



BANK OF ENGLAND



The Recovery and Resolution Directive (RRD)

Val Smith

Head of Dual Regulated Department, FCA

Mark Menary

COO, Resolution Directorate, Bank of England

Agenda

By the end of this session you will understand:

- What you need to do
- When you need to do it by
- What we are looking for

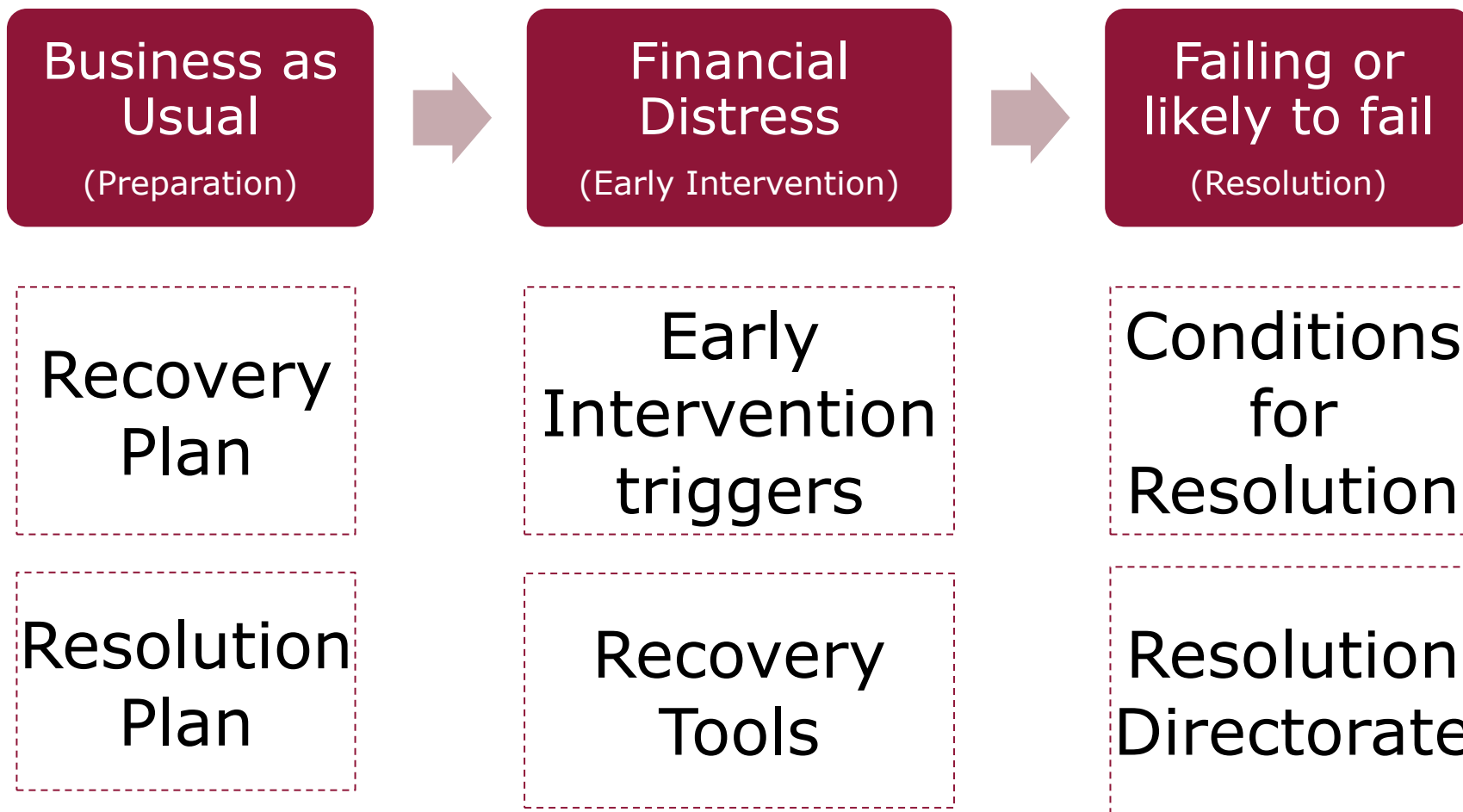


What is RRD?

