BANK OF ENGLAND
PRUDENTIAL REGULATION
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Publication

Consultation Paper | CP20/21

Trading activity wind-down

October 2021

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Responses are requested by Friday 21 January 2022.

In light of current measures to help prevent the spread of COVID-19, please address any comments or enquiries by email to: CP20_21@bankofengland.co.uk.

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1 Overview

1.1 This Consultation Paper (CP), sets out the Prudential Regulation Authority's (PRA) proposed expectations in respect of firms' engagement in trading activities that may affect the financial stability of the UK.[1] It also proposes that firms engaged in trading activities be able to carry out a full or partial orderly[2] wind-down of their trading activities in recovery and post-resolution restructuring.[3] In this CP, the wind-down of trading activities, whether it be full or partial, or whether it would be carried out as a recovery or post-resolution restructuring option, is referred to as 'the TWD option'.[4]

1.2 The proposals in this CP would result in a new Supervisory Statement (SS) on trading activity wind-down (TWD) (Appendix 1), a Statement of Policy (SoP) (Appendix 2) and amendments to SS9/17 'Recovery Planning' (Appendix 3).[5] The amendments to SS9/17 are in respect of the orderly wind-down of trading activities.

1.3 The proposed expectations in this CP are relevant, although may not apply directly, to all PRA-authorised UK banks, their qualifying parent undertakings and PRA-designated investment firms that are engaged in trading activities, and relevant third country branches (more detail on the proposed application of the expectations can be found in Chapter 2).[6] This CP is also relevant to policymakers and practitioners that would expect to be involved in a firm's resolution. It is not relevant to credit unions.

1.4 The proposed expectations are designed to further the PRA's objective to promote firms' safety and soundness, advanced primarily by minimising the adverse effect firm failure could have on the UK's financial stability.

1.5 The proposals aim to enhance firms' ability to recover from firm-specific and/or market-wide stress, and should be read in conjunction with the Bank of England's ('the Bank's') Resolvability Assessment Framework[7] ('the RAF policies'). The PRA's draft TWD SoP aims to provide clarity on interaction between expectations outlined in the SS9/17, and the Bank's approach to assessing resolvability, including the Bank's SoPs published alongside the Bank's RAF policies.

1 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.

2 An orderly wind-down of trading activities would consist of, for example, the trading book portfolio being wound-down in a timely and measured manner, such that disruption to the UK financial system is avoided. It may consist of the wind-down of the firm's entire operations (for example in the case of a broker-dealer firm where trading activities represent a majority of its balance sheet), or a wind-down of a part of the firm's operations (for example in the case of a universal bank where trading activities are concentrated in particular business units or legal entities). A firm winding-down its UK equities business, but not its European fixed-income business, would be an example of a partial wind-down of a that firm's trading activities.

3 Firms should be able to execute a trading activity wind-down in recovery or post-resolution restructuring, but it has to work in both contexts.

4 The PRA would expect firms to develop these capabilities so that they could execute a full wind-down of their trading activities in post resolution restructuring; this would also ensure firms have capabilities that could be adaptable to deal with less severe circumstances, and deliver partial wind-downs of their trading activities.

5 December 2020: Recovery planning

6 The proposed expectations will only be directly relevant to firms that meet the definition of a TWD firm (see paragraph 2.1 of this CP).

7 See the Bank of England's approach to assessing resolvability: The Bank of England's approach to assessing resolvability

1.6 The PRA has considered the interaction between its primary and secondary objectives and the 'have regards', including the principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden. Overall, the PRA considers that the proposed expectations are designed to further the PRA's objective to promote firm's safety and soundness, advanced primarily by minimising the adverse effect firm failure could have on financial stability.

1.7 The PRA consulted industry when developing the proposed expectations. The average costs per firm of the proposed expectations were £11.96 million build costs, and £2.52 million annual maintenance costs. The PRA considers that these costs are outweighed by the firm-specific and wider UK financial stability benefits (see Chapter 8).

Background

1.8 Many PRA-authorised firms engage in trading activities. The disorderly wind-down of trading activities can trigger the destruction of trading book asset value, potentially impacting firms' safety and soundness, and resolvability. For the largest firms, the destruction of trading book asset value in a disorderly wind-down risks impacting UK financial stability, due to the scale and interconnectivity of their trading activities.

1.9 Between 2014 and 2021, the PRA carried out the multi-phase Solvent Wind-Down supervisory exercise (SWD exercise), in order to assess the ability of firms engaged in the largest and most complex trading activities to wind-down those activities in recovery and post-resolution restructuring. The objectives of the SWD exercise focussed on firms' capabilities to develop and execute a plan to wind-down their trading activities. This included the ability to provide reliable, timely information to support decision-making and de-risk trading activities in an orderly way, regardless of the circumstances.

1.10 The SWD exercise demonstrated that firms lack the full capabilities required to carry out an orderly wind-down of their trading activities in recovery and post-resolution restructuring. This is despite PRA rules which require that firms must demonstrate that recovery plans and specific options in them are reasonably likely to maintain or restore their viability and financial position,[8] and must prepare for resolution so they can be resolved in an orderly manner.[9] The PRA considers this lack of capabilities to be a market failure, posing risks to the PRA's safety and soundness objective, and has therefore decided to clarify its expectations in this area.

1.11 Firms are already required to meet recovery planning rules and other related PRA rules and policies. These are referred to in more detail in the draft TWD SoP (Appendix 2). The proposals in this CP should be read in conjunction with those rules and policies. The PRA considers these proposals would increase the likelihood that a relevant firm would be able to execute an orderly wind-down of their trading activities in a firm-specific and/or market-wide stress.

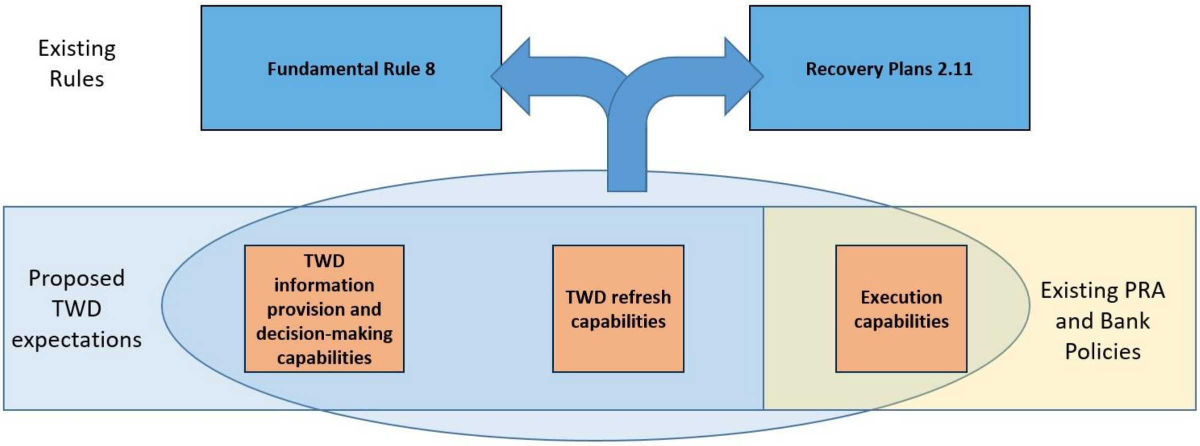
Summary of proposals

1.12 The proposals covered by this CP include expectations that firms to whom the policy applies:

8 Recovery Plans 2.11 in the PRA Rulebook.
9 Fundamental Rule 8 in the PRA Rulebook.

- include a baseline set of factors when designing the scenario or scenarios used to develop and test the TWD option (hereafter 'the TWD scenario');
- develop information provision and decision-making capabilities and refresh capabilities ('TWD capabilities'); and
- produce and maintain data of a breadth and granularity consistent with the non-mandatory templates set out in the appendices of the draft TWD SS (Appendix 1).

