

# UK PRA Proposes Intensified Recovery Planning Requirements

July 31, 2017

In June 2017, the Prudential Regulation Authority (“PRA”) published a consultation paper which contains a draft supervisory statement revising the content of bank recovery plans (the “**Draft Supervisory Statement**”). The PRA proposes that the revised statement will supersede the existing requirements contained in Supervisory Statement SS18/13 ‘Recovery Planning’ (“**SS18/13**”), by the second half of 2017. The PRA expects responses to its consultation paper by 21 September 2017.

The Draft Supervisory Statement is a wholesale rewrite of the existing supervisory statement and contains a number of additional requirements which institutions would have to include in their recovery planning. If implemented in their current form, the proposed requirements would substantially increase the intensity of the recovery planning process.

This memorandum sets out a summary of the proposed changes and provides a more detailed table comparing the proposed new requirements, together with those required under the EU Bank Recovery and Resolution Directive (“**BRRD**”), with the existing framework.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors:

## LONDON

**Bob Penn**

+44 0207 614 2277

[bpenn@cgsh.com](mailto:bpenn@cgsh.com)

**Knox McIlwain**

+44 207 614 2204

[kmcilwain@cgsh.com](mailto:kmcilwain@cgsh.com)

## WASHINGTON D.C.

**Michael H. Krimminger**

+1 202 974 1720

[mkrimminger@cgsh.com](mailto:mkrimminger@cgsh.com)

**Katherine Mooney Carroll**

+1 202 974 1584

[kcarroll@cgsh.com](mailto:kcarroll@cgsh.com)



## Introduction

The Draft Supervisory Statement is relevant to UK banks, building societies and PRA-designated firms (together “**firms**”) for whom the requirement for a recovery plan is currently prescribed in the “Recovery Plan” section of the PRA rulebook. SS18/13 was first published in December 2013 and updated in January 2015 to reflect the transposition of the European Commission’s proposed significant revisions to the BRRD as part of its wider package of banking reforms.

## Scope of Draft Supervisory Statement

At a European level, further recovery plan requirements were introduced by Commission Delegated Regulation (EU) 2016/1075 (the “**Delegated Regulation**”). The Delegated Regulation, as primary European legislation, is directly applicable in Member States. The PRA did not update SS18/13 to reflect the requirements of the Delegated Regulation (nor does the Draft Supervisory Statement do so).

## Key changes

The changes proposed under the consultation are wide-ranging, and would result in extensive changes to firms’ recovery planning processes and documentation. The Delegated Regulation and the Draft Supervisory Statement together would make the following key changes to recovery planning relative to the preceding regime.

- **Strategic analysis:** the Delegated Regulation and the Draft Supervisory Statement lay emphasis on strategic analysis of the firm, including much of the disclosure around business model, critical functions and core business lines formerly required in the resolution pack. Firms would be permitted to cross refer to the resolution pack, but should provide sufficient detail “to make the plan coherent”: it is unclear what level of information would be expected to this end. Where the recovery plan is produced at a different time from the resolution pack, however, it is likely that affected firms would need to update the relevant disclosure.
- **Governance and integration with risk management processes:** the requirements make it clear that both the recovery planning process, and its implementation – including the monitoring of early warning indicators, scenario testing and the determination and assessment of recovery options – are to be embedded in the firm’s risk management processes and governance. The PRA also anticipates that firms should combine their contingency funding plan and recovery plan, that the recovery plan be consistent with the ICAAP and ILAAP and that stress testing should contemplate actions that are consistent with the recovery plan.
- **Recovery plan indicators:** in addition to requiring inclusion of recovery plan indicators, the Draft Supervisory Statement requires that the plan “explain and justify” the calibration of the indicators, based on the range of options available to the firm, their lead time to execution and the firm’s risk appetite.
- **Impact assessment:** the Draft Supervisory Statement contemplates more detailed analysis of impact than is contemplated under the existing rules or the Delegated Regulation on each recovery option, including “quantitative and qualitative evidence” to support the quantification of any benefits, and evidence of the quantitative, operational and business model and impacts, systemic implications and resolution impact of each option.
- **Scenario planning:** the Delegated Regulation and the Draft Supervisory Statement contemplate detailed scenario planning, including modelling of the impact of each scenario over time on capital and liquidity and an assessment of which options would be used, and when, in relation to each scenario.
- **“Fire drills”:** firms would be expected to conduct biennial or annual fire drills, which should test governance arrangements and examine the possibility of implementing a

firm's preferred recovery option as well as multiple recovery options at once.

- **"Playbooks"**: firms would be expected to produce playbooks, which are intended to function as short-form implementation guides for the board.
- **Groups**: for groups, the Draft Supervisory Statement sets expectations on the interaction between solo and group recovery plans, including that parents of international groups cover the group as a whole and significant legal entities within the group (consistent with the European Banking Authority's recent consultation on the coverage of group recovery plans), that there be consistency between group and material legal entity-level recovery options, indicator frameworks and governance arrangements and that interdependencies between group and legal entity levels be reflected. Helpfully, the Draft Supervisory Statement aligns relatively well with the recovery planning framework developed in the US by the Federal Reserve and the Office of the Comptroller of the Currency, although it remains to be seen whether the various regimes will be applied in practice in a consistent manner.
- **UK subsidiaries of non-EU parents**: section 3 of the Draft Supervisory Statement sets out requirements applicable to UK subsidiaries of non-EU parents: it is unclear whether Chapter 3 is intended to replace Chapter 2, or to amend Chapter 2's application.

Ring-fenced groups would also be subject to specific additional considerations relating to the ring-fenced sub-group, reflecting the PRA's focus on ensuring the continuity of the ring-fence sub-group in the event of stress.

### **What will new recovery plans need to contain?**

Rather unhelpfully, the Draft Supervisory Statement is structured differently from the existing statement. It also does not include the requirements of the Delegated Regulation. Nonetheless, because the

Delegated Regulation is directly applicable in the UK, firms' subsequent resolution plans would need to satisfy the requirements of both the PRA's requirements and the Delegated Regulation.

The attached Annex provides a comparison between the requirements of the existing statement, the Draft Supervisory Statement and the Delegated Regulation.

Where the Draft Supervisory Statement contains additional requirements beyond the minimum standards detailed in the Delegated Regulation, the additional requirements proposed by the PRA are shown in *italics*.

Changes made to the existing recovery plan framework by the Delegated Regulation are shown in underline.

*Please feel free to contact any of your regular contacts at the firm or any of our partners or counsel listed in the "Banking and Financial Institutions" section of our website (<http://www.clearygottlieb.com>) if you have any questions.*

...

CLEARY GOTTLIB

## Annex

### Comparison of Recovery Planning Requirements

SS18/13 Requirements <sup>1</sup>	Requirements for subsequent Recovery Plans	
	European Rules <sup>2</sup>	Draft Supervisory Statement
<b>1. Recovery plan summary</b>		
A firm's view of the extent that its recovery plan is credible and executable in a severe stress and an explanation of that view. Description of any material changes (including reason for changes) or action taken since the firm's last recovery plan submission.	<p><b>[Article 4, Delegated Regulation]</b> The summary of the key elements of the recovery plan will include:</p> <ul style="list-style-type: none"> <li>• the recovery plan's information on governance;</li> <li>• the recovery plan's strategic analysis, including a summary of overall recovery capacity referred to in Article 12(3) (operational continuity);</li> <li>• any material changes to the institution, group or recovery plan since the previous version of the recovery plan was submitted to the competent authority;</li> <li>• the recovery plan's communication and disclosure plan; and</li> <li>• the preparatory measures set out in the recovery plan.</li> </ul> <p><b>[Article 15, Delegated Regulation]</b> A recovery plan shall include an analysis of any preparatory measures that the entity or entities covered by it have taken or which are necessary to facilitate the implementation of the recovery plan or to improve its effectiveness together with a timeline for implementing those measures. Such preparatory measures shall include any measures necessary to overcome impediments to the effective implementation of recovery options which have been identified in the recovery plan.</p>	

<sup>1</sup> "SS18/13 Requirements" being the PRA Supervisory Statement SS18/13 dated December 2013 (as updated in January 2015).

