Bank of England

Melanie Beaman
Executive Director
Resolution Directorate

7 March 2023

Dear Chief Financial Officer,

I would like to thank you for your work to date to enhance your firm's resolvability including your ongoing work to address the findings from the Bank of England's (Bank) first assessment of the eight major UK firms' preparations for resolution under the Resolvability Assessment Framework (RAF), published on 10 June 2022.[1]

I am writing to you ahead of the second RAF assessment to provide information to support your firm's planning and your ongoing work to maintain and enhance your firm's resolvability. The Annexes to this letter contain:

- guidance to support firms' understanding of some aspects of the Bank's Statements of Policy (see Annex 1); and
- thematic and generic findings from our review of the implementation of the Prudential Regulation Authority's (PRA) revised Operational Continuity In Resolution (OCIR) policy (see Annex 2).[2]

Maintaining a credible and effective resolution regime

Resolvability continues to be a key priority for the Bank and PRA. No matter how much preparation is done, resolution is always likely to be complex to execute. Maintaining a credible and effective resolution regime that is fit and ready for use is a continuous

---

[1] **'Resolvability assessment of major UK banks: 2022'**, June 2022.

[2] PRA Supervisory Statement 4/21 – **'Ensuring operational continuity in resolution'**, May 2021.

process, with authorities and firms needing to keep their preparations live and tested so they are ready to respond if required.

The Bank is repeating its resolvability assessment of the major UK firms in 2023-24,[3] to assess the progress firms have made in addressing issues identified as part of the first assessment and to monitor progress in maintaining and enhancing their ability to achieve the three resolvability outcomes:

- having adequate financial resources in the context of resolution;
- being able to continue to do business through resolution and restructuring; and
- co-ordinating and communicating effectively internally and with the authorities and markets so that resolution and subsequent restructuring are orderly.

Firms' responsibility for their resolvability

Firms' Boards and senior management are responsible for ensuring they can achieve the three resolvability outcomes on an ongoing basis. As part of this, we expect firms to address previously identified issues, including shortcomings and areas for further enhancement, as a priority ahead of the second RAF assessment, and maintain, test, and improve capabilities so that they are fit and ready to use if required.

Although it is impossible to predict exactly how a live resolution will unfold, the Bank's aim is to ensure that firms have credible and well-tested capabilities in place, that keep pace with the evolution of their business, changes in market and economic conditions, and the regulatory landscape. In this context, we anticipate the second RAF assessment beginning in October 2023 will:

1. **Assess firms' overall ability to achieve the three resolvability outcomes**
   We expect firms to be able to demonstrate how they continue to achieve the three resolvability outcomes and how they have assured themselves that their resolvability capabilities are embedded and maintained so that they meet the resolvability outcomes on an ongoing basis and are 'execution ready'. This should be a key focus for firms' Boards as they prepare reports of their Resolution Assessments,[4] as noted in the examples of good practice the Bank shared with firms in August 2022. The Bank's assessment of firms' own assurance over their resolvability will build on the first assessment[5] and will help the Bank to assess whether firms have fully embedded resolvability into their internal assurance, testing and governance processes.

[3] PRA Rulebook – **'Resolution Assessment'**, rule 3.1.
[4] PRA Rulebook – **'Resolution Assessment'**, rule 2.
[5] **'Resolvability assessment of major UK banks: 2022'**, June 2022.

2. **Assess the progress that firms have made in addressing the issues identified in the first assessment**
   As a priority, we expect firms to remediate outstanding issues from the first assessment, in line with the remediation plans shared with the Bank, and to address any new issues identified since. We welcome the progress that firms have already made in remediating issues and we will continue to monitor firms' progress, which will be reflected in the Bank's public statement on the resolvability of the major UK firms in June 2024. We expect the outstanding issues will continue to be a significant focus for the Bank and PRA before and during the second assessment and we expect firms' Boards and senior management to continue to make these issues a significant priority also.

