services continue to be provided to the transferred part of the firm.

As with bail-in, the Bank would expect to impose losses on shareholders and to write down the claims of certain unsecured creditors.

While larger firms would be placed into resolution, depending on the circumstances **modified insolvency** may be the appropriate resolution strategy for smaller firms. Protected depositors would 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 December 2023 per eligible depositor) as a priority. 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 domestic and international counterparts.

Part 3 of this document describes how the Bank assesses the resolvability of firms and Part 4 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 UK. 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 bilaterally and for global systemically important banks (G-SIBs), through crisis management groups (CMGs). This embeds co-operation and co-ordination between home authorities and host authorities and makes cross-border resolution feasible.

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 affect the 'resolvability' of the firm, must be identified and removed. The Bank has identified eight generic barriers to resolution (Figure 5). The Bank also expects firms to be able to achieve three outcomes if they are to be considered resolvable. These are:

- **adequate financial resources:** in the context of resolution: that a firm has the resolution-ready financial resources available to absorb losses and recapitalise without exposing public funds to loss;
- **continuity and restructuring:** that a firm can continue to do business through resolution and restructuring; and
- **co-ordination and communication:** that a firm is able to co-ordinate and communicate effectively within the firm and with the Bank, PRA and the FCA and markets so that resolution and subsequent restructuring are orderly.

The Bank works with international bodies, such as the Financial Stability Board (FSB), to develop policies to remove barriers to resolvability. 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 that firms have not developed sufficient capabilities to remove the barriers to their resolution, it has powers to direct a firm to remove these through changes to their operations or structure.

The Bank shares the outcome of the resolvability assessment with the firm and asks it to make proposals to remove any barriers identified. If the Bank subsequently concludes that 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, major UK firms are expected to perform a regular assessment of their preparations for resolution and publish a summary. In parallel, the Bank publishes its own assessment of those firms' resolvability capabilities.**

The Bank believes greater transparency over the progress being made towards removing barriers to resolvability will incentivise firms to prioritise those actions. The Bank published its **first assessment of major UK firms' ability to achieve the three resolvability outcomes** in June 2022, and will update this assessment every two years.

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.

The Bank's mission is to promote the good of the people of the UK by maintaining monetary and financial stability. As part of that mission, the Bank has statutory responsibility for taking action to manage the failure of banks, building societies and designated investment firms regulated by the PRA.[2] 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.

This document also refers to recent developments in enhancing the approach to resolving CCPs, which fall within the scope of the UK resolution regime; and insurance companies, which currently do not.

This document describes the statutory responsibilities and powers of the Bank as UK resolution authority. The framework takes into account the changes made in consequence of the withdrawal of the UK from the European Union (EU) on 31 January 2020 and the ending of the transitional period on 31 December 2020. In general, any reference in this document to legislation derived from the body of EU law (retained EU legislation, or 'REUL') is to that legislation as retained in accordance with the EU (Withdrawal) Act 2018 (the 'EU Withdrawal Act') and as amended, in particular as amended in accordance with the EU Withdrawal Act.[3] However, the references do not take into account changes made after publication.[4]

This publication contains outlines or summaries of various of the Bank's statements of policies related to particular aspects of the resolution regime aimed at providing an introduction or general overview of certain aspects of such policies. For detailed information the relevant policy document itself should be referred to. References to the policy documents referred to in this publication are provided in Annex 5.

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.

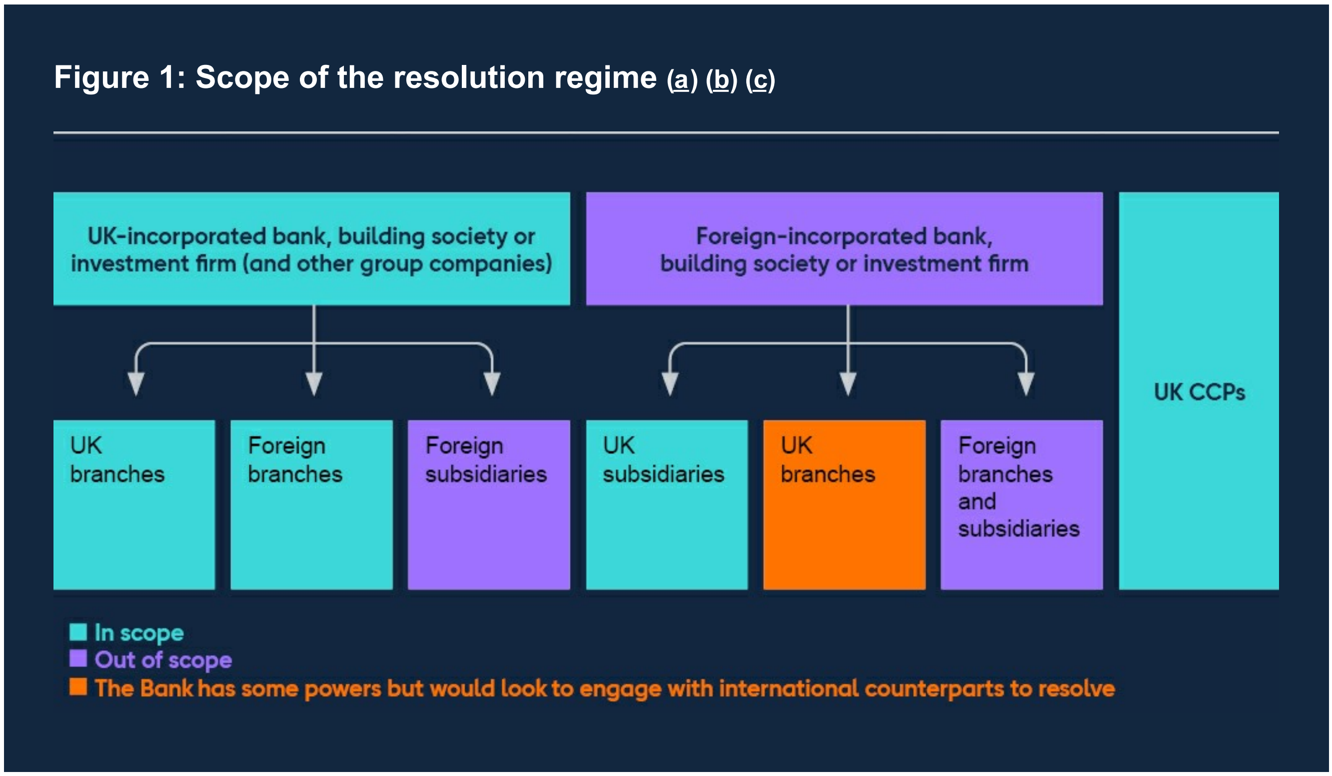
The regulatory system in the UK is not designed to ensure that banks will never fail. A core feature of a stable and competitive financial system is that where banks fail, they can do so in an orderly fashion – that is without excessive disruption to the financial system or to the banking services provided to households and businesses, and without exposing taxpayers in general to loss. This principle underpins the FSB's international standard for resolution (the **Key Attributes of**

Effective Resolution Regimes for Financial Institutions), agreed by G20 leaders in 2011 and enhanced in 2014. The arrangements for the resolution of failing banks in the UK are designed to comply with the Key Attributes.

The need for a financial system to have an effective resolution framework for banks became clear during the global financial crisis of 2007–09. At that time the UK, 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.

Resolution arrangements have changed this by enabling losses arising from bank failure to be borne by the shareholders and creditors of failed banks, while ensuring continuity of banking services and the firm's critical functions. The Bank has used its resolution powers to resolve failing banks on a number of occasions since the 2007–09 financial crisis (Box 4), and many other countries around the world have also used similar powers.

The market's perception that the biggest banks would be rescued by the government as they were 'too big to fail' created an implicit guarantee that acted 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.



(a) The Bank has powers to resolve UK branches of overseas-based banking firms, which are available under certain circumstances set out in the Banking Act.
(b) In the case of banking group companies (defined in the Banking Act and the Banking Act 2009 (Banking Group Companies) Order 2014 (SI/2014/1831)) which include non-UK institutions, where a non-UK resolution authority decides to take stabilisation action in respect of a non-UK banking group company, the Bank will need to consider whether the exercise of a stabilisation power in respect of any UK firm in the banking group is necessary having regard to the public interest in the advancement of one or more of the special resolution objectives and to consult the PRA and HMT if it is likely to use such powers.
(c) Investment firms within the scope of the resolution regime are PRA-designated investment firms.

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

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 UK's resolution regime was initially put in place in 2009 and has been modified subsequently. The **2022 FSB review of resolution regimes** identified no gaps in the UK's policy toolkit for bank resolution, while the 2022 International Monetary Fund (IMF) **UK Financial Sector Assessment Program report** and **Technical Note** noted that the UK benefitted from a robust financial stability framework and recognised the effectiveness of the Bank's work in enhancing the bank resolution regime.

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 were likely to result in significant disruption of one or more of the critical functions[5] provided by the failing firm. Examples of critical functions that would have knock-on effects on 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 and feasible resolution strategy.

II: Key features of the UK bank 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.**

Under the Banking Act the UK resolution regime applies to banks, building societies and designated investment firms regulated by the PRA, and their financial holding companies[6] that are incorporated in the UK (Figure 1). It therefore includes the UK subsidiaries of foreign firms. The UK branches of overseas-based banking firms are also within scope of the regime. Certain investment firms regulated solely by the FCA were removed from the scope of the regime in 2022, following a government consultation in 2021, and are instead subject to the investment bank special administration regime.

The Banking 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 PRA, FCA and HMT – in relation to certain aspects of the bank resolution regime.

The regime provides the Bank with a flexible set of resolution tools[7] to manage the failure of a firm. The regime also includes a set of separate modified insolvency procedures[8] for banks, building societies and designated investment firms, which can be used alongside the resolution tools or relied upon exclusively where the Bank decides that resolution powers are not needed to meet the objectives of the regime. The Bank has used these tools on a number of occasions, including for the resolution of Silicon Valley Bank UK (SVBUK) in March 2023.

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.

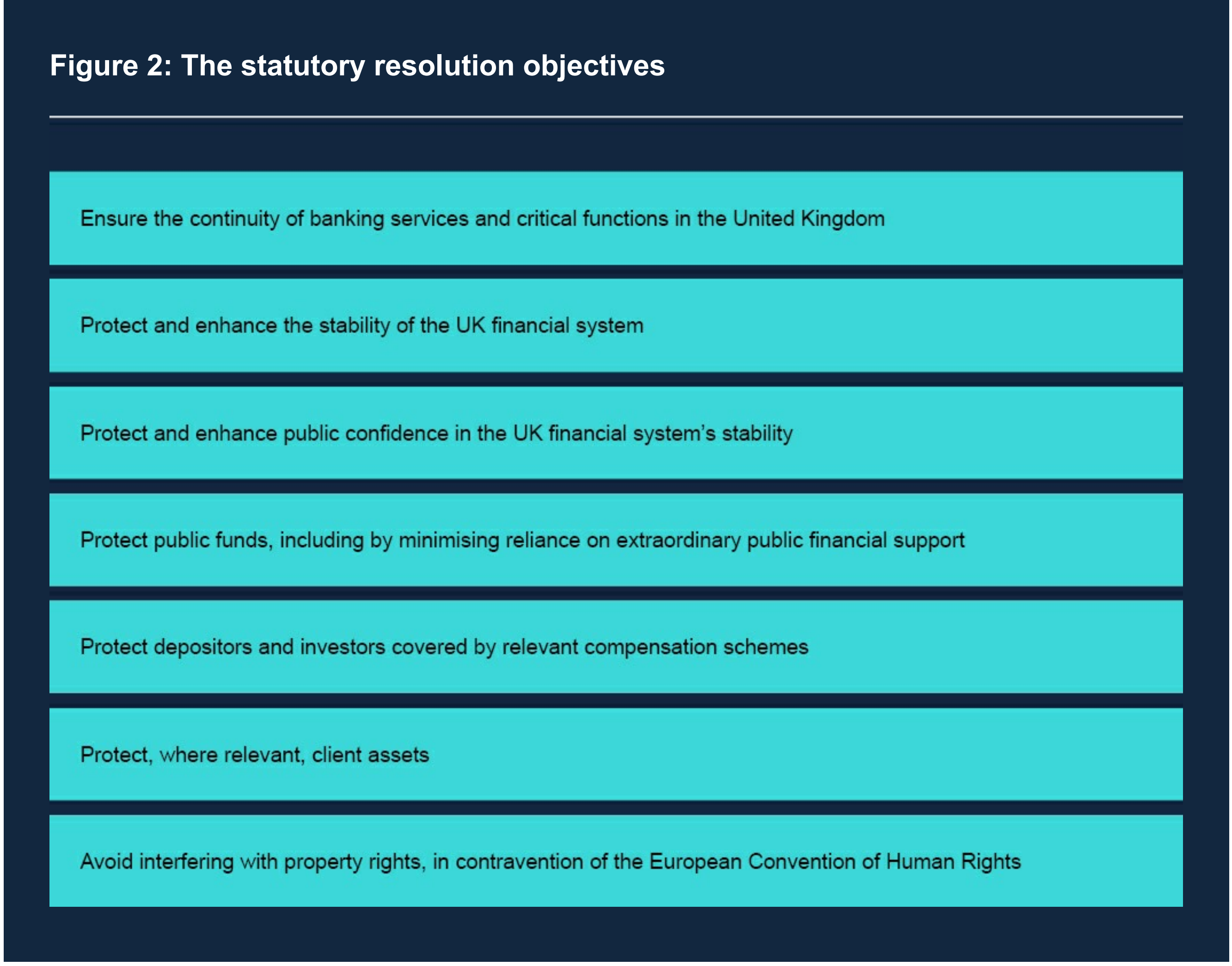
Separately from the stabilisation powers, the Banking Act imposes on the Bank a legal duty to

effect a mandatory cancellation, transfer or dilution of a firm's Common Equity Tier 1 (CET1) instruments and, to the extent necessary to achieve the special resolution objectives, the write-down or conversion of the firm's Additional Tier 1 (AT1) instruments and potentially Tier 2 instruments, in circumstances where the firm has reached the point of non-viability. The Bank is required to make a mandatory reduction instrument where one of the five cases set out in the Banking Act applies. This power may be exercised in conjunction with a stabilisation power, other than, in certain circumstances, the bail-in stabilisation power. A **mandatory reduction of capital instruments** was made as part of the resolution of SVBUK in March 2023, meaning losses were borne by the firm's AT1 and Tier 2 capital instruments, with the CET1 instrument (ie shares) being transferred to HSBC.

Objectives

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

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, in the circumstances of the case.



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.

A crisis management **Memorandum of Understanding** (MoU) between the Bank and HMT 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 firm that involves the use of resolution tools. This includes an assessment of the systemic risks and potential risks to public funds from the firm's failure.

While the Bank is designated as the resolution authority in the UK, the authorities and the FSCS all have formal roles under the resolution regime. In summary:

- the PRA, as prudential supervisor,[9] 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 resolution,

having consulted the other authorities,[10] 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;[11] and
- in modified insolvency, the FSCS pays out deposits protected up to the applicable limit (currently £85,000 per eligible depositor)[12] or else funds the transfer of these deposits. In resolution the FSCS can be requested to contribute up to the amount it would have paid out in insolvency.

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 substantive impediments to resolvability and the setting of a minimum requirement for own funds and eligible liabilities (MREL) to ensure that banks maintain appropriate levels of loss-absorbing capacity. These responsibilities and the Bank's expectations of firms in addressing any impediments to resolvability are set out in detail in **The Bank of England's approach to assessing resolvability** and are described in Part 3. The purpose and approach to setting MREL is explained in detail in the **Bank's Statement of Policy on MREL** and is described in Annex 1.

The Bank engages with authorities in other jurisdictions when planning for, and carrying out, a resolution of a cross-border bank. This is particularly important for the UK, which is the home jurisdiction of three G-SIBs and hosts a number of large international firms – some of which are also G-SIBs – whose headquarters are outside the UK. The arrangements established in recent years to facilitate this co-operation are wide-ranging and are covered in more detail in Part 4.

Triggering the resolution regime

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

Certain 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' in a manner that would justify the withdrawal or variation of authorisation.[13] This assessment is made by the PRA following consultation with the Bank as resolution authority.

Second, it must not be reasonably likely that – ignoring the resolution powers – action will be taken 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**. When making this determination, the

Bank takes 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.[14]

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.

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 the firm is technically insolvent.