Figure 1 Developing a full set of capabilities to support the development and execution of the TWD option in recovery and post-resolution restructuring



1.13 Figure 1 summarises the capabilities that a firm should have to develop and execute the TWD option whether in recovery or post-resolution restructuring. A firm would use capabilities developed under existing PRA and bank policies in combination with the new TWD capabilities proposed in the draft TWD SS.

Structure of the CP

1.14 The structure of this CP is as follows:

(a) Chapter 2 sets out the firms to which the proposed expectations would apply.

(b) Chapter 3 sets out proposed expectations for the development of the TWD option.

(c) Chapter 4 sets out the PRA's proposed expectations for the TWD capabilities, that firms should have and be able to demonstrate.

(d) Chapter 5 sets out the PRA's proposed expectations for the breadth and granularity of data, that TWD firms should be able to produce through non-mandatory templates.

(e) Chapter 6 sets out the proposed application of the expectations to UK subsidiaries of third-country groups.

(f) Chapter 7 sets out the PRA's proposed amendments to SS9/17 'Recovery planning'.

(g) Chapter 8 sets out the PRA's duty to consult obligations, and outlines the PRA's analysis and consideration of how various have regards have impacted the proposals in this CP.

1.15 Appendix 1 contains the draft TWD SS setting out the PRA's proposed expectations, Appendix 2 contains the draft TWD SoP, and Appendix 3 contains proposed changes to SS9/17.

Implementation

1.16 The PRA proposes that the implementation date for the changes resulting from this CP would be Wednesday 1 January 2025.

1.17 Subject to consultation responses, the PRA intends to publish its final policy, in H1 2022.

Responses and next steps

1.18 This consultation closes on Friday 21 January 2022. The PRA invites responses to the proposals set out in this consultation. Please address any comments or enquiries to CP20_21@bankofengland.co.uk.

1.19 References related to the UK's membership of the EU in the draft SS and draft SoP covered by this CP have been updated as part of these proposals to reflect the UK's withdrawal from the EU. Unless otherwise stated, any remaining references to EU or EU-derived legislation refer to the version of that legislation which forms part of retained EU law.[10]

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10 For further information please see here.

2 Application

2.1 The PRA's proposed expectations would apply only to firms that:

- have been identified by the PRA as an 'other systemically important institution' (O-SII).[11] However, for the purposes of this CP, 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;[12]

- have the full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option; and

- have either been notified by the Bank that their preferred resolution strategy is Bank-led bail-in, or have been notified by the Bank that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK.[13]

2.2 Collectively, these firms are referred to as 'TWD firms' for the purposes of this CP.

2.3 The three limbs of the TWD firm definition proposed by the PRA are discussed below.

Definition of a TWD firm

Identified as an O-SII

2.4 The PRA proposes that only those firms that have been identified by it as an O-SII would be TWD firms. This would limit the application of the proposals to those firms who, due to their systemic importance, are more likely to create risks to UK financial stability in the event of a disorderly wind-down of their trading activities. The O-SII identification provides a clear indication of a firm's systemic importance, which is subject to annual review, while not requiring the firm to carry out any additional analysis.

Full or partial wind-down of trading activities as a recovery and post-resolution restructuring option

2.5 The PRA proposes that the expectations would apply to firms that have the full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option. This would ensure that the proposed expectations only include those firms whose trading activities are large and complex enough to warrant having the TWD option as part of their recovery plan, and as a post-resolution restructuring option.[14]

2.6 Firms should not seek to circumvent the proposed expectations by refusing to consider the full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option. Nor should a firm discount the TWD option on the basis that it may not be able to resume trading activities following the execution of the TWD option. In accordance with Rule 2.11 in the

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11 As set out in the PRA's SoP: 'The PRA's approach to identifying O-SIIs', December 2020: The PRA's approach to identifying other systemically important institutions (O-SIIs).

12 References in this CP 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.

13 The Bank of England's Statement of Policy on its approach to setting a minimum requirement for own funds and eligible liabilities (MREL), July 2018, paragraph 7.3: The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) - Statement of Policy.

14 Paragraph 2.36, SS9/17.

Recovery Plans Part of the PRA Rulebook, the ability to maintain a firm's financial position is as important as returning a firm to viability; this may involve firms having recovery options that may fundamentally change the firm's structure and business model.

Bail-in as part of resolution strategy or a 'material subsidiary' of an overseas-based banking group

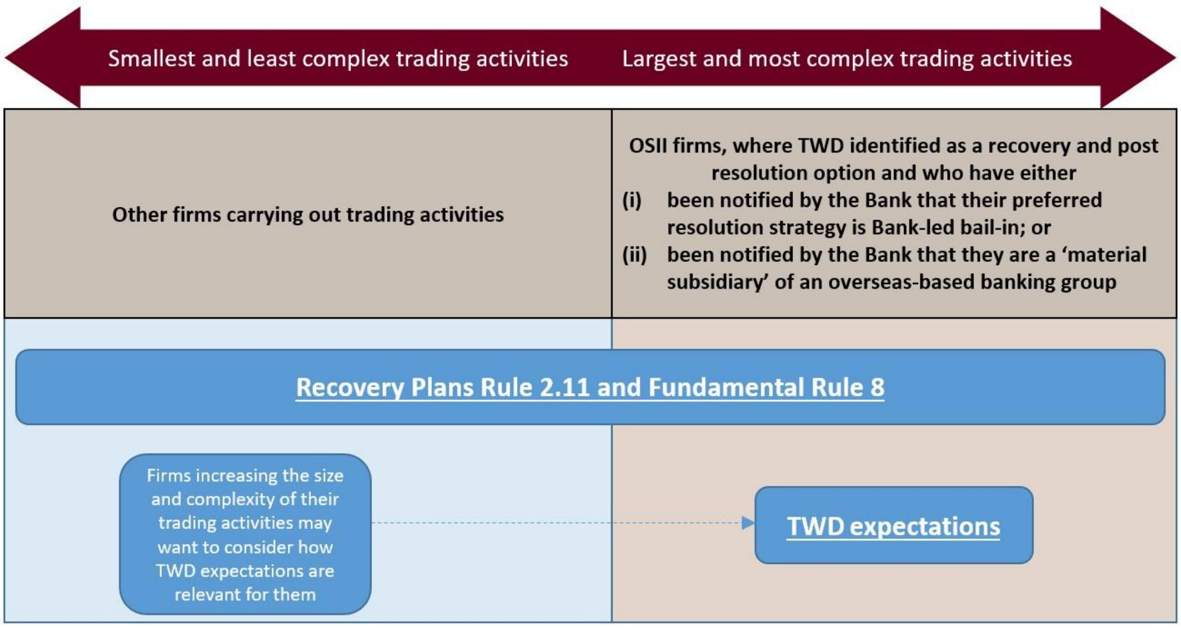
2.7 The PRA proposes that firms would only fall within the definition of a TWD firm if they are notified by the Bank that their preferred resolution strategy is Bank-led bail-in, or have been notified by the Bank that they are a material subsidiary of an overseas-based banking group for the purposes of setting internal minimum requirements for own funds and eligible liabilities (MREL) in the UK. This would mean that the proposed expectations would only apply to firms with the largest, most complex trading activities. Being able to develop and execute the TWD option successfully may often be essential to restructuring a failed firm to create a viable entity.

