



## Statement of Policy

# Trading activity wind-down

XXXX 2022





BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

Statement of Policy

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## 1 Introduction

1.1 This Statement of Policy (SoP) should be of interest to all PRA-authorized UK banks, their qualifying parent undertakings and PRA-designated investment firms that are engaged in trading activities, and relevant third-country branches.<sup>1</sup> This SoP is also relevant to policymakers and practitioners that would expect to be involved in firms' resolution. It is not relevant to credit unions.

1.2 This SoP should be of particular interest to firms to which the expectations in Supervisory Statement (SS) XX/22 'Trading activity wind-down' apply, as it sets out how those expectations are intended to advance the PRA's objectives alongside other parts of the PRA's policy framework. This SoP does not place any additional requirements or expectations on firms.

1.3 SSXX/22 applies to firms that:

- have been identified by the PRA as an other systemically important institution (O-SII);<sup>2</sup> however, for the purposes of this SoP, references to PRA O-SII designation shall be treated as being on an individual entity basis to PRA authorised firms within an O-SII group. It is not intended that the expectations will apply at group level in respect of O-SIIs;<sup>3</sup>
- have identified the full or partial wind-down of their trading activities (TWD) as a recovery and post-resolution restructuring option (the TWD option); and
- have either been notified by the Bank of England ('the Bank') as the resolution authority that their preferred resolution strategy is Bank-led bail-in, or have been notified by the Bank that they are a 'material subsidiary' of a third-country group for the purposes of setting internal MREL in the UK.

1.4 Collectively, these firms are referred to as 'TWD firms'.

1.5 A key principle underlying the PRA's approach is that the PRA does not seek to operate a zero-failure regime. The PRA works with the Bank as UK resolution authority to ensure that any firms that fail do so in an orderly manner.<sup>4</sup> Firms engaged in large and complex trading activities represent a particular challenge as asset-value destruction can be rapid and self-reinforcing. TWD firms may be forced into winding-down their trading activities with little notice in both recovery and post-resolution restructuring situations, due to market conditions.

1.6 SSXX/22 sets out expectations for TWD firms to have a set of capabilities that can be utilised to develop and execute the TWD option, in both recovery and post-resolution restructuring, depending on the real-life circumstances faced by the firm ('TWD capabilities'). This may include the full or partial wind-down of their trading activities, depending on the real-life circumstances faced by TWD

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<sup>1</sup> For these purposes, 'trading activities' includes the trading book (as defined in legislation (Article 4(86) 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 available [here](#)), and activities carried out in connection with the trading book, such as margin loans and other financing activities carried out in relation to trading, that the firm would consider appropriate to wind-down as part of post-resolution restructuring. For these purposes, 'trading activities' does not include banking book activity that the firm would expect to continue after a full wind-down in post-resolution restructuring. Where a legal entity contains only trading activity business, such as a broker-dealer business model, the wind-down of trading activities would likely mean the wind-down of the legal entity.

<sup>2</sup> 2020 list of UK firms designated as O-SIIs available at: [2020 list of UK firms designated as other systemically important institutions \(O-SIIs\)](#).

<sup>3</sup> References in this SoP to the designation of a firm as an O-SII should be taken to exclude the designation of a group of firms at the highest level of consolidation in the UK.

<sup>4</sup> Paragraph 17, The PRA's approach to banking supervision, available at: [PRA's approach to supervision of the banking and insurance sectors](#).

firms. However, SSXX/22 sets out expectations that firms should not plan on the basis of only executing a partial wind-down. Rather, TWD firms should develop TWD capabilities such that they can fully wind-down their trading activities in post-resolution restructuring. SSXX/22 also sets out that TWD capabilities developed to deliver a full wind-down of trading activities in post-resolution restructuring should be adaptable to deal with less severe circumstances.<sup>5</sup>

1.7 TWD firms' ability to wind-down their trading activities during or following a firm-specific and/or market-wide stress is supported by several other parts of the PRA's regulatory framework. For example, TWD firms need to be able to execute recovery options in their recovery plan; ensure continuity of access to financial market infrastructure firms (FMIs) and the continuity of critical services; and have governance arrangements to ensure the TWD firms' capabilities and processes are maintained, reviewed and operational. Each of these areas are subject to PRA rules or expectations, and Bank policy.

1.8 The expectations in SSXX/22 work alongside these other parts of the PRA and Bank's policy frameworks with the aim of ensuring that a TWD firm:

- has a credible recovery plan, including the TWD option, that will help to stabilise its balance sheet, given the capital and liquidity impacts a stress might cause;
- will be prepared for resolution, given the capital and liquidity impacts that resolution may cause; and
- has an appropriate level of governance and assurance for its TWD option and TWD capabilities.

1.9 The policies and rules that are most directly relevant in the context of a trading activity wind-down are:

- recovery planning rules and expectations;
- the PRA's approach to supervising liquidity and funding risks;
- booking arrangements;<sup>6</sup>
- branch and subsidiary supervision;
- the Bank's policy statement 'The Bank of England's Approach to Assessing Resolvability', The Bank's Statement of Policy on Restructuring Planning (RP), The Bank's Statement of Policy on valuation capabilities to support resolvability (ViR), The Bank's Statement of Policy on Funding in Resolution (FiR), The Bank's Statement of Policy on Continuity of Access to FMIs and The Bank's Statement of Policy on Management, Governance and Communication (MGC). Collectively these documents are referred to hereinafter as the Bank's Resolvability Assessment Framework policies ('the RAF policies');
- operational continuity in resolution (OCIR), including retention of operational staff and trading capabilities, and continuity of critical services; and
- the senior managers and certification regime (SM&CR).

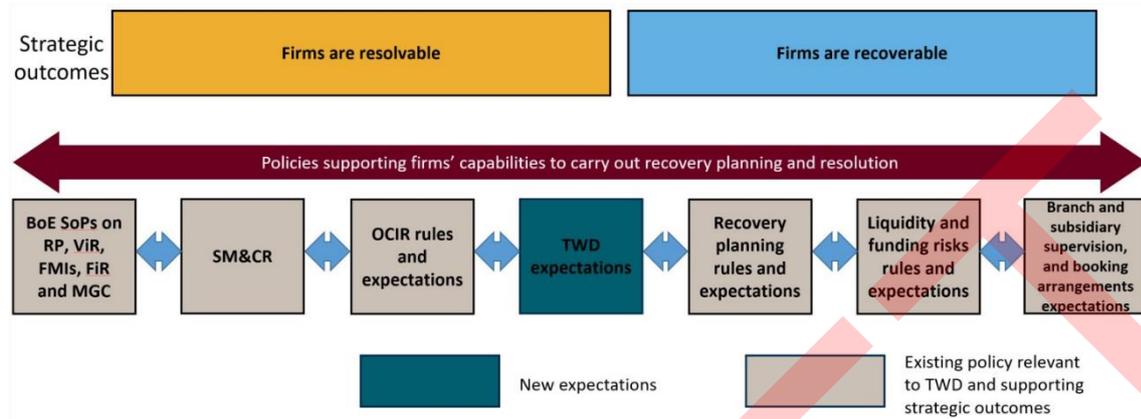
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<sup>5</sup> Paragraph 4.6, SSXX/22.

<sup>6</sup> By booking arrangements, the PRA means the front-to-back life-cycle of trading from origination, trade execution, risk capture and transfer, through to back-office settlement.

1.10 The relationship between these policies is depicted in Figure 1 below.

**Figure 1 PRA and Bank policies supporting firms' recovery and resolvability**



## 2 Having a credible recovery plan

### PRA policies relevant to TWD firms having a credible recovery plan

#### Recovery planning

2.1 Recovery planning is fundamental for TWD firms' ability to develop and execute the TWD option. Recovery planning rules, and SS9/17 'Recovery planning', requires and expects firms to have options in their recovery plan that will stabilise their financial position, and that could be executed in a stress in order to achieve that outcome. A recovery option may be executed once a firm has breached its capital requirements, for example. As one option available to a TWD firm to help stabilise or restore its financial position during, or following, a firm-specific and/or market-wide stress, a TWD firm's TWD option is part of a TWD firm's recovery plan.