- For FCA, RRD relates to solo regulated €730k firms
- **Recovery**
 - Provides a greater range of tools to support recovery with more focus at an earlier stage through recovery planning and early intervention triggers
- **Resolution**
 - Resolution regime introduced new powers for Resolution Directorate (RD) at Bank of England. New ways of working together (firm, FCA & RD) already in place with resolution planning to come



Key stages



Key facts

Recovery
Plan

Resolution
Plan

- General Obligations
- Simplified Obligations
- Firm or Group
- Phased Timeline
- How to submit

Recovery Plans: General Obligations and Simplified Obligations

- General Obligations - Largest and most significant Firms - around 20% of Firms
- Simplified Obligations – proportionate response for non-significant IFPRU firms

	General Obligations	Simplified Obligations
Content and Details	<ul style="list-style-type: none"> • IFPRU Handbook Rules 	<ul style="list-style-type: none"> • IFPRU Handbook Rules
Submission Dates	<ul style="list-style-type: none"> • Quarterly 30 Sept 2015 to 31 June 2016 • By balance sheet size • Submit 3 months after reference date 	<ul style="list-style-type: none"> • Quarterly 31 Dec 2015 to 30 Sept 2016 • By balance sheet size • Submit 3 months after reference date
Frequency of Updates	<ul style="list-style-type: none"> • Annually 	<ul style="list-style-type: none"> • Every two years

What should a recovery plan include?

Five key coverage areas for recovery plans:

- Recovery plan summary
- Governance information
- Strategic analysis
- Communication & disclosure
- Preparatory measures

Information Sources:

- EBA Regulatory Technical Standards on recovery plan contents
- EBA guidelines contain recovery plan scenarios

What should a recovery plan include?

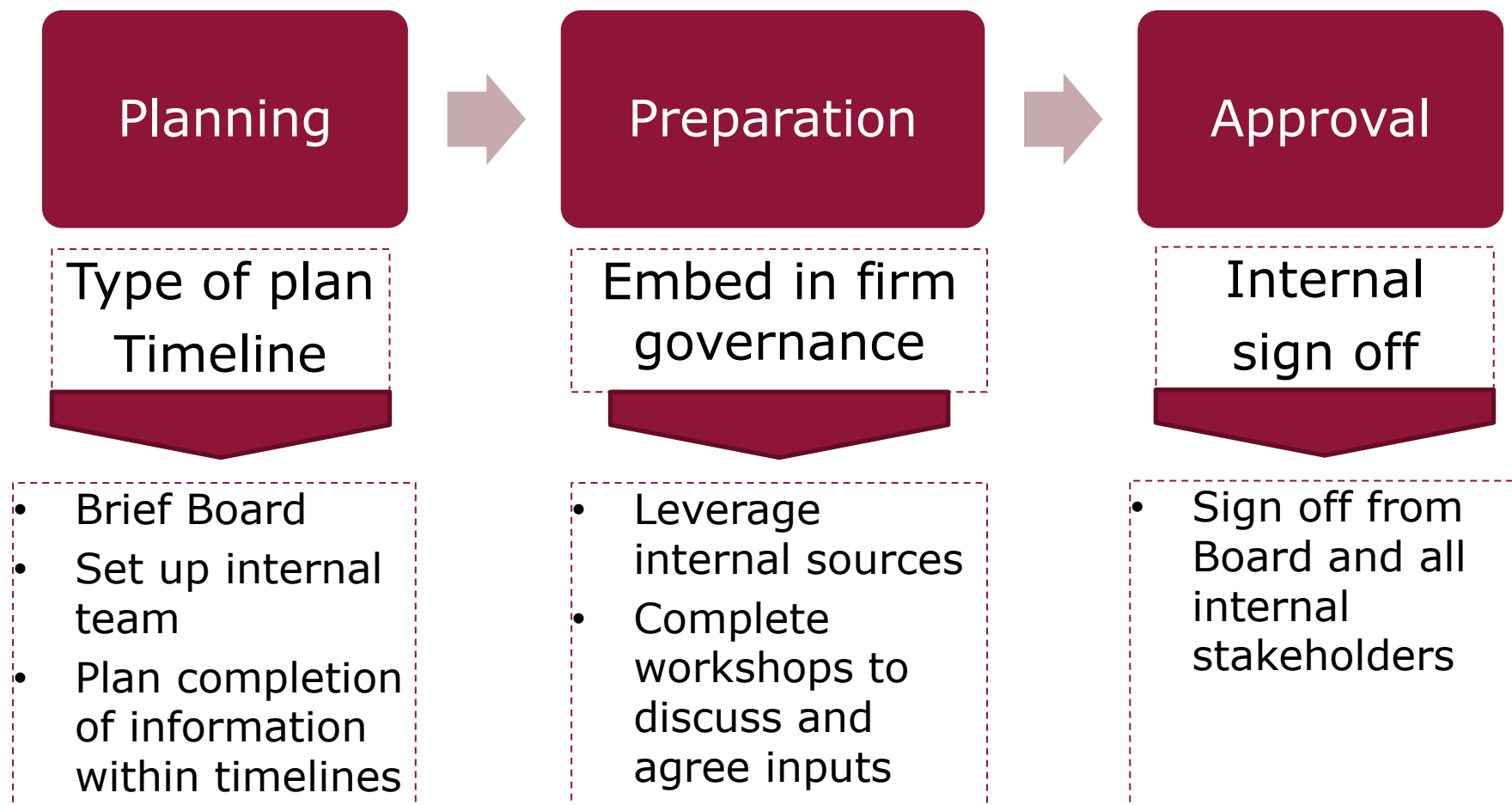
	Material legal entity X	Material legal entity Y	Material legal entity Z	Material branch	Non-material legal entity or branch
Core business line 1 <i>e.g. 70% of assets</i>	A Critical function	B Non-critical function	B Non-critical function	C Non-critical function	
Core business line 2 <i>e.g. 28% of assets</i>	B Non-critical function	A Critical function			
Non-core business line 3 <i>e.g. 2% of assets</i>		D Critical function	E Non-critical function	H Critical function	G Non-critical function