In considering these two conditions, the Bank must disregard financial assistance provided by HMT or the Bank other than ordinary market assistance offered by the Bank on its usual terms such as the Sterling Monetary Framework and other operations in the **Bank's published framework for market operations**.

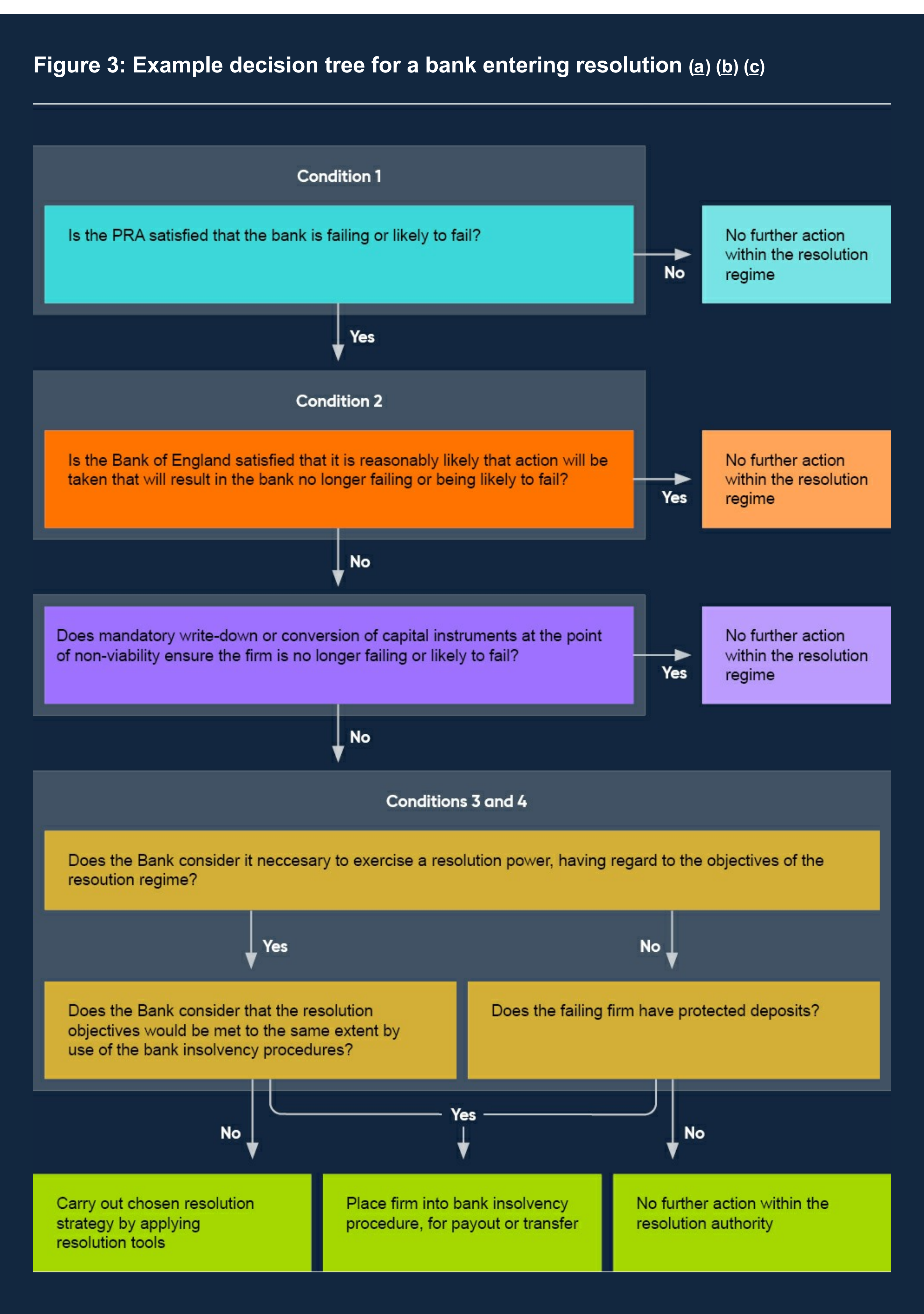
The public interest test

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

The determination that a bank satisfies the conditions for resolution discussed above does not, on its own, allow the use of all the resolution powers. 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, before deciding to use a resolution power, the Bank must also determine that action is necessary to advance the statutory resolution objectives, summarised in Figure 2. This assessment includes considering the size and nature of the critical functions of the failed firm and conditions in the wider financial system at the time of failure.

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.[15] 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 the resolution tools are unavailable, but the relevant insolvency procedure may be used if the firm is unable, or likely to become unable, to pay its debts or is otherwise insolvent.

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.



(a) Excludes temporary public ownership and public equity support, which are to be used only where HMT 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.

Resolution tools

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

The main resolution tools are:

- **bail-in:** write-down of the claims of the bank's unsecured creditors (including holders of capital instruments) and potential conversion (directly or indirectly, for example through interim instruments such as certificates of entitlement described in Annex 2) of those claims into equity as necessary to restore solvency to the bank;
- **transfer to a private sector purchaser:** 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 the need for consent of the failed bank, or its shareholders, customers or counterparties; and
- **transfer to a bridge bank:** the temporary transfer of all or part of the bank's business, which can include either its shares or its property (its assets and liabilities), to a company controlled by and wholly or partially owned by the Bank. The purpose of a transfer to a bridge bank 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), failing which its operations would be wound down at the end of the post-transfer period. As part of the transfer, losses are imposed on shareholders and unsecured creditors, to protect public funds.

Two additional tools may be used in conjunction with the resolution tools described above in order to wind down a firm in an orderly manner. These are:

- **transfer to an asset management vehicle:** this is a stabilisation option which 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:** this is an insolvency process by which, in the case of a partial business transfer, 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.

The Bank has provided indicative thresholds for selecting from the different resolution strategies that are based on the tools discussed above and for setting MREL in support of these strategies (Box 1). Given the thresholds are indicative, the Bank selects a resolution strategy for each individual firm which best advances the statutory objectives. This includes taking into account the impact of the firm's 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.

The resolution strategy determined for a particular firm is not necessarily determinative of the resolution tools which would actually be used in the event of a failure of that firm. The decision as to which resolution tools to use in an actual case depends on the Bank's assessment having regard to the circumstances at the time and may be different to the preferred resolution strategy.

Following on from resolution events in 2023, the Bank is undertaking work, in co-ordination with HMT, to ensure that for small banks, which are not required to hold additional resources to meet the minimum requirement for MREL, there are resolution options that improve continuity of access to deposits and so outcomes for depositors. Such firms may find it harder to issue marketable debt securities that could count as eligible liabilities.

This is looking to supplement the existing resolution framework in a way that continues to reduce risks to financial stability and public funds when small banks fail.

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

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 which could jeopardise an orderly resolution of the firm and risk wider contagion. The resolution regime also gives the Bank powers to prevent counterparties closing out their contracts with a firm in resolution.

The Banking Act contains a general stay provision, which overrides a counterparty's contractual right to terminate an agreement early or to accelerate payment if the right arises solely as a result of entry into resolution (or any event directly linked to resolution). The general stay provision stipulates that a resolution or pre-resolution action by the Bank, PRA, HMT or the FCA is to be disregarded in determining whether various events occur or arise under a contract with the firm 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. The general stay applies automatically unless the Bank provides for the general stay not to apply to a particular contract or to apply only to the extent specified by the Bank.

The Bank also has the power to suspend temporarily:

- a failed bank's payment and delivery obligations (other than payment of eligible deposits or eligible claims and payments or deliveries to excluded persons);
- the right of a secured creditor (other than an excluded person) to enforce any security interest over the assets of the firm; and
- the right of a party to a contract (subject to certain exceptions, including where the party is an excluded person) to terminate the contract or to accelerate, close out, set off or net obligations and to prevent obligations arising under the contract.[16]

This power does not apply automatically and can only be applied by the Bank for a brief period – up to the end of the first business day after the instrument containing such a temporary suspension is published. This power 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 failed firm which enters a modified insolvency procedure), they may be terminated on expiry of the temporary 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.

Resolution powers enable the Bank as resolution authority to interfere with the property rights of banks' shareholders, creditors, and counterparties without their consent, provided that it is determined to be in the public interest to do so. In addition to the public interest requirement, the Banking Act 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.

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 directly or indirectly into equity when the bail-in tool is used. Valuation will similarly be needed to inform the use of the transfer tool. Further detail on the valuation

requirements that apply under the UK regime is contained in Annex 2.

Second, the use of resolution powers could affect certain types of financial arrangements in a manner that undermines their purpose. The regime includes safeguards to ensure that certain financial market arrangements whose purpose is to reduce the counterparty's loss in the event of a default by a bank are preserved in the 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.

Third, the Banking Act provides for compensation measures which may be put in place by HMT following the exercise of stabilisation powers by the Bank or HMT. These are designed such that appropriate provision for compensation is made to ensure that the use of the stabilisation options is compatible with Article 1, Protocol 1 of the European Convention on Human Rights (protection of property). In addition, the regime contains a 'no creditor worse off' (NCWO) safeguard in relation to the compensation measures which are required to be made by HMT following the exercise of the bail-in or partial property transfer stabilisation powers. This requires that no pre-bail-in or pre-transfer shareholder or creditor must be left in a worse position as a result of the exercise of the relevant resolution power than they would have been in 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 required to be prepared by an independent valuer in order to determine whether any shareholders or creditors have received less from the resolution than they would have recovered in an insolvency had the firm entered into insolvency before the coming into effect of the relevant resolution instrument. The independent valuer is required to be appointed either from a panel of independent valuers or having regard to the criteria specified in the relevant compensation order. Where there is a shortfall, the relevant shareholders and/or creditors are entitled to compensation.

Compensation is paid from a fund provided by HMT and recovered from the industry.

Use of public funds

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

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.

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 where an insolvency process rather than a stabilisation tool is used. Such a loan would be repaid through levies on the industry

and recoveries made by the FSCS in the insolvency. Further, in connection with support which may be provided by the Bank under the Resolution Liquidity Framework (Box 2), depending on the possible scale of such support, there may be a need for the Bank to request an indemnity from HMT if the Bank's resources are not likely to be sufficient to support the potential resolution liquidity support required.

In the unlikely case that the resolution objectives are not met using any of the regime's resolution tools, public funds may be used to stabilise the bank. This may be done by HMT 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.

Role of insolvency

> **Insolvency can be used when the resolution conditions have not been met or a stabilisation power has not been exercised and it is appropriate to wind down the business of the failing firm.**

Banks and building societies

A failed firm may be placed into a modified insolvency process 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 can be placed into the normal insolvency process for companies.[17]

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. The bank insolvency procedure was used in June 2011, when the **Southsea Mortgage and Investment Company Limited** failed. An application for a bank or building society insolvency order can be made by the Bank, the PRA or the Secretary of State.

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. 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.

Under the insolvency creditor hierarchy (according to which the assets of a firm in liquidation would be distributed to creditors in the order of priority specified in the Insolvency Act 1986) depositors protected under the FSCS and the FSCS itself as scheme operator are now 'super-preferred' following amendments to insolvency law. This means that in an insolvency of a firm the

FSCS, having made payments to protected depositors under the scheme, will have a higher position in the insolvency creditor hierarchy to recover in the insolvency of the firm ahead of other creditors and therefore may be able to recover more of its costs than would have been the case prior to such amendments being made.[18] This reduces the risk that the failure of one bank weakens other firms and reduce the overall costs to the industry. Deposits from individuals and micro, small and medium-sized enterprises (SMEs) 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. Table A sets out the creditor hierarchy that applies as at December 2023.

In addition to the bank insolvency procedure, the Banking Act also provides for a modified administration procedure, the bank administration procedure. This is available where part of the business of the firm is to be sold to a private sector purchaser or transferred to a bridge bank or an asset management vehicle. In such a case the remainder of the firm can be placed into bank administration.

Table A: Insolvency creditor hierarchy (a)

Proceeds flow down	Type of debt or claim	Losses flow up
	Secured debts (other than floating charges) eg security in the form of a mortgage, or fixed charges including but not limited to: capital market transactions (eg covered bonds) and trading book creditors (eg collateralised positions).	
	Liquidators' fees and expenses **Ordinary preferential debts** (or 'super-preferred' debts) Any amount owing in respect of an eligible deposit as does not exceed the compensation caps under the FSCS (up to £85,000, up to £170,000 for joint accounts and up to £1 million for six months for certain qualifying temporary high balances). Contributions to occupational pension schemes. Certain employment (eg remuneration) related claims. Debts owed to the FSCS under section 215(2A) of the FSMA 2000 (which may arise where a payment has been made by the FSCS in connection with the exercise of a stabilisation power in respect of a bank, building society or credit union).	

Proceeds flow down	Type of debt or claim	Losses flow up
	Secondary preferential debts Any amount owing to individuals and SMEs for amounts in excess of what would be payable in respect of an eligible deposit as exceeds any compensation that would be payable under the FSCS. Any amount owing to individuals and SMEs in respect of deposits made through a non-UK branch of credit institutions authorised in the UK which would have been an eligible deposit if it had been made through a UK branch of that credit institution. Certain HMRC debts (eg VAT and relevant deductions).	
	Floating charge debts (b)	
	Ordinary non-preferential debts (otherwise called unsecured senior creditors or general creditors) **(c)**	
	Statutory interest (in respect of the periods since liquidation) **(d)**	
	Secondary non-preferential debts (e)	
	Tertiary non-preferential debts (f)	
	Shareholders (preference shares)	
	Shareholders (ordinary shares)	

(a) The assets of a company in liquidation will be distributed as shown in the above waterfall. The claims of creditors in the top row will be met first, with any excess assets being passed down to meet claims of creditors in the next row, and so on. Any losses arising from a shortfall between proceeds and creditor claims are incurred, first by shareholders, and then pass up the creditor hierarchy until they are fully absorbed. A key purpose of MREL is to absorb losses. It therefore sits at the lower end of the creditor hierarchy. MREL is made up of 'own funds' and 'eligible liabilities'. The former is made up of regulatory capital and is represented in 'shareholders' and certain 'tertiary non-preferential debts' rows. The latter, made up of instruments that meet specific eligibility criteria, is represented in the 'secondary nonpreferential debts' row. Creditors within a row on the diagram are treated equally (rank 'pari passu'). Note that trust assets or assets over which creditors have a proprietary interest fall outside of the general estate of the insolvent company and are not therefore shown in this waterfall.
(b) 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 debtors and liquidators' fees and expenses.
(c) This includes most unsecured liabilities (unless subordinated); commercial or trade creditors arising from the provision of goods and services; uncovered depositors (eg financial institutions); covered depositors that are not individuals or SMEs for amounts in excess of £85,000; any unsecured liability for pension deficit; and senior unsecured bonds.
(d) In a liquidation, any surplus remaining after the payment of the debts proved in a winding up shall, before being applied for any other purpose, be applied in paying interest on those debts in respect of the periods during which they have been outstanding since the company went into the liquidation. Depending on the terms of secondary/tertiary non-preferential debts and their interpretation, these could rank ahead of statutory interest.

(e) Secondary non-preferential debts are non-preferential debts issued by financial institutions under an instrument where: (i) the original contractual maturity of the instruments is of at least one year; (ii) the instrument is not a derivative and contains no embedded derivative; and (iii) the relevant contractual documentation and where applicable the prospectus related to the issue of the debts explain the priority of the debts under the Insolvency Act 1986.
(f) Tertiary non-preferential debts means all subordinated debts issued by financial institutions, including (but not limited to) debts under CET1 instruments, AT1 instruments and Tier 2 instruments (all within the meaning of Part 1 of the Banking Act).

Investment firms

An insolvency procedure called the investment bank special administration regime (IBSAR) 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.[19] An investment firm which is a deposit-taking bank with eligible depositors would be subject to the bank insolvency procedure or the bank administration procedure. An investment firm which is deposit taking but without eligible depositors would be subject to the IBSAR. An investment firm without eligible depositors and with no client assets or money would go into a normal insolvency process. Under the IBSAR, a firm with client assets or client money is placed into an insolvency proceeding by a court order appointing an administrator. The administrator must pursue the special administration objectives. These are: returning client assets as soon as reasonably practicable; 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). There is no prescribed hierarchy among the special administration objectives. However, the appropriate regulator, being the PRA for PRA-designated investment firms (and having consulted the FCA) can direct the administrator to prioritise one or more of these objectives.