2.2 The PRA will consider whether the implementation of the actions, arrangements and measures<sup>7</sup> proposed in the TWD firm's recovery plan is reasonably likely to maintain or restore the viability and financial position of the TWD firm or group.

2.3 Recovery planning rules require that the options within the recovery plan, including the TWD option, are reasonably likely to be implemented quickly and effectively in situations of financial stress while avoiding, to the maximum extent possible, any significant adverse effect on the financial system.

2.4 SS9/17 sets out expectations that firms should be able to make an informed decision about when they would execute their recovery options, which would include the TWD option if appropriate, and whether senior management will have sufficiently up-to-date and materially accurate information about capital and liquidity projections far enough in advance to make the decision to execute the TWD option in a timely manner.

2.5 The PRA will consider TWD firms' ability to carry out the TWD option in recovery with reference both to their set of TWD capabilities, but also the extent to which each aspect of TWD firms' recovery plans are underpinned by detailed analysis and justification.<sup>8</sup>

2.6 This includes the minimum elements to be contained in firms' recovery plans, as well as general considerations firms should take into account when developing their recovery plans.<sup>9</sup> The TWD capabilities TWD firms have developed and maintained in order to plan for and refresh the TWD option under SSXX/22 are incremental to these elements and considerations.

#### Liquidity and funding risks

2.7 The ability to identify, value and manage collateral sources is likely to be important for the development and execution of the TWD option. It may enable the provision of liquidity assistance by central banks to allow the TWD firm to meet obligations associated with trading activity positions as they fall due.

2.8 When assessing a TWD firm's ability to identify, value and manage collateral sources, PRA supervisors will consider whether TWD firms have met the expectations set by SS24/15 'The PRA's approach to supervising liquidity and funding risks'.<sup>10</sup> In particular, determining whether a TWD firm

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<sup>7</sup> Article 9 2016/1075 Commission Delegated Regulation on Recovery and Resolution Planning as it forms part of UK law.

<sup>8</sup> Paragraph 2.1, SS9/17.

<sup>9</sup> Paragraph 2.2, SS9/17.

<sup>10</sup> SS24/15, available [here](#).

has carried out an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with ILAA rules, and that the ILAAP is proportionate to the nature, scale and complexity of a TWD firm's activities, will be significant in the context of the TWD option.

### **Recovery planning for UK subsidiaries, and supervision of booking arrangements**

2.9 When assessing a TWD firm's recovery plan, where that firm is a UK subsidiary of a third-country group, PRA supervisors will consider whether TWD firms have met the expectations set by SS5/21 'International banks: the PRA's approach to branch and subsidiary supervision'.<sup>11</sup>

2.10 In particular, gaining assurance that the PRA is receiving information from TWD firms concerning the risks stemming from trading activities in the wider group, and co-operation from other supervisory authorities, will be important. This is part of the information needed by the PRA in assessing how each TWD firm meets threshold conditions, with particular relevance to the threshold conditions concerning the effective supervision of firms, and the prudent conduct of business (including firms' systems and controls and risk management).

2.11 Given the scale and cross-border interconnectivity of many TWD firms' trading activities, coordination between UK subsidiaries and their parent (and home and host authorities) is particularly significant in the context of the TWD option.

2.12 The PRA will consider whether it has an appropriate degree of influence and visibility over supervisory outcomes in the case of significant wholesale activities which may be traded or originated in one jurisdiction or legal entity and booked to the balance sheet in another jurisdiction or legal entity, as is likely to be the case for TWD firms' trading activities. An appropriate degree of influence and visibility over supervisory outcomes for TWD firms' booking arrangements is crucial for the executability of these firms' TWD option.

2.13 TWD firms typically run their investment banking and trading activities on a global basis, with complex booking arrangements. The PRA needs to understand the portion of global risk that is managed in the UK, what UK risk is managed elsewhere, and how the UK business performance sits within the overall performance of the TWD firm and group. For trading activities, timely information on business line performance is a critical indicator of emerging firm-specific and/or market-wide risks.

2.14 PRA supervisors will seek assurance that UK subsidiaries' approach to recovery planning, in the context of the TWD option, is in line with the PRA's approach to recovery planning for UK subsidiaries more broadly. As set out in SS9/17, the PRA recognises that a co-ordinated and consistent approach to recovery planning within a banking group is essential for the stabilisation of the group as a whole. The PRA places high importance on having sight of the group recovery plan; group recovery plans provide details on group structure, critical functions and arrangements to facilitate group recovery. The PRA recognises that recovery plans for UK subsidiaries of global groups should be considered within that group context and are most credible when they are consistent with recovery options proposed within the group plan and there are clear governance procedures which link the UK plan and local recovery options to those at group level.<sup>12</sup>

2.15 The Recovery Planning Part of the PRA Rulebook applies to certain firms, including those that are a UK subsidiary of a third-country group. SS9/17 sets out that the recovery plan for such UK subsidiaries should have UK specific scenarios and options. While the PRA expects a relevant UK

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<sup>11</sup> SS5/21, available [here](#).

<sup>12</sup> Paragraph 3.2, SS9/17.

subsidiary's TWD option to be consistent with the group plan, this does not mean that its group recovery plan must include the TWD option for the TWD option to feature in the UK subsidiary's recovery plan.

### **Branch supervision**

2.16 In cases of branch supervision, the PRA's approach is to place appropriate reliance on the prudential supervision of the overseas firm by the home state supervisor, subject to appropriate safeguards, as set out in SS5/21.

2.17 An orderly wind-down of trading activities in a UK-based branch of a third-country group is likely to require a whole-firm approach led by the head office and home authority in co-ordination with UK branch management and the PRA. For this reason, SSXX/22 does not apply to third-country branches; branches instead rely on the wind-down capabilities of the group, among other group capabilities and the group recovery plan, if a wind-down of trading activities was carried out.

### **References to areas of PRA policy relevant to TWD firms having a credible recovery plan**

2.18 The PRA will assess whether TWD firms have a credible recovery plan, with reference to the relevant rules and expectations that make up the PRA's policy framework.

2.19 References that the PRA considers to be particularly relevant in the TWD context have been set out in Appendix 1.

### 3 The need to prepare for resolution

#### Policies relevant to TWD firms preparing for resolution

3.1 Fundamental Rule 8 requires firms to prepare for resolution so, if the need arises, they can be resolved in an orderly manner with a minimum disruption to critical services.<sup>13</sup> While the PRA does not directly supervise against Bank policies<sup>14</sup>, the Bank and PRA work together to ensure their respective policies are consistent and will help these firms to prepare for resolution, as required by Fundamental Rule 8, as well as the PRA's general objective to promote firm safety and soundness, advanced primarily by minimising the adverse effect failure could have on financial stability.

3.2 The PRA does not directly supervise against the Bank's Restructuring Planning, Valuations in Resolution, FiR, FMI or Management, Governance and Communication SoPs. However, the PRA is consulted in the development of these policies. The Bank's approach acts to promote the PRA's safety and soundness objective and Fundamental Rule 8. Implementing these Bank SoPs will help TWD firms to develop and execute the TWD option in post-resolution restructuring.

#### Restructuring planning

3.3 When assessing a TWD firm's preparation for resolution, including the ability to execute the TWD option in post-resolution restructuring, PRA supervisors will take into account how a TWD firm has implemented the Bank's restructuring planning SoP, including input from the Bank as resolution authority.

3.4 The Bank's restructuring planning SoP sets out that TWD firms should be able to restructure their business to address the causes of failure, and return to a viable business model that is sustainable in the long term, once stabilised following entry into resolution. The PRA will seek assurance that TWD firms have understood the potential impacts of fully winding-down their trading activities.