<sup>2</sup> Includes the Delegated Regulation, the EBA guidelines on the range of scenarios to be used in recovery plans (the "EBA Scenario Guidelines") and EBA guidelines on recovery plan indicators (the "EBA Indicator Guidelines") (collectively "European Rules").

<b>2. Strategic analysis</b>		
	<b>[Article 6, Delegated Regulation]</b> Firms shall undertake a strategic analysis identifying core business lines and critical functions and set out the key steps to maintaining those core business lines and critical functions in a situation of financial stress.	
<b>3. Description of entities covered by the recovery plan</b>		
	<b>[Article 7, Delegated Regulation]</b> As part of the exercise set out in Article 6, Delegated Regulation, firms shall ensure that recovery plans contain information on: <ul style="list-style-type: none"> <li>• a general characterisation (<i>i.e.</i> business model critical functions) of the entity or entities covered by the recovery plan;</li> <li>• a mapping of the core business lines and critical functions to the legal entities and branches;</li> <li>• a detailed description of the legal and financial structures of the entity or entities covered by the plan (including an explanation of intra-group interconnectedness, <i>i.e.</i> exposures, non-arm's-length agreements, centralised functions, group financial support arrangements); and</li> <li>• a description of external interconnectedness (<i>i.e.</i> exposures to counterparties, significant products, services offered).</li> </ul>	<b>[Section 2.87, Draft Supervisory Statement]</b> Firms should include granular diagrams detailing the legal structure of the group, showing, as a minimum, significant legal entities and the full ownership structure of any entities that have been included as disposal options. Firms should identify core business lines and critical functions for the purposes of recovery planning and map these to legal entities or branches.
<b>4. Relevance of the recovery plan to firm</b>		
	<b>[Article 13, Delegated Regulation]</b> Where information set out in Article 7 has been submitted to resolution authorities in accordance with Article 11, BRRD competent authorities may choose to accept cross references to that information as sufficient for meeting the requirement in Article 7 if they do not compromise the completeness and quality of the recovery plan.	<b>[Section 2.87, Draft Supervisory Statement]</b> The PRA expects firms to demonstrate that their recovery plan appropriately reflects their business model, structure, operations and risk strategy.  <b>[Section 2.88, Draft Supervisory Statement]</b> Where a firm has included in its resolution pack information of this sort (as described in Article 7, Delegated Regulation), a firm can cross refer to that information in its recovery plan, but should provide sufficient detail in the recovery plan such that it includes information that would be needed in a stress and is needed to

		make the plan coherent. Firms should also ensure that sufficient detail is included in their resolution pack submission in order to cross refer to that information.
<b>5. Integration with existing risk management processes</b>		
<p>An overview of how the preparation of the recovery plan links to the firm's existing risk management framework. Please detail the following:</p> <p>(a) how the plan is integrated into the firm's risk management process (including Management Information Systems) and/or crisis management framework; and</p> <p>(b) details of the process undertaken to ensure appropriate governance; confirmation of board approval; and nomination of 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.</p>	<p><b>[Article 5, Delegated Regulation]</b> The information on governance shall contain at least a detailed description of the following matters:</p> <ul style="list-style-type: none"> <li>• <u>how the recovery plan was developed (i.e. role/function of individuals responsible; identity of person who is responsible for plan; description of how plan is integrated into corporate governance of firm; description (if applicable) of group measures to ensure co-ordination and consistency of recovery);</u></li> <li>• <u>the policies and procedures governing approval of the recovery plan (i.e. statement of whether plan was reviewed by internal audit, confirmation plan has been assessed/approved by parent undertaking responsible);</u></li> <li>• <u>the conditions and procedures necessary to ensure the timely implementation of recovery options (i.e. description of internal escalation and decision-making process, role/function of persons involved in the process; procedures to be followed; time limit for the decision on taking recovery options);</u></li> <li>• <u>a detailed description of the indicators, reflecting possible vulnerabilities, weaknesses or threats to, as a minimum, the capital position, liquidity situation, profitability and risk profile of the entity or entities covered in the recovery plan;</u></li> <li>• <u>the plan's consistency with the general risk management framework of the institution or group, including a description of the relevant benchmarks (early warning signals) used as part of the institution's or group's regular internal risk management process, where these</u></li> </ul>	<p><b>[Section 2.46, Draft Supervisory Statement]</b> The PRA considers that firms should monitor the same set of metrics as part of the contingency planning framework and the recovery planning framework in order to provide a consistent approach to monitoring risk across the firm. The PRA expects indicator frameworks to be integrated into the firm's risk management practices. Firms should not treat the indicator framework for recovery planning as a separate construct or monitor these metrics outside the normal management information practices.</p> <p><b>[Section 2.80, Draft Supervisory Statement]</b> Firms should include in their recovery plans a sufficiently clear description of escalation and decision-making processes relevant to the recovery plan as part of the firm's wider risk management framework. Firms should detail who is responsible for taking what decisions and when. This should ensure effective action is taken in a timely manner and should include procedures to be followed during recovery, including identification of the key people involved and their roles and responsibilities.</p> <p><b>[Section 2.84, Draft Supervisory Statement]</b> The PRA expects firms to show that they have considered/reviewed/assessed recovery plans internally (i.e., provide evidence that board of directors has reviewed/signed-off, description of how plan links to existing risk management, be prepared to discuss plan and playbook with PRA and demonstrate that sufficiently senior individuals were involved in production of playbook, fire drill exercises).</p> <p><b>[Section 2.98, Draft Supervisory Statement]</b> Firms are reminded that recovery planning is a prescribed responsibility under the Senior Managers Regime. Firms should identify the accountable executive director responsible for the firm's recovery plan and for</p>



	<p>benchmarks are useful to inform the management that the indicators could potentially be reached; and</p> <ul style="list-style-type: none"> <li>management information systems, including a description of arrangements in place to ensure that the information necessary to implement the recovery options is available for decision-making in stressed conditions in a reliable and timely way.</li> </ul>	<p>acting as the firm's contact point with the authorities on its recovery plan. The PRA expects this to be 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.</p>
<b>6. Implementation of the plan</b>		
<p>The recovery plan must include appropriate triggers and procedures to ensure the timely implementation of recovery actions. These triggers can comprise a combination of quantitative and qualitative indicators, need to be timely (<i>i.e.</i> forward looking to provide enough notice to take corrective action), capable of being monitored and it should be clear when they are not being met. The triggers can be based on internal early warning indicators that firms currently monitor. An appropriate number of triggers should be monitored in line with the firm's complexity and business profile.</p> <p>Describe the internal decision-making process by which the firm will identify when its recovery plan triggers are reached and how decisions</p>	<p>See also <b>[Recitals 8, 10 and Article 5, Delegated Regulation]</b>.</p> <p><b>[Paras 9 – 20, EBA Indicator Guidelines]</b> Institutions should include recovery plan indicators of both a quantitative and qualitative nature. Framework of recovery plan indicators should be adapted to business model of the firm, be adequate to the size/complexity of the institution, be aligned with overall risk management framework and include forward-looking indicators.</p> <p>Institutions should include:</p> <ul style="list-style-type: none"> <li>Capital Indicators: <b>[Paras 21 – 25, EBA Indicator Guidelines]</b> capital indicators should be integrated into ICAAP; should take account of how capital situation might change and should be calibrated at adequate levels to ensure a sufficient distance from a breach of capital requirement.</li> <li>Liquidity Indicators: <b>[Para 26 – 31, EBA Indicator Guidelines]</b> liquidity indicators should be able to inform institution of the potential for, or an actual deterioration of the capacity of, the institution to meet current and foreseeable funding needs. Must also include off-balance sheet items and intra-group funding.</li> <li>Profitability Indicators: <b>[Para 32 – 33, EBA Indicator Guidelines]</b> profitability indicators should capture any</li> </ul>	<p><b>[Section 2.45, Draft Supervisory Statement]</b> To allow firms flexibility in their response, the trigger of an indicator should not be used as an automatic trigger for a predefined set of management actions.</p> <p><b>[Sections 2.47 – 2.52, Draft Supervisory Statement]</b> Firms are expected to identify a range of indicators which identify the signs of emerging stress. Firms should include a broader range of indicators than regulatory capital and liquidity ratios and include internal quantitative and qualitative metrics from the firm's overall risk management framework. Firms should include early warning indicators to identify emerging signs of stress and to indicate different stages of stress as implied by a particular metric.</p> <p>The calibration of indicators should be sufficiently sensitive to alert the firm to stress and sufficiently forward looking to allow time for recovery options to be taken. Once the final indicator for a particular metric is triggered, there should be sufficient time to implement the remaining (potentially more difficult to implement and franchise damaging) recovery options.</p> <p>Firms should monitor projected outcomes and trends as well as actual results as part of the indicator framework.</p>