3. **Assess firms' preparations in more detail**
   As stated in the Bank's June 2022 public statement, future assessments are likely to include more detailed assessments by the Bank of firms' preparations for resolution. The more detailed assessments will be in addition to engagement with firms on their overall ability to achieve the three resolvability outcomes and assessment of progress to address previously identified issues. For the detailed assessments we expect:
   - the second assessment to include a more detailed assessment of firms' ability to achieve the Adequate Financial Resources outcome. Further detail on the nature of our assessment will be provided later in the year but include requests for data, documentation or live evidence or demonstrations consistent with the examples of the types of evidence the Bank may request from firms in the RAF SoP;
   - the third assessment (in 2025-26) to include a more detailed assessment of the Continuity and Restructuring outcome; and
   - the fourth assessment (in 2027-28) to include a more detailed assessment of the Coordination and Communications outcome.

Bank's public statement and firm disclosures

The Bank's June 2024 public statement will include an updated assessment of each firm's ability to achieve the three resolvability outcomes, highlighting progress that each firm has made in addressing the issues identified in the first assessment as well as newly identified issues from the second assessment. As with the first assessment, the Bank's public statement will be supplemented by private feedback to support firms' ongoing maintenance and enhancement of their resolvability preparations. We anticipate that firm-specific issues will be described in the Bank's public statement using the same terminology as for the first assessment.[6]

[6] **'Resolvability assessment of major UK banks: 2022'**, June 2022, Section 5, Table B.

The Bank expects firms to continue to take ownership over their resolvability disclosures. As such, the Bank anticipates that firms will want to review their approach to disclosures ahead of the publication of the second assessment to ensure that disclosures provide an appropriate summary of the firm's preparations for resolution, including identifying any enhancements that may be appropriate. As a reminder of the expectations for firms' public disclosures set out in the PRA's Supervisory Statement 4/19 'Resolution assessment and public disclosure by firms' (SS4/19),[7] firms should provide sufficient detail in their disclosures to allow readers to understand the capabilities, resources and arrangements that have been implemented to improve their resolvability.

Next steps

The Bank and the PRA will continue to engage with firms ahead of the start of the second assessment, including engagement on issues identified by the Bank as part of the first assessment and the Bank's Unencumbered Collateral pilot exercise.

I would like to thank you again for your ongoing engagement with the RAF. If you have any further questions regarding this letter, please get in touch with your usual Resolution Directorate contact.

Yours sincerely,

Melanie Beaman

Executive Director, Resolution Directorate

[7] PRA Supervisory Statement 4/19 – **'Resolution assessment and public disclosure by firms'**, May 2021.

Annex 1: Guidance on Bank's Statements of Policy

This guidance has been prepared by the Bank both to reflect the feedback received from firms during the first RAF assessment and to support firms' ongoing work to maintain and enhance their preparations for resolution and ability to achieve the three resolvability outcomes.

The purpose of this publication is to provide illustrative and non-binding guidance and is intended to further clarify how the Bank expects the principles of certain Statements of Policy (SoP) to be followed in practice. The guidance does not impose any additional requirements to those already set out in the published SoP and is not intended to be exhaustive or definitive. The Bank notes that firms will also need to consider how their specific structure and/or business model may prevent the resolvability outcomes from being achieved and apply this guidance in a manner appropriate to their complexity and size, consistent with the Bank's approach to assessing resolvability, as set out in the RAF SoP.[8]

Although this letter has been sent to the major UK firms, the Bank considers the information in this Annex may be relevant to all firms in scope of the RAF SoP.

1. Funding in Resolution (FiR)[9]

(i) Domestic Liquidity Sub-Groups (DoLSubs)[10]

Principle 1 of the FiR SoP states firms should develop capabilities to perform liquidity analysis at the level of material entities and to ensure that the Bank and the firm can monitor the liquidity and funding position of each material entity.

Where certain conditions are met on the availability, distribution, management, and monitoring of liquidity, the PRA may permit a firm to form a DoLSub for the liquidity management of its going concern business.[11] As part of the first RAF assessment, the Bank noted that generally firms designated one entity to be responsible for the production and reporting of FiR liquidity analysis for the relevant entities in the DoLSub. As the wording in the FiR SoP is currently not specific on this matter, the Bank wants to clarify that it considers it to be acceptable for material entities in a DoLSub to outsource the production and reporting of liquidity analysis to their parent or to one of the other

---

[8] Bank Statement of Policy – **'The Bank of England's Approach to Assessing Resolvability'**, May 2021.

[9] Bank Statement of Policy – **'The Bank of England's Statement of Policy on Funding in Resolution'**, July 2019, paragraph 4.2: 'the scope of firms' material entities should include those already defined as material for the purposes of internal MREL'.

