

# Recovery and Resolution plans

*an update*

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# Recovery and Resolution plans - *an update*

- RRP now a business as usual activity
- Policy Statement PS8/13 on RRPs
  - SS18/13 – recovery planning
  - SS19/13 – resolution planning
- Prepared and signed off by the Board annually, or if there is a significant change
- Prescribed function 'r' under SMCR
- Reviewed by the PRA.....

# Recovery and Resolution plans - *an update*

- Key elements of the recovery plan:
  - Confirmation that Board has reviewed and approved;
  - A summary of recovery options using a consistent framework;
  - Is the recovery plan is embedded into the management framework;
  - plan activation triggers;
  - Clear escalation and decision-making processes;
  - Operational plans for accessing central bank liquidity;
  - A communication plan

# Recovery and Resolution plans - *an update*

- New recovery planning elements
  - Plan for accessing central bank facilities
  - Disposals
    - Fair valuation of balance sheet
    - Data room capabilities
    - Impact on ‘whole firm sale’ recovery option
  - Remediation to improve recovery plan credibility

# Recovery and Resolution plans - *an update*

- Resolution planning
- Baseline information (phase 1)
  - *Corporate structure and significant legal entity information*
    - *Business model*
    - *capital and funding*
    - *Activities and operations*
  - *Critical economic functions*
    - *Which of a banks operations may be critical to the financial system?*
- ad hoc, resolution strategy dependent information (phase 2)
  - Bail in
  - Partial transfer and bridge bank
  - Bank insolvency procedure & FSCS payout
  - Additional information on critical functions
    - Payments, clearing and settlement
    - Trading book analysis
    - Cash services
    - Custody services
- Refresh every 2 years

# Recovery and Resolution plans - *an update*

## MREL - PS 30/16 & BoE approach document

- minimum requirement for own funds and eligible liabilities (MREL)
  - 2 x (Pillar 1 + Pillar 2A)
  - 2 x applicable leverage ratio requirement
- no double counting of CET1 for MREL and
  - but no automatic restriction on distributions but capital restoration plan
- adjust down for banks with partial t/f strategy
- banks to meet end-state MRELs by 1/1/22

# Recovery and Resolution plans- *an update*

## MREL - PS 30/16 & BoE approach document

- resolution strategy thresholds
  - **Bail-in** *£15-25 billion of total assets*
  - **Partial transfer** *40k – 80k transactional accounts ( $\leq 9$  withdrawals in last quarter)*
- *Intra group MREL - wip*

# Recovery and Resolution plans- *an update*

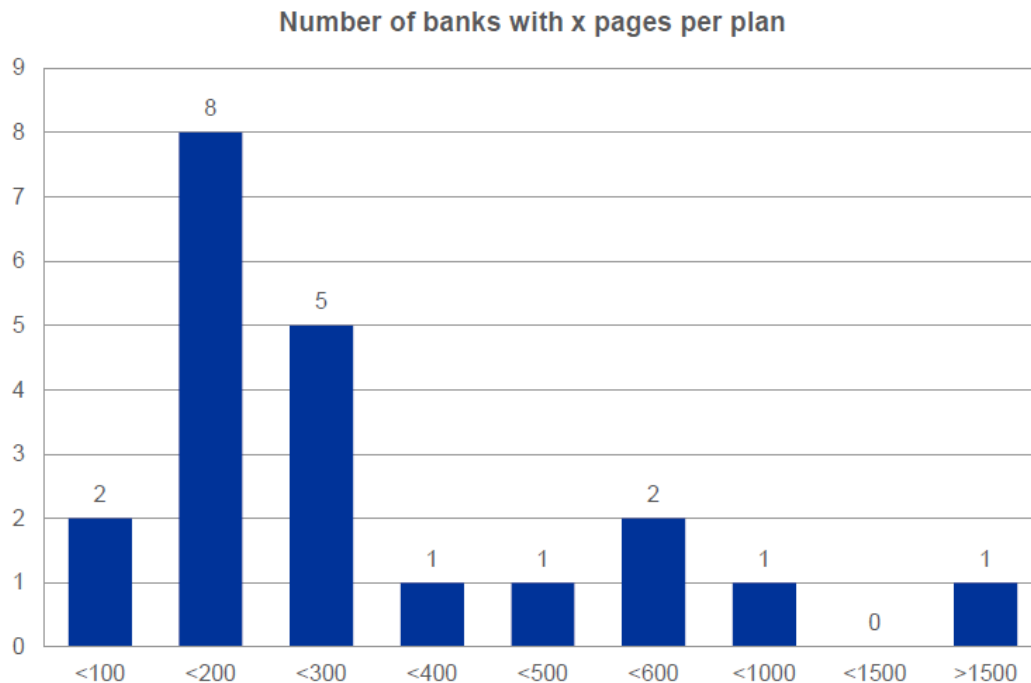
## **Ensuring operational continuity in resolution – PS21/16**

