Financial Conduct Authority

Recovery and Resolution Directive: Feedback on CP14/15 and final rules

January 2015

Policy Statement

PS15/2

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In this Policy Statement we report on the main issues arising from Consultation Paper 14/15 *Recovery and Resolution Directive* and publish the final rules.

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Abbreviations used in this paper

the Bank	Bank of England
CA	competent authority
CBA	cost benefit analysis
COREP	Common Reporting
CP	Consultation Paper
CRD	Capital Requirements Directive (Directive 2013/36/EU)
CRD IV	CRR and CRD
CRR	Capital Requirements Regulation (Regulation (EU) No 575/2013)
the Directive	Recovery and Resolution Directive (Directive 2014/59/EU)
EBA	European Banking Authority
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000 (as amended)
GAAP	generally accepted accounting standards
ICG	individual capital guidance
IFPRU	Prudential Sourcebook for Investment Firms
IFRS	international financial reporting standards
IGFS	intra-group financial support
ITS	implementing technical standards
LCR	liquidity coverage requirement

MiFID	Markets in Financial Instruments Directive (Directive 2014/65/EU)
MREL	minimum requirement for own funds and eligible liabilities
MTF	multilateral trading facility
OTF	organised trading facility
PS	Policy Statement
PRA	Prudential Regulation Authority
QPU	qualifying parent undertaking
RA	resolution authority
RRD	Recovery and Resolution Directive (Directive 2014/59/EU)
RTS	regulatory technical standards

1. Overview

Introduction

1.1 On 1 August 2014 we published a Consultation Paper (CP)[1] proposing changes to our Handbook that are required to transpose the Recovery and Resolution Directive (RRD)[2] into the UK regulatory regime for FCA solo-regulated investment firms (IFPRU 730k firms), as well as certain group entities, that fall within the scope of the RRD.

1.2 In this Policy Statement (PS) we summarise the feedback we received on the CP and give our responses. We also set out the final rules. The rules will enter into force on 19 January 2015, with the exception of the rules on the contractual recognition of bail-in which will come into force on 1 January 2016.

Who does this affect?

1.3 The rules set out in this PS apply to:

- investment firms that we regulate prudentially and that meet the definition in our Handbook of an IFPRU 730k firm[3] (at present approximately 230 firms)[4]
- group entities in a group that contains a 730k investment firm or credit institution; this also includes certain types of firms that are authorised by the FCA[5]

Is this of interest to consumers?

1.4 The objectives underpinning the RRD and the rules set out in this PS relate to reducing the risk posed by firms to system-wide financial stability. They are primarily prudential in nature. While there are no direct implications for consumers, the changes brought about by the RRD

1 http://www.fca.org.uk/static/documents/consultation-papers/cp14-15.pdf

2 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0059&from=EN. This Directive is also referred to as the Bank Recovery and Resolution Directive (BRRD).

3 http://fshandbook.info/FS/glossary-html/handbook/Glossary/I?definition=G3248

4 '730k investment firms' covers certain types of MiFID investment firms within the scope of the CRR. Owing to the complexities of the CRR there is no simple, non-technical 'label' to cover all these firms. Essentially, these are firms that undertake proprietary trading/take balance sheet risk for their own profit, certain other firms that deal on own account for the purposes of executing client orders (provided that certain conditions are met), and operators of multilateral trading facilities. Exempt IFPRU commodity derivatives firms that deal on own account are not deemed to be IFPRU 730k firms.

5 Please refer to Article 1 of the RRD for a full list of the different types of group entities to which the rules and procedures set out in the Directive apply.

will lessen the impact where failure does occur. This should provide significant benefits to consumers.

1.5 If a firm is failing or is likely to fail, the resolution aspects of the RRD and the corresponding rules set out in this PS are expected to provide more robust measures to increase the likelihood that the process occurs in a more orderly manner and without the need to use public funds.

Context

Recovery and Resolution Directive and implementation in the UK

1.6 During the financial crisis, a number of firms that were considered 'too big to fail' were bailed out by the state. This resulted in a perception that such firms in effect benefit from a state guarantee.