Proportionality

2.8 The draft TWD SS proposes that the expectations would only apply to TWD firms. The PRA considers that having the capabilities set out in the draft TWD SS may be costly. As such, it is proportionate that the proposed expectations only apply to firms which could affect the financial stability of the UK, through disruption to their provision of critical functions.

2.9 Firms are subject to Rule 2.11 in the Recovery Plans Part of the PRA Rulebook; therefore, firms that do not fall within the scope of the TWD firm definition will still be required to comply with this rule as regards the implementation of their recovery plan. Notwithstanding the risk to financial stability, it would not be proportionate for such firms to develop TWD capabilities which may not deliver significant benefits given the size and complexity of their trading activities. If such a firm anticipates that it is going to become a TWD firm, for example, as its business model changes, it would need to anticipate meeting the proposed expectations set out in the draft TWD SS, and may find them helpful in developing its TWD capabilities.

Figure 2 Proposed application of TWD expectations



3 The TWD option

3.1 This chapter sets out the PRA's proposals to introduce expectations in the draft TWD SS regarding the characteristics a TWD firm's TWD option should have. In particular, it explains the PRA's proposed expectations for the development of the TWD option, scenario testing, the flexibility of the recovery plan in the context of the TWD option, and the execution of the TWD option (see Chapter 3 of the draft TWD SS).

The development of the TWD option

3.2 The PRA's proposals include expectations that TWD firms should set out their actions, arrangements, and measures that the TWD firm would implement in a scenario of severe macroeconomic and financial stress, as appropriate to the TWD firm's circumstances. Setting out and explaining these actions, arrangements, and measures in the recovery plan would help a TWD firm to execute the TWD option at short notice as a recovery or post-resolution restructuring option, and would help to reduce risk and leverage in order to wind-down their trading activities in an orderly way. The TWD capabilities could also be used, at the TWD firm's discretion, for commercial purposes should the TWD firm choose to exit a business line, inevitably wanting to do so in an orderly manner.

3.3 The PRA proposes that a TWD firm's recovery plan should, in addition to the actions, arrangements, and measures that a firm may use, set out the quantification of costs of the wind-down and any impacts on the TWD firm's projected capital and liquidity resources. This in line with the expectations set out in SS9/17.[15] It is important for TWD firms, the Bank, and the PRA to know the costs associated with the wind-down and the impact on projected capital and liquidity resources, as these factors will impact decision-making before during and after a firm-specific and/or market-wide stress.

Scenario testing

3.4 Under existing recovery planning policy, scenario testing is used to demonstrate that a firm's recovery plan is suitable for use in a range of different types of stress.[16] O-SIIs are expected to use at least four scenarios of severe macroeconomic and financial stress to test their recovery plans and recovery options.[17]

3.5 The PRA proposes that TWD firms include the following minimum baseline set of factors in their TWD scenario, to ensure that their TWD scenario is a sufficiently robust test of the TWD option:

- **Factors relating to the stage of firm-specific stress:** Given the volatile nature of trading activities, TWD firms need to be able to execute their TWD option at any point in time. Depending on the foreseeability, nature, and severity of the stress, the TWD firm may either be required to execute the TWD option in short order, or may have a significant amount of time to prepare to execute the TWD option.

- **Factors relating to market-wide stresses:** TWD firms need to demonstrate that their TWD capabilities are sufficient to allow an orderly wind-down of their trading activities,

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15 Paragraph 2.66, SS 9/17.
16 Paragraph 2.53, SS 9/17.
17 Paragraph 2.54, SS9/17.

notwithstanding a range of market-wide stresses and other issues that can occur when trading becomes difficult. The inability to deal with these factors would indicate that TWD firms' TWD capabilities were not adequate.

- **Factors relating to the full or partial wind-down of trading activities:** The ability to fully wind-down trading activities is important to mitigating the risks of a disorderly trading activity wind-down. However, depending on the circumstances, a partial wind-down of trading activities may be a more appropriate way for a TWD firm to stabilise its balance sheet and return to viability. Therefore, it is important that TWD firms can demonstrate an ability to both fully and partially wind-down their trading activities.

3.6 In addition to the minimum baseline set of factors, the PRA proposes that each TWD firm should analyse its own specific circumstances, and include relevant additional factors to ensure a robust test of their TWD option. Given the diversity in TWD firm's business models, the baseline set of factors are not by themselves sufficient to provide a robust test of the TWD option for every TWD firm.

3.7 Carrying out scenario testing may provide assurance to both the TWD firm and the PRA that the TWD firm's TWD capabilities are fit for purpose. TWD firms may need to execute their TWD option at short notice, but, amending TWD capabilities may take months, or even years. It is crucial that TWD firms identify and address any issues with their TWD option and TWD capabilities as soon as possible to minimise the risks stemming from the disorderly wind-down of trading activities.

3.8 The PRA is not proposing to introduce new expectations on firms' scenario testing for post-resolution restructuring, as it considers its existing policy to be sufficient.[18]

The flexibility of the recovery plan in the context of the TWD option

3.9 The PRA recognises that the real-life circumstances in which a TWD firm may need to execute the TWD option are difficult to predict in advance, and are liable to change at short notice given the speed at which the value and risk profile of a TWD firm's trading activities varies.

3.10 The PRA's proposals include an expectation that TWD firms are able to flexibly amend the actions, arrangements, and measures set out in the TWD firm's recovery plan depending on prevailing market conditions. A firm's recovery plan should be sufficiently flexible to anticipate the need to make different decisions and use different actions, arrangements, and measures depending on market conditions (for example, deciding the time period over which activities are wound down).

3.11 In particular, it is important that TWD firms are able to prioritise capital conservation, or liquidity conservation when selecting the actions, arrangements, and measures that make up part of the TWD firm's recovery plan. The PRA's proposals contain an expectation that, whether a TWD firm chooses to prioritise capital or liquidity conservation, the TWD firm should be able to set out which different actions, arrangements, and measures it would select if it were to alter its approach.

3.12 The PRA considers that this flexibility is essential to ensure that the TWD option continues to remain appropriate with reference to the firm's business model and anticipated or real-life

18 Paragraph 4.7, the Restructuring SoP sets out that, as a starting point, firms should consider the information that must be provided to support the viability and credibility of recovery options, as set out in the PRA Supervisory Statement 'Recovery Planning' (SS9/17), when evaluating their restructuring options.

circumstances. The inability to do so would reduce the effectiveness of the TWD option, potentially reducing the chances of an orderly wind-down of trading activities.