- any service that supports a function critical to the economy in scope
- critical services provider must have sufficient resources during and after resolution
  - but removal of capital requirements to 25% of annual fixed overheads
  - liquidity of 50% of annual fixed overheads of the critical services
- restructuring to support recovery options and resolution?
- identification by mapping from suppliers of critical services to recipient entities that provide critical function
- own governance structures and senior staff
- Objective service standards and arms length pricing
- waivable for small firms?



# Recovery and Resolution plans - *an update*

## ECB review of SSM recovery plans

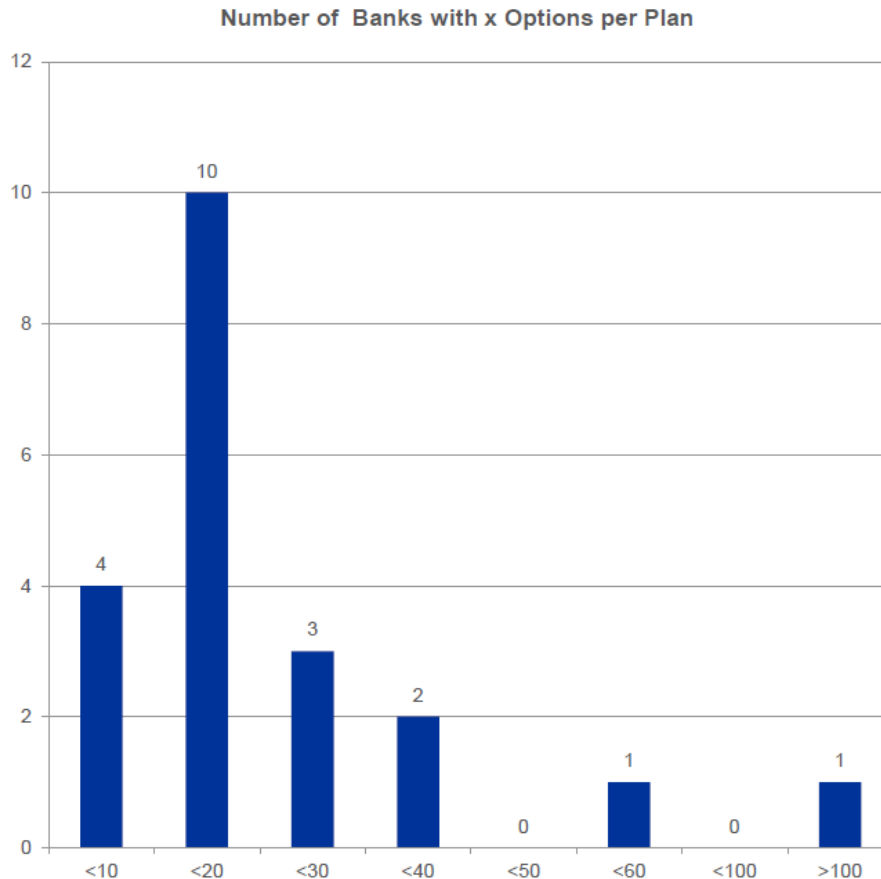


No clear trend outlining that longer/shorter plans are better

- Both extremes have clear deficiencies. For instance:
  - 26 pages is incomplete
  - 1874 pages cause concerns if the plan can be quickly implemented in crisis situations
- Most plans in this sample have between 100 and 300 pages