Firms with deposits and client assets

Some firms that fail and are to be 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 or bank administration procedure and the IBSAR. In this procedure, although the special administrator appointed under this hybrid procedure must immediately begin to work on the objectives relating to client assets, the objective relating to protected deposits takes precedence. This means that the special 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 IBSAR process.

Resolution of CCPs

> **Arrangements are also available to resolve CCPs.**

The resolution regime for CCPs was recently enhanced through the FSM Act. New powers under this legislation will come into effect at the end of 2023 once when the supporting secondary legislation put in place by HMT comes into effect. The Bank intends to publish more detail on these new CCP arrangements in due course. The section below describes the CCP resolution arrangements in the UK as currently in force and prior to the enhancements being brought into effect.

The UK's resolution regime was extended to cover 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 a CCP and its clearing members (which 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.

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. In 2014 an annex on the resolution of financial market infrastructures (FMIs) and FMI participants was added to the **Key Attributes** and in 2017 the FSB published **further guidance on CCP resolution**.

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.

The UK has set up CMGs for two CCPs (Part 4). These provide a forum for information exchange

and co-ordination between the Bank, 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 shares 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.

Resolution of insurance companies

The UK's resolution regime does not currently extend to insurance companies. The PRA's general approach to dealing with an insurer in financial distress is to oversee the execution of the firm's recovery plan and, if necessary, to remove the insurer's permission to write new business and place it in run-off. The PRA is responsible for ensuring that failed insurers exit the market in an orderly manner. The existing UK insolvency regime also contains specific provisions to deal with insurer failure, including powers for the court to order a reduction (write-down) of insurers' contracts under the Financial Services and Markets Act (FSMA) 2000.

The Government has recently enacted legislative changes to improve the existing mechanisms in the UK's insolvency regime to deal with insurer failure. The FSM Act enhances the court's write-down powers. These include allowing powers to be exercised at an earlier stage; to clarify that the write-down may extend to all unsecured creditors; and to override certain supplier termination rights and policyholder surrender rights that otherwise might interfere with insolvency or write-down processes.

However, the PRA's existing powers together with the insolvency regime, even when enhanced by the FSM Act and related orders coming into force, 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.

The IMF, in its last two UK Financial Sector Assessment Program reports (**2016** and **2022**), recommended that the UK work with international partners to develop an integrated regime of resolution powers for insurance companies. This international work continues. Further **FSB guidance on insurer resolution** was published in June 2016 and the **International Association of Insurance Supervisors** adopted **updated Insurance Core Principles (ICPs) and a Common Framework for Internationally Active Insurance Groups (ComFrame)** in November 2019, including ICP12 on 'Exit from the market and resolution'.

UK proposals for an insurer resolution regime

In January 2023, HMT published a consultation paper on a **proposed UK insurer resolution regime**. The proposals, if implemented in future legislation, would give the UK authorities new tools and powers to manage the failure of insurers so as to minimise disruption to policyholders and the wider economy. These tools and powers would serve as a backstop to the existing arrangements, which would remain in place. As such, the proposals aim to contribute to financial stability (including the provision of critical services), to promote policyholder protection (including continuity of cover), to reduce value destruction in the event of insurer failure, to maintain public confidence in the insurance sector and to promote effective competition in the market including mitigating risks to economic growth and public funds. The proposals would also bring the UK into line with the Key Attributes and ICP12 (including associated ComFrame provisions).

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

Bail-in: The largest UK firms 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 UK's G-SIBs, other systemically important institutions (O-SIIs) and a number of medium-sized firms.

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

Transfer: A transfer of the firm or of all or part of its business may be a credible and feasible resolution strategy 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. Factors indicating that it may be possible to rely on transfer include size, the feasibility of rapid separation and transfer of critical functions, and likely attractiveness to some or all the firm's business and assets and liabilities to a private sector purchaser.

Firms with more than 40,000–80,000 transactional accounts can expect to be set a transfer strategy if their balance sheet is less than £15 billion–£25 billion and be required to hold additional loss-absorbing capacity. 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. 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 SMEs) 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). In the case of such partial transfer, the rest of the firm could be placed into insolvency or, if services were still required to be provided by the firm to the transferee, bank administration.

Modified insolvency: For firms whose impact on the resolution objectives is not likely to justify the use of resolution tools, the preferred resolution strategy is expected to be the bank or building society insolvency procedure.[20] If the level of covered deposits does not justify the use of the bank or building society insolvency procedure, the normal insolvency

procedure under the Insolvency Act would be applied. Under the Banking Act modified insolvency procedure, 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.

Following on from resolution events in 2023, the Bank is undertaking work, in co-ordination with HMT, to ensure that for small banks, which are not required to hold additional resources to meet MREL, there are resolution options that improved continuity of access to deposits and so outcomes for depositors. This is looking to supplement the existing resolution framework in a way that continues to reduce risks to financial stability and public funds when small banks fail.

Part 2: Conducting a resolution

This part explains how the Bank is likely to use the powers described in Part 1 where the Bank is the home resolution authority. While it is intended to assist in an understanding of how the resolution regime operates, 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. This may include applying different resolution tools to those envisaged under the preferred resolution strategy.

The use of resolution tools 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 the firm or 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.

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, when the Bank has used its resolution tools, has ensured that action can be taken quickly and effectively to protect financial stability. As part of the process, the Bank expects to remove or replace senior management where retention (collectively or individually) is considered unnecessary or detrimental to the continuing operations of the firm.

I: Stabilisation

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

In the stabilisation phase, the Bank employs one or more of the resolution tools to secure continuity of the firm's critical functions. The firm is stabilised either through a bail-in and/or a transfer of the firm or some or all of its business. In either approach, there needs to be some form of loss absorbency (in the form of the firm's equity, other regulatory capital, and possibly subordinated debt which does not qualify as regulatory capital, and other unsecured debt) available to the resolution authority at the point of resolution, so that solvency can be restored.

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 applies in such circumstances.

As part of the stabilisation, the Bank needs to ensure the firm's existing arrangements for accessing FMIs – payment, clearing and settlement systems – remain intact. This includes any services provided by the failing firm to its clients, including customer banks.

In most cases, it will be important for the authorities to have time outside normal market hours, sometimes referred to as a 'resolution weekend', to effect the necessary arrangements. The actual amount of time required depends on the amount of advance planning that it has been possible to carry out and the speed of the firm's failure. In some circumstances, it may be necessary to effect the resolution during market hours.

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

In the case of a cross-border UK firm, developing and implementing an effective resolution requires co-operation 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). How the Bank works with other authorities to develop preferred resolution strategies in such cases is described below. These strategies are based either on a 'single point of entry' (SPE) or 'multiple point of entry' (MPE) approach.

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 UK 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.

A few G-SIBs, however, operate in key jurisdictions through subsidiaries or subgroups 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. The Bank is the home resolution authority for G-SIBs covering both SPE and MPE strategies.

The Bank may also act as a host authority in resolution.

The UK is host to a number of branches and subsidiaries of overseas banking groups with substantial operations in the UK, including many G-SIBs with either SPE or MPE resolution strategies. The Bank will therefore act as host resolution authority for these firms. The FSB Key Attributes, first established in 2011, strongly encourage co-operation to ensure cross-border resolution actions are successful. The Bank, in close co-ordination with the PRA, looks to work together with the home authority to actively support the resolution planning, in line with the preferred resolution strategy chosen for the overseas banking group by its home authority, as well

as to deliver appropriate outcomes for the Bank's objectives as UK resolution authority. The Bank achieves this through open communication and information sharing, including bilateral engagement and participating in CMGs. As of December 2023, the Bank is involved in a total of 21 bank CMGs, three as home authority and 18 as host. The Bank also participates in cross-border tests and exercises (Box 5). These are all important actions to build understanding and relationships that will be needed in the execution of a cross-border resolution.

Cross-border banking groups

Subsidiaries of overseas banking groups (ie banks incorporated in a country or territory other than the UK) that are located in the UK and authorised by the PRA are subject to the special resolution powers in the same way as any other UK bank. However, in circumstances where the group as a whole is failing, if the resolution occurs at the level of the foreign parent undertaking it may not be necessary for the Bank to apply resolution stabilisation powers to a failing UK subsidiary if an SPE resolution plan is in place.

The Bank engaged closely, for example, with international counterparts throughout preparations for the set of actions set out by the Swiss authorities in relation to **Credit Suisse in March 2023**, and continued to support their implementation thereafter. Similarly, in the case of Silicon Valley Bank (SVB), a US bank which also failed in March 2023, the Bank co-operated effectively with the US authorities to ensure the implementation of the resolution of the UK subsidiary, SVBUK, was successful and co-ordinated with the actions the US authorities were taking separately in relation to the parent. The **Bank exercised its resolution powers to effect the successful resolution of SVB's UK subsidiary**.

For UK branches of overseas banks, given that the branch is part of the same legal entity as the overseas bank, its failure will normally be managed by that firm's home resolution authority. When authorising a branch to operate in the UK, the PRA's authorisation applies to the whole firm. Therefore, when deciding whether it may be content to authorise a firm to operate in the UK through a branch, the PRA takes into account, among other things, the extent to which it, in consultation with the Bank (as resolution authority), has appropriate assurance over the resolution arrangements for the whole firm including its UK operations.

While it is expected that any resolution of an overseas banking group with a SPE resolution strategy is led by its home resolution authority, it may be necessary for the Bank (subject to approval by HMT) to take actions that recognise or support those resolution actions taken in other countries to give effect to them under UK laws. For example, in May 2021 the **Bank recognised bail-in actions taken by the National Bank of Ukraine** in relation to PrivatBank. There may also be cases where a foreign resolution authority takes actions that affect a subsidiary of the group located in the UK.

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.**

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

- the pre-resolution contingency planning phase, where preparations are put in place for the resolution which may be finalised over a period sometimes referred to informally as the ‘resolution weekend’, although the timing of resolution and the necessary actions can take place at any time if the circumstances so require;
- the resolution weekend, when the resolution conditions assessment is conducted, it is decided that the bail-in tool is to be used and a resolution instrument is made to give effect to the bail-in;
- the determination and implementation of the necessary restructuring of the bank after the bail-in (bail-in period); and
- the exit from resolution when the final bail-in terms and compensation arrangements are announced, some months after the resolution weekend.

In pre-resolution contingency planning, the Bank prepares a ‘resolution instrument’, a legal order made by the Bank that gives effect to the bail-in, including the write-down and/or conversion to equity or interim certificates exchangeable for equity of any outstanding capital instruments and any other debt instruments which are to be subject to bail-in.[21] The Bank initiates the necessary valuation work (Annex 2 for more information about this) and identifies which liabilities are expected to be within scope of the bail-in eg shares, subordinated debt and senior unsecured debt, informed by the independent valuation. The Bank also prepares for the appointment of a resolution administrator (sometimes referred to as a bail-in administrator), and considers steps needed to stabilise the firm and ensure continuity of critical functions, including possible senior management changes.

During the resolution weekend the Bank would make and publish the resolution instrument as soon as practicable and ideally prior to the reopening of financial markets. The Bank would expect to announce:

- that the firm has entered resolution and the time at which the resolution instrument comes into force;
- that the resolution is being effected through a bail-in and, if applied at the financial holding company level, that it would not cause any immediate changes to the structure and functioning of the key operating companies;
- the liabilities which will be affected by the bail-in (and if applicable that certain identified liabilities will be excluded from the bail-in on a discretionary basis);
- that the firm’s core functions will continue without disruption and those depositors and

investors protected by the FSCS will continue to be fully protected up to the applicable limits;

- any other significant measures provided for by the resolution instrument, including details of: any suspension of trading or cancellation of listing of bailed-in securities, the appointment of a resolution administrator and the arrangements for drawing up the business reorganisation plan;
- any new senior management brought in to replace previous senior management; and
- that the firm will remain open for business, regulated as before by the PRA and FCA.

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 are the first liabilities subject to bail-in; first own funds and then other MREL instruments. If the level of losses and the recapitalisation needs exceed the available MREL, the Bank has the power to bail-in other liabilities following the creditor hierarchy.

Certain liabilities are not permitted to be bailed-in, such as protected deposits, client assets, certain liabilities arising from participation in designated settlement systems or recognised CCPs, certain liabilities relating to salaries and pensions and fully secured liabilities. Other liabilities may be excluded from a specific bail-in in whole or in part at the discretion of the Bank in one or more exceptional circumstances set out in the Banking Act.[22] In summary, these are:

- it is not possible to bail in the liability within a reasonable time;
- it is necessary and proportionate not to bail in the liability to maintain continuity of critical functions;
- it is necessary and proportionate to avoid widespread contagion; or
- 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.

On entry to resolution, the FCA as UK listing authority or the Bank may choose to suspend trading in or cancel the listing of those instruments which are within scope of the bail-in. Via the resolution instrument, the Bank transfers the shares in the firm to a third party appointed by the Bank eg a depositary bank. The third party 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 such 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.

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 is 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. At the start of the resolution the creditors in each class would generally be issued with 'certificates of entitlement' (CEs), enabling them to be provided with shares or other compensation once the final valuation is complete. The Bank, informed by the valuations, would indicate the terms on which CEs may then be exchanged for shares in the firm or other compensation.

The Bank is likely to appoint a resolution administrator to assist in overseeing the firm in resolution until the bail-in exchange is complete. The Bank has a wide discretion to determine the scope of the role and the duties of the resolution administrator. These may include overseeing the management of the business of the firm, supporting the preparation of the business reorganisation 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 the shares in or the assets and liabilities (including the deposits) of smaller and medium-sized firms to a purchaser.**

The Banking Act contains powers enabling the Bank to transfer the shares in or the property, rights or liabilities of a firm. These 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 or part of the business of the firm directly to a private sector purchaser.

If potential purchasers need more time to carry out due diligence on the assets and liabilities of the failing firm or if a purchaser had not emerged, or it is unlikely a purchaser could be found quickly, the alternative is a transfer of the whole of the firm, or a partial property transfer prioritising the transfer of the critical functions of the firm, to a temporary bridge bank in preparation for an onward sale to a private sector purchaser. Any part of the firm not transferred, such as poor-quality assets, could be placed into insolvency or transferred to an asset management vehicle controlled by the Bank which would manage the assets transferred to it with a view to maximising their value through eventual sale or orderly wind down. If it is necessary for part of the firm not transferred to a purchaser or a bridge bank to provide services to the purchaser or the bridge bank for a period of time, the Bank can apply for the firm to be placed into bank or building society administration so that it would be able to supply such services while in such administration.

A transfer (whole or partial) to a purchaser 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 SMEs.

If a private sector purchaser could not be found immediately and a bridge bank is used to ensure continuity of access for depositors, the bridge bank would remain in place for a period of time until an eventual transfer to one or more private sector purchasers or an initial public offering of the bridge bank could be arranged. If neither of these options was possible the business of the bridge bank could eventually be transferred to an asset management vehicle, or its assets wound down and its liabilities discharged.

Executing a transfer

A transfer of the shares in the firm would be effected by means of a share transfer instrument made by the Bank. A transfer of all or part of the assets and liabilities of the firm is given effect through one or more property transfer instruments made by the Bank. 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 is to be placed into the bank or building society administration procedure. This would also provide for the appointment of an insolvency practitioner as bank or building society administrator.

The transfer would be announced by the Bank as soon as practicable and ideally prior to the reopening of financial markets. The transfer instrument is published at the same time. The Bank would expect to announce that:

- the firm has entered resolution and the time at which the transfer instrument comes into force;
- the resolution is being affected by a share transfer or by a transfer of all or part of the business and, in the case of a partial transfer, the destination of the various parts of the business (including which liabilities and assets are being transferred and which left behind);
- the firm's critical functions will continue without disruption. Those depositors and investors protected by the FSCS will continue to be protected up to the applicable limits;
- the business of the firm corresponding to the 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.

The **resolution of Silicon Valley Bank UK** in March 2023 was achieved through a share

transfer to a private sector purchaser (HSBC) after its capital instruments were fully written down.

The FSCS can be required by HMT to make a contribution to the cost of resolving the failed firm by making payments (to HMT or to any other person as required by HMT) in respect of the expenses incurred in connection with the exercise of a stabilisation power. Payments can be required to be made up to the amount that the FSCS would otherwise have incurred – net of recoveries – in a payout under the scheme.