3.5 PRA supervisors will take account of whether TWD firms that are a UK subsidiary of a third-country group are able to restructure their business to ensure consistency with the orderly restructuring of the group of the TWD firm's ultimate parent.<sup>15</sup> PRA supervisors will take account of whether these TWD firms are able to contribute relevant planning to support the delivery of a credible group restructuring plan or revised BRP, in line with the requirements and expectations applicable in their home jurisdiction, and deliver restructuring planning at the level of the TWD firm itself as needed to support the decisions and actions the Bank may need to take as host resolution authority, in the context of a TWD.<sup>16</sup>

#### Valuations in resolution

3.6 When assessing a TWD firm's ability to prepare for resolution, including the ability to leverage valuations capabilities in the context of the execution of a TWD option, PRA supervisors will take into account how a TWD firm has implemented the Bank's Valuation capabilities to support resolvability (ViR) SoP, including input from the Bank as resolution authority.

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<sup>13</sup> PRA Fundamental Rules, available at: [Fundamental Rules - Prudential Regulation Authority](#).

<sup>14</sup> The PRA does not supervise against the Bank's resolution policies, as operational independence is required under Section 30C of the Bank of England Act 1998.

<sup>15</sup> Paragraph 3.2, The Bank of England's Statement of Policy on Restructuring Planning, available at: [Updates to the Bank of England's approach to assessing resolvability](#).

<sup>16</sup> Paragraph 3.3, The Bank of England's Statement of Policy on Restructuring Planning.

3.7 TWD firms' valuation capabilities, including those developed in accordance with the Bank's ViR SoP, play a crucial role in the development of the TWD option. The PRA's expectations on TWD firms' refresh capabilities, set out in SSXX/22, are aligned with, and are incremental to, the Bank's objectives and principles, as set out in its ViR SoP. For example, the principles that firms should hold all relevant data and information that would reasonably be considered necessary to enable timely and robust resolution valuations; that firms should have forecasting capabilities (such as models, tools, and processes) available in business-as-usual to produce updated forecasts of their financial statements and key regulatory metrics on a timely basis; and that forecasting capabilities should also support the development of the firm's restructuring plan, are set out in the Bank's ViR SoP.<sup>17</sup> PRA supervisors will take account of whether TWD firms have built upon their capabilities developed to meet the Bank's ViR SoP in meeting the expectations set out in SSXX/22, if appropriate.

3.8 PRA supervisors will take account of whether TWD firms that are UK subsidiaries of a third-country group have capabilities to support group-wide valuations led by the home resolution authority of the relevant resolution entity in order to estimate the extent of losses and recapitalisation required. This is consistent with SSXX/22, which additionally sets out that if a TWD firm's group does not have sufficient capabilities to meet the PRA's expectations, the PRA expects the TWD firm to develop capabilities of their own.

### **Funding in resolution**

3.9 When assessing a TWD firm's ability to prepare for resolution, including the ability to leverage funding in resolution capabilities in the context of the execution of a TWD option, PRA supervisors will take into account how a TWD firm has implemented the Bank's funding in resolution SoP, including input from the Bank as resolution authority.

3.10 PRA supervisors will take account of whether TWD firms have the ability to estimate, anticipate and monitor their potential liquidity resources and needs, and mobilise liquidity resources, in the approach to and throughout resolution, and execution of the TWD option in post-resolution restructuring.

3.11 In particular, PRA supervisors will take account of whether TWD firms are able to refresh the relevant liquidity analysis as necessary, at the level of material entities, and deliver this information on a T+1 basis, or more rapidly if both necessary and appropriate. PRA supervisors will also take account of whether TWD firms can estimate their liquidity needs in resolution based on their current balance sheet, and based on future estimated balance sheets. TWD firms' projections of liquidity needs can reflect the different circumstances that TWD firms might face in resolution and the different ways counterparties to the TWD firm might behave in these circumstances.<sup>18</sup>

### **Continuity of access to FMIs**

3.12 When assessing a TWD firm's ability to prepare for resolution, including the ability to ensure continuity of access to FMIs in the context of the execution of the TWD option, PRA supervisors will take into account how a TWD firm has implemented the Bank's continuity of access to FMIs SoP, including input from the Bank as resolution authority.

3.13 TWD firms typically have highly interconnected risk management and operations, and manage access to FMIs on a global basis. In the context of a TWD, operational dependencies may be created, for example, through the use of global operating models to provide operational support, including access to FMIs. Financial dependencies may be created through the use of certain booking practices

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<sup>17</sup> Paragraph 4.12, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>18</sup> Paragraph 4.9, The Bank of England's Statement of Policy on Funding in Resolution.

used to allow TWD firms to transact with clients and manage risk on a global basis. Local legal and regulatory requirements, as well as capital and risk management considerations, have driven cross-border and intra-group booking practices for TWD firms, in particular for derivatives.<sup>19</sup> These dependencies create barriers to TWD firms' ability to reliably carry out the TWD option in a firm-specific and/or market-wide stress.

3.14 The continuity of access to clearing, payment, settlement, custody and other services provided by FMIs to a TWD firm in resolution is likely to be important for the execution of the TWD option. Continuity of access to these services will facilitate the implementation of actions, arrangements and measures of a TWD firm's BRP, including the exit of existing positions and the payment and settlement of any new trades (eg for hedging purposes).

3.15 In particular, PRA supervisors will take account of whether TWD firms are able to assess the anticipated extended collateral or liquidity requirements that providers of critical FMI services may place on them and how they would expect to meet those requirements,<sup>20</sup> given the importance of these FMI services to TWD firms' ability to execute the TWD option.

### **Management, governance and communication**

3.16 When assessing a TWD firm's ability to prepare for resolution, including the capability to coordinate and communicate effectively in the context of the development and execution of the TWD option, PRA supervisors will take into account how a TWD firm has implemented Bank's MGC SoP, including input from the Bank as resolution authority.

3.17 This is likely to involve a TWD firm ensuring its key job roles are suitably staffed and incentivised, that its governance arrangements provide effective oversight and timely decision-making, and that it delivers timely and effective communication to staff, the PRA and the Bank, and other external stakeholders.

3.18 The capabilities TWD firms develop in order to implement the Bank's MGC SoP are likely to be important for helping TWD firms to develop and execute the TWD option. In order to prepare for resolution, it will be important that TWD firms have implemented the Bank's MGC SoP, as circumstances are likely to be highly uncertain and changeable in the run up to the execution of the TWD option, heightening the need for clear decision-making at the right levels.

3.19 In particular, PRA supervisors will take account of whether TWD firms are able to ensure that effective decision-making and oversight arrangements will be in place in resolution, considering the need to ensure rapid decision-making in the context of uncertainty, and to account for changes to a TWD firm's governance that may be introduced in resolution. In addition, PRA supervisors will take account of whether TWD firms are able to amend the objectives governing their decision-making at short notice upon entry into resolution in a way that facilitates the alignment of TWD firms' objectives and key decision-making processes with the practical aims of the resolution and any subsequent restructuring.<sup>21</sup>

### **Operational continuity in resolution**

3.20 OCIR policy aims to ensure that firms' operational structure facilitates effective planning for, and taking action during, recovery, resolution and related restructuring.

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<sup>19</sup> Financial Stability Board Discussion Paper on Solvent Wind-Down, available at: [Solvent Wind-down of Derivatives and Trading Portfolios: Discussion Paper for Public Consultation](#).

<sup>20</sup> Paragraph 4.11, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>21</sup> Paragraph 4.14, The Bank of England's Statement of Policy on Management, Governance and Communication.

3.21 In order for the TWD option to be executable, TWD firms will need to have adequate operational continuity processes in place, including arrangements in place to retain operational staff and trading capabilities, arrangements to support continuity of critical services, and arrangements to support continued access to FMIs.

3.22 The implementation of the actions, arrangements and measures (for example, the closure of certain trading desks over a specified time period) that make up the TWD firm's TWD option are crucial for TWD firms' ability to execute the TWD option. Similarly, the retention of operational staff and trading capabilities is likely to be key to the execution of the TWD option. In particular, certain trading staff will be necessary to facilitate the unwinding of positions.