Recovery plan indicators

- Recovery plan indicators are an important aspect of recovery plans and so they apply to firms subject to Simplified Obligations and General Obligations
- Draft EBA Guidelines set the minimum list of qualitative and quantitative recovery plan indicators:
 - Capital
 - Liquidity
 - Profitability
 - Asset Quality
 - Market-based
 - Macroeconomic
- Firms should incorporate additional indicators as appropriate



Implementation by Firms



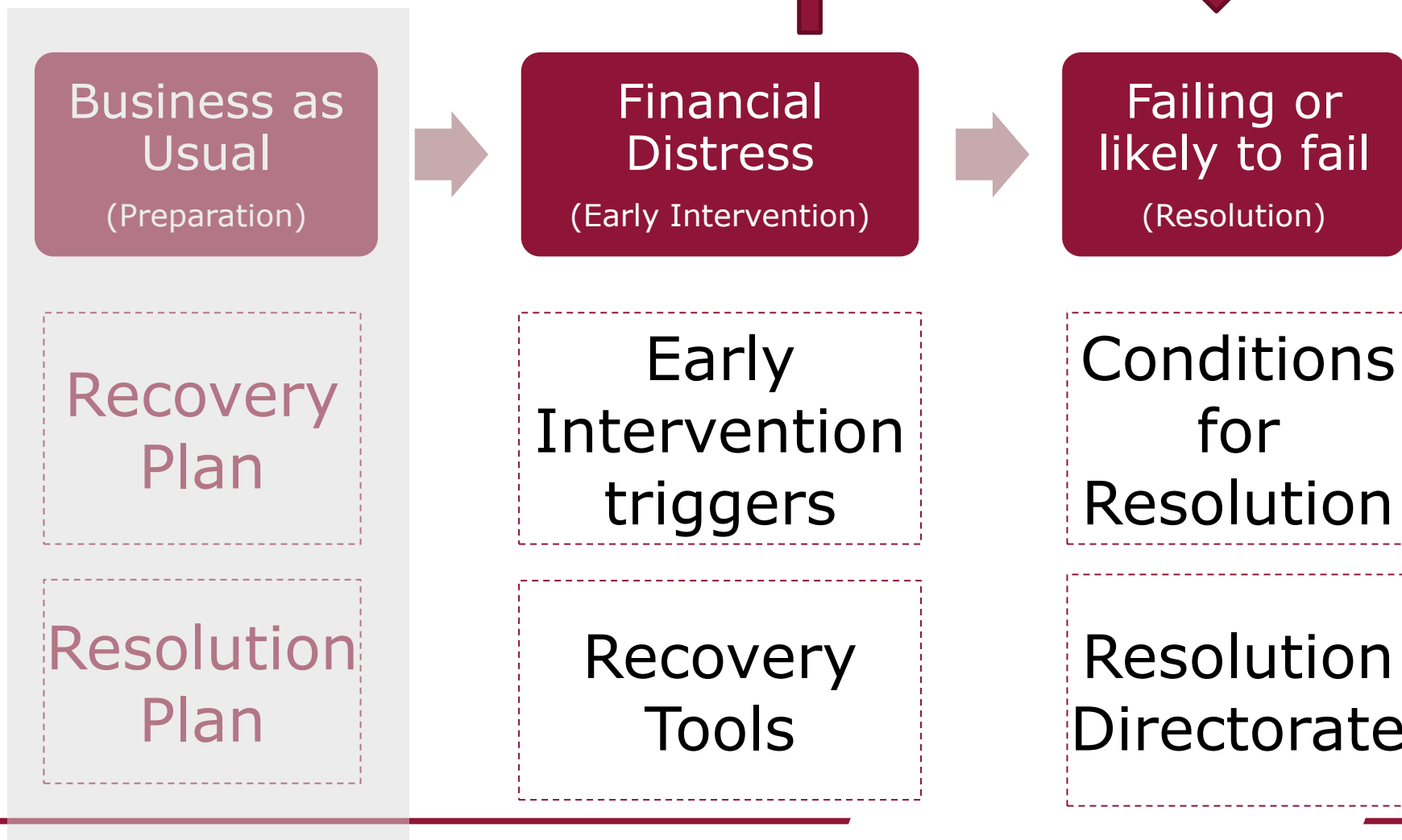
What do we do with the Recovery Plan?