The execution of the TWD option

3.13 The PRA’s proposals introduce an expectation that TWD firms execute their TWD option in line with expectations for the execution of recovery options set out in SS9/17, and are to be read in conjunction with the Bank’s RAF policies. The PRA proposes that TWD firms should use outputs from their TWD capabilities to feed into decision-making throughout the process of winding-down their trading activities.

3.14 Firms need to be able to execute the TWD option as a recovery and post resolution restructuring option. Therefore, they should take account of both SS9/17 and the RAF policies. This information could improve the material accuracy of the parts of these TWD firms’ recovery plan playbooks that are relevant to the TWD option.

4 TWD capabilities

4.1 This chapter sets out the PRA's proposals to introduce expectations for the capabilities that the PRA expects TWD firms to have to enable them to develop and execute the TWD option in a variety of real-life circumstances (see Chapter 4 of the draft TWD SS).

Based on a full wind-down of trading activities in post-resolution restructuring

4.2 The PRA proposes that TWD firms should develop their TWD capabilities based on having to execute a full wind-down of their trading activities in post-resolution restructuring. Capabilities developed to deliver this should be adaptable to deal with less severe circumstances.

4.3 The PRA considers that a full wind-down of trading activities in post-resolution restructuring is the most appropriate set of circumstances on which TWD firms should base the development of their TWD capabilities. In these circumstances, trading activities may be being wound down to the fullest extent possible and operational aspects would be at their most challenging. A TWD firm is likely to need the most sophisticated TWD capabilities in these circumstances to achieve an orderly wind-down of their trading activities. Those capabilities would also be adaptable to deal with less severe circumstances.

The set of TWD capabilities

Information provision and decision-making capabilities

4.4 The PRA's proposals include expectations that TWD firms develop information provision and decision-making capabilities. Such capabilities would enable a TWD firm to produce information and data which is of sufficient granularity and quality to support decision-making before, during, and after a firm-specific and/or market wide-stress. TWD firms would be expected to be able to provide information to allow its senior management, the PRA, and the Bank as resolution authority to make strategic decisions in recovery and resolution.

4.5 Information and decision-making capabilities would be important to enable TWD firms to reliably model financial resource impacts of the execution of the TWD option. The capabilities include, but are not limited to, TWD firms' ability to:

(i) analyse and perform a valuation of exit costs (including making assumptions around how the trading book portfolio would be split for the purpose of operationalising wind-down actions, arrangements and measures in the TWD scenario (segmentation));

(ii) perform an analysis on the potential impact of market price movements throughout the wind-down on the valuations of trading positions (risk-based losses (RBLs)); and

(iii) quantify the impact of alternative key assumptions to those assumed under the TWD scenario (sensitivity analysis).

4.6 The provision of information in relation to TWD firms' capital and liquidity positions throughout a wind-down of their trading activities is likely to be crucial for the development and execution of the TWD option. This information would be needed by TWD firms in recovery to make decisions on when to trigger a wind-down of trading activities, and which combination of a firm's recovery options should be implemented. For example:

- losses may have to be recognised in the wind-down of certain positions, impacting the TWD firm's capital position and potentially affecting TWD firms', PRA and Bank decision-making before, during and after a wind-down; and/or

- clarity on a TWD firm's current and projected liquidity resources and needs would be necessary to assess whether a TWD firm was able to meet its ordinary course payment and settlement flows, as well as any additional collateral requirements on derivative positions.

4.7 Modelling capital and liquidity impacts of the TWD option may also help the Bank in its decision-making and planning, including with regards to liquidity support and whether a TWD firm has met the conditions for entry into resolution. For example:

- this information may be relevant for the valuation of a TWD firm in resolution, for example to estimate future losses that may be incurred during the execution of a full or partial TWD option and so informing judgements on the credibility of a TWD firm's TWD option in post-resolution restructuring in helping the TWD firm to return to viability; and

- a TWD firm in resolution would need to have sufficient capital and access to sufficient sources of liquidity (including where necessary and appropriate, liquidity provided by central banks) to facilitate the execution of the TWD option in post-resolution restructuring. As such, the proposed capabilities set out in the draft TWD SS should be read in conjunction with the principles set out in the Valuations SoP and Funding SoP in particular.[19]

4.8 The PRA proposes that TWD firms should have the capability to perform sensitivity analyses around the key drivers, assumptions, and judgments that could have a material impact on capital and liquidity projections and on RBLs. During market stress, in recovery or post-resolution restructuring, there is likely to be substantial uncertainty about the impact of changing market conditions on the valuation of the firm's trading positions, and the impact of the execution of the TWD option on the rest of the TWD firm. Sensitivity analysis would help TWD firms to deal with the inherent uncertainty of decision-making in the development and execution of the TWD option, as well as ensuring that TWD firms are aware of the uncertainty under which they are operating.

Refresh capabilities

4.9 The PRA proposes that TWD firms should be able to refresh information relevant to the TWD option in a timely manner. To give clarity to TWD firms on the information they should be able to refresh, the draft TWD SS sets out proposed expectations that TWD firms have capabilities that enable them to:

19 The Bank of England's Statement of Policy on valuation capabilities to support resolvability, May 2021: The Bank of England's Statement of Policy on valuation capabilities to support resolvability and The Bank of England's Statement of Policy on Funding in Resolution, July 2019: Bank of England's Statement of Policy on Funding in Resolution.

- refresh data on their balance sheet, their quantification of wind-down costs, and capital and liquidity projections, in a matter of days;
- refresh the material components of the TWD option that require judgement, between a matter of days and weeks;[20] and
- fully refresh the TWD option, including changes to assumptions and approximations that make up the TWD option, in a matter of weeks.

4.10 Given the potentially rapid changes in TWD firms' balance sheets and real-life circumstances, TWD firms should be able to update key parts of the TWD option quickly. The inability to do so would reduce effectiveness of the TWD option, posing risks to TWD firms' ability to develop and execute the TWD option and make an informed decision on whether the TWD option should be executed. For example, the inability to update relevant information in a timely manner may result in delayed or ill-informed decision-making in the development and execution of the TWD option. Delayed or ill-informed decision-making could negatively impact the safety and soundness of the TWD firm, and of the UK financial system more generally.

4.11 The PRA's proposals should be read in conjunction with the objective of the Valuations SoP, which is that in the context of a resolution, the independent valuer could carry out the necessary resolution valuations on a sufficiently timely and robust basis so as not to impede the effectiveness of resolution. According to the Valuations SoP, for most firms this is likely to involve the development of capabilities to enable valuations to be carried out within two months, although firms primarily engaged in trading activities should be able to conduct valuations in quicker timeframes.[21]

4.12 TWD firms are likely to find the PRA's proposed expectations useful in improving their valuations capabilities, contributing to TWD firms' ability to execute the TWD option. TWD firms' trading activities are particularly exposed to rapid changes to solvency and liquidity and may need to prepare valuations in very short timeframes in the context of a resolution.