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

The asset separation tool gives the Bank the power to transfer assets and liabilities of a failed firm to one or more asset management vehicles. It must be used alongside another resolution tool, and only if:

- the situation in the particular market for the assets transferred is such that liquidating the assets using normal insolvency proceedings would have adverse effects on one or more financial markets;
- the transfer is necessary either to ensure the proper functioning of the firm in resolution or a bridge bank or bank from which the transfer is made; or
- it would maximise the recoveries available for distribution.

An asset management vehicle must be whole or partially owned by the Bank or HMT and controlled by the Bank and must manage the assets transferred to it with a view to maximising their value through eventual sale or orderly wind down.

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.

II: Restructuring phase

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

In a bail-in, once a firm has been stabilised, it needs to be restructured to the extent necessary to address the causes of its failure and restore its viability. The extent of restructuring depends 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 is expected.

A post bail-in restructuring is 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.

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 are 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.

The business reorganisation plan must be submitted to the Bank as resolution authority who must consult the PRA and the FCA. It has to be reviewed by the Bank, in agreement with the PRA and the FCA, 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.

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.

III: 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.**

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.

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 the equity to the new shareholders (Annex 2). Subsequent implementation of the business reorganisation 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.

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, such as a sale to a purchaser. If that proved not to be achievable the firm would need to be wound down. 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.

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 on the temporary funding needed to support orderly resolution** published in 2016. In the first instance, liquidity is 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 resolution strategy for the firm.

First, a firm in resolution would have access to the Bank's published facilities, as set out in the **Bank of England Market Operations Guide**, 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 designated investment firms subject to the resolution regime, where the entity or its holding company is in a Bank-led resolution.[23] Such liquidity support may be secured against a wide range of collateral, building on the **collateral eligible in Sterling Monetary Framework operations**. 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 UK'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 **MoU on Resolution Planning and Financial Crisis Management**. 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.

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 O-SIIs. 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 critical 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 bank subsidiaries) will have issued shares and subordinated debt instruments internally to the holding company in an amount and form consistent with the corresponding provisions on the MREL.[24] In this way, total loss-absorbing capacity (TLAC) or MREL instruments are structurally subordinated to the senior external liabilities of those operating companies. This is the case whether the firm is a SPE group or the UK resolution entity in a MPE group.[25]

This structural subordination of the resources issued by the holding company and the contractual or statutory subordination of the resources down-streamed 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. The aim is that the holding company can be resolved while the operating company continues to provide services.

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 it may mean that the holding company meets the conditions for entering resolution. After being placed into resolution, its external liabilities 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 the 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 business reorganisation plan will be implemented to address the causes of the firm's failure and to ensure viability of critical functions.

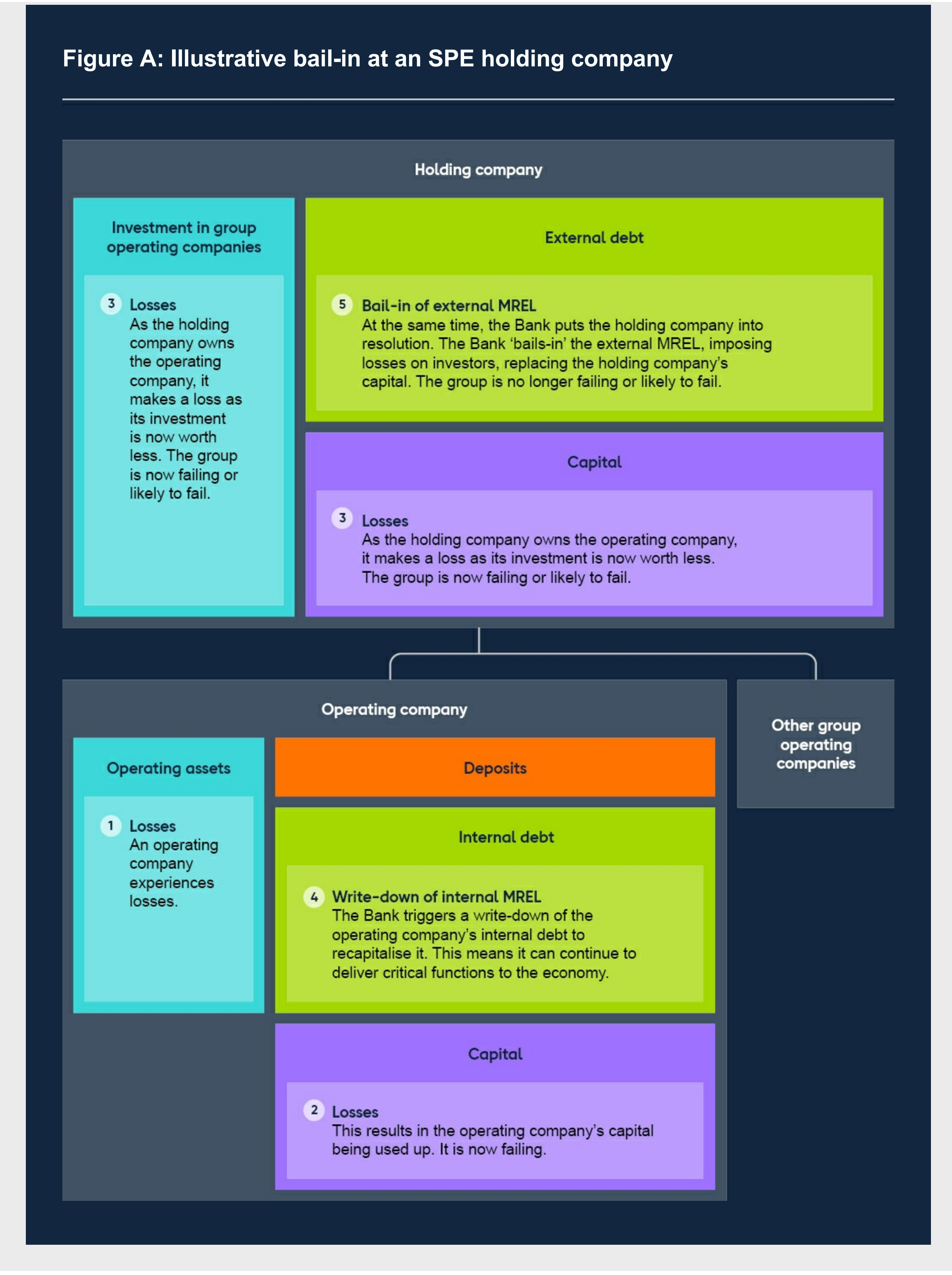


Figure A: Illustrative bail-in at an SPE holding company
Holding company
Investment in group operating companies
3 Losses
As the holding company owns the operating company, it makes a loss as its investment is now worth less. The group is now failing or likely to fail.
External debt
5 Bail-in of external MREL
At the same time, the Bank 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.
Capital
3 Losses
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.
Operating company
Operating assets
1 Losses
An operating company experiences losses.
Deposits
Internal debt
4 Write-down of internal MREL
The Bank 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.
Capital
2 Losses
This results in the operating company's capital being used up. It is now failing.
Other group operating companies

Box 4: Resolution actions undertaken by the Bank

This box provides a summary of notable resolution actions that have been carried out by the Bank of England under the Banking Act.

Dunfermline Building Society (2009)

On 30 March 2009, the Bank announced a partial transfer of core parts of Dunfermline Building Society to Nationwide Building Society. This decision was made in consultation with the then Financial Services Authority (FSA) and HMT to protect depositors and safeguard financial stability following a significant deterioration in Dunfermline’s financial position.

The remaining parts of the firm were transferred to a temporary bridge bank owned and controlled by the Bank to allow it to support Dunfermline’s social housing portfolio. This provided time to secure a permanent solution. The actions taken by the Bank ensured business as usual for all customers and Dunfermline staff.

The bridge entity, DBC Bridge Bank Ltd, was then transferred to Nationwide Building Society through a further Property Transfer Instrument made on 30 June 2009. This followed a competitive auction process conducted by the Bank, which included seeking advice from the Bank of England's Financial Stability Committee and consulting with the FSA and HMT.

This ensured continuity for the customers of Dunfermline Building Society.

Southsea Mortgage and Investment Company Limited (2011)

In June 2011, Southsea – a small bank with just over 250 depositors – failed following a deterioration in its financial position as a result of management decisions and the firm’s specific business model.

On 16 June 2011, following a decision by the then FSA to initiate the special resolution regime and a subsequent application to court by the Bank, Southsea was placed into the bank insolvency procedure and a bank liquidator was appointed. The firm, which had retail deposits of £7.4 million, ceased trading. Depositors were compensated by the FSCS for eligible deposits up to the insured limit of £85,000, and customers with mortgages or loans were able to continue making repayments in the normal way.

PrivatBank (2021)

As set out in the FSB’s Key Attributes, **third-country recognition** is central to effective cross-border resolutions because it enables resolution actions taken in one jurisdiction to

have effect in other jurisdictions.

In this case the Bank received a request for recognition from the National Bank of Ukraine to **recognise the bail-in** of four loans, totalling US$595 million, made by UK SPV Credit Finance plc, to PrivatBank. The Bank decided to recognise the bail-in of PrivatBank in accordance with the Banking Act and HMT provided its approval of this decision. The Bank's recognition gave effect to the bail-in of the four loans in question as a matter of English law. The Bank of England's decision did not affect deposits held in UK banks.

Silicon Valley Bank UK (2023)

In March 2023, SVB became the largest US bank to fail since the 2008 global financial crisis. SVBUK, a UK subsidiary of SVB, got into difficulty because its 'parent' company in the United States failed. This led to a loss of confidence in SVBUK, and many customers withdrew their money. Without the support of its parent bank, SVBUK could not survive on its own.

On 10 March 2023, the Bank of England announced that, absent any meaningful further information, it intended to apply to the court to place SVBUK into a bank insolvency procedure. Over the course of the weekend, a number of potential buyers for SVBUK came forward. On 13 March 2023 the Bank, in consultation with the PRA, HMT and FCA, took the decision to sell SVBUK to HSBC UK Bank. Given the emergence of a credible **private sector purchaser** for SVBUK the Bank determined that using its resolution powers for stabilising failing banks was appropriate. Alongside this, the capital instruments issued by SVBUK were fully written down to bear losses. This action stabilised SVBUK, ensured the continuity of banking services, minimised disruption to the UK technology sector, and supported confidence in the financial system.

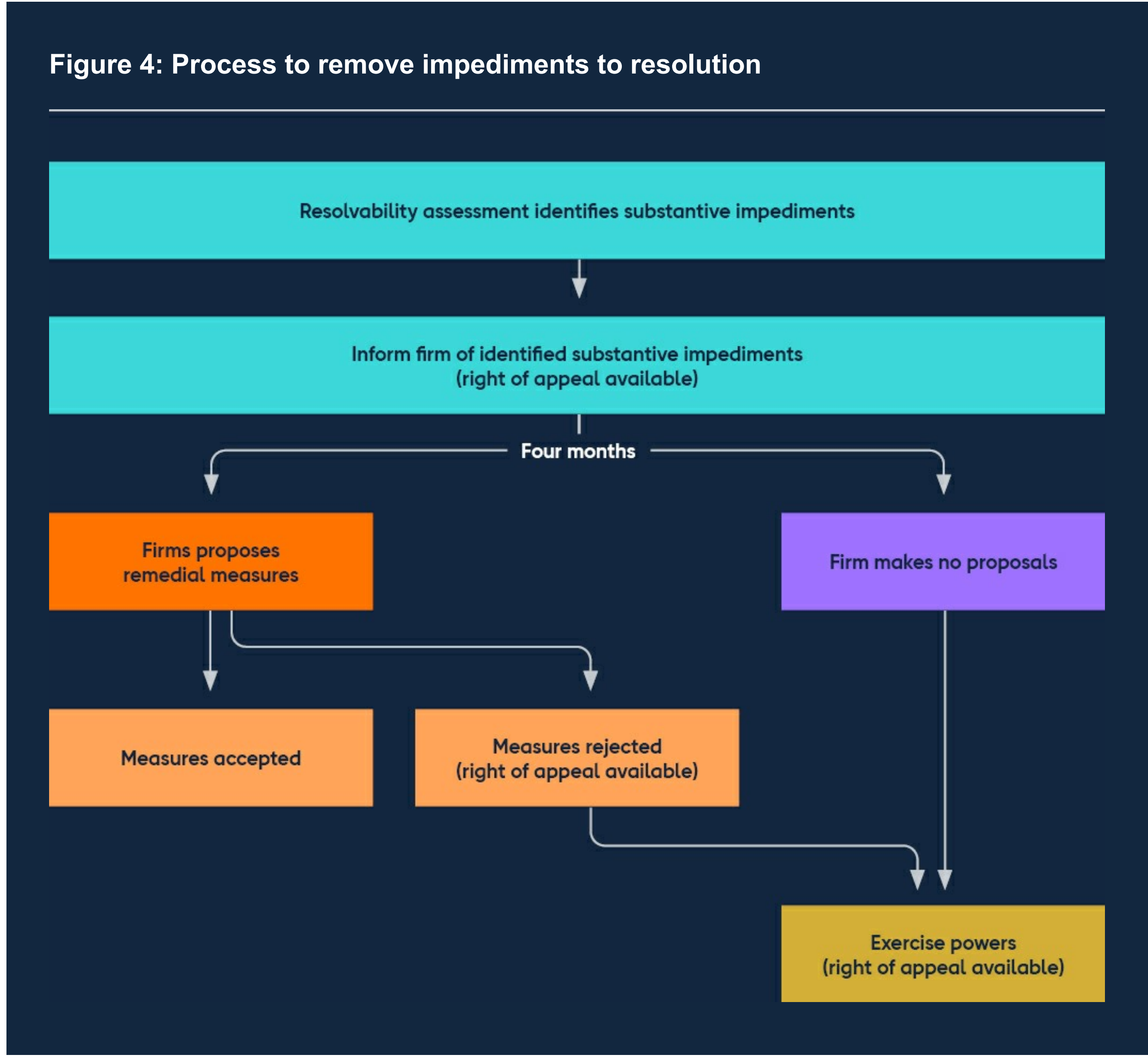
Part 3: Assessing resolvability

The Bank has a statutory responsibility to draw up resolution plans and to assess the resolvability of all UK firms within its remit. This part explains how the Bank approaches resolvability assessments in co-operation with the PRA.

Resolvability Assessment Framework

The RAF is the Bank's and PRA's approach to assessing whether firms operating in the UK with bail-in or transfer as their preferred resolution strategy are prepared for resolution.

To provide assurance that a firm is resolvable, the Bank undertakes a resolvability assessment to identify barriers to resolution in consultation with the PRA as part of resolution planning for each firm.[26] 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. If the Bank finds that there are substantive barriers to resolvability, it has **powers to direct a firm** to remove these through changes to their operations or structure. Figure 4 summarises the process which applies if the Bank exercises its power to direct a firm to remove an impediment to its resolution.



The overarching aim of the RAF is to increase assurance that firms operating in the UK are, and can demonstrate that they are, resolvable and to identify potential impediments to resolvability so that they can be addressed. The findings from the RAF are an input to the Bank's resolvability assessments and guide the Bank's engagement with firms on resolvability. The RAF also supports improved transparency around the major UK banks' preparations for resolution and the Bank's assessment of their effectiveness.

The RAF has three elements:[27]

- the Bank's approach to assessing firms' resolvability, including the outcomes firms must, as a minimum, be able to achieve to be considered resolvable;
- a reporting and disclosure framework that requires certain firms to carry out an assessment of their preparations for resolution, to submit a report of that assessment to the PRA and to publish a summary of that report; and

- the publication of a statement by the Bank concerning the resolvability of each firm which makes an assessment.

UK banks with retail deposits equal to or above £50 billion are subject to the reporting and disclosure requirements. The Bank makes public statements on the resolvability of these firms. In June 2022 the Bank published the findings from its **first assessment of the resolvability of the eight major UK firms**. The Bank will repeat its assessment of the major UK banks every two years.

UK banks with retail deposits below £50 billion with bail-in or transfer as preferred resolution strategies, and hosted material subsidiaries for which the Bank sets internal MREL, must achieve the three resolvability outcomes but are not in scope of the reporting and disclosure requirements.

For firms with MPE strategies, the Bank is responsible for applying stabilisation powers to the UK resolution group. The Bank therefore assesses the resolvability of the UK resolution group in a similar manner to SPE firms. Where the Bank is home authority for the overall MPE group, the Bank is also responsible for the overall co-ordination of the resolution process, and therefore assesses how such firms' capabilities enable the resolution of the whole group to occur in a co-ordinated way.

