

## Guidance for Completing the Operational Costs Template (Template B)

### Overview

The purpose of the Operational Costs template is to capture a TWD firm's projections of operational costs that arise in wind-down under the TWD scenario, to show a basic breakdown of those costs and to identify the critical dependencies that constrain the wind-down process. The template will thereby demonstrate the information provision capability called for in this Supervisory Statement.

In order to complete the operational cost template, firms need to identify all the components of operational costs and interdependencies related to the provision of critical services<sup>1</sup> in their trading activities in scope for their TWD option.

Operational costs include direct costs and recharges incurred by TWD firms in both BAU (business as usual) and as projected in the TWD scenario.

We expect that a firm's projections of operational costs will depend on their exit strategy.

In addition to populating the template, firms should produce a narrative report to accompany the completed template, which would as a minimum:

- List and explain key features and assumptions of their approach to calculating the cost and other projections;
- Provide commentary on and analysis of the projections.

### Detailed Template Description & Guidance

*Please note: Unless otherwise stated, please enter all currency amounts in the template in: your reporting currency; the units of your internal MI (e.g. if your MI is calculated to the nearest \$ then report in this unit and do not round to the nearest \$1000 or \$1million).*

Operational costs of trading activities in BAU are underpinned by the expenses shown in the TWD firm's latest annual income statement. Any change in methodology adopted and any adjustment driven by change in the structure of the TWD firms since the date of the latest annual income statement should be clearly noted and explained. In the case of partial wind-down of trading activities, operational costs should be based on the contribution to the income statement being made by the part of the trading activities business being wound down.

TWD operational costs in the template are monthly cash-flow projections of critical service costs to wind-down the trading activities.

A TWD firm should supplement the numerical information in the template with qualitative information explaining how its unwind strategy translates into the projections of key operational cost elements (i.e. severance and retention, real estate, remote booking).

<sup>1</sup> Operational Continuity in Resolution PS 9/21

## ***Operational Cost Template***

The Operational Costs template provides evidence of the types of data TWD firms should be able to produce to support the planning and execution of TWD. The operational costs template focuses on the cost side of the income statement and only on cash-related elements.

### ***Template principles and instruction for completion***

Template B collects two main sets of information, split in various columns and enumerations. The sets of information are: (i) Total Operational Costs; and (ii) Additional Information.

The Total Operational Costs table in Template B requires the firm to project relevant TWD operational costs on a monthly basis. The table in the Additional Information section includes supplementary information on TWD operational costs on a total basis only.

### ***Total Operational Cost***

This section includes total direct cost and recharges related to the business in scope of TWD policy (i.e. trading activities). Firms are required to provide BAU costs at the reference date and monthly projections of wind-down costs for the duration of the wind-down period (24 months, by way of example).

### ***Additional Information***

This section includes cost elements already included in the Total Operational Cost section, but at a greater level of granularity. Firms are required to ensure the costs captured in the Total Operational Cost section and those included in the Additional Information section reconcile, where relevant. By way of example, real estate early redemption costs included in the Total Operational Costs section should reconcile with the same type of costs in the Additional Information section.

Key cost elements:

#### **1.1.1. Staff**

A TWD firm is required to estimate the number and the cost of staff directly employed in respect of the business in scope and in line with the type of support the personnel provide / costs incurred (e.g. Front Office, Front Office Support, Operations, Technology, Temporary/contracted staff, Pension-Defined Contributions, Severance, Retention, Others). Forecasting these costs in line with the exit strategy helps the firm to develop a retention plan for operational staff and trading capabilities that will support the orderly wind-down of positions.

#### **1.1.1.2 Severance and Retention**

Severance and Retention costs mainly apply to personnel employed directly by TWD firms' trading activities. There might be cases in which some firms might also cover the cost for personnel employed by other entities ('Recharges') which provide services to the business in scope of the policy.

### 1.1.2. Recharges

In the Recharges section, TWD firms should include allocation from various entities of the group. The types of entities are related to the operating model of the TWD firms and the relevant resolution strategy. These are: service companies; other operating entities in the group; the not-in-scope business; and the business in-scope that belongs to other resolution entities (for MPE resolution strategy).

As part of Recharges, we expect firms to include the costs related to severance and retention where relevant. These mainly apply to personnel employed directly by the TWD firms, in respect of the business in scope, to run the trading activity, but there might be cases in which firms also cover the cost for personnel employed by other entities which provide services to the trading activities in scope. Qualitative information provided by the firm should include narrative describing the approach adopted and the basis of calculation for those costs.

### 1.1.3. FMIs

Firms are required to provide a breakdown of the cost of access to FMIs (Financial Market Infrastructures). These are related to direct access / memberships, access through 3rd Parties and / or through other group entities. In calculating those costs, firms should consider all the necessary arrangements in place to manage the continued access to FMI services which are used by the firm in TWD.