3.23 In particular, PRA supervisors will seek assurance that a TWD firm is able to demonstrate how access to operational assets supporting TWD-related critical services will be maintained at the point of stress, resolution, or related restructuring of the TWD firm, another group entity, or the critical service provider itself, and how a TWD firm's operational arrangements support the execution of the TWD option within a reasonable time.<sup>22</sup>

### **References to areas of PRA and Bank policy relevant to TWD firms preparing for resolution**

3.24 The PRA will assess whether TWD firms have prepared for resolution with reference to the relevant rules and expectations that make up the PRA's policy framework, and by taking account of the Bank's SoPs.

3.25 References that the PRA considers to be particularly relevant have been set out in Appendix 2.

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<sup>22</sup> Paragraphs 3.3 and 10.1, SS4/21.

## 4 Governance and assurance

### PRA policies relevant to TWD firms having governance and assurance processes

#### Governance

4.1 SS28/15 'Strengthening individual accountability in banking'<sup>23</sup> and the SM&CR promote the safety and soundness of firms by strengthening the link between seniority and accountability. This is likely to be particularly important in the context of the development and execution of the TWD option, given the size and complexity of TWD firms' trading activities, and the potential risks stemming from the disorderly wind-down of those activities. In particular, the Prescribed Responsibility (PR) for 'developing and maintaining the firm's recovery plan and resolution pack'<sup>24</sup> includes responsibility for TWD firms' TWD recovery option, and the development of TWD firms' TWD capabilities.

#### Assurance

4.2 When assessing TWD firms' assurance processes, including for the TWD option, PRA supervisors will consider whether TWD firms have met the expectations set out in SS9/17 and SSXX/22. With reference to recovery planning, this includes, for example, the use of scenario testing and fire drills, as well as the assurance provided via non-mandatory templates, to ensure that TWD firms have a recovery plan, recovery options, and TWD capabilities that are likely to be effective in a real-life firm-specific and/or market-wide stress.

4.3 Recovery planning policy addresses the risk that the management of firms concentrate disproportionately on growth opportunities at the expense of managing downside risk. It advances the PRA's general objective to promote the safety and soundness of the firms it regulates. PRA supervisors are interested in firms' assurance processes for recovery planning in particular, as a way for firms to demonstrate that they are focussing enough on managing downside risk in the context of a wind-down of their trading activities.

#### Assurance for UK subsidiaries of third-country groups

4.4 In keeping with the broader approach to supervision of UK subsidiaries of third-country groups, the PRA does not, as a matter of course, undertake independent assurance of the wind-down capabilities of the group, but may rely on the home authority for assurance that the group has capabilities to deliver equivalent outcomes to the PRA's expectations.

4.5 As with other recovery options, the PRA supervises on the basis of the TWD option being consistent with other work done by the group. For example, assurance of UK subsidiary recovery plans will provide a lens at the level of the UK subsidiary. However, as set out in SSXX/22, if a TWD firm's group does not have sufficient capabilities to support the subsidiary in meeting the expectations set out in SSXX/22, the PRA expects the TWD firm to develop local capabilities of their own. The PRA will seek assurance that TWD firms have developed local capabilities of their own in these circumstances.

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<sup>23</sup> June 2021: [Strengthening individual accountability in banking](#).

<sup>24</sup> Rule 4.1(10) in the Allocation of Responsibilities Part of the Rulebook, and SS28/15.

## **References to areas of PRA policy relevant to TWD firms having governance and assurance processes**

4.6 The PRA will assess whether TWD firms have appropriate governance and assurance processes with reference to the relevant rules and expectations that make up the PRA's policy framework.

4.7 References that the PRA considers to be particularly relevant have been set out in Appendix 3.

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## Appendices

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- 1** References to the PRA policy framework relevant to TWD firms having a credible recovery plan in the context of the TWD option

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  - 2** References to the Bank and PRA's policy frameworks relevant to TWD firms preparing for resolution in the context of the TWD option

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  - 3** References to the PRA's policy framework relevant to TWD firms' governance and assurance processes

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## 1 References to the PRA policy framework relevant to TWD firms having a credible recovery plan in the context of the TWD option

1.1 In this appendix, the PRA has compiled some of the key sections from the PRA Rulebook and supervisory statements that the PRA considers are particularly relevant for TWD firms' understanding of how these rules and expectations work alongside SSXX/22. This appendix is not exhaustive, and is designed to help TWD firms identify the key areas of the PRA's policy framework in the context of SSXX/22.

1.2 The PRA makes a judgement on whether TWD firms are meeting TWD expectations while assessing the adequacy of the elements and considerations TWD firms have in place to meet recovery planning policy, liquidity and funding risk policy, and subsidiary and branch supervision policy.

### Recovery planning policy

1.3 When the PRA supervises against its rules and expectations in recovery planning policy in the context of TWD firms being able to develop and execute the TWD option in recovery the PRA makes a judgement on, in particular, if TWD firms:

- have a TWD recovery option that is reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system;<sup>25</sup>
- have set out actions, arrangements and measures as part of the TWD option that would allow the TWD firm to reduce risk and leverage, and restructure its trading activities;<sup>26</sup>
- engage in scenario testing, using at least four scenarios of severe macroeconomic and financial stress to test their recovery plans and recovery options, with at least one of these scenarios used to develop and test the TWD option in the way set out in SSXX/22;<sup>27</sup>
- engage in fire drills in order to test the effectiveness of the recovery plan in a 'live' situation, at least once every three years;<sup>28</sup>
- can perform analysis in order to formulate recovery options and calculate recovery capacity, with the depth of analyses being proportionate to the size/complexity of the TWD firm;<sup>29</sup>
  - TWD firms' TWD capabilities will help TWD firms to perform this analysis; under the TWD SS TWD firms should have TWD capabilities in line with the size and complexity of their trading activities. This approach is in line with the Bank's Restructuring Planning SoP.
- have structured their recovery plans so that they are readily usable by both boards and the specific business areas of TWD firms that would need to use them. This could include a playbook enabling the TWD recovery option to be quickly implemented in a stress, with

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<sup>25</sup> Rule 2.11 in the Recovery Plans Part of the PRA Rulebook.

<sup>26</sup> Rule 2.10 in the Recovery Plans Part of the PRA Rulebook. See also paragraphs 2.53-2.60 and 2.76-2.78, SS9/17. See also Article 9 2016/1075 Commission Delegated Regulation on Recovery and Resolution Planning as it forms part of UK law.

<sup>27</sup> Paragraphs 2.53-2.60, SS9/17.

<sup>28</sup> Paragraphs 2.72, SS9/17.

<sup>29</sup> Paragraphs 2.39(ii), SS9/17.

information on governance including arrangements for implementing the recovery plan and taking key decisions;<sup>30</sup>

- have an effective indicator framework to maximise the chance that TWD firms can implement the TWD option in recovery;<sup>31</sup> and
- have considered the impact of executing the TWD option in recovery or subsequent post-resolution restructuring. For example, TWD firms considering how executing the TWD option in recovery would impact the existing barriers to resolution, the viability of the business model, the ability to provide or support critical functions (CFs) and the potential implications on post-resolution restructuring.<sup>32</sup>
  - As set out in SS9/17, work done by firms on recovery and post-resolution restructuring should be consistent and viewed as complementary. This includes the interactions between recovery and post-resolution restructuring planning. For example, actions taken primarily for post-resolution restructuring planning may also facilitate recovery planning.<sup>33</sup>

### Liquidity and funding risk

1.4 When the PRA supervises against its rules and expectations in liquidity and funding risk policy in the context of TWD firms being able to carry out the TWD option in recovery the PRA makes a judgement on, in particular, if TWD firms:

- have ready access to their holdings of high quality liquid assets (HQLAs) and can ensure that there are no legal or operational restrictions to monetising HQLAs at any time during the 30 calendar day stress period;<sup>34</sup>
- have ensured that they maintain a 'prudent funding profile'.<sup>35</sup> A firm's funding profile is prudent if it demonstrates sufficient access to an appropriate diversity of funding sources which are highly likely to continue to be sufficient and available at a reasonable cost in a variety of normal and stressed market conditions;<sup>36</sup>
- have identified, measured and monitored liquidity and funding risks across different time horizons and stress scenarios, consistent with the risk appetite established by the TWD firm's management body. A firm must carry out an ILAAP in accordance with the ILAA rules, and the ILAAP should be proportionate to the nature, scale and complexity of the firm's activities as set out in Chapter 13 of the ILAA rules;<sup>37</sup>
- have set a risk appetite and framework which will govern the management and monitoring of their liquid asset portfolio. This includes having appropriate internal limits and controls to ensure that the ability to monetise HQLAs in stress is not limited in any way;<sup>38</sup>

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<sup>30</sup> Paragraph 2.77, SS9/17.