<p>are taken concerning the appropriate actions which follow, as well as the process for notifying the PRA.</p> <p>List of key staff involved in the decision-making and activation process and selection of the individual options to be implemented.</p>	<p>institution's income-related aspect that could lead to a <u>rapid deterioration in the institution's financial position and indicators referring to operational risk-related losses.</u></p> <ul style="list-style-type: none"> <li>• <u>Asset Quality Indicators: [Para 34 – 36, EBA Indicator Guidelines] asset quality indicators should measure and monitor the asset quality evolution of the institution and should indicate when asset quality deterioration could lead to the point at which the institution should consider taking action. Asset quality indicators may include a stock and flow ratio of non-performing exposures.</u></li> </ul> <p><u>Institutions can exclude the following if they show the competent authority that they are not relevant to legal structure, risk profile and size of firm:</u></p> <ul style="list-style-type: none"> <li>• <u>Market-based Indicators: [Para 37, EBA Indicator Guidelines] market-based indicators should include: equity and debt-based indicators, portfolio-related indicators and rating downgrades.</u></li> <li>• <u>Macro-economic Indicators: [Para 38 – 40, EBA Indicator Guidelines] macro-economic indicators should be based on metrics that influence the performance of institution, including geographical macroeconomic indicators and sectoral macroeconomic indicators.</u></li> </ul>	<p><i>The PRA expects firms to explain and justify the calibration of the indicators in their recovery plans. This should be based on the following factors:</i></p> <ul style="list-style-type: none"> <li>• <i>The range of credible recovery options available to the firm.</i></li> <li>• <i>The expected time required to execute recovery options (taking into account governance arrangements, regulatory approvals required in all relevant jurisdictions and operational impediments to execution).</i></li> <li>• <i>The firm's risk appetite and risk tolerance.</i></li> </ul> <p><i>Firms should take account of the potential impact of automatic maximum distributable amount restrictions on the ability to implement recovery options and should calibrate their capital indicators accordingly.</i></p>
<h2>7. Recovery plan options</h2>		
<p>Summary description of each recovery option and the steps necessary to effect it. For each recovery option, please provide the information set out in Table B<sup>3</sup>. The PRA expects comprehensive recovery planning that includes all</p>	<p><u>[Article 8, Delegated Regulation] Each recovery option shall be described in a way that enables the PRA to assess its impact and feasibility. Recovery options shall include measures which are extraordinary in nature as well as measures that could also be taken in the course of the normal business of the entity or entities covered by the recovery plan. Recovery options shall not be excluded for the sole reason that they would require a change to the current nature of the business of that entity or those entities.</u></p>	<p><i>[Sections 2.5 – 2.13, Draft Supervisory Statement] 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.</i></p>

<sup>3</sup> Information provided in Table B included, for market-wide, idiosyncratic and combined scenarios: (i) capital impact; (ii) risk-weighted and total asset impact, (iii) liquidity impact; (iv) leverage ratio exposure impact; (v) assumptions to quantify liquidity/capital impact; (vi) timing to realisation of the benefits; (vii) summary of hurdles/risks to implementation; (viii) franchise impact; (ix) likely effectiveness; and (x) ownership of recovery option within the bank.



<p>credible options for addressing both liquidity and capital difficulties, and therefore should include actions identified as part of BIPRU liquidity planning requirements. The PRA expects firms to also consider options that may have permanent structural implications, including those which would likely be contemplated in extremely stressed circumstances.</p>		<p><i>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.</i></p> <p><i>The choice of recovery options should be suitable for the business model of the firm and be based on realistic assumptions using high-quality analysis. The PRA expects firms to choose options – including disposal options – which are implementable in an actual stress and provide sufficient benefit to be worthwhile.</i></p> <p><i>However, firms should also identify options that may not be currently easy to execute, for example those that may have permanent structural implications, including those which would likely be contemplated in extremely stressed circumstances.</i></p> <p><i>Firms should state if there are recovery options that were considered but dismissed, and if so include a clear explanation as to why. Firms should clearly explain where executing options would cause a fundamental change in their business model and strategy and/or a fundamental shift in the scale of their activities.</i></p> <p><i>Firms should explain under which circumstances each option would be used. The plan should also set out situations where each option would not be credible, for example due to market conditions or because options are mutually exclusive.</i></p>
<b>8. Communication plan</b>		
	<p><b>[Article 14, Delegated Regulation]</b> The communication and disclosure plan shall cover the following matters in detail:</p> <ol style="list-style-type: none"> <li><u>internal communication, in particular to staff, works councils or other staff representatives;</u></li> <li><u>external communication, in particular to shareholders and other investors, competent authorities, counterparties, financial markets, financial market infrastructure, depositors and the public, as appropriate; and</u></li> </ol>	<p><b>[Section 2.81, Draft Supervisory Statement]</b> Governance procedures for the firm’s communication plan should be captured by the recovery plan and be consistent with the governance procedures for invoking the recovery plan itself. They should also be consistent with the firm’s wider corporate governance for communications. Where this is not the case, the differences should be explained.</p> <p><b>[Section 2.82, Draft Supervisory Statement]</b> A firm’s recovery plan should clearly state at what point the PRA would be informed of the firm’s situation and the engagement that the firm would expect to have with its supervisor(s).</p>

	<p>c. <u>effective proposals for managing any potential negative market reactions.</u></p> <p><u>The communication and disclosure plan shall adequately consider any specific communication needs for individual recovery options.</u></p>	<p><i>[Sections 2.85 – 2.86, Draft Supervisory Statement] The recovery plan should include a communication plan to ensure that there is a clear strategy for managing the dissemination of timely and appropriate information to stakeholders (both internal and external) during the firm’s recovery process. In particular, firms should consider how they will manage any negative market reaction to recovery options. There should be a clear implementation plan for communications, tailored to each recovery option. Scenario testing should include the expected impact of the communication strategy during recovery.</i></p>
<p><b>9. Impact</b></p>		
<p>A description of the impact of carrying out each recovery option, including metrics. Potential range of impact on capital, liquidity and balance sheet together with explanation of the assumptions made.</p>	<p><b>[Article 9, Delegated Regulation]</b> Each recovery option shall <u>indicate at least the following (or if it does not indicate the following, it must show that the factors were considered and discounted):</u></p> <ul style="list-style-type: none"> <li>a. <u>a range of capital and liquidity actions required to maintain or restore the viability and financial position of the entity or entities covered by the recovery plan;</u></li> <li>b. <u>arrangements and measures to conserve or restore the institution’s own funds or the group’s consolidated own funds;</u></li> <li>c. <u>arrangements and measures to ensure that the entity or entities covered by the recovery plan have adequate access to contingency funding sources to ensure that they can carry on their operations and meet their obligations as they fall due (including external measures available);</u></li> <li>d. <u>arrangements and measures to reduce risk and leverage, or to restructure business lines including, where appropriate, an analysis of possible material divestments;</u></li> <li>e. <u>arrangements and measures to achieve a voluntary restructuring of liabilities, without triggering an event of default, termination, downgrade or similar.</u></li> </ul>	
<p>The range of potential effects of each option on the on-going</p>	<p><b>[Article 10, Delegated Regulation]</b> Each recovery option shall <u>contain an impact assessment (detailing the processes for</u></p>	<p><i>[Section 2.17, Draft Supervisory Statement] The financial impact of recovery options should be quantified – as a minimum –</i></p>