For hosted material subsidiaries, the Bank would expect to support resolution actions by the home authorities. As such, the Bank takes into account whether the capabilities of the UK subsidiary and its resolution group would deliver broadly comparable resolvability outcomes to those under the RAF.

The RAF does not apply to UK branches of overseas banking groups. The Bank engages with international counterparts regarding the resolvability of these branches, with the resolvability outcomes set out under the RAF providing the context for this engagement.

In assessing firms' resolvability under the RAF, the Bank does not make a 'pass' or 'fail' judgement on firms' resolvability. Resolvability is not binary: it is best understood as a spectrum.

Firms are responsible for ensuring that they have the capabilities to enable a resolution to be executed. Firms must keep their preparations for resolution 'live' through assurance – testing and refining their preparations for resolution. This ensures that firms remain ready for resolution. The RAF assesses this readiness, making it a vital component of the UK's resolution regime.

The Bank's approach to assessing firms' resolvability is proportionate and outcomes based. The Bank recognises that firms require different capabilities to achieve the resolvability outcomes due to their size, business model and other firm-specific factors. The Bank's proportionate approach to assessing resolvability is reflected in its engagement with firms. The Bank engages with firms before, during and between RAF assessments to support their progress on maintaining their

resolvability and addressing any issues which the Bank has identified. Our approach is proportionate in particular for those firms with less than £50 billion in retail deposits which are not subject to the RAF reporting and disclosure requirements. The depth and type of capabilities required by these firms to achieve the resolvability outcomes will also reflect the factors mentioned above, including the size and nature of the firms' business models.

Resolvability outcomes

The RAF sets out three resolvability outcomes that firms are expected to achieve to support a resolution if they fail:

1. **Have adequate financial resources to support a resolution:** a firm should hold sufficient financial resources to support itself through a resolution in order to avoid a public bailout. This includes resources to absorb losses, to recapitalise and to meet financial obligations in resolution.
2. **Be able to continue to do business in resolution and restructuring:** a firm should ensure that its services and activities can continue during a resolution in order to support an orderly resolution and restructuring. This includes operational, financial and legal arrangements that the firm already has in place.
3. **Be able to co-ordinate and communicate effectively so that a resolution and restructuring can be orderly:** a firm should ensure that its internal governance arrangements support an orderly resolution and restructuring, and that it can deliver timely and effective communications to staff, authorities and other external stakeholders.

Resolvability barriers

For resolution strategies and plans to be fully effective it must 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. The Bank has identified eight generic barriers to resolvability across the three outcomes (Figure 5). These were developed to be consistent with the **barriers identified by the FSB**. This is not an exhaustive list of potential barriers to resolution. Achieving the three resolvability outcomes is a holistic process, not a tick-box exercise. To achieve the three resolvability outcomes, firms also need to consider whether there are any additional barriers specific to them that may prevent the resolvability outcomes from being achieved.

Adequate financial resources:

- **Minimum requirement for own funds and eligible liabilities (MREL)**

A firm should maintain sufficient financial resources that can credibly and feasibly be used to absorb losses and recapitalise them to a level that enables them to continue to comply with the

conditions for regulatory authorisation and sustain market confidence.[28]

- **Valuations**

A firm's valuation capabilities should enable a valuer to carry out sufficiently timely and robust valuations to support effective resolution.

- **Funding in resolution**

In order to ensure it continues to meet its obligations as they fall due, a firm should be able to estimate, anticipate, and monitor its potential liquidity resources and needs and mobilise liquidity resources in the approach to and throughout resolution.

Continuity and restructuring:

- **Continuity of Financial Contracts in Resolution (Stays)**

A firm should suitably address the risk of early termination of financial contracts upon entry into resolution, to limit any impact on its stability and the wider financial system that may otherwise occur as a result of resolution.

- **Operational continuity in resolution (OCIR)**

A firm's operational continuity arrangements should ensure continuity at the point of entry into resolution and permit any post-stabilisation restructuring, to ensure the continuity of banking services and critical functions.

- **Continuity of access to FMIs**

A firm in resolution must ensure continued access to FMIs, such as payment, settlement and clearing systems, for as long as it meets its obligations to the FMI. 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.

- **Restructuring planning**

A firm should be able to plan and execute restructuring effectively and on a timely basis in the event of resolution, taking into account the objectives applicable to that firm's preferred resolution strategy.

Co-ordination and communication:

- **Management, governance and communication**

A firm in resolution should ensure that their key roles are suitably staffed and incentivised, that their governance arrangements provide effective oversight and timely decision-making, and that they deliver timely and effective communications to staff, authorities and other external stakeholders.

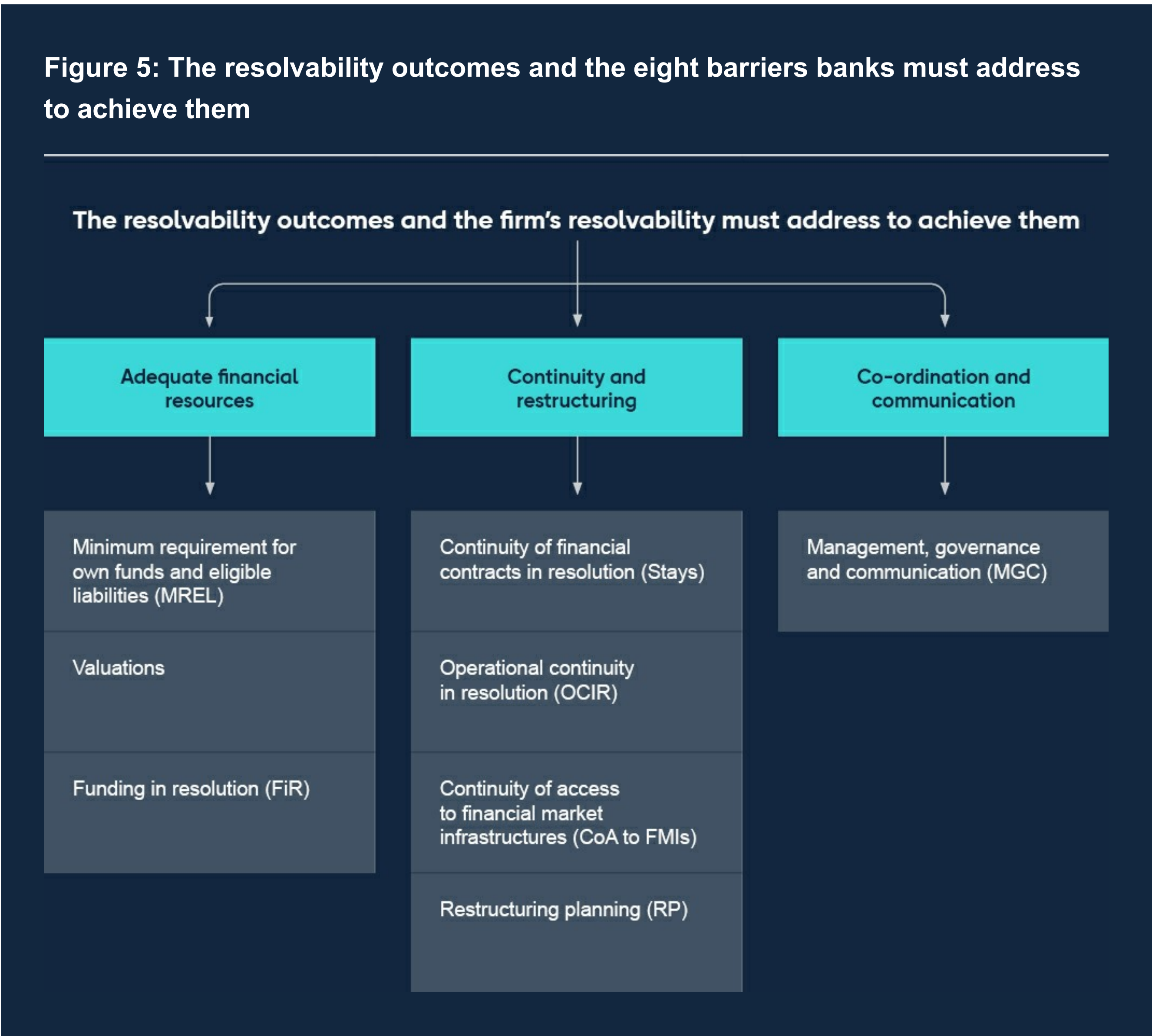


Figure 5: The resolvability outcomes and the eight barriers banks must address to achieve them

Stylised resolution timeline

Firms for which the preferred resolution strategy is Bank-led bail-in should use the stylised resolution timeline (Figure 6) when considering the capabilities, resources and arrangements they will need to have in place to achieve the resolvability outcomes. Firms should also consider how their specific structure and business model may complicate the application of a bail-in.

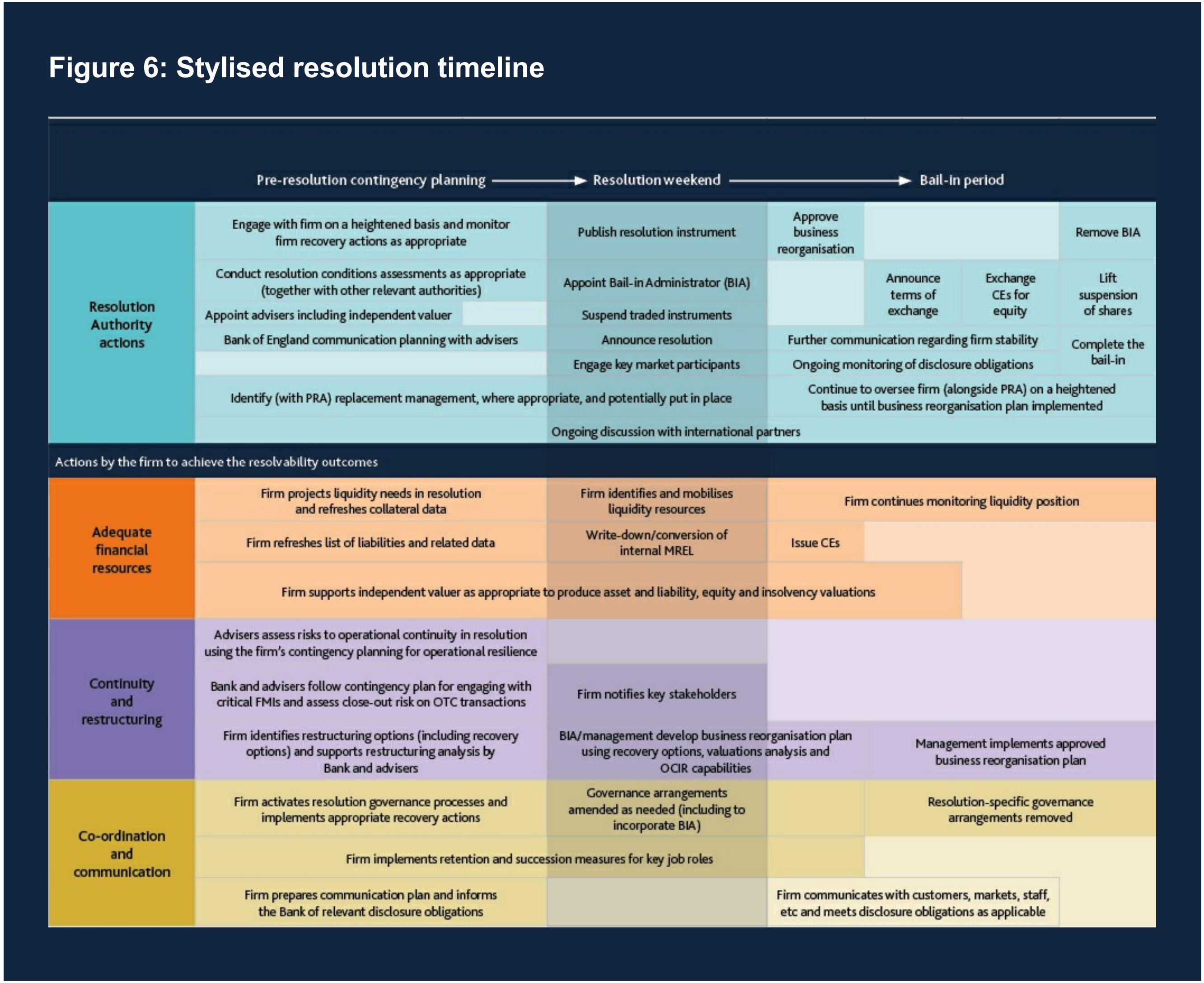


Figure 6: Stylised resolution timeline

This stylised resolution timeline provides an illustration of how the Bank anticipates a resolution may be conducted. This aligns to the stages of a resolution set out in Part 2. Firms should consider each phase of the timeline, including pre-resolution contingency planning, the resolution weekend and the bail-in period when developing their capabilities to achieve the resolvability outcomes and the Bank takes this into account when assessing the resolvability of firms. However, the Bank recognises that each resolution scenario will be unique and will not necessarily conform to this timeline in practice.

Although the stylised resolution timeline is designed around the bail-in strategy, aspects of this timeline may also be relevant for firms whose preferred resolution strategy does not involve Bank-led bail-in. Firms should take into account differences between transfer and bail-in resolution strategies when they develop the capabilities, resources, and arrangements necessary to achieve the resolvability outcomes.

Part 4: Resolution planning

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

I: 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 international groups.**

The Bank sets a resolution strategy for every firm. This follows one of three broad resolution strategies: bail-in, transfer or insolvency (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 and relevant overseas authorities, based primarily on information supplied by the firm. In business as usual, the PRA will generally gather the relevant information from firms and provide it to the Bank as resolution authority.

For example, firms are **required to be able to submit 'resolution packs'** containing information on their financial, legal and operational structures, as well as the critical functions they provide.[29] The choice of strategy for a firm is informed by the size and complexity of the firm's balance sheet and the extent of its foreign operations. These resolution packs may be supplemented with specific information requests tailored to the firm.

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 for different kinds of activity.

On the basis of the preferred resolution strategy, the Bank must develop a resolution plan for every relevant firm in the UK. 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.

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.

II: Planning for a cross-border resolution: operation of crisis management groups

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

Crisis management groups (CMGs)

International co-operation between the relevant authorities is crucial in delivering credible resolution plans for cross-border firms. Substantial progress has been made in recent years, with the establishment of CMGs for G-SIBs. The FSB has also published a **report setting out good practices for CMGs**.

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.

Resolution strategies are underpinned by seeking consensus in CMGs on the setting of external and internal TLAC and by firm-specific co-operation agreements. 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.

Where the UK 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 statutory powers to recognise and give effect to the resolution actions of a resolution authority outside the UK; Box 5 for more on recognition of third-country resolution actions. These powers help to underpin co-operative cross-border resolution planning.

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-UK firms. This includes where the home country's proposed action (or inaction) would have an adverse effect on financial stability in the UK 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 home authorities, in line with the approach to cross-border resolution set out in the Key Attributes.

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.[30]

As noted in Part 1, the UK has also established CMGs for two CCPs in accordance with the Key Attributes. CMGs are also being established for internationally active insurance groups headquartered in the UK.

III: Contingency planning as risks increase

Recovery plans

The recovery plans which UK firms are required to produce must set out the options available to the firm to restore its financial position following a significant deterioration of its financial situation. The plans are developed by the firms themselves, subject to oversight by the PRA.

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 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.

Resolution contingency planning by the Bank as resolution authority is likely to run in parallel 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. It may then become subject to heightened supervision by the PRA, together with more intensive contingency planning by the Bank and the PRA. This period may also include the firm activating its recovery plan.

Contingency planning

As the firm's proximity to and probability of a failure increases, the Bank expects to intensify its contingency planning for a resolution, to be implemented in the event that remedial actions do not halt the firm's deteriorating performance. The Bank maintains a 'watchlist' to inform its contingency planning as resolution authority.

The amount of time available for contingency planning varies – for example, depending on the nature of the difficulties being experienced and the actions to recover being taken by the firm. The Bank generally looks 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. This could also include considering more than one resolution strategy in parallel, depending on the particular circumstances and how events evolve during the contingency planning period.

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 potential 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.

Developments in recent years such as the increased use of digital banking and social media can intensify correlated customer behaviour and increase the risk of more rapid bank failures, which could significantly reduce the time available for contingency planning.