1.7 At EU level, one of a number of initiatives taken with the aim of reducing future threats to financial stability was the adoption of a framework for recovery and resolution through the RRD. The Directive aims to provide measures, tools and powers in respect of preparing for the recovery of firms in financial difficulty, early intervention in the event of problems, and the resolution of failed firms in a way that reduces the costs to the public and mitigates the impact on the financial system.

1.8 The RRD places a variety of responsibilities on a national competent authority (CA). In the UK, the Prudential Regulation Authority (PRA) is the CA for the firms within the scope of the RRD that it regulates. The FCA is the CA for the remaining UK firms within the scope of the RRD. The RRD also requires each Member State to designate a resolution authority (RA) that is obliged to develop resolution plans and take resolution actions when necessary. In the UK, the Treasury has designated the Bank of England (the Bank) as the RA. This means that not all of the aspects of the RRD fall to us, as one of the CAs, to implement, as many fall to the Bank in its capacity as the RA.

1.9 A CA, in this case the FCA, carries most of the recovery and early intervention responsibilities, whilst the RA is responsible for the resolution aspects of the Directive. In addition, the FCA will be collecting and passing on resolution information on behalf of the Bank.

Consultation Paper

1.10 In August 2014, we published a CP in which we addressed the elements of the RRD that we are responsible for implementing. Accordingly, we proposed changes to our Handbook that are required for the firms falling within the scope of the RRD that we regulate prudentially.

1.11 Our consultation did not extend to the substantive resolution aspects of the Directive that fall to the RA; instead we consulted only on draft Handbook rules and guidance to facilitate effective cooperation with the RA on resolution planning.

1.12 Our CP also contained a discussion chapter. We used this chapter to elicit views from stakeholders to help inform any future approaches to three specific issues in the RRD:

- which metric or metrics should be used as early intervention triggers
- whether or not firms should be required to maintain detailed records of financial contracts as part of their recovery plans

- how a minimum requirement for own funds and eligible liabilities (MREL) should be set by the Bank, as the RA, for each firm. Whilst the Bank will be responsible for setting MREL, in doing so it is required to consult the FCA on investment firms for which we are the CA. Therefore we took the opportunity to obtain industry views which we could to take into account when we are consulted.

1.13 We asked for written feedback on our draft rules and discussion chapter by 1 October 2014.

FCA objectives

1.14 Through implementing the RRD we will be advancing our market integrity and consumer protection objectives.

1.15 Recovery planning will increase the likelihood that a firm will have considered and planned for what it might do should it come under stress. If this stress then materialises, such planning makes it more likely that the firm will respond in a coordinated way and, if it has to go into administration, do so in an orderly manner. This should reduce the risk of contagion and counterparty defaults, thereby promoting market integrity and also ensuring that the firm will put plans in place to, for example, ensure that client positions are unwound in a timely fashion.

1.16 Our market integrity and consumer protection objectives will also be supported by strengthened resolution powers. The RA will have more firm-specific information relevant to resolution than previously, and will consider the possibility of firm resolution before any failure.

1.17 We do not expect the rules set out in this PS to have any adverse effect on competition. While the new requirements increase the costs to the industry, they strengthen market integrity and enhance consumer protection.

Cost benefit analysis

1.18 The final rules set out in Appendix 1 to this PS do not differ significantly from the draft rules on which we consulted in our CP. The cost benefit analysis published in Annex 3 of our CP therefore remains unchanged.

Compatibility statement

1.19 The final rules set out in Appendix 1 to this PS do not differ significantly from the draft rules on which we consulted in our CP. We therefore consider that the statement of compatibility with our objectives and general duties published in Annex 4 of our CP remains valid. This includes our equality and impact assessment from which we concluded that the rules do not result in direct or indirect discrimination of any of the groups with protected characteristics.

Summary of feedback and our response

1.20 We asked for written feedback on our CP – including on the discussion chapter – and received 11 responses. Respondents comprised IFPRU 730k investment firms, trade bodies and consultants. Each respondent chose to answer a selection of the 20 questions. The number of responses to the individual questions therefore varies.