Supervisory assessment criteria for recovery plans

- Completeness
- Quality
- Credibility



Key stages



Resolution: Objectives

- Over-arching objective that firms within scope of regime can fail. And when they do, failure is unremarkable
- To achieve this:
 - Resolution Authority (RA) separate from Competent Authority (FCA);
 - Broad set of resolution tools, to deliver resolution objectives;
 - Safeguards in place, to ensure creditors no worse off than in insolvency counterfactual;
 - Important for firms, investors, creditors to internalise implications and objectives of resolution regime.
- Feasible and effective resolution flows from resolution planning. Resolution planning dependent on information



Resolution Information - overview

- Used by Bank, as Resolution Authority, to produce resolution plan
- Firms must provide accurate information:
 - Group and legal entity structure
 - Business model and core business lines
 - Capital and funding including detailed liability structure
 - Operations e.g. critical shared services, access to FMI
 - Economic functions provided by the firm
- Some key issues to identify include:
 - Operational and financial dependencies
 - Reliance on external service providers
 - **Summary of CASS pack (where relevant)**



Resolution Information - submissions

- Phased approach:
 - Phase 1 - baseline: all firms, complete
 - Phase 2 – supplementary: following review of baseline
 - Phase 3 – contingent: as a firm approaches resolution
- Baseline submissions:
 - end-Sept 2015 for 'significant' firms [c.40 firms]
 - end-March 2016 for the others [c.180 firms]
 - resubmit / refresh every 2/3 years or if significant change
- Firms submit information to FCA, pass to RD.
- RD analysis of resolution information, determination of preferred strategy, production of resolution plan.



Resolution Plan Information

- Please do not



What will Resolution look like?

- BoE (RD) is UK resolution authority for 730k firms
- On-going dialogue between FCA and RD, spanning firms and resolution framework / policy
- Frequency of firm-specific dialogue increases as firm slides towards distress / recovery actions attempted
- Key to have clear view on recovery plan implementation, plausibility of recovery actions
- Contingent information requests – every case is different
- Contact with firm chiefly via FCA



What will Resolution look like?

- Four conditions must be satisfied by FCA (1) and RD (3), as per s7 of Banking Act.
- FCA: Failing or likely to fail? (Condition 1)
- RD: Can firm address problems? (Condition 2)
- Is “stabilisation power” needed? (Condition 3)
- Could winding-up be used? (Condition 4)
- Consultation between authorities (Bank, FCA, HMT)
- If stabilisation powers: RD leads resolution transaction
- If insolvency / SAR process: FCA leads resolution transaction
- **Over-arching goal to make process seamless, clear**