<p>business in terms of profit. The quantification of recovery action benefits should be submitted on a post-tax basis.</p>	<p><u>determining the value and marketability of the core business lines, operations and assets) and assessment (and related valuation assumptions) of:</u></p> <ul style="list-style-type: none"> <li>a. <u>a financial and operational impact (detailing impact on solvency, liquidity, funding positions, profitability and operations of the entity or different group entities); and</u></li> <li>b. <u>external impact and systemic consequences (detailing impact on critical functions and the rest of the group, shareholders, customers, depositors, retail investors and counterparties).</u></li> </ul>	<p><i>in terms of the Common Equity Tier 1 (CET1) Ratio, Leverage Ratio and Liquidity Coverage Ratio (LCR) percentage point and relevant nominal impacts, and the impact on the balance sheet and profitability. The quantification of recovery option benefits should be submitted on a post-tax basis. Firms should include a central quantification, but it is acceptable to include a potential range of impacts for each metric if the assumptions made are justified. For example, firms should explain the different stress conditions under which these estimates could arise.</i></p> <p><b>[Section 2.18, Draft Supervisory Statement]</b> <i>It is important that firms provide sufficient quantitative and qualitative evidence to support the quantification of the expected benefits of their recovery options in different types of stress. The quantification should be realistic and take into account past experience of the firm or of peers where applicable.</i></p>
<p>The impact of each option on the on-going business operations and support functions. The impact of each option on the firm's franchise and how a communication plan can mitigate this. The impact of each option on the firm's ratings.</p>	<p><b>[Article 12, Delegated Regulation]</b> <u>Each recovery option shall contain an assessment of how the continuity of operations will be ensured when implementing that option.</u></p> <p><u>That assessment shall include an analysis of internal operations (for example, information technology systems, suppliers and human resources operations) and of the access of the entity or entities covered by the recovery plan to market infrastructure (for example, clearing and settlement facilities and payment systems). In particular, the assessment of operational contingency shall take into account:</u></p> <ul style="list-style-type: none"> <li>a. <u>any arrangements and measures necessary to maintain continuous access to relevant financial markets infrastructure;</u></li> <li>b. <u>any arrangements and measures necessary to maintain the continuous functioning of the operational processes of the entity or entities covered by the recovery plan, including infrastructure and IT services;</u></li> <li>c. <u>the expected time frame for the implementation and effectiveness of the recovery option; and</u></li> </ul>	<p><b>[Section 2.16, Draft Supervisory Statement]</b> <i>The options should support the recovery of the firm without making the post-recovery business model unviable. Firms should provide evidence that they have considered the impact of the option on the firm and, if applicable, the wider group. This should include quantitative, operational and business model impacts, including the impact on the franchise, ratings, on-going business operations and support functions. The execution of each option should be credible. Firms should consider the systemic implication of each option – and potential combinations of options – on both the UK and international financial systems.</i></p>

	<p>d. <u>the effectiveness of the recovery option, and the adequacy of indicators in a range of scenarios of financial stress which assesses the impact of each of these scenarios on the entity or entities covered by the recovery plan, in particular on their capital, liquidity, profitability, risk profile and operations.</u></p> <p><u>That assessment shall identify the recovery option which could be appropriate in a specific scenario, the potential impact of the recovery option, its feasibility, including the potential impediments to its implementation, and the time frame required for its implementation. On the basis of this information, the assessment shall describe the overall recovery capacity of the entity or entities covered by the recovery plan, being the extent to which the recovery options allow that entity or those entities to recover in a range of scenarios of severe macroeconomic and financial stress.</u></p>	
<p>The impact of each option on resolution, <i>e.g.</i> would it create additional barriers for an orderly resolution? The systemic implication of each option on both the UK and international financial system.</p>	<p><b>[Article 11, Delegated Regulation]</b> <u>Each recovery option shall contain a feasibility assessment (and solutions if impediments are discovered) which shall include at least:</u></p> <ul style="list-style-type: none"> <li>a. <u>an assessment of the risk associated with the recovery option;</u></li> <li>b. <u>analysis and description of any material impediment<sup>4</sup> to the effective and timely execution of the plan and how these can be overcome; and</u></li> <li>c. <u>analysis of potential impediments to the effective implementation of the recovery option which result from the structure of the group or of intra-group arrangements (including substantial practical or legal impediments).</u></li> </ul>	<p><b>[Section 2.22, Draft Supervisory Statement]</b> <i>Firms should include in their recovery plans the impact of taking recovery options – and groups of recovery options – on subsequent resolution. For example, firms should consider how recovery options would impact the existing barriers to resolution, the viability of the business model, the ability to provide or support critical economic functions and the potential implications of recovery options on post-resolution restructuring.</i></p> <p><b>[Section 2.23, Draft Supervisory Statement]</b> <i>Work done by firms on recovery and resolution should be consistent and viewed as complementary. This includes the interactions between recovery and resolution planning, structural reform and operational continuity in resolution. For example, actions taken primarily for resolution planning may also facilitate recovery planning. On the other hand, firms should recognise and explain where recovery options might impinge on resolvability, for example, the sale of a subsidiary that is providing critical services to other entities within the group.</i></p>

<sup>4</sup> Note to Draft: a “material impediment” is one which could potentially negatively affect the timely execution of the recovery option including, in particular, legal, operational, business, financial and reputational risks such as any risk of a credit rating downgrade.

		<i>[Section 2.24, Draft Supervisory Statement] In planning and explaining preparatory measures necessary to increase the credibility of certain recovery options, firms should explicitly consider how they can reduce or mitigate the impact of recovery options on resolvability.</i>
<b>10. Execution/implementation issues</b>		
A fully worked-up plan describing the execution of each recovery option. The estimated time to realise the benefits of the recovery option.	<i>See [Articles 9,10 and 11, Delegated Regulation] above.</i>	<p><i>[Section 2.25, Draft Supervisory Statement] Firms should include the timelines over which recovery options could be implemented.</i></p> <p><i>[Section 2.26, Draft Supervisory Statement] The PRA expects firms to distinguish between the time to execute an option and the time to realise its benefits. The execution time is the time to prepare and implement the recovery options and includes governance processes and relevant regulatory approvals, amongst other things. The time to realise the benefits is generally the time up to the point at which any part of the financial impact is first achieved. But the recovery plan should also provide a timeline showing how the estimated benefits of each recovery option will accrue over time where the benefit is not instantaneous.</i></p>
The risks and hurdles to a successful implementation, including where relevant, any assumptions that have been made about managing foreign currency risks, for example, the currency of possible outflows and possible FX swap lines which firms might use to meet those outflows. The dependencies and assumptions for the option. The key regulatory and legal issues. The executive committee, which has operational ownership of the option.		<p><i>[Section 2.8, Draft Supervisory Statement] In assessing the credibility of recovery options, firms should include in their recovery plan the factors that could reduce the likelihood of success or the effectiveness of options in restoring the firm's financial position in or following a stress (for example, prior experience in executing a recovery option should be included where relevant).</i></p> <p><i>[Section 2.27, Draft Supervisory Statement] For all recovery options, firms should detail:</i></p> <ul style="list-style-type: none"> <li><i>the main phases of implementation and the steps necessary to effect the recovery option, including governance for the approval to execute recovery options. All steps should be documented in detail, including critical factors which might affect the timeframe for each</i></li> </ul>

		<p><i>phase. Recovery plans should include fully worked up execution plans for each disposal option;</i></p> <ul style="list-style-type: none"> <li><i>• how the potential barriers to execution could impact the proposed timelines – in both idiosyncratic and market wide stresses. Barriers may relate to interconnectedness or legal, regulatory, operational or business impediments. It is important that firms consider the credibility of options rather than favouring options only because they appear to be executable in the shortest timeframe; and</i></li> <li><i>• identification of measures to reduce the implementation time – recovery option and scenario testing should help firms consider the end-to-end process for executing recovery options. This should identify impediments and steps which could be taken to reduce timeframes e.g. setting up a data room to include information required for disposals.</i></li> </ul> <p><i>[Section 2.28, Draft Supervisory Statement] The PRA expects firms to detail and explain the dependencies between recovery options and clearly identify where recovery options are mutually exclusive.</i></p> <p><i>[Section 2.29, Draft Supervisory Statement] In detailing the selection of recovery options, firms should set out operational dependencies and impacts. Firms should also detail whether recovery options are dependent on third parties. This includes identifying where operational, technical and financial support from third parties is required to execute recovery options. Firms should highlight key regulatory and legal issues with executing each option, and actions that would be necessary to mitigate these risks.</i></p>
<b>11. Credibility</b>		
An assessment of the credibility of each recovery option. Likely effectiveness in response to both		<p><i>[Section 2.15, Draft Supervisory Statement] The PRA expects firms to detail and explain the expected impact of each recovery option in the analysis included in the recovery plan. The analysis</i></p>