1.21 Firm responses varied but broadly covered:

- questions seeking clarity on the scope of the IFPRU rules
- comments on the proposed objective criteria to determine simplified obligations
- comments on the content and submission of recovery plans
- comments on the setting of MREL

1.22 We have taken these comments and other, wider transposition factors into consideration and although we have not made any significant policy changes we have:

- simplified the drafting and provided additional guidance
- clarified and simplified the presentation of the scoping provisions
- removed the communication and disclosure element from the recovery planning requirements for firms subject to the simplified obligations
- retracted any application to unregulated entities
- removed any duplication within the rules where there was an overlap with the PRA
- confirmed our approach to the contractual recognition of bail-in
- amended the transitional provisions with regard to EU and EEA application

Next steps

What do you need to do next?

1.23 All IFPRU 730k investment firms and group entities in a group that contains a 730k investment firm or credit institution should review the finalised changes to our Handbook set out in Appendix 1 to this paper. You should establish how the new rules will affect your business and the changes you need to make.

What will we do?

1.24 The majority of the Handbook changes set out in Appendix 1 will enter into force on 19 January 2015. IFPRU 11.6 on the contractual recognition of bail-in will come into force on 1 January 2016. The reporting for recovery plans will be phased in from the end of June 2015.[6]

1.25 The three further issues on which we invited views from stakeholders in the discussion chapter of our CP will each be taken forward in the most appropriate way. We set out the next steps in the relevant sections of this paper.

6 The dates for the submission of plans are set out in SUP 16.20.2.R

2.
Summary of feedback and our response

2.1 In this chapter we summarise the feedback received on the questions contained in our CP and set out our responses to this feedback.

Our approach to transposition

2.2 At the beginning of our CP, we set out our overall approach to implementing the RRD. We proposed to apply the legal minimum required by the Directive. Given that the majority of investment firms pose a lower threat to financial stability than large banks, we suggested adopting a proportionate approach to determining the obligations imposed on investment firms, where this is permitted by the Directive.

2.3 In the consultation we asked:

> ***Q1:*** ***Do you agree with our overall approach to RRD transposition? If not, please explain why not and what alternatives you would suggest.***

2.4 Those respondents who provided answers to this question expressed broad support for our overall approach. In particular, our proposal to reflect the lesser systemic threat posed by the relevant investment firms we regulate by adopting a proportionate approach to their obligations under the RRD, was considered to be appropriate.

2.5 Two respondents requested clarification regarding the scope of the proposed new rules in IFPRU 11. In particular, the respondents asked us to clarify whether our rules applied to firms subject to initial capital requirements of 125k and 50k.

2.6 Three respondents suggested that we reduce the scope of the proposed new rules on recovery and resolution to cover fewer categories of firms. Each made different suggestions but all argued that the types of investment firms they sought to have excluded pose less threat to financial stability than others. We received the following suggestions for exclusions from the scope of the new IFPRU 11:

- IFPRU 730k investment firms in their entirety
- all limited activity and limited licence investment firms
- investment firms that operate multilateral trading facilities (MTFs)

2.7 In the context of possible exclusions, two respondents referred to the ongoing work at EU level on a recovery and resolution framework for non-bank financial institutions. One respondent noted that, if the proposed scope of IFPRU 11 is maintained, this would risk subjecting certain

investment firms to two, potentially different, recovery and resolution regimes. Another respondent raised concerns over the potential creation of an unlevel playing field if trading venues operated by investment firms were to fall within the scope of the RRD but trading venues operated by market operators were instead to be governed by the regime for non-bank financial institutions.

2.8 Finally, one respondent noted that it would be helpful to firms operating on a cross-border basis if the RRD were to be implemented consistently across all 28 EU Member States.

Our response

Exempting firms from the RRD

The RRD does not give us the discretion to waive the application of the Directive to any of the firms within its scope. We have tried to limit the obligations on firms that pose less of a threat to financial stability by our application of the simplified obligations provisions.

General scope of the RRD

As a result of some of the comments we received regarding the scope of the RRD, we have made a few drafting changes. We have set out a guidance provision in IFPRU 11.1.6G on the application of the provisions and have included a table in IFPRU 11.1.7G to assist in the navigation of the provisions. For clarity, we have now also introduced the concepts of an RRD institution[7], an RRD group[8] and an RRD group member[9].

The provisions in IFPRU 11 apply on a solo basis, a group basis, and/or an individual entity basis. The latter is subject to certain provisions by virtue of being in a group that contains a 730k investment firm or a credit institution. In addition the provisions extend to the qualifying parent undertaking (QPU) and a mixed activity holding company in certain instances.