Box 5: 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 UK engages with other jurisdictions on a regular basis to support cross-border resolution planning and policy development, including via CMGs.[31]

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 and are supported by ongoing staff-level engagement.

A central part of effective cross-border co-ordination in a resolution is recognition of third-country resolution actions, which enables resolution actions taken in one jurisdiction to have effect in other jurisdictions. This is set out in the FSB's Key Attributes. Where the Bank is notified that a resolution authority in another country has taken a resolution action (a third-country resolution action), the objective and results of which are comparable to the exercise of a stabilisation option in the special resolution regime, the Bank is obliged under the Banking Act to make an instrument which either recognises the action, refuses to recognise it, or recognises some parts of the action but not others. This action must be approved by HMT. This provides certainty in the UK as to whether a third-country resolution action has effect in the UK, for example by recognising the transfer of property located in the UK, or the write-down of liabilities governed by UK law.[32]

In addition to recognising a third-country resolution action, the Bank may exercise one or more of the stabilisation powers in respect of an entity or branch in the UK of a third-country banking institution in order to support the third-country resolution action with a view to promoting objectives which, in that other country, correspond to the special resolution objectives in the Banking Act.

The Bank may only refuse to recognise a third-country resolution action, and instead take independent resolution actions if appropriate, if both the Bank and HMT are satisfied certain conditions set out in the Banking Act are met, for example that recognition would have an adverse effect on financial stability in the UK.

In the absence of adequate levels of assurance that the home resolution authority's resolution regime delivers the appropriate outcomes for the PRA's objectives as prudential supervisor and the Bank's objectives as UK resolution authority, the PRA will

likely not be prepared to host a branch from that jurisdiction. In the case of an international bank operating through an existing branch, it may be required to establish a UK subsidiary. If there is insufficient assurance over the home state resolution arrangements, this may in turn mean that it would be necessary for the firm to be supervised on a more standalone basis consistent with a MPE approach to resolution. The Bank also has power (with the approval of HMT) to resolve branches on a standalone basis in certain circumstances including to place them into corporate insolvency. The power to act independently in relation to branches would only be used in the event that co-operation between resolution authorities proves ineffective, and where action is required to protect the public interest.

Annexes

Annex 1: Loss-absorbing capacity: TLAC and MREL

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.

This annex gives an overview of the FSB's TLAC standard and the UK's MREL policy. Together they establish the requirements UK banks must satisfy to ensure that they have sufficient loss-absorbing capacity.

The TLAC standard

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.

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

- **External TLAC:** the resources (in the form of share capital and debt instruments which can be written down or converted to equity) 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 subgroups 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 (Box 3 and below).

In addition to the requirements set out in the Bank's **MREL statement of policy**, UK resolution entities of G-SIBs and (until 1 January 2024) UK material subsidiaries of non-UK G-SIBs are subject to additional requirements set by the onshored Capital Requirements Regulation.[33]

The Bank of England's statement of policy on MREL

The Bank first published a **statement of policy on MREL** on 8 November 2016 applicable to all UK banking firms, building societies and designated investment firms, updating it in 2018 to reflect the Bank's approach to the intragroup distribution of MREL resources. The statement of policy was further updated in December 2021 following the Bank's review of MREL calibration and the final compliance date, which considered in particular the intervening changes in the UK regulatory framework as well as firms' experience in issuing liabilities to meet their interim

MRELs. The statement of policy clarifies that the UK has implemented 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.

The Bank's approach calibrates MREL as the sum of a loss absorption amount and a recapitalisation amount.[34] Generally 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.

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 and leverage going-concern minimum requirements remain usable. Accordingly, the PRA expects firms not to double count CET1 towards both MREL and the amount reflecting the risk-weighted capital and leverage buffers.[35]

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, transfer or insolvency (Box 1).

Quantum of MREL

For 'bail-in' firms – including the UK G-SIBs and domestic systemically important banks (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.

The recapitalisation amount of MREL may not need to be set as high for firms subject to a 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 achieved if it is possible to transfer more assets than liabilities from the failed firm to the private sector purchaser or bridge bank.

The 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.

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

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,[36] 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.

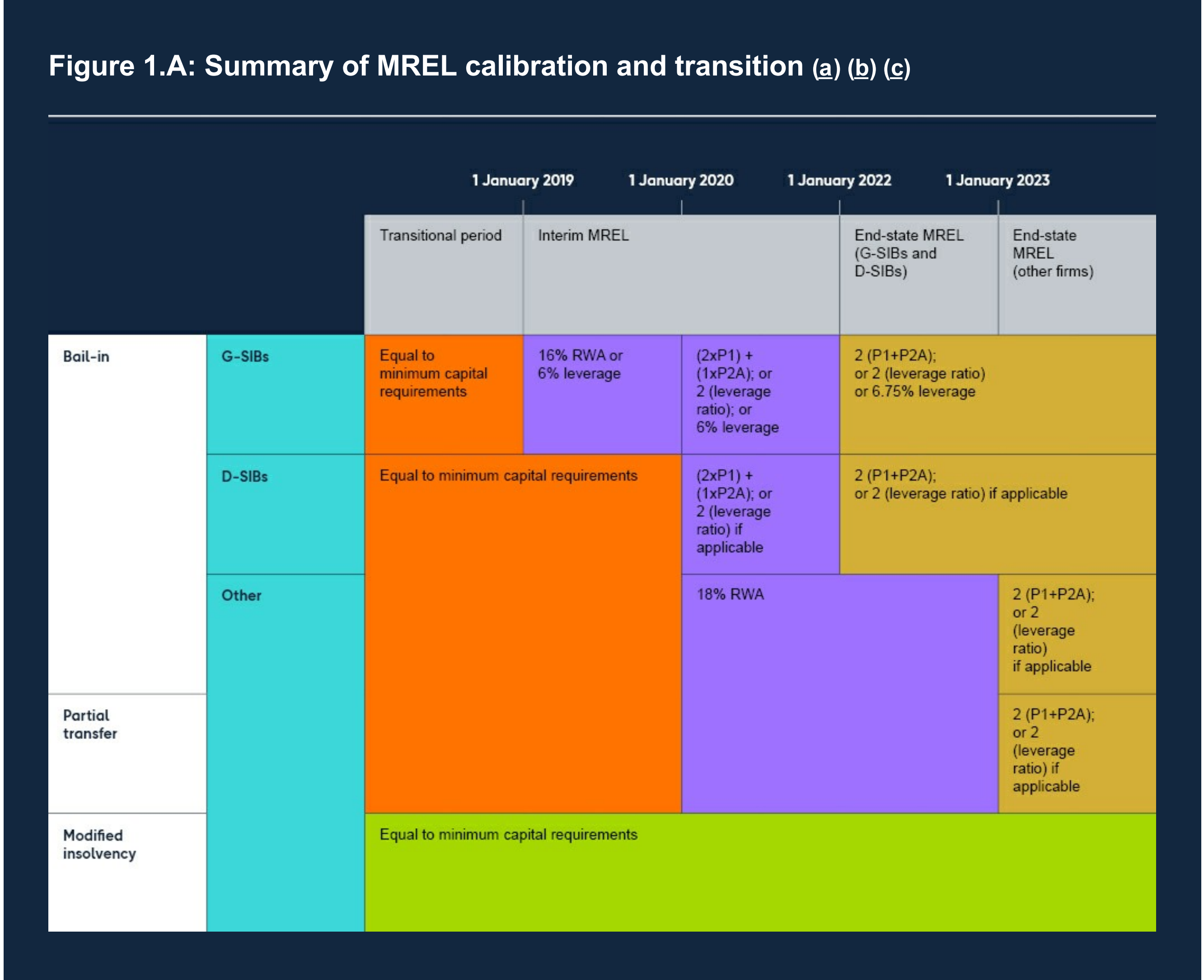
Setting a robust MREL of equity and subordinated debt for bail-in firms makes it less likely that the bail-in will need to extend beyond subordinated liabilities to the senior creditor layer at an operating bank. It thus reduces the risk of having to depart from pari passu treatment of all creditors 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.

Subordination of financial instruments that are eligible for meeting MREL requirements may not be required, however, for any 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 procedure will all be junior to the deposits and any other liabilities that are transferred.

Pre-2022 MREL: transitional arrangements

The statement of policy phased in MREL over a period of years, in a similar way to the TLAC standard. For the firms originally within scope, it prescribed interim MRELs to take effect in 2019–20, before the full requirements applied from 1 January 2022, in the case of G-SIBs and D-SIBs, and from 1 January 2023, in the case of most other firms then subject to MRELs in excess of their minimum capital requirements. Figure 1.A summarises the requirements.

Figure 1.A: Summary of MREL calibration and transition (a) (b) (c)



(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) Other firm end-state MREL subject to reduction at the Bank's discretion to reflect partial transfer resolution strategy.

The Bank **publishes external MRELs** for all firms with a resolution entity incorporated in the UK for which an MREL above minimum capital requirements has been communicated.

MREL transitional arrangements from January 2022

From January 2022, following the publication of the Bank's December 2021 policy statement on completion of its MREL Review, firms should inform the Bank if they are forecasting at any time that, in the following three years:

- they will exceed 40,000–80,000 transactional accounts; or
- their total assets will exceed £15 billion.

The Bank will notify each of these firms of the point in time (T) at which their MREL transition will

start, which will be determined on a case-by-case basis. Determination of T is a judgement for the Bank to exercise, taking into account the factors set out in the statement of policy to the extent the Bank considers appropriate in the individual case. Ordinarily, this would give firms an effective three-year notice period before their transition to MREL is expected to start (Figure 1.B).

In addition:

- in exceptional cases where a firm experiences growth far beyond its initial projections, such as following a merger or acquisition, the Bank may bring forward T to an earlier point in time; and
- firms which had not been set a T, but which exceed the applicable threshold as a result of merger or acquisition, can expect to be set a T that may be less than three years in the future if the resulting firm is significantly above that threshold.

The Bank will also notify each firm of the indicative MRELs that will likely apply to it as it transitions to end-state MREL. These are expected to be set according to either a three-step or a two-step approach as follows, chosen in the case of each firm at the Bank's discretion:

Three-step approach

The requirement will increase from minimum capital requirements to end-state MREL in three equal steps at T + 2 years, T + 4 years and T + 6 years.

Two-step approach

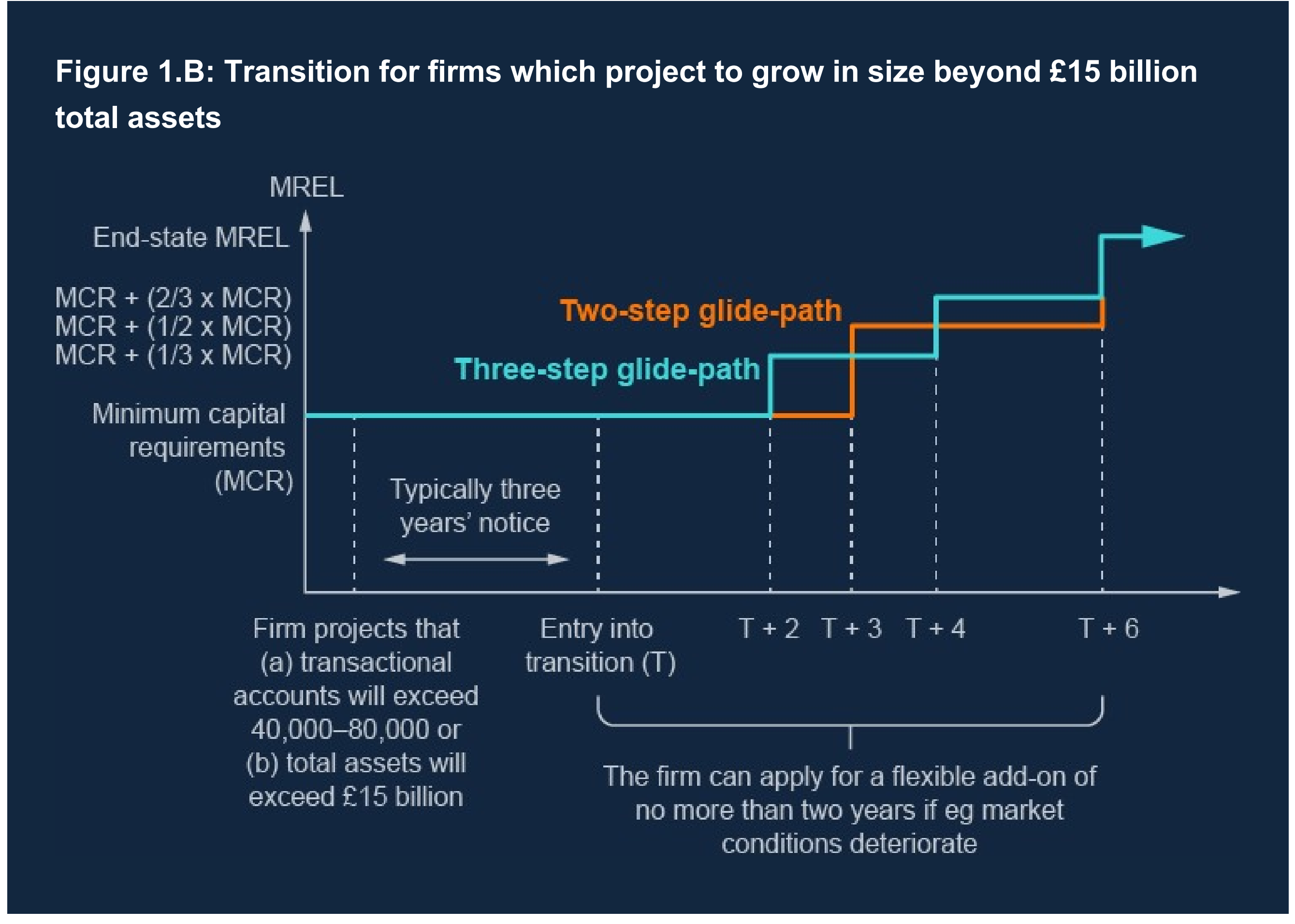
The requirement will increase from minimum capital requirements to end-state MREL in two equal steps at T + 3 years and T + 6 years.

In addition to the stepped approach, once a firm that has been set an external MREL has entered its MREL transition, it may request a maximum of two additional years of transition time (the flexible add-on), which may be granted, in full or in part, and in more than one block of time, at the Bank's discretion. In deciding whether or not to grant a flexible add-on, the Bank may consider a number of factors which may justify an extension in the context of the Bank's objectives and legal obligations, including the obligation that the transitional period for a firm is as short as possible. These include:

- whether the firm has taken all necessary steps and actions to meet its target by the relevant deadline, including whether it has already benefitted from an add-on;
- whether there is market dislocation which impacts capital markets issuance conditions; and
- whether the firm's business model faces idiosyncratic challenges which justify an extension.

The Bank does not expect to grant the flexible add-on to firms who have met their end-state MRELs but will give consideration to each application on its merits taking into account, among other things, prevailing market conditions.

Figure 1.B: Transition for firms which project to grow in size beyond £15 billion total assets



The Bank reserves the right, on a firm-specific basis, to set an earlier compliance date during the transitional period for interim and/or end-state MRELs, for example where the Bank has concerns about the resolvability of a group or firm, or set a shorter notice period to T, if a firm is unable to provide the Bank with sufficient notice of when it expects to exceed 40,000–80,000 transactional accounts or total assets of £15 billion.

The Bank may set further 'transitional' MRELs, including after the end of the initial transitional period, if the necessary MREL for a firm change. This might occur, for example, if the resolution strategy applicable to the firm changes, or if the regulatory requirements for the firm change in a way that affects its MREL. The Bank will determine the appropriate transitional period on a firm-specific basis.

Internal MREL

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 necessarily entering resolution. The Bank expects to set internal MREL greater than minimum capital requirements to a UK subsidiary (that is not a resolution entity) or UK subgroup of a

banking group that delivers critical functions where that subsidiary or subgroup 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.

The Bank will decide on a case-by-case basis whether or not a subsidiary operating in the UK 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:

1. has more than 5% of the consolidated risk-weighted assets of the banking group;
2. generates more than 5% of the total operating income of the banking group; or
3. has a total leverage exposure measure larger than 5% of the banking group’s consolidated leverage exposure measure.

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

The Bank expects that internal MREL for material subsidiaries will be scaled in the range of 75%–90% of the full amount of external MREL that they would be required to maintain if they were a resolution entity.[37] This reflects the range set in the FSB’s 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.