an idiosyncratic and a market-wide stress. An assessment of the situations in which a particular option may not be feasible/appropriate		<i>should be of sufficient quality for the PRA to assess whether the impacts are credible.</i>
Assess which options are mutually exclusive and which options complement each other (likely groupings of options).  Factors that could reduce the likelihood of success and how these could be mitigated.		<i>See [Section 2.23, Draft Supervisory Statement] above.</i>
The firm's prior experience in executing each option.  The circumstances which would render the options unavailable.		<i>See [Section 2.8, Draft Supervisory Statement] above.</i>
<b>12. Scenario planning</b>		
Scenarios should be severe enough to activate the recovery plan while being plausible and taking into account the business and risk profile of the firm. Firms may use stress testing which takes place as part of existing risk management processes and regulatory requirements (e.g. FPC/PRA, ICAAP and ILAA) as a foundation for scenarios. Firms may consider the use of reverse stress testing as a helpful starting point for developing scenarios which would lead the firm to 'near-default', allowing recovery options to be implemented to restore the firm's viability.	<p><b>[Section 9, EBA Scenario Guidelines]</b> Each scenario should be designed to meet each of the following requirements:</p> <ul style="list-style-type: none"> <li>a. <u>the scenario should be based on events that are most relevant to the institution or group concerned, taking into account, among other relevant factors, its business and funding model, its activities and structure, its size or its interconnectedness to other institutions or to the financial system in general, and, in particular, any identified vulnerabilities or weaknesses of the institution or group;</u></li> <li>b. <u>the events foreseen in the scenario would threaten to cause the failure of the institution or group, unless recovery measures were implemented in a timely manner; and</u></li> <li>c. <u>the scenario should be based on events that are exceptional but plausible.</u></li> </ul>	<p><i>[Section 2.60, Draft Supervisory Statement] Firms are encouraged to ensure their approach to scenario testing is consistent with – and leverages off – their existing stress testing capabilities, such as those used for the ICAAP and ILAAP. Where relevant, this can include work done for previous Bank of England concurrent stress test exercises. However, firms should ensure scenarios included in their recovery plan are relevant and sufficiently severe for testing the recovery plan.</i></p> <p><i>[Section 2.95, Draft Supervisory Statement] Firms are strongly encouraged to combine their liquidity contingency plan (also known as a contingency funding plan) and their recovery plan into one integrated document. This would ensure that the firm has a single process for being alerted to and addressing a liquidity stress, and helps ensure a coherent risk management framework. When integrating the two documents, firms should ensure that no content is lost which could hinder the response to a liquidity stress, particularly relating to the implementation of 'earlier stage' liquidity options. If a firm decides to maintain two different</i></p>

	<p><b><u>[Section 11, EBA Scenario Guidelines]</u></b> Reverse stress testing should be considered as a starting point for developing scenarios that should be only ‘near-default’; i.e. they would lead to an institution’s or a group’s business model becoming non-viable unless the recovery actions were successfully implemented.</p>	<p>documents and processes, the recovery plan should clearly explain the rationale for doing so and how the two documents and processes interact in terms of indicators, recovery options and governance. These arrangements should also be informed by the results of firms’ liquidity stress testing, as detailed in the ILAAP document. Regardless of firms’ arrangements, they should be cross-referenced, where appropriate, in the ILAAP document. The PRA expects to review these arrangements as part of its review of firms’ liquidity management.</p> <p><b><u>[Section 2.96, Draft Supervisory Statement]</u></b> The PRA expects that firms’ ICAAP, ILAAP, recovery plan, and (where relevant) concurrent stress test documents to be consistent with each other. For example, similar scenarios in two documents should have broadly similar impacts (there may be exceptions) and the recovery plan should include all management actions proposed in other documents. Where these documents are produced by different people in the organisation, the PRA expects them to effectively co-ordinate to consider related documents together.</p>
<p>All globally systemic important institutions (“G-SIIs”) and other systemically important institutions (“O-SIIs”) should provide four scenarios in their recovery plans. All other firms should provide three scenarios. All firms must include an idiosyncratic, a system-wide and a combined scenario. G-SIIs and O-SIIs may determine which of these three scenarios to use as a fourth option.</p>	<p><b><u>[Section 8, EBA Scenario Guidelines]</u></b> The range of scenarios should include at least three scenarios to ensure coverage of a system-wide event, an idiosyncratic event and a combination of system-wide and idiosyncratic events.</p> <p><b><u>[Section 12, EBA Scenario Guidelines]</u></b> Taking into account the principle of proportionality, the number of scenarios should be commensurate, in particular, with the nature of the business of the institution or group, its size, its interconnectedness to other institutions and to the financial system in general and its funding models.</p> <p><b><u>[Section 13, EBA Scenario Guidelines]</u></b> At least one scenario should be included for each of the following types of events:</p> <p>a. a ‘system-wide event’, which means an event that risks having serious negative consequences for the financial system or the real economy;</p>	<p><b><u>[Section 2.57 - 2.58, Draft Supervisory Statement]</u></b> Firms should use scenarios that are relevant to the firm’s business model and are sufficiently severe to test the plan. The range of scenarios included should be adequate to test the plan. The firm should define and justify its point of near failure and scenarios should be sufficiently severe to take the firm to this point, providing they are plausible. The PRA recognises there are some firms with very large capital and/or liquidity resources which make it difficult to design plausible scenarios that would take the firm to the point of near failure. In these cases, the firm should design its scenarios to test its recovery plan to the maximum extent possible. In all cases, firms should consider how the scenario relates to risk appetite and the depth, duration and speed of stress. The PRA expects firms to clearly demonstrate which indicators are triggered in the scenarios and at what point they would be triggered.</p>

	<p>b. <u>an ‘idiosyncratic event’, which means an event that risks having serious negative consequences for a single institution, a single group or an institution within a group; and</u></p> <p>c. <u>a combination of system-wide and idiosyncratic events which occur simultaneously and interactively.</u></p> <p><b><u>[Section 14, EBA Scenario Guidelines]</u></b> <u>Global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) should include at least more than three scenarios.</u></p> <p><b><u>[Section 15, EBA Scenario Guidelines]</u></b> <u>The range of scenarios should include both slow-moving and fast-moving adverse events.</u></p> <p><b><u>[Section 17, EBA Scenario Guidelines]</u></b> <u>In designing scenarios based on system-wide events the relevance of at least the following system-wide events should be taken into account:</u></p> <p>a. <u>the failure of significant counterparties affecting financial stability;</u></p> <p>b. <u>a decrease in liquidity available in the interbank lending market;</u></p> <p>c. <u>increased country risk and generalised capital outflow from a significant country of operation of the institution or the group;</u></p> <p>d. <u>adverse movements in the price of assets in one or several markets; or</u></p> <p>e. <u>a macroeconomic downturn.</u></p> <p><b><u>[Section 18, EBA Scenario Guidelines]</u></b> <u>In designing scenarios based on idiosyncratic events the relevance of at least the following idiosyncratic events should be taken into account:</u></p>	
--	--	--