<sup>31</sup> Paragraph 2.45, SS9/17.

<sup>32</sup> Paragraph 2.22, SS9/17.

<sup>33</sup> Paragraph 2.23, SS9/17.

<sup>34</sup> Paragraph 2.29, SS24/15.

<sup>35</sup> Rule 2.2(1)(b) in the Internal Liquidity Adequacy Assessment (ILAA) Part of the PRA Rulebook and paragraph 2.17A, SS24/15, July 2021: [SS24/15 - The PRA's approach to supervising liquidity and funding risks](#).

<sup>36</sup> Paragraph 2.17A, SS24/15.

<sup>37</sup> Paragraph 2.1, SS24/15.

<sup>38</sup> Paragraph 2.25, SS24/15.

- have considered the circumstances in which they would need to access central bank facilities and tested the operational aspects of their recovery plan, and in particular the TWD option, for accessing central banks facilities;<sup>39</sup>
- have undertaken an analysis of eligible assets and the drawing capacity against these, and ensured that an appropriate amount of assets are pre-positioned to facilitate the execution of the TWD option;<sup>40</sup> and
- have had due regard to their own business model when determining the appropriate level of diversification in their HQLA buffer. In particular, the PRA will assess whether a TWD firm has considered the risk that a particular asset holding becomes illiquid just when the TWD firm itself needs to draw down its buffer, for example, because both the TWD firm and the asset are exposed to a common risk factor. The PRA will also assess whether a TWD firm's choice of assets is appropriate given its ability to manage properly the risk in those assets, and to access the relevant repo or sale market.<sup>41</sup>

### Recovery planning for UK subsidiaries, and supervision of booking arrangements

1.5 When the PRA supervises against its rules and expectations in recovery planning policy in the context of UK subsidiaries being able to develop and execute the TWD option in recovery the PRA makes a judgement on, in particular, if TWD firms that are UK subsidiaries:

- have an approach that is consistent with the principle that a co-ordinated approach to recovery planning within a banking group is essential for the stabilisation of the group as a whole;<sup>42</sup>
- have a recovery plan that is consistent with the group recovery plan, while also assessing whether the subsidiary's plan includes UK specific scenarios and UK specific recovery options, including the TWD option, and whether these options are consistent with what is proposed in the group plan.<sup>43</sup> The PRA places high importance on having sight of the UK subsidiary's group/parent's recovery plan. The PRA also places high importance on subsidiary recovery plans including UK specific scenarios, and UK specific recovery options;<sup>44</sup> and
- have leveraged their group capabilities where possible, and developed local TWD capabilities where necessary.<sup>45</sup>

1.6 When the PRA supervises against its rules and expectations in recovery planning policy in the context of the supervision of UK subsidiaries' and branches' booking arrangements, and how this impacts the PRA's ability to assess these TWD firms being able to carry out the TWD option in recovery, the PRA makes a judgement on, in particular, if these TWD firms:

- have set out a clear rationale for their booking arrangements, documenting the booking arrangements and have them approved by the appropriate governance body;<sup>46</sup>
- have an appropriate local risk management capability;

<sup>39</sup> Paragraph 5.2B, SS24/15.

<sup>40</sup> Paragraph 5.2B, SS24/15.

<sup>41</sup> Paragraph 2.31, SS24/15.

<sup>42</sup> Paragraph 3.2, SS9/17.

<sup>43</sup> Paragraph 3.3, SS9/17.

<sup>44</sup> Paragraph 3.3(ii) and (iii), SS9/17.

<sup>45</sup> Paragraph 6.7, SXXX/22.

<sup>46</sup> Box 2, SS5/21.

- For example, where there is risk transfer onto the TWD firm's balance sheet, through remote or back-to-back booking from an affiliate, there should be appropriate controls around that process. If those risks are analogous to risks arising from dealings with external third parties, then they should be subject to commensurate controls, as would be appropriate for direct dealings with external third parties. Staff in the UK entity should have accountability for managing such risks. Having a portion of group risk managed in the UK is likely to facilitate an orderly group and local resolution. The more important the international bank is to the wider group, the more likely it is that its survival is essential to the group's resolution.<sup>47</sup>
- can demonstrate broad alignment of risk and returns at the entity level;<sup>48</sup>
- have adequate systems and controls in place to ensure that intended booking arrangements are followed. For example, a subsidiary with a material trading business should have a mix of detective and preventative trading controls — ie pre-trade (soft and hard block) checks and post-trade checks;<sup>49</sup>
- have ensured that responsibility for ensuring that there are appropriate controls in place to manage its booking arrangements, including remote booking, is allocated to a senior management function;<sup>50</sup> and
- have ensured their booking arrangements are not an impediment to their recovery and resolution. Where plans to be able to wind-down trading activities in an orderly fashion are important to any orderly exit, recovery, or resolution strategy, the PRA expects that the particular booking model adopted by a TWD firm will have been fully taken into account in those plans.<sup>51</sup>

## Branch supervision

1.7 When the PRA supervises against its expectations in branch supervision policy, and how this impacts the PRA's ability to assess the group's ability to develop and execute the TWD option in recovery, the PRA makes a judgement on, in particular, if:

- the PRA can place appropriate reliance on the prudential supervision of the overseas firm by the home state supervisor, subject to appropriate safeguards. The PRA would not expect or request assurance of branch-only options or capabilities;<sup>52</sup>
- there is regular structured engagement with the home state supervisor, either through a college or bilateral meetings or both, which should facilitate a technical discussion of the material risks and risk management practices at the firm;<sup>53</sup>
- the PRA can gain assurance that the home resolution authority's resolution regime will deliver the appropriate outcomes for the PRA's and Bank's objectives as the UK resolution authority;<sup>54</sup>
- the PRA can understand the portion of global risk that is managed in the UK, what UK risk is managed elsewhere, and how the UK business performance sits within the overall performance

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<sup>47</sup> Box 2, SS5/21.

<sup>48</sup> Box 2, SS5/21.

<sup>49</sup> Box 2, SS5/21.

<sup>50</sup> Box 2, SS5/21.

<sup>51</sup> Box 2, SS5/21.

of the firm and group. For trading activities, timely information on business line performance is a critical indicator of emerging market and firm-specific risks;<sup>55</sup>

- the PRA has agreed arrangements for the sharing of information with the key home state supervisors, and with the individual banks, on group performance and risks, including the group's plans and capability to wind down trading activities in an orderly and solvent fashion insofar as these affect UK operations;<sup>56</sup> and
- the PRA is in a position to focus its assessment on whether the home regulatory framework would deliver broadly equivalent outcomes that would be delivered by PRA policy, with that assessment being commensurate with the scale, complexity and interconnectedness of the activities of the UK branch and their potential impact on UK and global financial stability.<sup>57</sup>

1.8 In cases where there is an overall commitment to Financial Stability Board (FSB) principles and home-led globally co-ordinated resolution, but the specific policy framework for TWD is not fully developed, the PRA's assessment would likely take account of the home authority's commitment to develop the relevant policies and the planned time-frame for implementation. The PRA is unlikely to assess branch-only options or capabilities as part of assurance of a branch's ability to meet PRA-designated expectations.