Responsive to circumstances

4.13 The PRA's proposes expectations that TWD firms should have a set of capabilities that can be utilised to respond to the real-life circumstances faced by a TWD firm.

4.14 A static plan that sets out step-by-step actions, arrangements, and measures is unlikely to be sufficient when executing the TWD option, given the speed at which TWD firms' trading activities and market conditions move. A set of capabilities that support the flexibility of the TWD firms' recovery plan and execution of the TWD option would allow senior management and decision-makers to respond to changing real-life circumstances by providing them with updated information on the capital and liquidity impacts of executing the TWD option. This would improve decision-making throughout a firm-specific and/or market-wide stress, and minimise risks to UK financial stability of a disorderly wind-down of TWD firms' trading activities.

20 Material components are those whereby the impact of a change could influence decision-making. Firms should define material component/change thresholds.

21 Paragraph 3.2(a)-(c), Valuations SoP.

TWD firms' TWD capabilities should help them to meet recovery planning policy

4.15 The PRA proposals include expectations that TWD firms should use their existing capabilities to meet the expectations set out in the draft TWD SS where possible, and develop and maintain new capabilities where necessary. Using existing capabilities would minimise the costs and build times incurred in meeting the PRA's proposed expectations.

Governance

4.16 The draft TWD SS sets out the PRA's proposed expectations that TWD firms should provide evidence that their board of directors or other appropriate senior governance committee or group, has appropriately overseen and sufficiently challenged the design, implementation, maintenance and testing of the TWD firm's TWD capabilities. The PRA proposes that TWD firms should set and document criteria to guide judgements they would have to make in developing TWD capabilities and scenario testing the TWD option. These proposed expectations align with the PRA's existing expectations with regards to governance set out in SS9/17.[22]

4.17 The PRA proposes that the expectations in SS9/17 also apply to TWD firm's TWD capabilities; TWD firms' governance arrangements should be integrated within the wider business as usual recovery planning governance arrangements.

4.18 Developing and maintaining the firm's recovery plan and resolution pack, is already a prescribed responsibility (PR) under the Senior Managers and Certification Regime. As the TWD option is part of a TWD firm's recovery plan, maintaining and developing the TWD option would fall under this PR. The draft TWD SS is designed to help TWD firms to this end, and to make the PRA's expectations clear. The PRA proposes that TWD firms should take responsibility for and expect to use their TWD option. The TWD firm's board and senior management would need to be able to demonstrate how they would develop and execute the TWD option; they should not treat TWD as a theoretical regulatory compliance exercise. The PRA considers that senior management and board engagement is a key factor in improving the quality of TWD firms' TWD options.

TWD firms model risk management

4.19 The development and maintenance of TWD capabilities would involve the development and use of models. The PRA proposes that the model risk management expectations set out in SS3/18 'Model risk management principles for stress testing' should apply for these models.[23]

4.20 TWD capabilities, particularly projection of the financial impact of a wind-down, typically involve complex modelling. The hypothetical nature of this modelling exercise would require TWD firms to make multiple interrelated and highly subjective assumptions and judgements on matters such as:

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22 Paragraph 2.79- 2.84A.
23 April 2018: Model risk management principles for stress testing.

- the likely nature of the TWD scenario;
- the information that would be useful to authorities, independent advisors, and management in the TWD scenario; and
- the appropriate allocation of resources versus business as usual concerns.

4.21 The PRA considers that it is important for TWD firms to implement a strong governance framework to ensure transparency (both internal and external), scrutiny and senior accountability for the design of TWD capabilities.

5 Templates

5.1 The PRA proposes to introduce non-mandatory templates, which would provide a guide to TWD firms as to the breadth and granularity of data the PRA expects them to be able to produce using their TWD capabilities. The non-mandatory templates and associated instructions are set out in the appendices of the draft TWD SS. It is particularly important that TWD firms are clear about the breadth and granularity of data they should be able to produce, as this would impact the sophistication of the TWD capabilities that TWD firms develop, and would provide both TWD firms and the PRA with a mechanism to determine whether TWD firms' TWD capabilities meet the proposed expectations.

5.2 The PRA proposes that TWD firms have responsibility as to how the relevant data is presented. 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. Given the diversity in TWD firms' business models, a one-size-fits-all approach to completing the templates could result in TWD firms developing capabilities that are not relevant to the nature of their trading activity. Notwithstanding this, unless the TWD firm can satisfy the PRA that taking a different approach with reference to the size and complexity of their trading activities would meet the expectations set out in the draft TWD SS, the breadth and granularity of that data should be comparable to that set out in the templates.

6 UK subsidiaries of third-country groups

6.1 The PRA proposes to tailor its supervisory approach to TWD firms that are UK subsidiaries of third-country groups with regards to the expectations in the draft TWD SS according to the nature, scale, and complexity of the trading activities in which those TWD firms are engaged in the UK. The PRA would also tailor its supervisory approach for these TWD firms with regards to their potential impact on the UK's financial stability.[24]

6.2 The PRA proposes that TWD firms which are UK subsidiaries of third-country groups use their group capabilities to meet the proposed expectations where possible. However, if a TWD firm's group does not have sufficient capabilities to meet the proposed expectations, the PRA proposes that the TWD firm should develop local capabilities of their own, and be able to provide local-level assurance of those capabilities.[25]

6.3 It is important that the TWD option, and the wider recovery plan, for UK subsidiaries of third-country groups is consistent with the recovery plan requirements of their home-state regulator. Such an approach helps to ensure that recovery plans can be executed in a coordinated way across a number of different jurisdictions, potentially increasing their effectiveness. However, where this gives rise to a TWD firm (that is a UK subsidiary) not having the TWD capabilities needed to meet the PRA's expectations, it is proposed that the development of local TWD capabilities take place to mitigate the potential risk to UK financial stability.

24 Paragraph 6.4, draft TWD SS.
25 Paragraph 6.7, draft TWD SS.

7 Other proposals

Proposals to amend SS9/17 'Recovery planning'

7.1 This section summarises the PRA's proposed amendments to SS9/17 'Recovery planning' to reflect the PRA's proposed TWD policy.

7.2 Rule 2.11 in the Recovery Plans Part of the PRA Rulebook requires that a firm must be able to demonstrate that its recovery plan and specific options are reasonably likely to be implemented quickly and effectively in situations of financial stress. The PRA already expects that firms should include in their plans a sufficiently broad range of recovery options to maximise the chance that there would be implementable options in different types of stress. Firms are also expected to consider more radical options which might include selling strategic assets.[26]

7.3 The TWD policy proposals outlined in this CP complement the PRA's recovery planning policy. The proposed TWD SoP (Appendix 3) sets out the relationship between the new TWD policy and existing policies, including recovery planning policy. The PRA proposes amending SS9/17 to provide clarity on the interaction between SS9/17 and TWD policy by adding a new sub-section 'Interaction with TWD policy', and paragraph 2.98 under section (xiii) 'Interaction with other relevant regimes and requirements' in SS9/17. This is intended to direct TWD firms to the TWD SS and the TWD SoP for relevant information on the interaction between the two policies.