	<ul style="list-style-type: none"> <li>a. <u>the failure of significant counterparties;</u></li> <li>b. <u>damage to the institution's or group's reputation;</u></li> <li>c. <u>a severe outflow of liquidity;</u></li> <li>d. <u>adverse movements in the prices of assets to which the institution or group is predominantly exposed;</u></li> <li>e. <u>severe credit losses; or</u></li> <li>f. <u>a severe operational risk loss.</u></li> </ul>	
<p>Firms should provide:</p> <ul style="list-style-type: none"> <li>i. a description of each stress scenario;</li> <li>ii. an estimate of the quantitative and qualitative impacts of each scenario on the firm's and group's capital and liquidity as a minimum, but also consider impacts on the firm's or the group's profitability, business model, provision of payment services and reputation;</li> <li>iii. an estimate of the impact of each scenario on the relevant recovery plan indicators resulting in the activation of the recovery plan;</li> </ul>	<p><b>[Section 10, EBA Scenario Guidelines]</b> Each scenario should include, where relevant, an assessment of the impact of the events on at least each of the following aspects of the institution or group: <u>available capital; available liquidity; risk profile; profitability; operations, including payment and settlement operations; and reputation.</u></p>	<p><b>[Section 2.59, Draft Supervisory Statement]</b> Firms should clearly set out the detail of each scenario to explain the size of the impact on the firm and relevant context (e.g. macroeconomic environment) that might impact on the firm's ability to execute – or affect the benefits of – recovery options needed to respond to the stress. The firm should consider the impacts (both immediate and future) to capital, liquidity, risk profile, profitability and franchise. There should be an explanation in each scenario of the dependencies that arise from the stress, identifying how that stress could feed through to impact different business lines, including critical economic functions (CEFs).</p> <p><b>[Section 2.61, Draft Supervisory Statement]</b> The scenario testing should be used to improve the consistency of different parts of the recovery plan (i.e. options, indicators, governance arrangements, etc.) and demonstrate that the plan is credible as a whole. Where the scenario testing identifies deficiencies in the plan, these should be corrected before submission to the PRA. Firms should document this process in an appendix to the recovery plan.</p> <p><b>[Section 2.62, Draft Supervisory Statement]</b> The scenario testing should help assess the range of financial and non-financial factors that could impact the firm's ability to recover from different types of stress. For example, the firm should consider its ability to execute recovery options in terms of management and specialist resource, the dependencies between options, how</p>

<p>iv. a list and reasoned explanation of the recovery options that would be effective at improving the firm's or the group's financial position under each scenario and quantification of the benefit of each option on the firm's or the group's capital and liquidity; and</p> <p>v. an assessment of the final aggregate impact of recovery options that under each scenario could be taken together to restore the firm's financial position and relevant recovery indicators.</p>		<p><i>actions of other firms might affect the ability to recover and the potential impact of market conditions.</i></p> <p><b>[Section 2.63, Draft Supervisory Statement]</b> <i>The quantitative impact of the stress on relevant indicators should be detailed for each scenario, showing how the indicator metrics change over the course of the stress. The scenarios should demonstrate where in the business the impact of the stress would first be observed. If the scenario testing shows that the calibration and/or selection of indicators would have meant the firm was not alerted to take action in the scenario with sufficient time to implement recovery options and recover, the firm should refine the calibration and/or selection of indicators before submitting the plan to the PRA. Firms should include quantitative analysis consistent with their modelling capabilities, supplementing this with qualitative analysis as appropriate.</i></p> <p><b>[Section 2.64, Draft Supervisory Statement]</b> <i>The scenario testing should show the time it would take for escalation and decision making processes to be conducted and for recovery options to be executed. This should include explanations of the process for choosing options and how the firm would ensure accountability through the execution timeline.</i></p> <p><b>[Section 2.65, Draft Supervisory Statement]</b> <i>Firms should explain which recovery options would be used in each of the scenarios and demonstrate that the recovery options are appropriate for restoring the firm to viability. The scenarios should map which recovery options would be used and in which order. The options should be tailored to each stress with justification of the selection of recovery options and the quantum of benefits that can be realised for each selected option under each type of stress. Firms should consider the dependencies between options, internal resource constraints and external factors that might affect the feasibility of options.</i></p> <p><b>[Section 2.66, Draft Supervisory Statement]</b> <i>Firms should model the capital and liquidity profiles (over time) under each stress scenario, showing these both in the absence of and with the</i></p>
---	--	---

		<p><i>recovery options deployed in the scenario. Firms should present charts of these capital and liquidity profiles, clearly showing the point at which early warning and recovery indicators would be triggered and the accrual of the benefits of each selected recovery option over time (from the point at which the first benefits are realised) to demonstrate that sufficient benefits can be realised in time to recover. The assumptions and details behind these illustrations should be fully explained in the plan.</i></p> <p><b>[Section 2.67, Draft Supervisory Statement]</b> Firms should also include an estimate of the impact of each scenario on profitability, business model, franchise, core business lines and critical economic functions.</p> <p><b>[Section 2.68, Draft Supervisory Statement]</b> Firms should include a granular breakdown of liquidity needs, where appropriate by currency, in each stress across time. Firms should consider the options for obtaining (and, if appropriate, repaying) these funds.</p> <p><b>[Section 2.69, Draft Supervisory Statement]</b> Firms should identify the point at which they consider themselves out of recovery and explain the viability of the business model post-stress. Firms should consider the impact on the franchise and future profitability.</p>
<b>13. Plan for accessing central bank facilities</b>		
<p>Firms should prepare plans for accessing central bank liquidity facilities, both at the Bank of England and overseas.</p> <p>Firms' plans should include:</p> <ul style="list-style-type: none"> <li>a. familiarising themselves with the purpose of those facilities;</li> </ul>		<p><b>[Sections 2.31 – 2.35, Draft Supervisory Statement]</b> Firms should include in their recovery plans an operational plan for accessing central bank liquidity facilities, both at the Bank of England and overseas. When doing this, firms should:</p> <ul style="list-style-type: none"> <li>i. familiarise themselves with the purpose of those facilities;</li> <li>ii. consider the circumstances in which they would need to access those facilities and discuss options with the Bank of England at an early planning stage;</li> </ul>



<ul style="list-style-type: none"> <li>b. the circumstances in which they would need to access those facilities and discuss options with the Bank of England at an early planning stage;</li> <li>c. testing the operational aspects of their plan for accessing central bank facilities (including by carrying out periodic test trades with central banks where required, and internal testing of the speed of collateral processing, etc.);</li> <li>d. regularly ‘realising’ a representative proportion of the assets they would expect to receive from the use of central bank facilities (e.g. gilts if using the Bank of England’s Discount Window Facility), either through repo or outright sale;</li> <li>e. undertaking an analysis of eligible assets and the drawing capacity against these;</li> <li>f. ensuring that an appropriate amount of assets are pre-positioned; and</li> </ul>		<ul style="list-style-type: none"> <li>iii. <i>test the operational aspects of their plan for accessing central bank facilities with the relevant authorities (including by carrying out periodic test trades with central banks where required, internal testing of the speed of collateral processing and taking actions to address any specific central bank requirements and to mitigate any other hurdles);</i></li> <li>iv. <i>raise cash from a representative portfolio of the assets they would expect to receive from the use of central bank facilities whether by lending bonds in the market or through repo and undertake an analysis of eligible assets and the drawing capacity against these; and</i></li> <li>v. <i>ensure that an appropriate amount of assets are pre-positioned.</i></li> </ul> <p><i>Firms should identify the range of recovery options that would allow the firm to repay any central bank liquidity support received.</i></p> <p><i>Firms should clearly detail the assumptions they have made about managing foreign currency risks, including the currency of possible outflows. Firms should:</i></p> <ul style="list-style-type: none"> <li>a. <i>detail their potential funding needs by currency in different jurisdictions;</i></li> <li>b. <i>detail possible foreign currency swap lines which firms might use to meet these outflows;</i></li> <li>c. <i>detail all central bank facilities to which the firm has access that could potentially meet these outflows (providing detail of the nature of these facilities, e.g. auctions/bilateral, etc.);</i></li> <li>d. <i>estimate the eligible collateral and drawing capacity by currency for each central bank facility identified,</i></li> </ul>
---	--	--

<p>g. undertaking preliminary work to identify the range of options they would have, over time, for repaying central bank liquidity support, recognising that the nature and timing of such repayment plans would depend on the nature of the initial liquidity shock. These options should be able to be drawn largely from the recovery plan.</p>		<p><i>including a high-level breakdown of prepositioned assets; and</i></p> <p><i>demonstrate they have sufficient options to repay these funds (in their respective currencies) and strengthen their liquidity positions in order to regain access to private markets.</i></p>
<p><b>14. Disposals</b></p>		
<p>For disposals, a fully worked-up plan to execute that particular disposal.</p> <p>On disposals, while the PRA realises that the choice will be dependent on the market opportunities at the time of the stress, the PRA believes that all possible disposal options should be identified and execution plans developed ahead of the stress and included in the recovery plan.</p> <p>Firms are expected to be conservative in valuing their disposals including assuming disposals at a discount/distress level. Firms should explain their valuation methodology and main underlying assumptions.</p>		<p><i>[Section 2.19, Draft Supervisory Statement] Firms should consider the valuation approach for disposal options as well as actual sale values achieved in precedent transactions for similar entities. Firms are expected to be conservative in valuing their disposals by including appropriate price adjustments to reflect a reasonable discount to reflect the distress level. They should document and explain their valuation methodology and the underlying assumptions.</i></p>