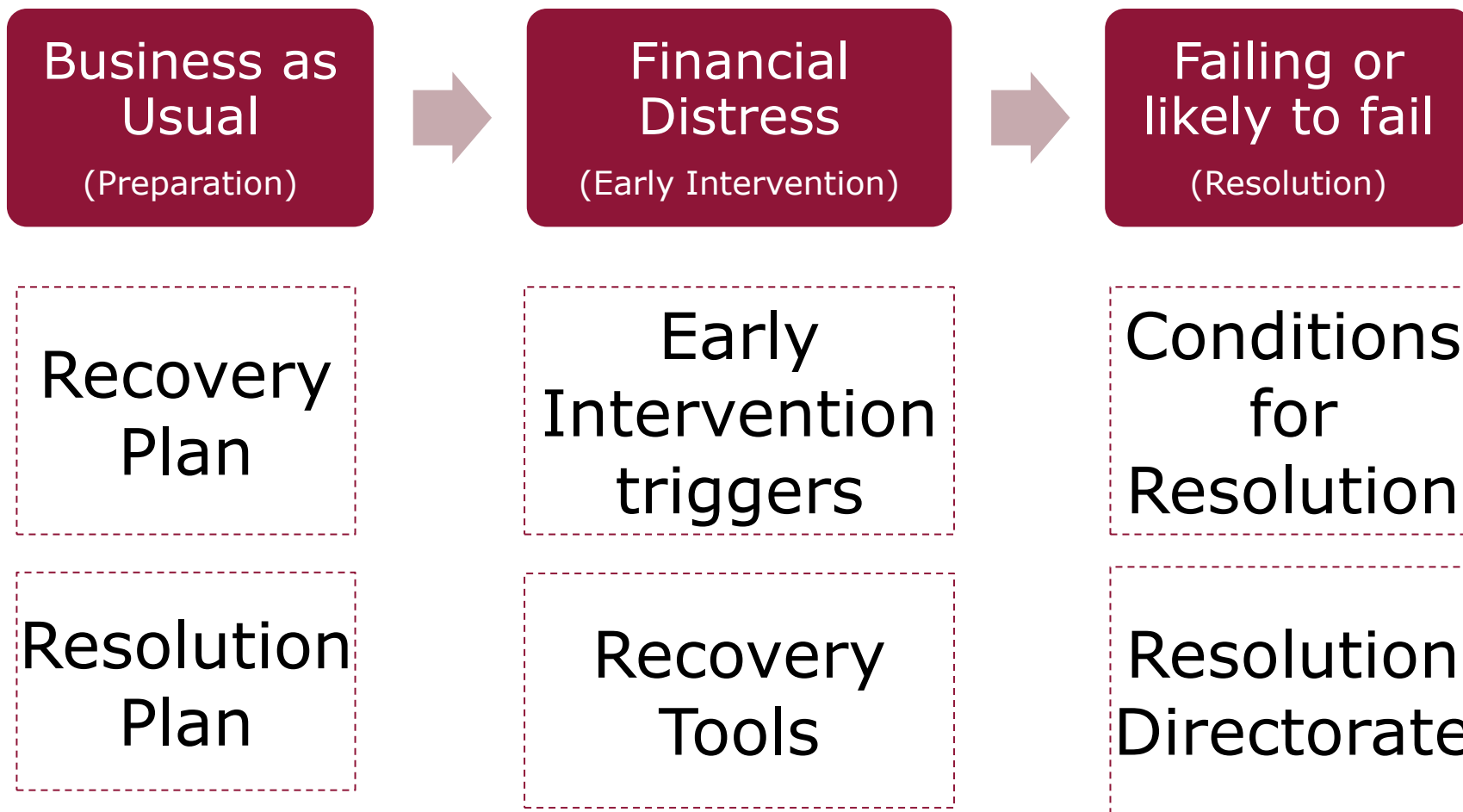


Resolutions to date

- Alpari (Jan-15), Hume Capital (Mar-15)
- Small firms, orderly failure via SAR (firms' board applied)
- Trade sales and other recovery actions at point of distress did not materialise / were assessed implausible
- **This is the assumed resolution plan for 730k firms**
 - no threat to wider system stability
 - or risk to RD/FCA statutory objectives
 - but point-in-time analysis of resolution information, wider context / conjuncture to verify.
- Challenges:
 - timeline short and fast-moving
 - availability of timely and relevant information



Key stages



Useful sources of information

[FCA website – RRD homepage](#)

- Links to CPs and PSs
- EU technical standards and guidelines
 - RTS on contents of Recover Plans
 - Guidelines on Recovery Plan Scenarios
- FAQs

[Bank of England material on resolution](#)

[EBA material on recovery, resolution and technical standards](#)

- Comparative report on the approach to determining critical functions and core business lines in recovery plans
- Guidelines on Recovery Plan Scenarios