In summary, the solo provisions apply to any IFPRU 730k investment firms that are not part of a group.

The group provisions apply at a parent company level to groups that contain a 730k investment firm or a credit institution.

The entity provisions apply to entities within the RRD group. The table in IFPRU 11.1.7G sets out the overarching application of the provisions on the solo, group and entity levels.

In our view, the Directive is unclear as to whether or not the definition of a financial institution may include an IFPRU 125k firm or an IFPRU 50k firm, for the purposes of applying the RRD. Given the importance of consistent implementation across the EU on this point, we have decided not to make any provision for their inclusion at this point, but will continue to explore with the Commission and other stakeholders if the text should be read as supporting

7 A credit institution or an investment firm with an initial capital requirement of €730 k.

8 A group that contains a 730k investment firm or a credit institution with an EEA parent undertaking.

9 A member of an RRD Group that is: an RRD institution; or a financial institution; or a financial holding company; or a mixed activity holding company.

inclusion as a minimum requirement, or if not, whether there may still be a case for consulting on an additional national requirement to do so.

We have excluded from our rules QPUs that are subject to PRA rules to avoid any duplication.

We have also excluded any incoming EEA firms and any third-country firms.

Non-Bank Recovery and Resolution Framework
We are not aware of any suggestions from the European Commission that it would seek to cover the same investment firms that are already within the scope of the RRD within a separate recovery and resolution framework for non-bank financial institutions. As we agree that there should be no overlap between separate pieces of EU legislation, we will work closely with the Treasury, the Bank and the PRA to help ensure that this is taken into consideration.

Consistent EU transposition
We are conscious of the benefits of harmonisation. In certain areas, for example the application of simplified obligations, it is necessary for national discretions to be applied in a manner that addresses the position of that Member State. However, we will continue to work with the PRA within the EBA towards consistent implementation, where appropriate.

Recovery

2.9 In chapter 2 of our CP, we considered the issues relevant to the implementation of the RRD provisions on recovery planning. We proposed criteria for determining which firms will be subject to the general application of the obligations for recovery planning and which will be subject to simplified obligations. We also considered the scope, content, frequency and first submission date of recovery plans.

Determining the scope of application of general obligations and simplified obligations

2.10 We explained in our CP that Article 4 of the Directive permits us to simplify the obligations in connection with recovery plans for firms whose failure would not cause a 'significant impact'. We proposed to determine which firms' failure would or would not cause a 'significant impact' by setting out unambiguous and objective criteria in the form of impact factors.

2.11 On this basis, we set out five impact factors: total assets, total liabilities, client money, client assets and annual fees/commission income. These impact factors were chosen to reflect the different business models of IFPRU 730k investment firms. The thresholds defined were calibrated to ensure that firms whose failure would have a significant negative effect are identified if they breach one or more of the thresholds.

2.12 In the consultation we asked:

> ***Q2:*** ***Do you agree with our proposal to publish objective criteria to determine whether a firm will be subject to the general application of obligations or the simplified application of obligations? If not, please explain why not***

and propose alternative approaches and the rationale for those approaches.

Q3: ***Do you agree that the combination of these five impact factors adequately capture the different IFPRU 730k firm business models? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

Q4: ***Do you agree that these thresholds are based on the appropriate factors to differentiate those 'significant firms' whose failure is likely to have a significant impact from those which will not? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

Q5: ***Do you agree with our proposal to define a firm as a 'significant' firm if it exceeds at least one of these thresholds? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.13 Several respondents expressed their support for our overall approach to determining the scope of application of general and simplified obligations. In so doing, individual respondents welcomed our use of the option to apply only simplified obligations to some firms and our use of objectively defined criteria to make the determination.

2.14 Three respondents referred to Article 4(5) of the Directive. According to this, the EBA is required to issue Guidelines to specify the criteria for assessing the impact of the failure of a financial institution on the financial markets, on other institutions and on funding conditions. Given that the EBA launched a consultation on draft Guidelines in September 2014, the three respondents requested that we ensure our approach is consistent with that of the EBA.[10]

2.15 One respondent suggested that a single EU-wide approach to determining the scope of application of general and simplified obligations would be preferable.