# Recovery and Resolution plans - *an update*

## ECB review of SSM recovery plans

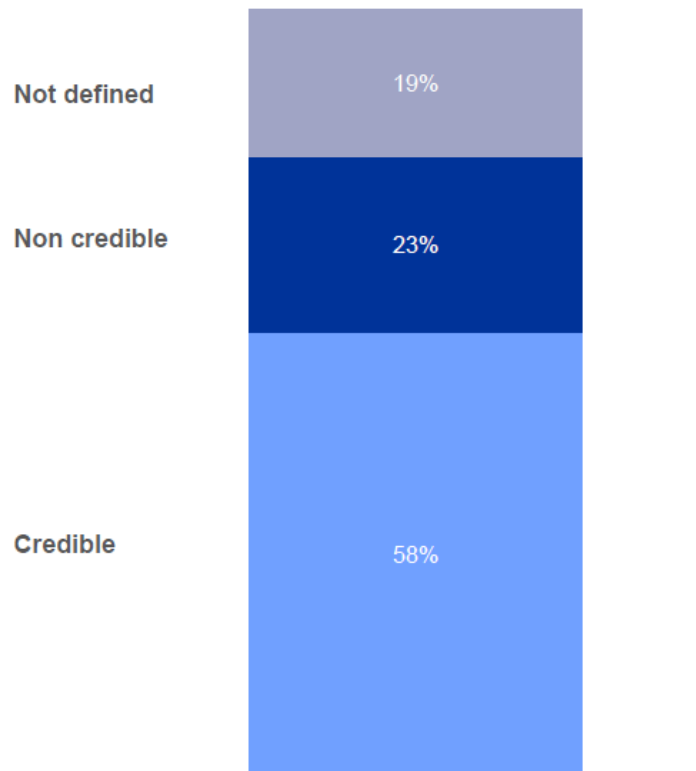


- The range between 10 and 20 options is the most common
- A larger number of options does not translate into an advantage per-se. Too much granularity can affect the effectiveness of the plan and its credibility – the plan with the most options was assessed as being too granular and not operational in that regard

# Recovery and Resolution plans - *an update*

## ECB review of SSM recovery plans

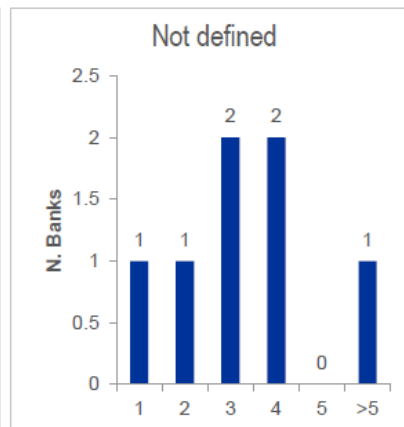
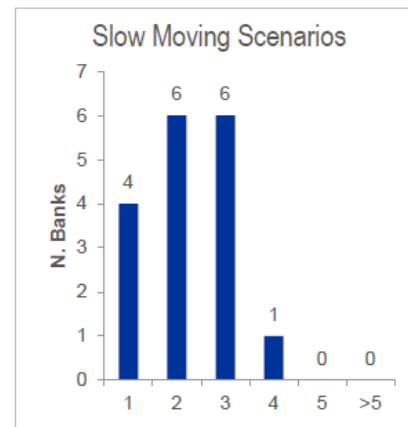
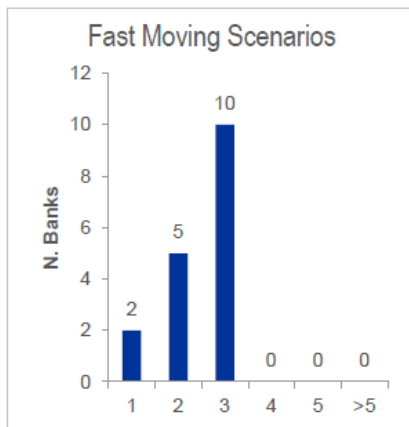
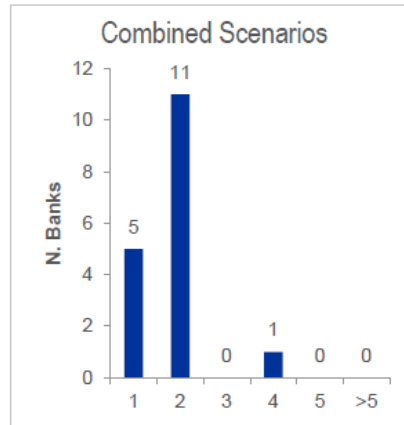
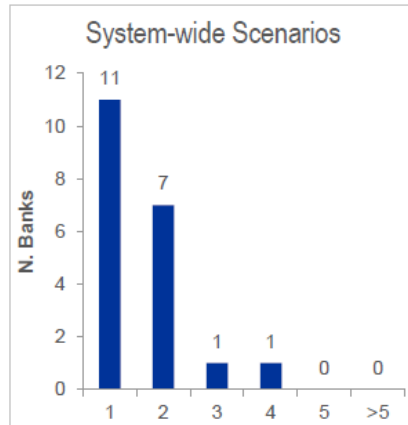
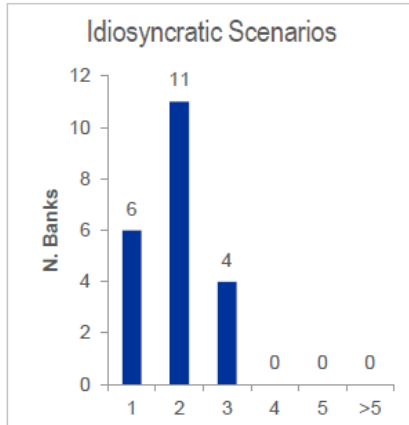
Options Credibility