[10] A DoLSub is a subset of entities within a banking group that is treated as a single entity for the purposes of meeting prudential liquidity requirements. DoLSub is one of the intragroup concessions within the CRR framework that allows the PRA to recognise certain benefits to the entity of belonging to a wider group. See PRA Statement of Policy – **'Liquidity and funding permissions'**, November 2021.

[11] See **'Liquidity and funding permissions'**; see also PRA Rulebook – **'Liquidity (CRR)'**, rules 2.2-2.3A.

entities in the DoLSub, provided that the firm can demonstrate that doing so does not prevent the firm from achieving the resolvability outcomes. For example, such outsourcing should not form a barrier to the timely restructuring of (part of) the firm. Where applicable, firms should set out as part of their Resolution Assessment reports on which basis they consider that these outsourcing arrangements allow the firm to achieve the FiR barrier objective, including the firm's assurance process around this.

(ii) Timeliness of liquidity reporting

Paragraph 4.6 of the FiR SoP states that firms should be able to make liquidity analysis available on a T+1 basis, or more rapidly if both necessary and appropriate. The Bank expects that liquidity analysis should be available to the firm's management in time to make key decisions, particularly in heightened contingency planning shortly prior to a potential entry into resolution, consistent with the Stylised Resolution Timeline (SRT).[12] The firm will likely be in a stressed situation where events may develop rapidly, including intra-day. The Bank expects that the level of accuracy of the liquidity analysis made available must be such that both the firm's management and a relevant third party funding provider, including the Bank, are able to rely on it to make informed decisions. The Bank expects firms to be able to demonstrate what they consider to be appropriate and/or proportionate in terms of the timeframe (as well as granularity) of the production of liquidity analysis. In doing so, firms should consider that immediate funding needs are more critical than funding needs in the distant future.

(iii) Liquidity reporting approach

Principle 2 of the FiR SoP states that 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.

The Bank expects that the assumptions around 'period of prolonged stress' should, unless a resolution event is expected to occur sooner, at a minimum be consistent with the SRT which is underpinned by the Bank's aim for pre-resolution contingency planning to be possible over the course of 'three months' or 90 days. Hence, as a baseline, a total of 180 days will be expected as a forecasting horizon for firms' estimation of their funding needs in resolution. Firms should also have the flexibility to adjust the timeframe expected for prior to entry into resolution, for example bringing the estimate of entry into resolution earlier into the stress. This should support firms in meeting their obligations as they fall due in the run-up and throughout resolution.

[12] Bank Statement of Policy – **'The Bank of England's Approach to Assessing Resolvability'**, May 2021, Annex 1.

(iv) <u>Granularity of forecast</u>

Principle 2 of the FiR SoP states that firms should be able to develop estimates of, and assess, liquidity needs in resolution. This is to support firms' meeting the FiR barrier objective of ensuring they continue to meet their obligations as they fall due. As part of this assessment, firms should consider the adequacy of the granularity of their liquidity forecasting. A granular view of funding needs in resolution is essential in determining the scale and timing of any liquidity support the Bank may provide in resolution (particularly in foreign currency). The first week(s) following a resolution weekend are particularly relevant to determine the timing and the scale of any lending required, both for the firm's internal decision-making as well as for decision makers at third parties funding providers, including the Bank.

In terms of reporting granularity, the Bank expects that firms will have the capability to provide:

- Daily granularity for the first 90 days; and
- Weekly granularity for the period 90 – 180 days (unless longer granularity can be justified).

The expectation regarding daily granularity for the first 90 days is consistent with the PRA 110 reporting requirements. For the period between 90 and 180 days, monthly (or longer) granularity of forecasting is unlikely to be sufficient to enable timely decision-making, particularly when this constitutes the period directly following the projected resolution event. However, where a firm has assured itself that a longer reporting time-bucket would be appropriate in the context of the firm's specific circumstances, then it should set out its reasoning to the Bank.

The above does not preclude firms from using monthly or longer granularities for the longer-term forecasting they may wish to conduct, ie beyond the first 180 days.

The Bank emphasises that the expected granularity for the first 90 days forecasts is to be daily irrespective of when the resolution event is projected to happen, eg if during the heightened contingency period the resolution event is moving closer and is expected to happen sooner than in 90 days.