1.9 As with the supervision of UK subsidiaries, the PRA can employ a range of tools, including in severe cases Section 55M powers, should it encounter severe and persistent concerns regarding the equivalence of PRA policy, and a lack of commitment to working towards addressing these or an absence of sufficient supervisory co-operation. The PRA may also require the subsidiarisation of the branch in such circumstances.

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<sup>52</sup> Paragraph 6.1, SS5/21.

<sup>53</sup> Paragraph 3.11, SS5/21.

<sup>54</sup> Paragraph 6.13, SS5/21.

<sup>55</sup> Box 1, SS5/21.

<sup>56</sup> Box 1, SS5/21.

<sup>57</sup> Box 3, SS5/21.

## 2 References to the Bank and PRA's policy frameworks relevant to TWD firms preparing for resolution in the context of the TWD option

2.1 In this appendix, the PRA has compiled some of the key sections from the Bank's SoPs and the PRA's Rulebook and supervisory statements that it considers are particularly relevant for TWD firms' understanding of how these policies work alongside SSXX/22. This appendix is not exhaustive, and is designed to help TWD firms identify the key areas of the Bank and PRA's policy framework in the context of SSXX/22.

### Restructuring planning

2.2 The following aspects of the Bank's RP SoP are likely to be particularly important for the execution of the TWD option in post-resolution restructuring:

- Firms should be able to identify restructuring options during resolution and the pre-resolution contingency planning period. TWD firms should also consider whether their recovery options would represent restructuring options, and whether the wind-down of their trading activities represents a restructuring option.<sup>58</sup> For TWD firms, it is highly likely that the TWD option will be applicable both in recovery and post-resolution restructuring.
- Firms should be able to provide information to support the evaluation of their identified restructuring options during resolution and pre-resolution contingency planning. As a starting point, firms should consider the information that must be provided to support the viability and credibility of recovery options, and firms should be able to provide further information and analysis on the viability and credibility of restructuring options as needed.<sup>59</sup> This should include at least the following:
  - information on the financial and regulatory capital impacts of restructuring options (and sensitivity analysis around these), as set out in the ViR SoP;
  - information on the liquidity needs and sources of the firm reflecting proposed restructuring options (and sensitivity analysis around these), as set out in the FiR SoP;
  - information on the operational arrangements that would support or be impacted by restructuring options, as set out in the PRA's rules and expectations on operational continuity in resolution; and
  - information on trading activity wind-down, in line with SSXX/22.<sup>60</sup>
- Firms should be able to determine and describe how they would execute their identified restructuring options. This should inform, and be informed by, the evaluation of restructuring options. Firms should be able to describe their options in sufficient detail for the options to be actionable by the firm and to be deemed credible by the Bank.<sup>61</sup>
- Firms should consider the extent to which the description of recovery options in their recovery plans could be relied on for this purpose. Firms should also consider what detail may be needed beyond what is provided in their recovery plans in order to meet the objectives of the Bank's RP

<sup>58</sup> Paragraphs 4.2-4.4, The Bank of England's Statement of Policy on Restructuring Planning.

<sup>59</sup> Paragraph 4.7, The Bank of England's Statement of Policy on Restructuring Planning.

<sup>60</sup> Paragraphs 4.6-4.7, The Bank of England's Statement of Policy on Restructuring Planning.

SoP. Firms should also assess the effectiveness of their restructuring planning capabilities with regard to the principles set out in the Bank's SP SoP.<sup>62</sup>

## Valuations in resolution

2.3 The following aspects of the Bank's ViR SoP are likely to be particularly important for the refresh of the TWD option:

- The independent valuer should be able to carry out the necessary resolution valuations on a sufficiently timely and robust basis not to impede the effectiveness of resolution, meaning that firms' valuation capabilities should:
  - inform the Bank's decisions around whether the statutory conditions for using stabilisation powers or mandatory reduction powers in the UK have been met, which stabilisation powers should be used, the extent of application of stabilisation powers, and the write-down or conversion of internal MREL held by material subsidiaries and the adequacy of the resulting recapitalisation;<sup>63</sup> and
  - inform and describe the firm's restructuring plan.<sup>64</sup>
- Importantly for TWD firms' ability to refresh and carry out the TWD option, where the nature of a firm's business is such that the firm was particularly exposed to rapid changes to solvency or liquidity (including where a firm is primarily engaged in trading activities), valuations should be possible in quicker timeframes than within two months, to the extent the Bank considered this necessary and proportionate.<sup>65</sup>
- Firms' valuations should support decisions by the Bank that achieve the Bank's resolution objectives in the given circumstances. This includes ensuring that the decisions taken would not have been meaningfully different<sup>66</sup> had more time been available to carry out the necessary resolution valuations.<sup>67</sup>
- Firms should hold all relevant data and information that would reasonably be considered necessary to enable timely and robust resolution valuations. This could include the data and information needed to produce robust valuations of a firm's trading positions, including those in place for hedging and liquidity management. This includes information on investment securities, repo transactions, and derivatives, as well as the collateral, netting, and set-off arrangements applicable to these exposures.<sup>68</sup>
  - Firms' data and information should be sufficiently up to date, taking into account the speed at which underlying positions could change in the lead up to resolution.<sup>69</sup>
  - Valuation models should be available in business-as-usual for all material classes of assets and liabilities where it is not reasonable to expect that a suitably robust valuation

<sup>61</sup> Paragraphs 4.9-4.10, The Bank of England's Statement of Policy on Restructuring Planning.

<sup>62</sup> Paragraphs 4.9-4.11, and 4.13, The Bank of England's Statement of Policy on Restructuring Planning.

<sup>63</sup> Paragraph 3.2(a)(iv), The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>64</sup> Paragraph 3.2(b), The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>65</sup> Paragraph 3.2(c), The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>66</sup> In this context, the meaningfulness of a difference in decision relates to whether or not it impacts the achievement of one or more of the Bank's statutory resolution objectives.

<sup>67</sup> Paragraph 3.3, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>68</sup> Paragraph 4.2(b), The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>69</sup> Paragraph 4.4, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

model could be developed and deployed on a timely basis in the lead up to resolution, taking into account the overall complexity of the valuation task.<sup>70</sup>

- Firms should also have forecasting capabilities (such as models, tools, and processes) available in business-as-usual to produce updated forecasts of their financial statements and key regulatory metrics on a timely basis. Importantly for the TWD option, forecasting capabilities should also support the development of the firm's restructuring plan. In general, a firm's forecasting capabilities should enable forecasts to take into account potential resolution and restructuring actions and the opinions of a valuer on a timely basis.<sup>71</sup>
- Firms should have processes in place for ensuring that the assumptions used in valuation models are realistic and up-to-date. Firms should ensure that it would be possible to rapidly update and revise the key input assumptions of their valuation models.<sup>72</sup>
- In line with the PRA's expectations set out in SSXX/22, firms should ensure that it would be possible to demonstrate, on a timely basis, the sensitivity of valuation outcomes to alternative assumptions in order to evaluate the extent of valuation uncertainty.<sup>73</sup>

## Funding in resolution

2.4 TWD firms' capabilities developed to implement the Bank's FiR SoP are likely to be important for the execution of the TWD option. The following aspects of the Bank's FiR SoP are likely to be particularly important:

- Firms should be able to perform liquidity analysis on a timely basis at the level of material entities, and identify the potential locations of liquidity risk within these;<sup>74</sup>
  - Firms should be able to refresh the relevant liquidity analysis as necessary, at the level of material entities, and deliver this information in a timely manner. Firms should be able to make the liquidity analysis available on a T+1 basis, or more rapidly if both necessary and appropriate. The mechanism for collecting and compiling information should be robust and compliant with the relevant data quality processes within the firm. The liquidity analysis should be sufficiently adaptable that it can be readily adjusted to reflect the circumstances of a stress.<sup>75</sup>
- Firms should be able to develop estimates of, and assess, liquidity needs in resolution;
  - Firms should have the capability to estimate their liquidity needs in resolution based on their current balance sheet, and based on future estimated balance sheets. As such, firms should be able to estimate their liquidity needs in resolution for at least 90 days from the point of entry, both if they were to enter resolution either immediately or following a period of prolonged stress.<sup>76</sup>
  - These capabilities should be sufficiently flexible that firms' projections of liquidity needs can reflect the different circumstances that firms might face in resolution and the different ways counterparties to the firm might behave in these circumstances. Firms