### 1.1.4. Remote Booking

Firms are required to split remotely booked trades by asset class or line of business, indicating: (i) the proportion of the balance sheet that is remote-booked in BAU and the operational costs associated with the managing of these positions in BAU and TWD. These costs represent mainly the cost of off-shore staff managing the positions in the balance sheet of the TWD firm in scope of the policy. We recognise the complexities of accurate modelling of this cost allocation in wind-down and acknowledge that firms might need to use plausible assumptions for reasonable approximation of remote booking costs during the TWD scenario. We expect the methodology to be consistent with a cooperative wind-down in line with the TWD policy<sup>2</sup>. Qualitative information provided by the firm should include evidence to support the assumptions made.

### 1.1.5. Real Estate (RE)

We expect firms to provide running costs of all properties either leased or owned in BAU, and that are necessary to the execution of TWD. For the purpose of TWD costs, firms should only provide the expense side of the income statement in the form of running cost and any early redemption costs.

## Glossary

The following glossary contains relevant enumerations and definitions included in Template B.

Enumeration Name	Enumeration	Description
<i>Relevant Entity</i>	Name of the TWD Firm	This is the name of the legal entity / entities of the

<sup>2</sup> See section 6.6 of this Supervisory Statement

		business in scope.
<i>Operationalcostlevel1</i>	Direct costs	Costs directly incurred by the business in scope.
<i>Operationalcostlevel1</i>	Direct or Recharges	Costs directly and indirectly incurred by the business in scope. These may comprise e.g. RE, FMI and others.
<i>Operationalcostlevel2</i>	Headcount (FTE)	This figure represents the number of people directly employed by the relevant legal entity / entities related to the business in scope.
<i>Operationalcostlevel2</i>	Staff cost	This figure represents the costs for the Headcount (FTE) of the business in scope.
<i>Operationalcostlevel2</i>	Non-staff cost	This figure represents all the direct non-staff related costs (e.g. technology, legal and litigation) of the business in scope.
<i>Operationalcostlevel3</i>	Technology	This figure represents the technology costs incurred by the business in scope (excluding staff costs). Any technology costs related to allocation from elsewhere in the group have to be captured as recharge.
<i>Operationalcostlevel3</i>	Temporary or contracted staff	This figure represents the costs for the temporary staff employed by the business in scope.
<i>Operationalcostlevel3</i>	Other	Free numerical field to capture costs not included in other fields.
<i>Operationalcostlevel3</i>	Litigation and legal	This figure represents legal and litigation costs incurred by business in scope. Please do not include costs related to regulatory fines.
<i>Operationalcostlevel3</i>	Severance	Direct costs representing the costs incurred by business in scope for severance payments in the TWD period.
<i>Operationalcostlevel3</i>	Retention	Direct costs representing the costs incurred by the business in scope for retention payments to be made in the TWD period.
<i>Operationalcostlevel3</i>	Pensions defined contributions	This figure represents the cost of defined contribution pensions incurred by the

		business in scope.
<i>Operationalcostlevel3</i>	Real estate	Real estate costs are split by running costs and early lease redemption costs.
<i>Operationalcostlevel3</i>	FMI access	This figure represents the direct and indirect cost for access to FMI incurred by the business in scope. The cost of staff or operations team enabling clearing and payment must NOT be included here.
<i>Operationalcostlevel3</i>	3rd party services	This figure represents costs for services received from 3rd parties.
<i>Operationalcostlevel4</i>	Running costs	This figure represents the running costs for leased and owned properties.
<i>Operationalcostlevel4</i>	Early redemption lease costs	This figure represents the cost incurred by the firms for the early redemption of leased properties.
<i>Entity model</i>	Service Company	Services entities of the group that provide services to the business in scope.
<i>Entity model</i>	Other operating entity	Other operating legal entities of the group that provide services to the business in scope.
<i>Entity model</i>	Not in scope business	Other businesses in the same legal entity as the business in scope.
<i>Entity model</i>	Business in scope other resolution entity	For MPE resolution strategy, these are the businesses in scope of TWD included in other resolution entities.
<i>Rechargeslevel1</i>	Cost charging - services received	This figure represents all the costs incurred by the entity in scope for service received from service centres, other operating entities, not in scope businesses and business in scope in other resolution entities.
<i>Rechargeslevel2</i>	Remote booking into the business in scope	This figure represents the costs recharged to the business in scope and related to the trades remotely booked into its relevant balance-sheet.

<i>Rechargeslevel2</i>	Technology	This figure represents the technology costs recharged to the business in scope.
<i>Rechargeslevel2</i>	Severance and retention	Where applicable, firms are required to include in the Recharges severance and retention payments for personnel not directly employed by the relevant entity in relation to the business in scope but that provide services to the business in scope.
<i>Remotebookinglevel1</i>	Gross MTM remote booked into the BIS balance-sheet / Total gross MTM of the balance-sheet of the BIS	This field represents a split between the percentage of the gross mark-to-market remotely booked into the balance-sheet of the business in scope and its total gross mark-to-market. The figure has to be reported as a number between 0 and 1.
<i>Remotebookinglevel1</i>	Cost for remote booking (sales & trading)	This figures represents the cost incurred by the business in scope to remunerate sales, traders, managements (& other costs) located in other entities and related to remote booking activity.