- Several options were assessed as not credible, for example because:
  - they already had been used
  - timelines were set on a complete arbitrary basis or were not feasible
  - options neglected legal impediments
  - or involved state aid
- JSTs should be provided with more detailed guidance on assessing the credibility of options to harmonise the assessment process

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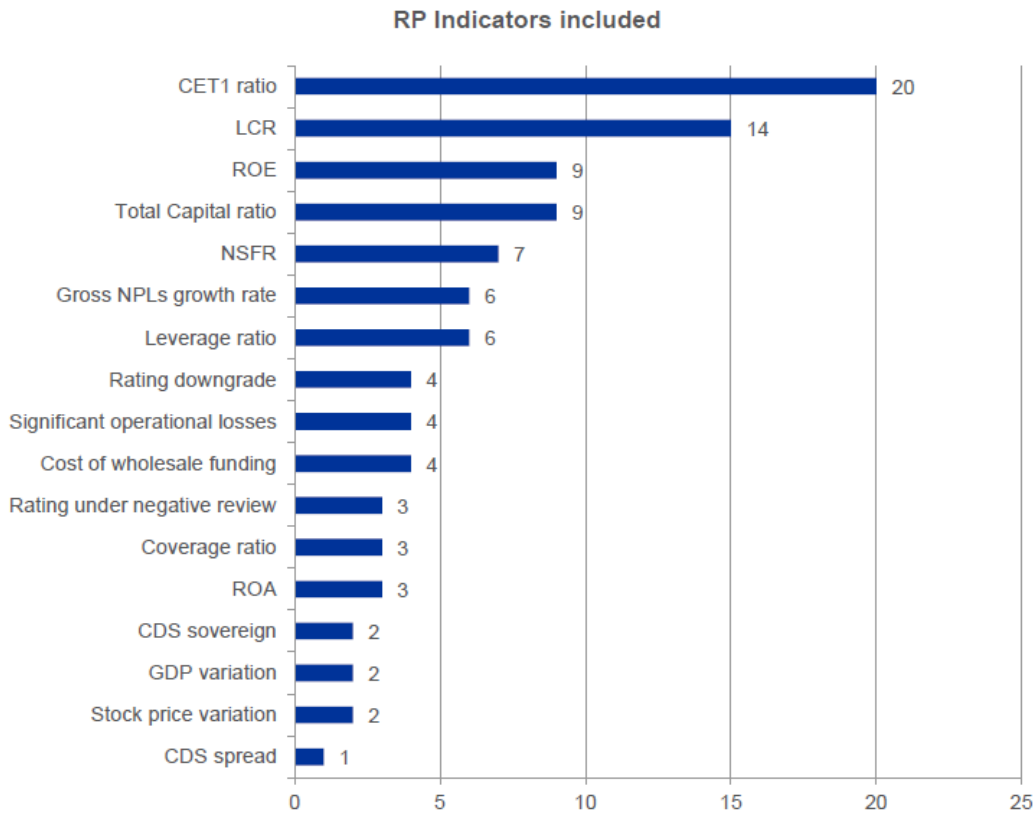
## ECB review of SSM recovery plans



- EBA categories are idiosyncratic, system-wide and a combination of both
- Moreover, adverse events should be either fast or slow moving
- The benchmarking has shown that institutions use different definitions of fast and slow moving adverse events – not all plans disclose how fast the adverse event would hit the institution but only give the overall time until recovery
- CMN drafted a common definition of slow and fast moving adverse events for use as of next campaign

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## ECB review of SSM recovery plans



- In July 2014 EBA published a minimum list of indicators divided in 6 categories
  - four categories are mandatory (capital, liquidity, profitability, asset quality)
  - two are optional (market based and macroeconomic)
  - Institutions have to choose at least one indicator from the mandatory categories or explain why they have replaced it with another indicator
- Many banks have opted for institution specific indicators (mainly for profitability and asset quality categories)

# Contact details

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