<sup>70</sup> Paragraph 4.9, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>71</sup> Paragraph 4.12, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>72</sup> Paragraph 4.21, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

<sup>73</sup> Paragraph 4.23, The Bank of England's Statement of Policy on valuation capabilities to support resolvability.

should be able to perform sensitivity analysis and identify the key drivers of liquidity needs at the level of material entities.<sup>77</sup>

- Firms should be able to monitor and mobilise liquidity sources in resolution;
  - Firms should have the ability to estimate the liquidity resources available to them in resolution, both if they were to enter resolution immediately, or at any point during a period of prolonged stress. When estimating the liquidity resources available to them, firms should take into account the impact of prevailing market conditions on the method and timing of asset monetisation.<sup>78</sup>
  - Firms should be able to identify unencumbered collateral on a spot basis and project collateral balances, including how they evolve in a stress. Firms should be able to identify important information relating to the availability of collateral, such as currency, asset class, eligibility for central bank facilities, and whether the collateral is pre-positioned or has become encumbered as a consequence of the stress.<sup>79</sup>
- Firms should be able to project their possible need to use third party facilities, including central banks;<sup>80</sup> and
- Firms should consider their need and ability to monetise a wide range of collateral with third parties, including any potential need or ability to request liquidity from central banks. This should include an assessment of the timing of, and collateral suitable for, borrowing and the availability of information a third party would require to risk manage their exposures.<sup>81</sup>

### Continuity of access to FMIs

2.5 TWD firms' capabilities developed to implement the Bank's CoA to FMIs SoP are likely to be important for the execution of the TWD option. The following capabilities are likely to be particularly important:

- firms being able to take all reasonable steps available to facilitate continued access to clearing, payment, settlement, and custody services in order to keep functioning in resolution, including the execution of the TWD post-resolution restructuring option (recognising that providers of these services may retain a degree of discretion over their ability to terminate a firm's membership);<sup>82</sup>
- firms identifying all of the relationships they have with FMIs, including those that are maintained via an intermediary;<sup>83</sup>
- firms knowing the membership requirements (including operational, financial and capital requirements) for all of the identified FMIs and FMI intermediaries (together 'FMI service

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<sup>74</sup> Paragraph 4.1, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>75</sup> Paragraph 4.6, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>76</sup> Paragraph 4.8, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>77</sup> Paragraph 4.9, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>78</sup> Paragraph 4.14, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>79</sup> Paragraph 4.15, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>80</sup> Paragraph 4.17, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>81</sup> Paragraph 4.18, The Bank of England's Statement of Policy on Funding in Resolution.

<sup>82</sup> Paragraph 3.1, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>83</sup> Paragraph 4.1, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

providers'), and how these may change when the firm comes under financial stress, and specifically if it were put into resolution;<sup>84</sup>

- firms knowing how to communicate with each FMI service provider at a time of financial stress before resolution and should ensure that they are able to provide any additional information that may be required by each FMI in order for access to be facilitated;<sup>85</sup>
- firms developing a methodology to determine which of the FMI service providers provide critical FMI services (as defined in the Bank's CoA to FMIs SoP);<sup>86</sup>
- firms considering putting in place arrangements with an alternative provider;<sup>87</sup>
  - in the event the firm has decided to put in place arrangements with an alternative FMI service provider, they should be able to provide an assessment of how credible the alternative arrangement is. Making arrangements with an alternative provider may not be viable, for example if there is no available provider of the same services as the FMI service provider in question or if there are legal, operational or financial barriers to the establishment and maintenance of a 'back up' arrangement.<sup>88</sup>
- firms being able to assess the anticipated extended collateral or liquidity requirements that providers of critical FMI services may place on them and how they would expect to meet those requirements, building on existing risk management systems.<sup>89</sup>

2.6 Under SS4/21 the PRA expects that, for those contracts that involve critical services provided by FMIs (whether these are accessed directly or indirectly) that are also in scope of the Bank's CoA to FMIs SoP, firms may be able to use their contingency planning under the Bank's Continuity of Access to FMIs Statement of Policy to meet the expectations that a firm is able to develop and implement transitional service arrangements in resolution and related post-resolution restructuring.<sup>90</sup>

### Management, governance and communication

2.7 TWD firms' capabilities developed to implement the Bank's MGC SoP are likely to be important for the development and execution of the TWD option. The following capabilities are likely to be particularly important:

- firms should be able to ensure that effective decision-making and oversight arrangements will be in place in resolution, considering the need to ensure rapid decision-making in the context of uncertainty, and to account for changes to the firm's governance that may be introduced in resolution;<sup>91</sup>
- firms whose preferred resolution strategy is Bank-led bail-in should consider how they would amend the objectives governing their decision-making at short notice upon entry into resolution. This should facilitate the alignment of the firm's objectives and key decision-making processes with the practical aims of the resolution and any subsequent restructuring;<sup>92</sup>

<sup>84</sup> Paragraph 4.2, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>85</sup> Paragraph 4.3, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>86</sup> Paragraph 4.4, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>87</sup> Paragraph 4.7, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>88</sup> Paragraph 4.7, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>89</sup> Paragraph 4.11, The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure.

<sup>90</sup> Paragraph 5.6, SS4/21.

<sup>91</sup> Paragraph 4.13, The Bank of England's Statement of Policy on Management, Governance and Communication.

<sup>92</sup> Paragraph 4.14, The Bank of England's Statement of Policy on Management, Governance and Communication.

- firms should be able to nominate one or more new or existing committees to co-ordinate and oversee the actions that the firm may need to take to support resolution and any associated restructuring. Firms should be able to do this at short notice during the pre-resolution contingency planning period;<sup>93</sup>
- firms should consider how they would ensure that decision-making is expedited in resolution where necessary depending on the urgency of the situation at hand;<sup>94</sup>
- relevant individuals, boards, committees and, as relevant, the Bank, other authorities and a bail-in administrator (or similar agent) will receive the information they need to effectively discharge their decision-making and oversight responsibilities in resolution;<sup>95</sup>
- firms should be able to plan and deliver effective communication in resolution, considering the extent and sensitivity of communication that will be required to provide confidence to both internal and external stakeholders;<sup>96</sup> and
- firms should ensure that resolution communication plans could be developed on a timely basis in the pre-resolution contingency planning period. Firms should also identify the level of communication that would likely be required and the key messages they would need to communicate to promote that group's confidence in the firm and its resolution.<sup>97</sup>

### Operational continuity in resolution

2.8 When the PRA supervises against its rules and expectations in the General Organisational Requirements Part, Operational Continuity Part and the Outsourcing Part of the PRA rulebook and SS4/21, in the context of TWD firms being able to develop and execute the TWD option, the PRA will assess:

- in the event TWD firms cannot demonstrate how their operational arrangements facilitate recovery and resolution, whether the TWD firm makes changes to achieve this outcome;<sup>98</sup>
  - for the TWD option, this may involve supporting the identification and retention of key operational staff and trading capabilities, including planning around which staff to retain and the financial implication of retention and severance payments and processes facilitating implementation of these arrangements.
- how access to operational assets supporting critical services will be maintained at the point of stress, resolution, or related restructuring of the TWD firm, another group entity, or the service provider itself;<sup>99</sup>
- whether a TWD firm is able to describe what would happen to critical services if recovery options (including the TWD option) were executed or if the Bank were to apply one of its stabilisation powers, including:

<sup>93</sup> Paragraph 4.15, The Bank of England's Statement of Policy on Management, Governance and Communication.