7.4 The PRA proposes to add new paragraphs to SS9/17 to clarify that firms should have the TWD option if appropriate with reference to Rule 2.11 in the Recovery Plans Part of the PRA Rulebook and Fundamental Rule 8. The PRA considers that a firm with trading activities that chooses not to have the TWD option must be able to justify its decision and demonstrate that it can be recoverable in a stress. Where the PRA considers that a firm should have the TWD option in its recovery plan in order to meet the requirements, it would engage with the firm with the expectation that the firm amends its recovery plan accordingly.

7.5 To ensure that TWD firms properly design the TWD scenario, the PRA proposes to amend SS9/17 by adding an additional paragraph in order to confirm that TWD firms would need to refer to the TWD SS when designing the TWD scenario.

7.6 The PRA published SS9/17 in December 2017, prior to the development of the TWD policy proposals in this CP. The PRA proposes to amend SS9/17 by deleting paragraphs 2.36 and 2.37, which relate to 'wind-down analysis' under the recovery options section. This is because, in light of the proposals outlined in this CP, this text is now incorporated into the new paragraphs 2.6ZA and 2.6YA in SS9/17. The PRA also proposes to delete point (iv) of paragraph 3.3 in Chapter 3 'Recovery planning for UK subsidiaries of non-EU parents' as this text is now outdated.

26 Paragraph 2.6, SS9/17.

8 The PRA's duty to consult

8.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations. The PRA has a statutory duty to consult when introducing new rules and, when not making rules, has a public law duty to consult widely where it would be fair to do so.

8.2 The PRA fulfils its statutory obligations and public law duties by providing the following in relation to the proposed policy:[27]

(i) **a cost benefit analysis**;

(ii) **compatibility with the PRA's objectives:** an explanation of the PRA's reasons for considering that making the proposed policy is compatible with the PRA's duty to act in a way that advances its general objective,[28] insurance objective[29] (if applicable), and secondary competition objective;[30]

(iii) **FSMA regulatory principles:** an explanation of the ways in which having regard to the regulatory principles has affected the proposed policy;[31]

(iv) **impact on mutuals:** a statement as to whether the impact of the proposed policy will be significantly different to mutuals than to other persons;[32]

(v) **HM Treasury recommendation letter:** the Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury;[33] and

(vi) **equality and diversity:** the PRA is also required by the Equality Act 2010[34] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services, and functions.

8.3 Appendix 4 lists the statutory obligations applicable to the PRA's policy development process. The analysis in this chapter explains how the proposals have had regard to the most relevant matters listed in paragraph 8.2, including an explanation of the ways in which having regard to these matters has affected the proposals. Where have regards have not been explicitly noted in this chapter, it is because the PRA has considered them not to be relevant to the proposals.

Impact on mutuals

8.4 The PRA considers the impact of the proposed policy on mutuals would be no different to the impact on other firms.

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27 The requirements for the PRA to 'have regard' to several further matters when making CRR rules as set out in FSMA and the Financial Services Act are not relevant, because the PRA is not proposing to make CRR rules.
28 Section 2B of FSMA.
29 Section 2C of FSMA.
30 Section 2H(1) of FSMA.
31 Sections 2H(2) and 3B of FSMA.
32 Section 138K of FSMA.
33 Section 30B of the Bank of England Act 1998.
34 Section 149 of the Equality Act 2010.

Equality and diversity

8.5 The PRA considers that the proposals do not give rise to equality and diversity implications.

PRA objectives and have regards

8.6 The PRA considers that its proposed approach to trading activity wind-down would advance its primary objective to promote the safety and soundness of PRA-authorised firms, facilitate effective competition, and improve transparency.

PRA objectives

8.7 The PRA has considered whether the proposals are compatible with the PRA's general statutory objective to promote the safety and soundness of PRA-authorised firms, advanced primarily by minimising the adverse effect firm failure could have on financial stability. The proposals outlined in this CP advance the PRA's general objective by clarifying its expectations for TWD firms' readiness for a stress, and their ability to recover from such a stress through the execution of a full or partial TWD option in recovery, or ability to conduct an orderly resolution through the execution of a TWD option in post-resolution restructuring. TWD firms maintaining, updating, and testing the TWD option would reduce the risk of adverse effects that firm failure could have on the stability of the UK financial system.

8.8 The PRA has assessed whether the proposals in this CP facilitates effective competition. The proposed policy would apply to firms engaged in trading activities in proportion to the scale and complexity of their trading activities. The proposals in this CP are expected to contribute to market discipline, where poorly performing firms can safely exit the market, a key driver of effective competition. The PRA considers the proposals in this CP will not lead to a competitive disadvantage for new entrants and smaller firms, compared to larger firms.

Have regards

8.9 **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** the PRA has followed this principle when developing the proposals outlined in this CP. In particular, the PRA's approach of asking only TWD firms for information is consistent with taking a proportionate approach. Firms would only be expected to develop sophisticated TWD capabilities if necessary in order to deliver the expectations set out in the draft TWD SS. Asking non-TWD firms engaged in trading activities to develop TWD capabilities would impose significant costs on such firms, with a negligible impact on the PRA's objectives. The PRA considers TWD firms will be able to bear the likely costs associated with meeting the proposed policy, and that these costs are proportionate given the benefits to safety and soundness and wider financial stability.

8.10 **The need to use the resources of each regulator in the most efficient and economic way:** there may be reduced costs to the PRA in collecting and analysing the data as the PRA has set out the form and granularity of information it would expect to be able to receive as part of business-as-usual assurance through the proposed information template. This may deliver more efficient outcomes, compared to the PRA expecting information set out in a non-uniform format in firms' recovery plans. The PRA's proposed approach may increase consistency in the information provided by firms and allow PRA supervisors to operate more efficiently.

8.11 **The principle that the PRA should exercise its functions transparently:** in this CP, the PRA sets out more details of its expectations to ensure consistency across firms' recovery and restructuring planning for those firms with a TWD option. The proposals are consistent with the PRA's direct feedback to firms, and other publications.

8.12 **Competitiveness:** The PRA considers that these proposals would enhance the external visibility of the sound and effective regulation of firms. The proposals should mitigate risks to financial stability, thereby facilitating growth in the wider economy. The proposals would also increase the possibility of an orderly wind-down, resulting in a more resilient market for derivatives and wider trading activities. This would help to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as a leading international financial centre.

8.13 The PRA has considered the remaining aspects of government economic policy as laid out in the HM Treasury recommendation letter (see references in Appendix 4), and considers that they are not relevant to this proposal.

Cost benefit analysis

Introduction

8.14 The proposals set out new information on how the PRA would expect TWD firms to meet Rule 2.11 in the Recovery Plans Part of the PRA Rulebook, and Rule 8 in the Fundamental Rules Part of the PRA Rulebook, in the context of a wind-down of trading activities. TWD firms should already be able to plan for, and carry out, recovery and post-resolution restructuring options to meet these rules. A wind-down of trading activities is merely one of those recovery and post-resolution restructuring options. This TWD cost-benefit analysis (CBA) should therefore be read alongside the Recovery Planning CBA.[35]

Benefits

Firm-specific benefits: improved safety and soundness

8.15 Avoidance of asset value destruction: firms engaged in trading activities may incur significant asset value destruction during firm-specific and/or market-wide stress due to the speed and complexity of those activities. As an example, between 2008 and 2010, RBS incurred trading losses of £12.9 billion.[36]

8.16 TWD capabilities are likely to reduce destruction of asset value by mitigating the risk of asset fire sales in a firm-specific and/or market-wide stress. TWD firms' TWD capabilities help them to plan out the wind-down of their trading activities so as to maximise capital and liquidity by making better decisions about when to transfer, novate, or tear up specific portfolios with reference to the real-life circumstances the firms face.