2.16 Stakeholders expressed diverging views on the five impact factors we set out in our CP. Some agreed with the proposed factors and methodology, one respondent welcoming the consistency with the factors used to identify 'significant firms' in the context of CRD IV. Other respondents had some reservations although these were restricted to the impact factors of total assets and total liabilities.

2.17 One respondent disagreed with the use of total assets and total liabilities arguing that they are not always an accurate means of measuring the complexity of activities or the level of risk that the firm represents to the market. Two other respondents also expressed concerns about the same two factors. This was on the grounds that certain transactions are recognised on balance sheets whilst they are in the settlement cycle but that this is rarely for more than a few minutes. This was argued to artificially gross up the balance sheet and potentially result in the firm being deemed to have reached the threshold.

10 EBA/CP/2014/25, Consultation Paper on Draft Guidelines on the application of simplified obligations under Article 4 of the Bank Recovery and Resolution Directive (BRRD): http://www.eba.europa.eu/documents/10180/826425/EBA-CP-2014-25+%28CP+on+GL+on+simplified+obligations%29.pdf

2.18 Respondents suggested four possible ways to remedy this:

- substitute 'total assets' and 'total liabilities' with total capital resources
- specify that 'total assets' and 'total liabilities' both refer to 'overnight' values
- apply higher threshold values to limited activity investment firms
- increase the threshold values in relation to 'total assets' and 'total liabilities'

2.19 Several respondents also suggested that the range of impact factors should be broader. Two respondents noted that the impact factors proposed were of a purely quantitative nature and proposed that they be complemented by qualitative aspects. One respondent expressed concern that adopting a purely quantitative approach to defining firms whose failure would have a 'significant impact' could encourage firms to split their activities across entities to remain below the thresholds.

2.20 Similarly, respondents acknowledged that the proposed five factors reflect the size of the firm, but considered that other risk factors identified in Article 4(1) of the Directive have not been incorporated. These include the ownership structure, the level of interconnectedness to other institutions, and the nature, scope and complexity of the firm's business activities.

2.21 Respondents were particularly keen that the nature of the business be taken into account. This was felt to be important to adequately differentiate between the higher risk, more complex operations carried out by banks and the systemically less significant activities carried out by IFPRU 730k investment firms such as Multilateral Trading Facilities (MTF) operators. Other suggestions for additional impact factors included the number of employees in a control function and the substitutability of the services operated.

2.22 One respondent suggested that simplified obligations should be applied automatically to certain types of IFPRU 730k investment firms because they pose no systemic risk. It was proposed that limited activity and limited licence firms as well as MTF operators would fall into this category.

Our response

Undertaking a case-by-case assessment of each of the approximately 230 IFPRU 730k investment firms which are subject to the RRD would be a considerable and highly resource-intensive process. So, where it is more proportionate for a firm to be eligible for simplified obligations, we decided that this was best achieved by publishing unambiguous, quantitative thresholds.

A considerable proportion of the RRD assessment framework is not relevant to the investment firms we supervised. For example, these firms do not in any meaningful way have membership of an institutional protection scheme or other cooperative mutual solidarity systems as referred to in the CRR. The same is true of interbank exposures, use of advanced models, deposits, payment services and so on.

It is also worth noting that the EBA will give consideration to preparing draft regulatory technical standards after its guidelines have been applied. We currently believe that our approach would be consistent with the draft guidelines that the EBA has consulted upon.

Our objective criteria deal with the 'significant' impact that a firm might have should it get into financial difficulty. We have used a range of impact factors other than total assets, which overall tend to be highly correlated with other assessment criteria in addition to scale, such as risk profile, nature of business, scope and complexity of activities. Given this, the aim of the thresholds is to provide firms with clear, simple, quantitative measures to determine whether they are eligible to apply simplified obligations.

Based on the current calibration of the impact factors approximately 190 (i.e. 83%) IFPRU 730k firms are eligible to use simplified obligations. The approach has the added advantage that it is consistent with that which we have used for determining which FCA investment firms are 'significant' for the purposes of certain requirements under CRD IV, and this was welcomed by one respondent.