In addition to identifying legal entity, business line and/or business unit options, we expect firms to consider whether a disposal of the whole of the firm's business is feasible. If so, this should be included as a recovery option. Where this is not feasible, explain why.		
For each disposal option, outline the potential purchasers (at least by type). The PRA expects firms to assess the availability of strategic investors and to set out who they are and why they could be interested.		<i>[Section 2.20, Draft Supervisory Statement] Asset sale and disposal options should detail potential purchasers (as a minimum by type) and the realistic discount required to achieve a sale, taking into account different market conditions. The PRA expects firms to assess the availability of investors and buyers, and to set out why they might be interested.</i>
<p>Describe any third-party consent/approvals or notices required.</p> <p>Comment on potential competition issues.</p> <p>Describe any contractual obstacles that might restrict the disposal.</p> <p>Assess the tax implications of the disposal.</p> <p>Assess any significant pensions or HR issues that need to be dealt with.</p> <p>Explain what due diligence information would need to be available and confirm whether the information could be quickly</p>		<p><i>[Section 2.30, Draft Supervisory Statement] For disposal options, the recovery plan should:</i></p> <ul style="list-style-type: none"> <li><i>i. explain the interconnectedness of businesses and the feasibility of separating them from the wider group, identifying measures that would be required to make this easier and considering any impact on continued provision of critical services. Firms should include a separability analysis to consider how the business would be impacted by the separation. The recovery plan should clearly describe issues with financial interconnectedness that could hinder the disposal and identify how these should be addressed;</i></li> <li><i>ii. describe any third-party consent/approvals or notices required and any contractual obstacles that might restrict the disposal, explaining the steps that would be required to overcome these;</i></li> <li><i>iii. comment on potential competition issues and how these would be mitigated;</i></li> </ul>

<p>assembled and whether there would be any barriers to sharing it. Include a separability analysis, describing any issues with unplugging the business unit from the rest of the group or the financial infrastructure and how these should be dealt with.</p> <p>State if there were disposals that have been considered but dismissed and if so, a clear explanation as to why.</p>		<p>iv. <i>assess whether the disposal changes the tax status of the remaining business;</i></p> <p>v. <i>describe any significant pensions or HR issues that would need to be dealt with and how these would be overcome; and</i></p> <p>vi. <i>explain what due diligence information would need to be available, and explain how the information would be quickly assembled, whether there would be any barriers to sharing it and how these would be overcome.</i></p>
<p>Where a merger or sale of the whole firm is a relevant recovery option, firms should consider fair valuation of the balance sheet, data room capabilities and how these impact the credibility of the recovery option.</p>		<p><b>[Section 2.21, Draft Supervisory Statement]</b> <i>Where a merger or sale of the whole firm is a relevant recovery option, the PRA expects firms to start with a fair valuation of the balance sheet and explain the risks inherent in that valuation linking to the scenario tests it undertakes. Note that the PRA does not expect firms to commission a valuation specifically for the purposes of recovery planning.</i></p>
<b>15. Remediation measures</b>		
<p>Identify actions (including structural changes) that should be taken to improve the credibility and effectiveness of the recovery plan.</p> <p>This should include a plan articulating a list of measures aimed at overcoming the barriers to the effectiveness of identified recovery actions with target completion dates and estimated costs for outstanding work.</p>		
<b>16. Wind down analysis</b>		
<p>A trading book wind down is likely to be a consideration in recovery planning for all firms</p>		<p><b>[Sections 2.36 - 2.37, Draft Supervisory Statement]</b> <i>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</i></p>

<p>with a large trading book. A trading book includes all cash and derivative items held in a trading book accounting environment. If necessary, firms may contact their supervisors to clarify whether this analysis is required.</p> <p>The analysis should consider the capital and liquidity impacts, as well as the operational impacts, <i>i.e.</i> the firm's capacity to handle increased volumes of transactions. The trading book wind-down plan should include a method to identify the liquid and illiquid positions within the portfolios of the trading book and the associated profit and loss impact (<i>e.g.</i> exit costs), together with the balance sheet and risk-weighted assets impact over a recovery period.</p> <p>The portfolio segmentation analysis outlined below should assist firms in identifying positions which are linked (embedded in the balance sheet) and others that may be transferrable or sold:</p> <ul style="list-style-type: none"> <li>• Embedded/structural transactions: in some cases, linked positions may be difficult to exit within the prescribed timeframes (<i>e.g.</i> hedges</li> </ul>		<p><i>parts of the banking book (or of the whole firm) may also be a consideration for some firms, including those with limited recovery options.</i></p> <p><i>Firms may contact their supervisors to clarify whether this analysis is required and to obtain further guidance. For firms that have done such analysis, they should consider including the wind down of certain portfolios as recovery options.</i></p>
--	--	--

<p>for asset and liability management, structured loans and credit management of loan portfolios), particularly if significant adverse structural and profit and loss consequences would arise from partial exit. These positions should be categorised as 'hold-to-maturity' and the types, amounts and locations should be listed.</p> <ul style="list-style-type: none"> <li>• Segment the transferable inventory: the remaining inventory (being the transferable or saleable positions) should be split into segments based on product types and business lines.</li> <li>• Divide by exit strategies: the positions in each segment should be subdivided by exit strategies, based on ease and cost of exit, to identify the illiquid segment.</li> <li>• Scenario analysis: the estimates of exit costs and the amounts of</li> </ul>		
--	--	--



<p>inventory that can be disposed of should be calculated for both a one-year and three-year timeframe under normal market conditions.</p> <p>The illiquid inventory will comprise the 'hold to maturity' positions and any other transactions that cannot be disposed of within the prescribed timeframes. Together with the linked and embedded positions, these would be identifiable as a run-off/rump portfolio.</p>		
<b>17. Fire drills</b>		
		<p><i>[Sections 2.72 – 2.75, Draft Supervisory Statement] The PRA expects firms to carry out fire drill exercises on their recovery plans. The PRA expects fire drills in smaller organisations with simpler recovery plans to be annual or biennial exercises with larger firms conducting them at least annually. The frequency should be agreed with a firm's supervisor. The exercises should be overseen by the board and relevant decision-makers. Fire drills should:</i></p> <ul style="list-style-type: none"> <li>• <i>Test governance arrangements (assembling the right people at short notice and understanding if they can use the recovery plan to take strategic decisions); communication plan; and management information capabilities.</i></li> <li>• <i>Examine operational aspects of implementing specific recovery options and the firm's resources for executing more than one option at the same time.</i></li> </ul> <p><i>Firms should incorporate a self-assessment of their fire drill exercise into the next update of their recovery plan, which should</i></p>

		<p>include details about the design and planning of the scenario used, a report of how the exercise unfolded and lessons learnt for the development of the recovery plan. After the self-assessment, the institution should improve the relevant recovery plan.</p>
<b>18. Playbooks and structure of recovery plans</b>		
		<p><b>[Section 2.76, Draft Supervisory Statement]</b> The PRA expects recovery plans to be structured so that they are readily usable by both boards and the specific business areas of firms that would need to use them. It is important that the board can quickly navigate and understand the recovery plan, as they will be taking the key decisions in a stress.</p> <p><b>[Section 2.77, Draft Supervisory Statement]</b> Firms whose recovery plan is not sufficiently succinct and easy to navigate to be useful in a stress should produce a concise implementation guide or 'playbook' for implementing their plan. A playbook should be short enough to be digestible and easy for senior management to use in a stress. It should serve as an accessible document that could be easily used, enabling recovery options to be quickly implemented in a stress.</p> <p>A playbook could contain the following information, but the approach should be highly tailored to the firm in question and refined through testing:</p> <ul style="list-style-type: none"> <li>• A general guide on how to navigate the different parts of the recovery plan and the linkages between those parts.</li> <li>• Information on governance, including: (i) what management needs to do and when; (ii) the internal people/areas involved; (iii) governance arrangements for implementing the plan and taking key decisions, including the interaction with risk appetite and the relationship between group and subsidiary plans; and (iv) key decision criteria for selecting recovery options.</li> <li>• Information on strategic analysis and overall recovery capacity, including: (i) the indicator framework; (ii) the key recovery options, timelines, dependencies, as</li> </ul>