8.17 In the absence of these capabilities, TWD firms may make suboptimal decisions about asset disposal in order to generate capital and liquidity in the short term at the expense of being able to carry out the TWD option to completion.

8.18 A TWD firm's TWD capabilities can also help them (or the authorities, in resolution) to provide comfort to the market either through the execution of a well-planned recovery option designed to return the firm to viability as a going concern, or by contributing to a successful post-resolution restructuring. This is likely to lessen the destruction of asset value that may be imposed on the TWD firm by the market, reducing the need for the firm to engage in asset fire sales. A TWD firm's TWD

35 Paragraph 5.4 – 5.7, PRA Consultation Paper 9/17, Recovery planning June 2017: Recovery planning.

36 This is taken from the "(loss)/income from trading activities" for the non-core bank for the year end 2008, 2009 and 2010 which can be found here.

capabilities may also help it maximise shareholder value should it choose to exit some or all of its trading activities for commercial reasons.

8.19 A TWD firm being able to communicate to the market that it has a pre-planned recovery plan, including TWD capabilities, may also help that TWD firm maintain market confidence and support asset values.

8.20 Improved recovery planning: TWD firms can use their TWD capabilities to generate up-to-date, relevant, materially accurate information. This information can be used by TWD firms during the execution of the TWD recovery option. Materially accurate and up-to-date information is particularly important in the context of the planning and execution of the TWD option, given the speed at which these activities move, particularly in a firm-specific and/or market-wide stress.

8.21 TWD firms' ability to update the TWD option before, during and after the firm-specific and/or market-wide stress to ensure the TWD firm continues to progress towards an orderly wind-down is a key incremental improvement in firms' TWD capabilities. This improvement in TWD firms' capabilities is likely to reduce the likelihood of a disorderly wind-down of trading activities and the associated costs.

8.22 Removal of barriers to resolution: TWD firms should already have capabilities to support 'timely and robust' resolution valuations.[37] These capabilities are particularly important for firms with trading activities; the Valuations SoP sets out that valuations needed to inform decisions around the initial application of resolution tools could be carried out within two months, but that firms with trading activities may need to have capabilities to perform quicker valuations. TWD firms' TWD capabilities would help to mitigate the valuations barrier to resolution for in-scope firms, increasing the credibility of their restructuring planning.

Financial stability benefits

8.23 Improved post-resolution restructuring planning: TWD firms' TWD capabilities would provide both the TWD firm and the Bank with relevant up-to-date information as the TWD firm formulates its restructuring plan. This would benefit the TWD firm much in the same way it does in recovery planning, and would help the authorities make better decisions when determining whether a TWD firm meets the conditions for entry into resolution, help ensure the continuity of a TWD firm's critical functions, and help determine whether a TWD firm should be provided with liquidity assistance throughout resolution.

8.24 Improved post-resolution restructuring planning helps to mitigate the restructuring barrier to resolution for TWD firms. This improves the credibility of the UK's resolution regime.

8.25 Contagion risk: Solvency contagion risk is particularly pronounced for firms engaged in trading activities, given the interconnectivity of these activities across different firms and jurisdictions. For example, if a large trading firm is conducting a fire sale, a second large trading firm may have a similar book of assets which it would have to mark down, potentially also putting the second large trading firm into stress.

37 The Valuations SoP.

8.26 Minimising the asset value destruction caused by a disorderly wind-down would help to mitigate this risk by reducing the uncertainty in the value of a TWD firm's assets throughout a firm-specific and/or market-wide stress.

Costs

8.27 The PRA considers TWD firms should utilise their existing systems where possible in order to achieve the proposed policy outcomes; in particular, TWD firms should utilise systems already built to support any existing group requirements (for example, US Title I requirements) or the previous SWD exercise. The cost and time it may take firms to comply with proposed PRA expectations is therefore dependent on firms' existing systems.

8.28 To estimate the direct costs to firms, the PRA undertook a survey in Q1 2021 of firms that met the criteria for the proposed TWD provisions. The survey asked firms to provide estimates of the incremental one-off costs of setting up a TWD framework (in line with the proposed expectations) and the ongoing annual costs of maintaining that framework.

8.29 Survey responses indicated that such cost estimates varied considerably across firms, depending on the size and complexity of the trading books. Average one-off and ongoing costs per firm were £11.96 million and £2.52 million, respectively. In aggregate, these estimates amount to one-off costs of £120 million and annual, ongoing costs of £25 million. The combination of the aggregate one-off costs and the present value of the aggregate ongoing (annual) costs is £870 million (after discounting ongoing costs using the HMT's Green Book long-term discount rate of 3%).

8.30 The costs set out in this CBA are incremental to costs firms have already incurred in meeting existing PRA policies. The proposed expectations set out in more detail how the PRA expects firms to meet existing rules, however, and so firms' costs should be understood as being incurred while helping to meet these existing rules.

Appendices

1 Draft TWD Supervisory Statement, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/october/cp2021app1.pdf

2 Draft TWD Statement of Policy, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/october/cp2021app2.pdf

3 Draft amendments to Supervisory Statement 9/17 'Recovery Planning'

1 Introduction

…

1.3 This SS complements and should be read in conjunction with:

…

- the EBA 'Recommendation on the coverage of entities in a group recovery plan'; ~~and~~
- the Commission Delegated Regulation (EU) 2019/348;[38]
- SSX/22 Trading Activity Wind-Down SS; and
- Trading activity wind-down Statement of Policy (SoP)

…

2 Key recovery plan components and considerations

…

(i) Recovery options

…

2.6 Firms should include in their plans a sufficiently broad range of recovery options to maximise the chance that there will be implementable options in different types of stress. Plans should not be confined to easily implementable recovery options. Firms should also consider more radical options which might include selling strategic assets and fundamentally changing the firm's structure and business model. The PRA expects firms to explain how their recovery plan would be used to restore the financial position and viability of the firm during, or following, a stress.