The remaining approximately 40 (i.e. 17%) IFPRU 730k firms will, therefore, be subject to general obligations. In terms of the total current population of IFPRU 730k firms, 'significant' firms will represent:

- 38% of total fees and commission
- 62% of total client money
- 74% of total client assets
- 94% of total liabilities
- 90% of total assets

At this stage we do not propose publishing an additional eligibility threshold for the simplified obligation approach based on the number of employees in a control function. However, this may be considered further in light of the EBA work on transitioning the guidelines to a regulatory technical standard.

We do not agree that the 'category' of an IFPRU 730k firm under CRD IV should lead to a different measure of impact. For example, even firms that deal on their own account when acting in an agency capacity or executing a client order could potentially be 'significant' in terms of the (initial) impact of their failure, and should therefore be subject to the more detailed general obligations for recovery plans. Whereas, many of the firms that trade as principal for their own gain are very unlikely to be 'significant' in terms of their potential impact and so should not be required to apply the general obligation approach.

Several respondents highlighted concerns with the use of total assets and total liabilities. We agree that net assets/liabilities rather than total (gross) assets/liabilities may be a more proportionate measure of prudential risk. This may be the case for MTFs and back-to-back matched principal trading. However, as already explained, we believe that focusing upon potential impact is more in line with the aims of the RRD and the degree of attention to be paid to producing appropriate recovery plans.

One respondent's proposal of an EU-wide approach is not foreseen under the current legislation, beyond the work of the EBA as noted. In any case, depending upon the details, we would not necessarily be in favour of such

an approach as what is deemed 'significant' for a Member State with a small economy may not be a proportionate measure of significance for a Member State with a much larger economy.

In conclusion, having considered the responses received and the degree of support by respondents, we have decided to implement the proposed assessment approach without any changes. We believe that a clear and consistent approach to determining the use of a 'simplified' application compared to a 'general' application of the obligations to produce recovery plans is still the most appropriate.

Content, frequency and submission of recovery plans

2.23 Having set out in our CP how we proposed to determine which firms will be subject to the general obligations and which firms will be subject to the simplified obligations, we went on to define the obligations themselves.

2.24 Within the parameters defined in the Directive we, as the CA, are required to determine:

- the contents and details of the information to be provided in recovery plans
- the first date of submission of recovery plans
- the frequency for updating recovery plans

2.25 In our CP, we set out our proposals for the general obligations and the simplified obligations for each of these three issues. Our proposals are summarised below.[11]

	General obligations	Simplified obligations
Contents and details	The elements set out in the proposed IFPRU Handbook rules.	The simplified elements set out in the proposed IFPRU Handbook rules.
First reporting reference date and submission dates	Depending on total balance sheet assets, first reporting reference date of either 30.06.2015 (largest firms), 30.09.2015, 31.12.2015 or 31.03.2016 (smallest firms); submission deadline three months after reporting reference date.	Depending on total balance sheet assets, first reporting reference date of 30.09.2015 (largest firms), 31.12.2015, 31.03.2016 or 30.06.2016 (smallest firms); submission deadline three months after reporting reference date.
Frequency of updates	Annually, using the same reporting reference date and submission deadline as for first submission.	Every two years, using the same reporting reference date and submission deadline as for first submission.

2.26 In the consultation we asked:

> ***Q6:*** ***Do you agree with our proposals for the first submission date and frequency of submission of recovery plans for firms subject to the general application of obligations? If not, please explain why not and provide alternatives.***

11 As outlined in SUP16.20.2R

2.27 Only one respondent commented on our proposals for the date of first submission and frequency of submission of recovery plans for firms subject to the general obligations. This respondent expressed agreement.

Our response

We confirm our approach to the content, first submission date and frequency of reporting for firms subject to the general obligations. We remind firms that, since our CP, the EBA has published guidelines and technical standards on recovery plans of which firms should be aware when preparing their recovery plans.[12]

Q7: ***Do you agree with our proposals for the content, first submission date and frequency of recovery plans for firms subject to the simplified application of obligations? If not, please explain why not and provide alternatives.***

2.28 Three respondents commented on our proposals in relation to firms subject to the simplified application of obligations. Two respondents advocated a more flexible approach to the required content of recovery plans and the frequency of submission.