		<p><i>determined by the analysis contained in a later part of the plan, and potential recovery packages for different types of stress; and (iii) sufficient justification of the credibility of the available options to give the board comfort as to the plan's usefulness.</i></p> <ul style="list-style-type: none"> <li>• <i>Relevant information on executing recovery options, for example, if there are key operational considerations, regulatory approvals required or pertinent communication and disclosure plans.</i></li> </ul> <p><b>[Section 2.78, Draft Supervisory Statement]</b> <i>The detailed analysis, evidence and testing supporting the credibility of the information included in the playbook would be included in the main body of the plan.</i></p>
<b>19. Interaction between group and subsidiary plans</b>		
		<p><b>[Sections 2.89 – 2.93, Draft Supervisory Statement]</b> <i>The PRA expects firms that are parent entities of an international group to demonstrate how they have covered different entities in other jurisdictions in their group recovery plan. It is important for firms to understand dependencies, both financial and non-financial, between group entities.</i></p> <p><i>The PRA expects firms to produce a group recovery plan which clearly demonstrates how the group would restore its financial position in a stress. The PRA expects the group recovery plan to include the detail relating to legal entities that are significant to the group, fulfilling the criteria of Article 7(2) (a) to (e), Delegated Regulation as follows:</i></p> <ul style="list-style-type: none"> <li>• <i>local entity governance arrangements and the interdependencies between these and the governance arrangements of the group;</i></li> <li>• <i>local entity recovery options and the interdependencies between these and the recovery options of the group;</i></li> <li>• <i>local entity indicators and the interdependencies between these and the group level indicator framework; and</i></li> </ul>

		<ul style="list-style-type: none"> <li>• coverage of the local entity in the scenario testing of the group plan.</li> </ul> <p><i>For legal entities that are significant for the financial system of an EU member state, in line with the criteria of Article 7(2)(f), Delegated Regulation, the PRA expects the group recovery plan to include detail relating to these entities in sections on governance and recovery options, and only if appropriate in the indicator framework and scenario testing. For legal entities that do not fulfil these criteria, firms should apply a proportionate approach.</i></p> <p><i>If there are individual recovery plans in place, the firm should ensure the consistency of recovery options, indicator frameworks and governance arrangements between group and legal entity level plans, and reflect the interdependencies between the group and legal entity levels. The approach should reflect the firm's business model and the risks posed by subsidiaries to the group and vice versa. However, as a minimum, firms should ensure that:</i></p> <ul style="list-style-type: none"> <li>• the main dependencies and risks of implementing recovery options at the subsidiary level on the group are captured in the group plan, particularly where the subsidiary relies on the parent for financial support as a recovery option; and</li> <li>• group and subsidiary recovery plans reference recovery options by one entity that could have a significant impact on the other; and the group plan covers all parts of the group that it would be reasonable to expect to be included.</li> </ul>
<b>20. Approach to recovery planning for groups containing a ring-fenced body (RFB)</b>		
		<p><i>[Section 2.94, Draft Supervisory Statement] The expectations in SS8/16 apply to firms with RFB sub-groups. Firms should ensure that the recovery plan for a group that includes an RFB adequately reflects the RFB sub-group, as set out below.</i></p>

		<p><i>Firms should:</i></p> <ul style="list-style-type: none"> <li><i>i. identify the recovery options available for the RFB sub-group and how the use of these options would support the RFB and RFB sub-group but also affect group entities outside the RFB sub-group (and how this would be consistent with ring-fencing requirements);</i></li> <li><i>ii. describe how any financial support from the group would be provided if this would be required to effect any of the recovery options;</i></li> <li><i>iii. define how the use of recovery options by entities outside the RFB sub-group could impact the RFB and the RFB sub-group, for example how the RFB sub-group would maintain continuity of operational services provided by another group entity in the event of a sale of an entity or entities outside the RFB sub-group;</i></li> <li><i>iv. define the risk appetite and indicators relating to the RFB sub-group;</i></li> <li><i>v. perform scenario testing relating to at least one scenario impacting the RFB sub-group, giving examples of how the recovery options would work in practice; and</i></li> </ul> <p><i>explain who owns the plan and who is responsible for its design, implementation, and execution. Firms should explain how the governance procedures between the RFB sub-group and group entities outside the sub-group would work in a stress. Information should be provided on co-ordination in cases where any action within the RFB sub-group could have an impact on group entities outside the sub-group and vice versa.</i></p>
<b>21. Interaction with other relevant regimes and requirements</b>		
		<p><b>[Section 2.97, Draft Supervisory Statement]</b> <i>In line with the guidance to banks and building societies involved in concurrent stress testing, relevant firms should ensure that the strategic</i></p>

		<p><i>management actions they submit for the concurrent stress test are part of, or consistent with, their recovery plan. In stress testing, the Bank of England will ordinarily only accept actions that meet the expectations set out in the Draft Supervisory Statement to reflect the strong link between banks' strategic management actions and their recovery plans. Firms should ensure the level of detail provided in these submissions is sufficient for the PRA to assess the credibility of management actions.</i></p>
<b>22. Recovery planning for UK subsidiaries of non-EU parents</b>		
		<p><i>[Section 3.1, Draft Supervisory Statement] In recognition of the continued improvements of global recovery planning, the PRA is clarifying its expectations for UK subsidiaries of non-EU parents. This is not a fundamental change to the PRA's expectations on recovery planning but rather an overview of how the PRA expects UK requirements to be met in the context of global cross-border groups.</i></p> <p><i>[Section 3.2, Draft Supervisory Statement] The PRA recognises that a co-ordinated and consistent approach to recovery planning within a banking group is essential for the stabilisation of the group as a whole. As such, the group plan is considered critical to understanding overall recovery, and the PRA places high importance on having sight of this. Group recovery plans provide details on group structure, critical economic functions (CEFs) and arrangements to facilitate group recovery. The PRA recognises that recovery plans for UK subsidiaries of global groups should be considered within that group context and are most credible when they are consistent with recovery options proposed within the group plan, and there are clear governance procedures which link the UK plan and local recovery options to those at group level.</i></p> <p><i>[Section 3.3, Draft Supervisory Statement] 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:</i></p>



		<ul style="list-style-type: none"> <li>i. <i>The plan should include a summary of the UK entity business and descriptions of UK CEFs (i.e. the UK plan should provide an overview of UK business, but this will depend on the size of the firm and whether PRA already has a global recovery plan).</i></li> <li>ii. <i>The plan should include UK specific scenarios for UK subsidiaries of non-EU parents. The PRA would expect to see at least one scenario specific to a stress in the UK entity and one scenario in relation to a macroeconomic stress which impacts the UK entity. For O-SIIs, there should be additional scenarios which set out and test the group's recovery capacity. For smaller subsidiaries of non-EU parents, the PRA expects at least the two scenarios.</i></li> <li>iii. <i>The plan should include UK specific recovery options: the PRA recognises for large groups the most credible recovery option may be parent support. However, the PRA expects firms to consider what additional options are available at the level of the UK subsidiary. For O-SIIs the PRA expects these options to be consistent with what is proposed in the group plan.</i></li> <li>iv. <i>The plan should be consistent with solvent wind down work done by the firm.</i></li> <li>v. <i>The plan should include UK specific recovery indicators.</i></li> <li>vi. <i>The plan should include a UK governance framework for monitoring the indicators and taking action where appropriate. In addition, the PRA expects UK subsidiaries of non-EU parents to meet requirements set out in relation to responsibilities under the Senior Managers Regime.</i></li> <li>vii. <i>UK subsidiaries of non-EU parents should also consider the guidance on fire drills and playbooks. In some cases,</i></li> </ul>
--	--	--

		<p><i>the PRA may explicitly ask firms to undertake more detailed work on UK playbooks as part of their UK recovery planning work. Firms should contact their supervisor to discuss whether this applies.</i></p> <p><i>The PRA expects recovery plans to be consistent with other regulatory submissions.</i></p>
--	--	--