2. Continuity of financial contracts in resolution (Stays)[13]

(i) Monitoring capabilities

Principle 1 of the Continuity of financial contracts in resolution section of the RAF SoP states that firms should be able to provide key information about their counterparties and financial contracts, including contract values promptly. The Bank emphasises that the risks for a delayed production are greater eg after 72 hours after the request, and that ideally firms should be able to provide updates in 24 to 48 hours.

3. Continuity of access to FMIs (CoA to FMIs)[14]

(i) Central bank FMIs

The Bank considers that central bank FMIs are in scope of the CoA to FMI SoP.

4. Management, Governance, Communications (MGC)[15]

(i) Regulatory approval

Firms should not assume regulatory relief on matters relevant to the MGC barrier SoP and should plan on the basis that all BAU regulatory requirements, including with regard to the PRA's Senior Managers and Certification Regime (SMCR) and remuneration policies will continue to apply in a resolution.

(ii) Communication plan

In line with Principle 3 of the MGC barrier SoP relating to planning and delivering effective communication in resolution, firms should explicitly consider social media communication channels as part of their development of capabilities for communication in resolution. This includes considering channels through which to communicate with stakeholders, but also as a channel which may require some proactive monitoring in resolution in a proportionate manner.

---

[13] Bank Statement of Policy – **'The Bank of England's Approach to Assessing Resolvability'**, May 2021, paragraphs 5.2-5.8; PRA Policy Statement 25/15 – **'Contractual stays in financial contracts governed by third-country law'**, November 2015.

[14] Bank Statement of Policy – **'The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure (FMIs)'**, July 2019.

[15] Bank Statement of Policy – **'The Bank of England's Statement of Policy on Management, Governance and Communication'**, May 2021.

Annex 2: OCIR thematic feedback

This annex provides thematic and generic findings from our OCIR implementation review, which focused on the material changes introduced in the revised OCIR policy – SS4/21.[16]

First, we would like to thank firms for their engagement on this work. While we identified no significant concerns at this stage relating to firms' OCIR capabilities, there were two areas – critical supplier contract remediation and the calibration of OCIR liquidity resources – where firms should focus on progressing to ensure they can meet the barrier objective and achieve the continuity and restructuring outcome.

Critical supplier contract remediation

We found at the time of our review that multiple firms had a number of outstanding contracts that came into scope of the revised OCIR policy and required remediation.[17] We would encourage firms to complete this exercise as soon as reasonably practicable. The remediation of critical supplier contracts supports the operational continuity objective by allowing for continued provision and use of services in stress and resolution. Where suppliers refuse to insert resolution-resilient clauses firms should consider:

- continue pursuing the negotiations with the critical service providers as we have seen a small number of global service providers - over time - agree to inserting these resolution resilient clauses; or
- assess the risks of not having these critical supplier contracts remediated and implement alternative solutions/mitigating controls that reduce these risks to an acceptable level which supports the operational continuity objective.

Calibration of OCIR liquidity resources

The revised OCIR policy has changed the level of OCIR liquidity resources firms are expected to hold from six months (under the previous policy SS9/16) of intra-group critical service costs[18] to two months under SS4/21. Although the minimum period has reduced, the revised OCIR policy does expect firms to assure themselves, through scenario analysis[19] (if appropriate), that they are holding the right level of OCIR liquidity

[16] PRA Supervisory Statement 4/21 – **'Ensuring operational continuity in resolution'**, May 2021.
[17] As per PRA Supervisory Statement 4/21, these require clauses in agreements or contracts for critical services provided by intra-group or non-group providers that allow for continued provision and use of services in stress and resolution.
[18] Defined under PRA Supervisory Statement 4/21 as 'intra-group critical service providers have access to, at a minimum, liquidity resources equivalent to 1/6th of annual fixed overheads of the critical services they provide to the firm (OCIR liquidity resources)'.
[19] See PRA Supervisory Statement 4/21 – **'Ensuring operational continuity in resolution'**, May 2021, paragraph 11.3.

resources to ensure service providers remain financially resilient in resolution. At the time of review, some firms had not carried out the scenario analysis but had prudently kept their liquidity resources at the old minimum of six months of annual fixed overheads. We expect all firms to undertake scenario analysis where they consider multiple sufficiently severe but plausible scenarios (relevant to their business models) to test the operational continuity of critical service providers.