<sup>94</sup> Expedited processes should appropriately balance the need for rapid decision making with the need for relevant challenge and oversight. Decisions should be appropriately recorded, even when made on an expedited basis.

<sup>95</sup> Paragraph 4.18(d), The Bank of England's Statement of Policy on Management, Governance and Communication.

<sup>96</sup> Paragraph 4.25, The Bank of England's Statement of Policy on Management, Governance and Communication.

<sup>97</sup> Paragraph 4.28(b), The Bank of England's Statement of Policy on Management, Governance and Communication.

<sup>98</sup> Paragraph 3.3, SS4/21.

<sup>99</sup> Paragraph 10.1, SS4/21.

- how its operational arrangements support the execution of the TWD option within a reasonable time;<sup>100</sup>
- how its operational arrangements support operational continuity during a resolution. If the Bank (as resolution authority) has set a preferred resolution strategy of bail-in, for example, operational arrangements should support operational continuity throughout resolution, including the development of the TWD option in post-resolution restructuring;<sup>101</sup> and
- how its operational arrangements facilitate related restructuring, within a reasonable time. For example, a TWD firm should be able to evidence how the operational arrangements facilitate separability and restructuring of group entities while ensuring continuity of critical services.<sup>102</sup>
- whether a TWD firm has processes in place to support the continuity of critical services<sup>103</sup> and whether they can support the continuity of the TWD firm's core business lines;<sup>104</sup> and
- whether a TWD firm can ensure its operational structure facilitates effective planning for, and taking action during, recovery, resolution and any related restructuring.<sup>105</sup> The PRA expects that firms should be able to demonstrate how their operational arrangements supporting critical services facilitate recovery and resolution.<sup>106</sup> This, as a matter of course, includes the TWD option for TWD firms.

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<sup>100</sup> Paragraph 3.3, SS4/21.

<sup>101</sup> Paragraph 3.3, SS4/21.

<sup>102</sup> Paragraph 3.3, SS4/21.

<sup>103</sup> See glossary part of the PRA Rulebook and Operational Continuity Rule 1.5.

<sup>104</sup> Paragraph 5.3, SS4/21.

<sup>105</sup> Rules 2.1, 2.2 and 2.3 in the Operational Continuity Part of the PRA Rulebook.

<sup>106</sup> Paragraph 3.1, SS4/21.

### 3 References to the PRA's policy framework relevant to TWD firms' governance and assurance processes

3.1 In this appendix, the PRA has compiled some of the key sections from the PRA Rulebook and supervisory statements that the PRA considers are particularly relevant for TWD firms' understanding of how these rules and expectations work alongside SSXX/22. This appendix is not exhaustive, and is designed to help TWD firms identify the key areas of the PRA's policy framework in the context of SSXX/22.

#### Governance

3.2 When the PRA supervises against its governance-related expectations in recovery planning policy in the context of TWD firms being able to develop and executed the TWD option in recovery the PRA makes a judgement on, in particular, if TWD firms:

- have governance arrangements in place which are clearly defined, and have effective processes to identify and report the risks affecting their ability to recover;<sup>107</sup>
- have taken account of the model risk management expectations set out in SS3/18 (model risk management principles for stress testing) with regards to models used to meet PRA expectations for TWD capabilities set out in the TWD SS;<sup>108</sup> and
- have measures in place to ensure TWD firms meet the relevant prescribed responsibility under the Senior Managers & Certifications Regime (see Allocation of Responsibilities 4.1(10)).<sup>109</sup>

3.3 The Prescribed Responsibility for 'developing and maintaining the firm's recovery plan and resolution pack'<sup>110</sup> includes responsibility for TWD firms' TWD option, and the development of firms' TWD capabilities. When supervising against the PRA's expectations of the relevant senior manager in the context of the TWD option the PRA will assess if the senior manager has presented the TWD firm's recovery plan, including the TWD option, to the management body for approval before submitting it to the PRA, and oversees the internal processes regarding its governance, and has ensured the report of the resolution assessment is presented to the management body for approval before submitting it to the PRA.<sup>111</sup>

3.4 For third-country branches, Branch Heads (SMF19) should have the highest degree of individual decision-making authority within the branch over activities and areas subject to UK regulation.<sup>112</sup> When supervising the PRA's expectations of Branch Heads the PRA would consider if the Branch Head can communicate the implications of their home firm's TWD option on the UK branch in recovery or resolution to the PRA.<sup>113</sup>

3.5 There is a set of PRA Prescribed Responsibilities for third-country branches set out in Allocation of Responsibilities 6.<sup>114</sup> When supervising the PRA's expectations of Prescribed Responsibilities for third-country branches in the context of the TWD option, the PRA would consider if the following

<sup>107</sup> Paragraph 1.6, SS9/17.

<sup>108</sup> Paragraph 4.63, SSXX/22.

<sup>109</sup> Rule 4.1(10) in the Allocation of Responsibilities Part of the Rulebook.

<sup>110</sup> Rule 4.1(10) in the Allocation of Responsibilities Part of the Rulebook, and paragraph 2.11H, SS28/15.

<sup>111</sup> Paragraphs 2.48B and 2.11H, SS28/15.

<sup>112</sup> Paragraph 2.17, SS28/15.

<sup>113</sup> Paragraphs 5.20-5.23, SS28/15.

<sup>114</sup> Paragraph 2.28, SS28/15.

Prescribed Responsibilities have been allocated to a Senior Management Function in the third-country branch:<sup>115</sup>

- responsibility for the firm's performance of its obligations under the senior management regime, including implementation and oversight;<sup>116</sup>
- responsibility for management of the firm's risk management processes in the UK;<sup>117</sup>
- responsibility for the firm's compliance with the UK regulatory system applicable to the firm;<sup>118</sup>
- responsibility for management of the firm's systems and controls in the UK;<sup>119</sup> and
- responsibility for management of the firm's liquidity or, where a liquidity waiver is in place, the submission of information to the PRA on the firm's liquidity position.<sup>120</sup>

### Assurance

3.6 When the PRA supervises against its expectations in recovery planning policy, and other relevant policies set out above, in the context of TWD firms being able to develop and execute the TWD option, the PRA makes a judgement on, in particular, if TWD firms can provide information to the PRA as needed, in order for the PRA to have assurance that TWD firms are meeting the rules and expectations set out in its policy framework.

3.7 Given the importance of the PRA having assurance of TWD firms' TWD capabilities, the PRA sets out non-mandatory templates in the TWD SS.

3.8 Appropriate completion of the templates set out in the TWD SS would be sufficient for a TWD firm to provide assurance to the PRA that it can provide data of an appropriate breadth and granularity to meet the expectations set out in the TWD SS, ie that TWD firms should have the methodology, models and frameworks needed to forecast the impact of the TWD option on the TWD firm's capital requirements, capital resources and liquidity throughout the wind-down.

3.9 As set out in the TWD SS, TWD firms may present the relevant data in a different form than has been set out in the templates, as the PRA considers that TWD firms have responsibility for how they meet the expectations set out in this SS for the methodology, models and frameworks needed to forecast the impact of the TWD option on TWD firms' capital requirements, capital resources and liquidity throughout the wind-down. TWD firms should increase or decrease the breadth and granularity of data set out in the templates as appropriate, given the size and complexity of their trading activities.

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<sup>115</sup> Paragraph 2.28, SS28/15.

<sup>116</sup> Rule 6.2(1) in the Allocation of Responsibilities Part of the Rulebook.

<sup>117</sup> Rule 6.2(4) in the Allocation of Responsibilities Part of the Rulebook.

<sup>118</sup> Rule 6.2(5) in the Allocation of Responsibilities Part of the Rulebook.

<sup>119</sup> Rule 6.2(7) in the Allocation of Responsibilities Part of the Rulebook.

<sup>120</sup> Rule 6.2(9) in the Allocation of Responsibilities Part of the Rulebook.