The Bank would expect to determine similar transitional arrangements for a group’s internal MREL as for its external MREL. However, where groups are already subject to external MREL in excess of minimum capital requirements, the Bank will determine the appropriate transitional period to meet internal MREL on an institution-specific basis for any subsidiaries that are newly designated as material.

Internal MREL can be met with internal 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 those that apply to external MREL eligible liabilities. In particular, internal MREL eligible liabilities must be subordinated to operating liabilities. In addition, they must be issued directly or indirectly to the resolution entity. And they must contain

contractual trigger provisions that enable the Bank to convert them to equity or write them down without placing the issuing subsidiary into resolution, where:

- any regulatory capital instruments of the subsidiary have been written down and/or converted into equity pursuant to any statutory or regulatory power linked to the financial condition or viability of the institution; provided that, in the case of eligible liability instruments issued by subsidiaries of non-UK groups, the Bank includes in its direction a statement that the home resolution authority has either consented or has not, within 24 hours of the Bank having given it notice, objected to the write-down or conversion; or
- a resolution entity in the subsidiary's group, which is a direct or indirect parent of the subsidiary, is subject to resolution proceedings in the UK or elsewhere.

The contractual trigger should provide the resolution authority of the material subsidiary with the opportunity to direct either a write-down or a conversion (as directed by the resolution authority) in the circumstances specified above. However, the contractual trigger may be limited to provide for only write-down or only conversion if institutions can demonstrate to the Bank that this credibly supports the group resolution strategy, and the passing of losses and recapitalisation needs to the resolution entity.

Annex 2: Valuation and bail-in mechanic

This annex sets out the Bank's approach to valuation, focusing in particular on valuations in the context of a bail-in resolution. Valuations are also required for a transfer strategy. It also explains the process the Bank has designed for conducting a bail-in.

Valuations

Valuations are critical for any resolution. A successful resolution requires valuations that are both timely and robust. In a bail-in, valuations are 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.

Figure 2.A summarises the valuations that the Bank expects to require for the use of stabilisation tools both before and after a firm has been put into resolution. These valuations are based on the requirements set out the Banking Act and the applicable valuation technical standards.[38] The valuations are:[39]

Valuation 1: failing or likely to fail valuation. This valuation provides an updated assessment of the firm's financial position under relevant accounting and regulatory standards. It helps inform the determination of whether the first condition for resolution is met, that being whether the firm is failing or likely to fail. A range of relevant information is likely to be considered when determining if a firm meets this condition for resolution.

Valuation 2: asset and liability valuation. The purpose of valuation 2 is to estimate the extent of resolution action necessary (ie the extent of incurred and expected losses that need to be addressed) and inform the choice and use of resolution tools. This valuation involves an assessment of the balance sheet, valuing assets and liabilities based on the cash flows the firm can expect on the basis of fair, prudent and realistic assumptions. The valuation needs to reflect the resolution actions being considered and the expected use and treatment of assets and liabilities. Accordingly, assets and liabilities are measured on a 'hold value' basis (where a firm is expected to continue operating a business, holding assets, or maintaining positions in financial instruments following entry into resolution) or a 'disposal value' basis (where a firm's assets and liabilities will be sold or transferred under a resolution action).

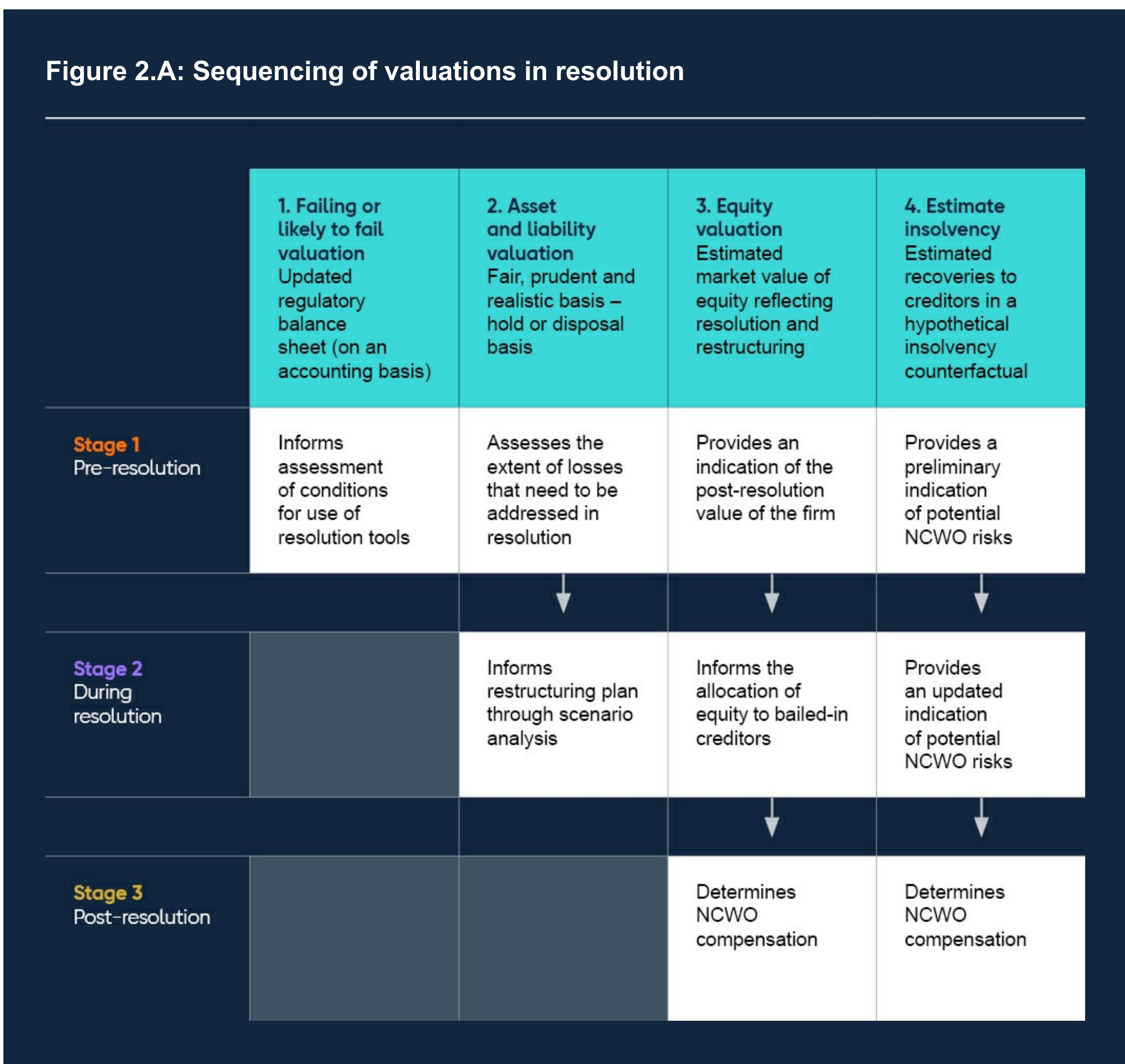
Valuation 3: equity valuation. Valuation 3 estimates the market value of the equity of a firm post resolution. This valuation would take into account the potential (or actual) resolution action being considered (or undertaken). In the context of a bail-in, the purpose of this analysis is to estimate the value of equity available to compensate bailed-in creditors. The valuation should take account of the expected write-down or conversion of own funds or eligible liabilities, as well as the planned restructuring under the firm's business reorganisation plan. In a bail-in, this valuation serves two key purposes:

- **Informing decisions before and during resolution**. This valuation informs the calibration of the initial bail-in, and the subsequent allocation of equity to bailed-in creditors. This includes by illustrating potential NCWO risks. As such, this valuation should look to follow, as closely as possible, the expected approach to assessing actual treatment post resolution.
- **Determining NCWO compensation post resolution**. The market value of equity will likely underpin an estimate of the actual treatment received by creditors – as would be needed for the purposes of determining NCWO compensation. This assessment of actual treatment valuation should follow the approach set out in the regulatory Technical Standards on valuations post resolution. This includes by being based only on available information concerning facts and circumstances existing as of the date (or dates) at which equity is allocated to bailed-in creditors.

In the context of a share transfer resolution strategy, it may also be important to understand the market value of equity. For transfers to a private-sector purchaser, this includes assisting with the evaluation of bids in the interest of ensuring commercial terms are obtained.

Valuation 4: estimated insolvency outcome. The purpose of valuation 4 is to estimate outcomes for creditors had the firm entered insolvency instead of resolution. Similar to valuation 3, this valuation serves two key purposes:

- **informing decisions before and during resolution**. The analysis helps assess the potential NCWO risks around initial application of resolution tools, and (in a bail-in) the allocation of equity to bailed-in creditors; and
- **determining NCWO compensation post resolution**. An assessment of outcomes for creditors in an insolvency counterfactual is needed for the purposes of determining NCWO compensation. This assessment of actual treatment valuation also needs to follow the approach set out in the separate technical standards on valuations post resolution. This includes only being based on information about facts and circumstances which existed or could reasonably have been known at the resolution decision date.[40]



Expected process for valuations carried out before and during resolution

Expectations of firms' valuation capabilities

This section sets out the Bank's general expectation for the valuation process for an MREL firm. It is intended to inform the capabilities that firms should put in place and is not intended to prescribe a particular process that will apply in an actual resolution scenario.

To enable robust valuations to be produced on a timely basis, it is crucial for firms to have relevant data, systems and processes in place ahead of resolution. The Bank has published **detailed guidance** on the valuation capabilities firms are expected to have in place to support resolvability.

To support the resolution of the largest global firms, valuation work needs 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.

For material UK subgroups of overseas-based SPE banking groups (Box 3), the stabilisation of the subgroup 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 – Annex 1). In these cases, the Bank will need valuations to understand the full extent of expected losses in the subgroup and to assess whether, following any recapitalisation, the subgroup 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 looks 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 subgroup.

Appointment of an independent valuer

For UK-led resolutions, the Bank is required to appoint an independent valuer responsible for producing the valuations required for resolution.[41]

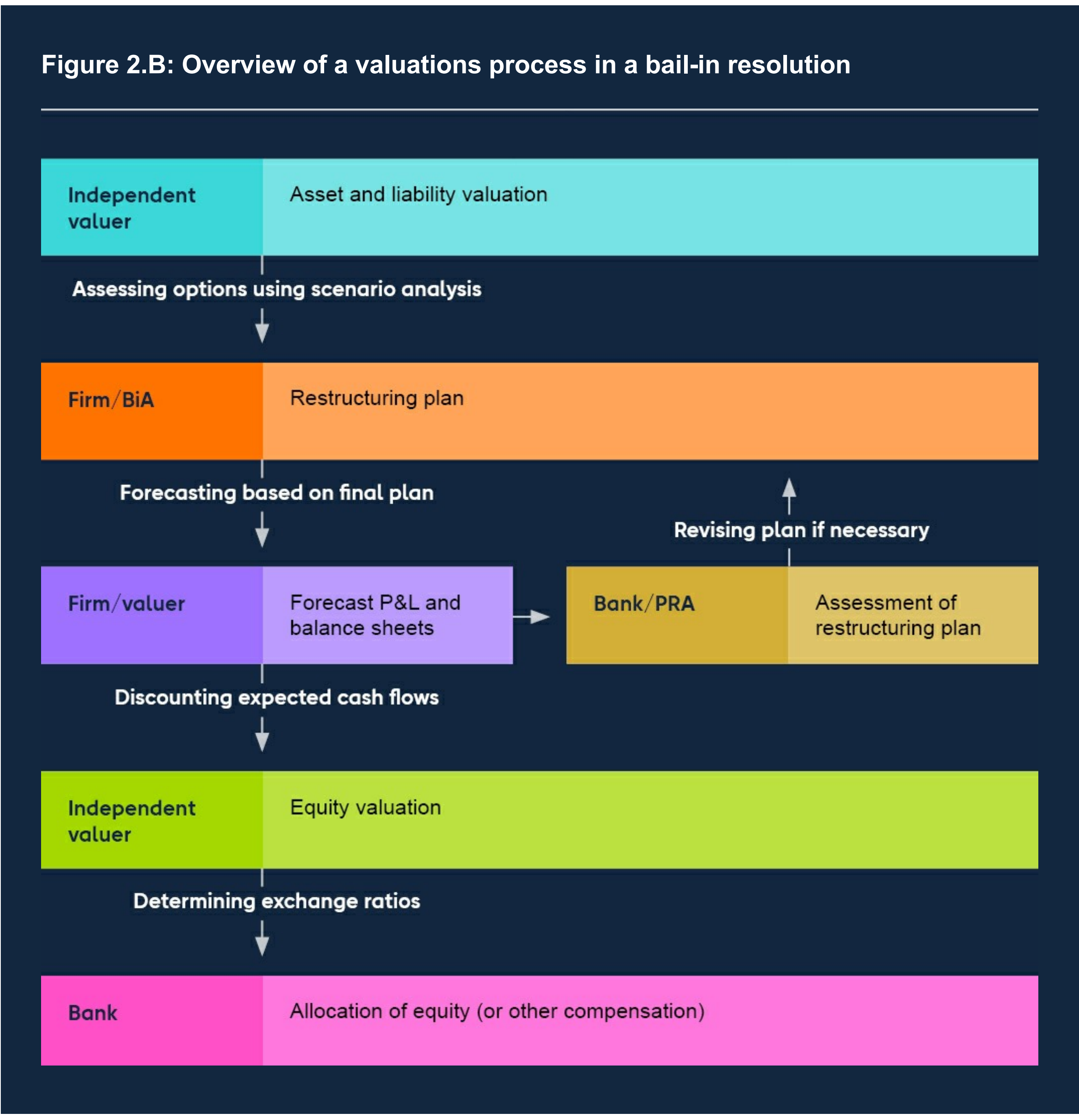
The Bank is responsible for determining the resolution actions that would be taken as a result of the independent valuation. The independent valuer has ultimate responsibility for preparing the valuations. The firm has responsibility for supporting the preparation of the valuations by the independent valuer and is expected to provide the valuer with timely access to relevant data, information, documentation, and relevant personnel and run models and produce business forecasts based on the assumptions and level of granularity specified by the valuer.

Additional steps during a bail-in resolution

The Bank's bail-in mechanic provides additional time for final valuations to be carried out during a UK-led bail-in. On entry into resolution, bailed-in creditors receive CEs representing a potential entitlement to equity in the firm in resolution. Before the firm exits resolution, valuations are needed to inform the development of the firm's restructuring plan and the subsequent allocation of equity across CE holders.

An overview of the expected valuation process during a bail-in resolution is set out in Figure 2.B. Note that further work may also be required during this period to provide a more robust assessment of valuation 4 to help inform the Bank's setting of exchange ratios (ie the ratios by

which a CE is exchanged for shares or other instruments).



For firms whose preferred resolution strategy is bail-in, it should be possible for valuations (notably valuations 3 and 4) to be finalised in a timeframe to support exit from resolution within three to six months.

Bail-in exchange mechanic

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.

The 'exchange mechanic' is based on CEs. These are tradable instruments that would 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 to be converted into equity, the CE represents a potential claim (but not a guarantee) to a share of that equity. CEs will be issued in dematerialised form and will need to be held through accounts with a recognised central securities depositories (CSD) or international central securities depositories (ICSD). They will not be listed on any trading venue.

Prior to resolution

In contingency planning prior to resolution, the Bank identifies liabilities which could potentially be bailed in. This work identifies the key characteristics of the securities, including the International Standard Identification Numbers (ISIN) for the securities, the currency in which they are denominated, the governing law, their status in the creditor hierarchy, the trading venues on which they are listed, the relevant paying agents, other agents, and the CSDs or ICSDs through whose settlement systems they are settled. The Bank also prepares the bail-in resolution instrument and related legal documentation to effect the bail-in. The Bank may engage on a confidential basis with a number of external stakeholders to prepare for a bail-in. These are likely to include CSDs and ICSDs, stock exchanges and parties whose services will be needed to support the bail-in, for example a depositary bank to hold the shares of the firm.

Resolution weekend

The final preparations for the bail-in and the making of the bail-in resolution instrument are likely to take place over the resolution weekend. As soon as practicable after the bail-in instrument has been made, and ideally before the markets in the failed firm's securities open for trading in the relevant time zones, the Bank announces the resolution of the firm and publish the resolution instrument. The announcement will contain details of the key features of the resolution including information on which instruments and liabilities are or may be in scope of the bail-in and will suspend trading, or cancel the listing of, UK listed relevant instruments in co-ordination with the UK listing authority. At this stage, the relevant instruments are also frozen within the relevant CSD or ICSD accounts.