2.6ZA Firms engaged in trading activities must have the full or partial wind-down of their trading activities as a recovery option, known as the Trading Activity Wind-Down (TWD) option, if appropriate with reference to Rule 2.11. A firm engaged in trading activities that chooses not to have the TWD option as a recovery option must be able to justify its decision to the PRA with reference to Rule 2.11. The PRA considers that a firm engaged in trading activities that does not choose to include the TWD option may not be reasonably likely to maintain or restore the viability and financial position of the institution or of the group, and therefore could be in breach of Rule 2.11. Firms may contact their supervisors to clarify whether the TWD option is required and to obtain further

[38] Available at: COMMISSION DELEGATED REGULATION (EU) 2019/ 348 - of 25 October 2018 - supplementing Directive 2014/ 59/ EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions (europa.eu).

guidance. Where the PRA considers that a firm should have the TWD option in its recovery plan in order to meet Rule 2.11, supervisors will engage with the firm with the expectation that the firm amends its recovery plan accordingly. A wind-down of parts of the banking book (or of the whole firm) may also be a consideration for some firms, including those with limited recovery options.[39]

2.6YA Firms should meet the expectations set out in the TWD SS if they meet the following criteria: (i) they have been identified as an other systemically important institution (O-SII);[40] (ii) they have the full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option, and (iii) they have either been notified by the Bank that its preferred resolution strategy is Bank-led bail-in, or have been notified by the Bank that they are a 'material subsidiary' of an overseas-based banking group for the purposes of setting internal MREL in the UK ('TWD firms').

2.6A For firms with simple business models, the PRA recognises that recovery options may be limited in number, but nevertheless expects firms to give careful thought to identifying possible options, including a sale of the whole business.

…

(g) Wind down analysis

This sub-section has been deleted.

~~2.36 A trading book wind down is likely to be a consideration in recovery planning for all firms with a large trading book. A wind down of parts of the banking book (or of the whole firm) may also be a consideration for some firms, including those with limited recovery options.~~

~~2.37 Firms may contact their supervisors to clarify whether this analysis is required and to obtain further guidance. Firms that have done such analysis should consider including the wind down of certain portfolios as recovery options.~~

~~…~~

(iv) Scenario testing

…

(a) Design

…

2.54 The PRA expects all global systemically important institutions (G-SIIs) and ~~other systemically important institutions (~~O-SIIs~~)~~ to include analysis of at least four scenarios in their recovery plans, and firms that are eligible for Simplified Obligations to include at least two scenarios in their recovery plans. All other firms (which are neither G-SIIs, O-SIIs nor Simplified Obligations firms) should include at least three scenarios.

39 Firms should contact their supervisor to discuss whether this applies.
40 O-SII means a person or group identified by the PRA in accordance with Part 5 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894).

2.60 Firms are encouraged to ensure their approach to scenario testing is consistent with – and leverage – their existing stress testing capabilities, such as those used for the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Where relevant, this can include work done for previous Bank of England concurrent stress test exercises (further detail on the interaction between these regimes is included in '(xiii) Interaction with other relevant regimes and requirements' below). However, firms should ensure scenarios included in their recovery plan are relevant and sufficiently severe for testing the recovery plan

2.60A To ensure a robust test of the TWD option, TWD firms should refer to the TWD SS for the minimum set of factors they should include in their scenario.

…

(xiii) Interaction with other relevant regimes and requirements

…

2.97 Firms are reminded that recovery planning is a prescribed responsibility under the SMR which means that there should be a named executive at each firm that is accountable for the recovery plan and resolution pack and for overseeing the internal processes regarding their governance.16 Firms should identify the accountable executive director responsible for the firm's recovery plan and for acting as the firm's contact point with the authorities on its recovery plan. The PRA has observed that this is typically the CEO, CFO or CRO. The PRA will hold this person accountable for the quality of the recovery plan, for the plan being structured so as to be usable by senior executives and board members in a stress, for making improvements to the recovery plan (including in response to the PRA's feedback) and for the firm's engagement with the PRA on recovery planning issues.

(d) Interaction with Trading activity wind-down policy

2.98 TWD firms should refer to the TWD SoP for relevant information about the interaction between recovery planning and trading activity wind-down policy.

3 Recovery planning for UK subsidiaries of non-EU parents

….

3.3. The recovery plan for a UK subsidiary of a non-EU parent entity should be consistent with any group recovery plan. The level of detail and analysis provided by firms should be proportionate to their size and complexity. The following principles summarise the PRA's expectations as to how Chapter 2 should be applied to these firms:

…

(iv) Deleted. ~~The plan should be consistent with solvent wind down work done by the firm: UK subsidiaries of non-EU banks participating in the PRA's solvent wind down work should ensure the assumptions made in the firm's recovery plan are consistent with those made in the solvent wind down submission (to the extent that the wind down of certain portfolios are included as recovery options or if the recovery plan scenario(s) align with that of the solvent wind down work).~~

…

4 PRA statutory obligations

The statutory obligations applicable to the PRA's policy development process are set out below. This CP explains the policy assessment of relevant considerations.

- Purpose of the policy proposals (FSMA s138J(2)(b)).
- Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and
  an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- Analysis of whether the impact on mutuals is significantly different to the impact on other authorised firms (FSMA s138J(2)(c) and 138K).
- Compatibility with the PRA's primary objectives (FSMA s138J(2)(d)(i), 2B and 2C).
- Compatibility with the PRA's secondary competition objective (FSMA s138J(2)(d)(ii) and 2H(1)).
- Compatibility with the regulatory principles (FSMA s138J(2)(d)(ii), 2H(2) and 3B).
- Have regard to the HMT recommendation letter (BoE Act s30B).
- Have due regard to the public sector equality duty (Equality Act s149).
- Have regard, subject to any other requirement affecting the exercise of the regulatory function, to the principles of good regulation and when determining general policy or principles to the Regulators Code (Legislative and Regulatory Reform Act 2006 s21 & 22)
- Have regard, so far as consistent with the proper exercise of those functions, to the purpose of conserving biodiversity. Conserving biodiversity includes, in relation to a living organism or type of habitat, restoring or enhancing a population or habitat (Natural Environment and Rural Communities Act 2006, s40).
- Consultation of the FCA (FSMA s138J(1)(a)).
- *Where the consultation proposals a PRA rule change or amendment to onshored BTS that affects the processing of personal data* - consultation with the Information Commissioner's Office (article 36(4) General Data Protection Regulation).
- *For UK Technical Standards Instruments only*: FSMA s138J(1)(a) is replaced with: consultation of the FCA and/or Bank, where that Regulator has an interest in the technical standards (FSMA s138P(4) and (5)).
- *For UK Technical Standards Instruments only*: notice given to HMT of the consultation on the UKTS ('best efforts' basis).
- *For CRR rules only:* subject to certain exceptions, have regard to:

  - relevant standards recommended by the Basel Committee on Banking Supervision from time to time

- the likely effect of the rules on the relative standing of the United Kingdom as a place for internationally active credit institutions and investment firms to be based or to carry on activities. For these purposes, the PRA must consider the United Kingdom's standing in relation to the other countries and territories in which, in its opinion, internationally active credit institutions and investment firms are most likely to choose to be based or carry on activities

- the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the United Kingdom on a sustainable basis in the medium and long term

- the target in section 1 of the Climate Change Act 2008 (carbon target for 2050)

(s144C (1) & (2) FSMA – exceptions in s144E FSMA).

- *For CRR rules only* – explanation of the ways in which having regard to the matters specified above has affected the proposed rules (s144D FSMA).
- *For CRR rules only* – publication of a summary of the proposed CRR rules.
- *For CRR rules only* – consideration and consultation with the Treasury about the likely effect of the rules on relevant equivalence decisions (s144C (3) & (4) FSMA).