Following the announcement of the bail-in, CEs issued by the firm are credited to the accounts at the CSD/ICSD of the creditors that may be bailed in. Different classes of CEs are created and allocated to different classes of creditor based on the ranking of the relevant securities in the creditor hierarchy. This allows 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.[42]

A resolution administrator may be appointed by the Bank who would control the voting rights of all shares in the firm during the bail-in period. The existing shares in the failed firm are transferred to a third party such as a depositary bank appointed by the Bank to be held on trust until distributed to the CE holders who exchange their CEs, who will be the future owners of the firm.

Bail-in period

Following the resolution weekend, the Bank and its advisers finalise the asset and liability, equity and estimated insolvency (NCWO) valuations (valuations 2, 3 and 4) and the business reorganisation plan is progressed by the resolution administrator or the directors of the firm, as required by the Bank. During this phase, the shares in the firm continue to be held on trust. The resolution administrator, under ultimate direction of the Bank, controls the voting rights of the shares.

Bail-in terms announced

Once the valuation work has been completed, the Bank announces the terms of the exchange for each class of CE. This includes the exchange ratio of CEs to shares in the firm for each class of CEs and the timetable for the exchange, including the record date at which holders of CEs must have been on the register of CE holders in order to be entitled to receive shares or other compensation on exchange of their CEs. The exchange ratio for a class of securities is determined by various factors including the equity valuation (valuation 3) and the level of priority which the relevant class of bailed in creditors would have in a counterfactual insolvency.

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 entitlement. It is likely that they will be required to:

- evidence their beneficial ownership;
- evidence that any necessary regulatory approvals (ie change in control) have been obtained; and
- confirm instructions for delivery of equity.

After this, the Bank makes one or more onward transfer instruments to transfer shares to former CE holders which will contain instructions to be followed by third parties such as registrars and CSDs to reflect the transfers in the share register and credit the shares to the holders' accounts at the relevant CSD. The relevant CEs are cancelled once the equity is delivered to the CE holders.

Completion of exchange

Once a sufficient majority of the firm's equity has been returned to CE holders who have

exchanged their CEs, or after a set period has elapsed, the resolution administrator ceases to be entitled to exercise voting rights in respect of the shares. Such rights will be exercisable by the new equity holders and the firm will have been returned to private sector control. 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 or the appointment of the resolution administrator is brought to an end. The suspension on trading of shares is also expected to be lifted. Notwithstanding the suspension of listing during the bail-in period, the firm is required to comply with all listing rules applicable to it, including the continuing disclosure rules, throughout the bail-in period. The end of the bail-in period and the lifting of suspension of trading may also be accompanied by an announcement by the firm of its recapitalised financial condition, the business reorganisation plan as approved by the Bank and any other relevant information.

Cross border bail-in and interaction with securities law

In the UK, the issuance of CEs and the distributions of shares at the end of the bail-in period do not trigger domestic prospectus requirements. The Banking Act contains a limited exemption to prospectus requirements in the UK for a firm in resolution, exercisable by the Bank through the resolution instrument it would make to execute a resolution. In addition, a broad exemption for any issue of securities resulting from the conversion or exchange of other securities, own funds or eligible liabilities by the Bank as resolution authority under the Banking Act will be included in the Financial Services and Markets Act 2000 (Public Offers and Admissions to Trading) Regulations, which are due to come into effect when the existing Prospectus regulation is revoked by the FSM Act.

In some cases, a bail-in may need to take into consideration relevant laws, such as securities laws, in other jurisdictions, even where the firm's own operations are primarily or solely based in the UK. This could be because the liabilities, in the form of securities, that are to be bailed in are registered in a different country or held by overseas investors meaning certain overseas securities law requirements may apply. For example, there may be a risk that the conversion of eligible liabilities into equity, or issuance of CEs as part of a bail-in, would constitute the offer or sale of a new security under different national securities laws, notwithstanding that the resolution is a forced action under UK law and there is no choice or optionality on the part of the holder of the affected liability. Depending on the particular circumstances, the Bank may therefore need to adopt a different approach for some investors if this is needed to address local securities law issues, ensure an orderly resolution, and minimise compensation risks.

The FSB is leading work to enhance the effectiveness of cross-border bail-in, including interaction with different national securities laws. The FSB is supporting its members to explore options available to address potential legal challenges and to ensure effective cross-border co-ordination and co-operation.[43]

Figure 2.C provides an end-to-end representation of the overall processes.

Figure 2.C: Responsibilities during a bail-in resolution

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

Annex 3: Stays on termination rights

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

The drawbacks of 'early termination' were demonstrated in the Lehman Brothers insolvency in 2008, where the rapid close-out of derivatives contracts caused disruption to financial markets and financial stability.

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, including the UK, 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.

Many resolution regimes, including the UK's, also contain statutory provisions enabling resolution authorities to enforce a temporary suspension of the failed firm's payment and delivery obligations, the right of a secured creditor to enforce its security interest and powers to prevent counterparties from terminating their contracts (known as a 'stay on termination rights'). In the UK, such powers do not extend to eligible deposits.

But these provisions may not be effective in relation to contracts under foreign 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. The UK took the lead in adopting rules. The PRA **published rules in November 2015** which require 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. Rules have also been published by a number of other regulatory authorities including in the EU, Japan, Switzerland and the United States.

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 **universal resolution stay 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.

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, updated in 2020.

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.

Annex 4: 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 their value through sale or orderly wind-down.

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.

Banking Act 2009 – Domestic legislation that established the UK'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 or if that is not possible, its assets wound down and liabilities discharged.

Business reorganisation plan – 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 depository (CSD) – A specialist organisation that holds financial instruments such as shares and bonds for account holders in a form that can easily be transferred without physical certificates.

Certificate of entitlement (CE) – An instrument issued to creditors in a bail-in which, depending on the exchange ratio when determined, may entitle them to be compensated once the terms of exchange are announced.

Co-operation agreement – 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 – 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.

Failing or likely to fail – An assessment made as part of the trigger for resolution by the PRA 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 UK's deposit guarantee scheme, **www.fscs.org.uk**.

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

Global systemically important banks (G-SIBs) – Banks identified by the FSB as being systemic to global financial stability. They are subject to additional regulation, and each has 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, directly or indirectly. These resources can be written down and/or converted to equity in order to transmit the losses arising at a 'material subsidiary' to a resolution entity without the subsidiary itself necessarily entering resolution. Internationally, these resources are referred to as internal TLAC.

International Standard Identification Numbers (ISINs) – Unique 12-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.

Investment Bank Special administration regime (IBSAR) – 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.

Minimum requirement for own funds and eligible liabilities (MREL) – A requirement 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 certain 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.

Other systemically important institutions (O-SIIs) – significant deposit takers and designated investment firms whose size, interconnectedness, complexity and business type give them the capacity to cause very significant disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying on their business in an unsafe manner.

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

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 to advance one or more of the resolution objectives.

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 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).

Resolvability Assessment Framework (RAF) – The Bank's and PRA's approach to assessing whether firms operating in the UK with bail-in or transfer as their preferred resolution strategy are prepared for resolution.

Retained EU legislation (REUL) – EU legislation incorporated into UK law during and after the process of the UK's withdrawal from the European Union.

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.

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.

Total loss absorbing capacity (TLAC) – loss-absorbing and recapitalisation capacity needed to achieve an orderly resolution that minimises any impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers to loss.

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

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

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1. Collectively, 'the authorities'.
2. All of these are referred to, for the sake of simplicity, as 'banks' or 'firms'. The resolution regime also applies to banking group companies, subject to certain modifications. From 1 January 2022, investment firms solely regulated by the FCA previously in scope of resolution were taken out of the scope by the Financial Services Act 2021 (Prudential Regulation of Credit Institutions and Investment Firms) (Consequential Amendments and Miscellaneous Provisions) Regulations 2021. In 2009 the scope of the resolution regime was widened to include UK CCPs. However, the FSM Act establishes a separate regime for the resolution of UK CCPs which will become effective once the relevant secondary legislation has been put in place. The resolution regime does not apply to credit unions.
3. The **Code of Practice** relating to the resolution regime has also been updated in consequence of EU Withdrawal. Other elements of EU legislation which had direct effect and form part of retained EU law have been 'onshored' by means of secondary legislation (the principal regulations are the Financial Regulators' Powers (Technical Standards) (Amendment etc) (EU Exit) Regulations 2018, the Bank Recovery and Resolution and Miscellaneous Provisions (Amendment) (EU Exit) Regulations 2018 and the Bank Recovery and Resolution (Amendment) (EU Exit) Regulations 2020). In addition, the UK regulators (the Bank, PRA and the FCA) are responsible for implementing the UK regulations that onshored the related EU Binding Technical Standards, subject to amendments they consider appropriate (The Financial Regulators' Powers (Technical Standards) (Amendment etc) (EU Exit) Regulations 2018 and The Technical Standards (Bank Recovery and Resolution) (Amendment etc) (EU Exit) (No.1) Instrument 2019).
4. In particular, some references in this document will be affected by changes that will be made upon or following the commencement by HMT of the repeal of relevant pieces of REUL listed in Schedule 1 of the FSM Act. HMT's plan for delivery of the 'Smarter Financial Services Regulatory Framework for the UK' is set out here: **Building a Smarter Financial Services Regulatory Framework: Delivery Plan – GOV.UK (www.gov.uk)**.
5. PRA supervisory statement 19/13 – **Resolution planning**, updated June 2018; and FSB **Guidance on Identification of Critical Functions and Critical Shared Services**, July 2013.
6. The regime also applies to certain other group companies of banks.

7. ‘Stabilisation tools’ in the Banking Act.
8. 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.
9. Banks and building societies authorised to accept deposits are prudentially regulated by the PRA. The majority of investment firms are prudentially regulated by the FCA. The more complex investment firms are designated and prudentially regulated by the PRA.
10. ‘Triggering the resolution regime’ for discussion of respective roles.
11. The Bank must expose at least 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.
12. In the case of joint accounts, the share of each depositor is considered separately in calculating the limit. So for a joint account held by two eligible depositors, the limit would be £170,000. This does not apply to deposits in an account in respect of which two or more persons use the account as a business account. 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.
13. 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.
14. The cases where this mandatory write-down and conversion of regulatory capital instruments applies are set out in the Banking Act.
15. Or other modified insolvency procedures depending on the type of firm, ie the building society insolvency procedure (BSIP) for building societies or the investment bank special administration regime (IBSAR) for investment firms. These procedures are explained in the section below on the role of insolvency.
16. The Banking Act defines ‘eligible deposit’ as a deposit in respect of which the person, or any of the persons, to whom it is owed would be eligible for compensation under the FSCS and ‘eligible claim’ as a claim in respect of which compensation is payable under the FSCS; ‘excluded persons’ are defined in the Banking Act and are broadly operators of certain designated payment system, certain CCPs and any central bank.
17. Action to commence administration or winding-up of a bank or other relevant firm (being certain kinds of holding company and investment firm) by any person other than the Bank or the PRA may not proceed unless certain conditions are satisfied. These include a condition that no application for a bank insolvency order is pending, the proposed action is notified to the Bank and the PRA, the Bank having confirmed that it does not intend to exercise a stabilisation power in respect of the firm and each of the Bank and the PRA having determined that it does not intend to apply for a bank insolvency order.
18. Deposits historically ranked equally with senior unsecured debt claims in insolvency in the UK. The Financial Services (Banking Reform) Act 2013 introduced a ‘depositor preference’ regime 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). The Deposit Guarantee Scheme Regulations 2015 made further amendments to the Insolvency Act 1986 to provide that 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.
19. The Banking Act empowers HMT to made regulations modifying insolvency law in its application to investment banks. HMT has made the Investment Bank Special Administration Regulations 2011 (the principal Regulations). Following a

review commissioned by the Government – **Final review of the Investment Bank Special Administration Regulations 2011**, the principal Regulations were amended in March 2017 by the Investment Bank (Amendment of Definition) and Special administration (Amendment) Regulations 2017. The changes made 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. The IBSAR is applicable to investment firms that are regulated by the FCA, as well as those designated by the PRA.

20. The bank insolvency procedure is contained in the Banking Act and was applied to building societies subject to modifications by **The Building Societies (Insolvency and Special Administration) Order 2009 (SI 2009/805)**.

21. For a more detailed description of how a bail-in would be likely to be conducted, **Executing bail-in: an operational guide from the bank of England**.

22. Any such discretionary exemptions could mean that the bail-in will depart from the pari passu treatment that would apply in a hypothetical counterfactual insolvency proceeding. As such it is possible greater losses will be suffered by those creditors who are bailed-in giving rise to the risk of HMT having to compensate bailed-in creditors in order to meet the NCWO safeguard. Bail-in of liabilities of this kind is likely to occur only in exceptional circumstances and, in general, bail-in would be expected to proceed on the basis of the creditor hierarchy which would apply in such an insolvency proceeding.

23. Resolution Liquidity Funding would not be available to any firm subject to an insolvency or administration procedure.

24. 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). **FSB Principles on loss-absorbing and recapitalisation capacity of G-SIBs in resolution: total loss-absorbing capacity (TLAC) term sheet**.

25. Building societies cannot establish holding companies. As such, they must subordinate their MREL through other means.

26. 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.

27. On senior management responsibility for developing and maintaining their firm's recovery plan, resolution pack and – where necessary – resolution assessment, PRA supervisory statement 4/19 – **Resolution assessment and public disclosure by firms**, July 2019, and PRA supervisory statement 28/15 – **Strengthening individual accountability in banking**, December 2021.

28. PRA supervisory statement 16/16 – **The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions**, November 2016.

29. Phase 1 reporting under PRA supervisory statement 19/13 is currently suspended while the PRA assesses areas of potential duplication between different reporting expectations.

30. A first full round of the resolvability assessment process was undertaken for all G-SIBs in 2014/15. The 2022 results were published in Financial Stability Board – **Completing the agenda and sustaining progress**, December 2022.

31. The UK 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 UK considers in its own policy development.

32. In 2021, the **Bank recognised actions taken by the National Bank of Ukraine** in relation to PrivatBank.

33. The retained EU law version of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. Article 92b relating to the own funds and eligible liabilities of non-UK G-SIIs is revoked with effect from 1 January 2024 by regulation 5 of **The Financial Services and Markets Act 2023 (Commencement No. 1) Regulations 2023 (legislation.gov.uk)**.

34. This approach derives from the retained EU law version of Commission Delegated Regulation (EU) 2016/1450 of 23

May 2016 supplementing **Directive 2014/59/EU of the European Parliament and of the Council** with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities.

35. PRA supervisory statement 16/16 – **The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions**, November 2016, updated December 2020.
36. Subordination of MREL instruments may be achieved contractually or by statute or, in the case of a holding company compliant with the clean holding company requirements under the statement of policy, by structural subordination.
37. Where a ring-fenced body is part of a material subgroup, 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%–90% range. For UK groups with a simple structure, the Bank would expect to scale internal MREL at 100%. See footnote 33 and related text as to the revocation from 1 January 2024 of Article 92b CRR which requires scaling internal MREL at 90% for UK material subsidiaries of non-UK G-SIBs.
38. The Technical Standards are the retained UK law versions of Commission Delegated Regulation 2018/344 and Commission Delegated Regulation 2018/345 respectively as amended. The European Banking Authority Technical Standards relating to Methodologies for Difference in Treatment in Valuation and Methodologies for Valuing Assets and Liabilities as incorporated in the relevant Commission Delegated Regulation have been updated to reflect the UK's withdrawal from the EU pursuant to The Technical Standards (Bank Recovery and Resolution) (Amendment etc) (EU Exit) (No 1) Instrument made by the Bank as the appropriate regulator under the Financial Regulators' Powers (Technical Standards etc) (Amendment etc) (EU Exit) Regulations 2018 No 1115.
39. **Guidance on valuation capabilities to support resolvability (Letter to CFOs)**, November 2018.
40. Under the Bank's approach to bail-in, this is envisaged as the Friday of the resolution weekend but could differ depending on the specific circumstances.
41. In certain circumstances the Bank may also carry out valuations itself if the Bank was carrying out a provisional valuation due to the urgency of the situation.
42. 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.
43. FSB – **2023 Bank Failures: Preliminary lessons learnt for resolution (fsb.org)**.

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