2.29 Two respondents requested that the FCA should have flexibility to tailor recovery plan content, with one of those respondents suggesting that content should be tailored to the nature of an investment firm's activities.

2.30 Two respondents agreed with our phased reporting approach to recovery plans. Two respondents requested that the FCA should have flexibility to tailor the first submission date, with one of those respondents suggesting that consideration be given to when firms have other reporting obligations.

2.31 It was also suggested that we have regard to the date set for the initial submission of the baseline information on resolution planning.

Our response

Recovery plan content

We consulted on the fundamental content that we believe should be completed by all investment firms, irrespective of their business models, in order to enable us, as the relevant CA, to assess firms' recovery arrangements. The recovery plan on which we consulted contained generic business concepts that are applicable to any business considering its recovery options, the feasibility of those options, and an analysis of impediments to their successful implementation. As a result, we do not believe that we require different rules on recovery plan content for different business models. Furthermore, by using generic business concepts

12 See European Banking Authority draft final regulatory technical standards on the content of recovery plans, submitted to the European Commission on 18 July 2014: http://www.eba.europa.eu/documents/10180/760167/EBA-RTS-2014-11+Draft+RTS+on+content+of+recovery+plans.pdf/60899099-2dcb-4915-879d-8b779a3797cc; European Banking Authority Guidelines on the range of scenarios to be used in recovery plans: http://www.eba.europa.eu/documents/10180/760136/EBA-GL-2014-06+Guidelines+on+Recovery+Plan+Scenarios.pdf/05cc62a3-661c-4eee-ad07-d051f3eeda07

there is in-built flexibility as to how firms structure the detail of their recovery plans to reflect firm-specific circumstances.

In addition, if firms have other relevant recovery plan information that is not covered by the fundamental information on which we consulted, our rules require firms to include such information in their recovery plan. This provides firms with further flexibility to tailor recovery plans to their specific requirements.

We remind firms to consider, when preparing recovery plans, the general relevance and appropriateness of their content as well as the principle of proportionality. For example, if a firm genuinely has only one realistic recovery option, we do not expect such a firm to try and create other recovery options for the sake of the recovery plan.

We also remind firms that, although the draft regulatory technical standards (RTS) on the content of recovery plans (see footnote 12) do not directly apply to firms subject to simplified obligations, the fundamental recovery plan content that we require has some alignment with the headings and terminology in the draft RTS on recovery plans. This enables firms to use the draft RTS as a guide when completing different recovery plan concepts. At the same time, using terminology and concepts in recovery plans prepared by firms subject to simplified obligations would make any transition from a firm being subject to simplified obligations to general obligations, and vice versa, much easier in the future.

However, we have re-assessed the recovery plan content for firms subject to simplified obligations in order to remove any further areas which we feel are not essential elements for inclusion in a simplified plan. We have decided to remove the requirement for a communication and disclosure plan and to remove the words 'a range of' when identifying recovery options. This recognises that, for some very simple business models, there may only be one recovery option.

We clarify that general obligations apply if there is no IFPRU 730k firm in the RRD Group i.e. if the RRD institution is outside the UK.[13]

Recovery plan reporting reference and submission dates

Concerning the timing of the first (and subsequent) recovery plan submissions, we were conscious that spreading them over a year enables us to smooth resourcing and costs more effectively in order to review these plans. In contrast, if we were to request that all recovery plans are submitted for a single reporting reference date, we would have to upscale resourcing for short time periods.

We considered firms' other reporting obligations when setting recovery plan reporting reference dates, but we noted that all IFPRU firms have COREP reporting obligations every quarter. Hence, it was not possible to find suitable recovery plan quarter-end reporting dates where firms do not already have other reporting obligations.

We did not feel that it was necessary to align recovery plan reporting reference or submission dates with the information required for resolution plans because the information required in the two submissions does not have any considerable overlap. There are therefore little or no synergies in having the

13 IFPRU 11.3.1R3 and IFPRU 11.4.1R4 more fully describes the instances where this occurs.

same reporting reference date for the two submissions. Furthermore, the subsequent submission frequency of recovery plans and the information for resolution plans is not the same, meaning that their cycle of submission will be different. As a result, we believe that not aligning reporting reference dates for recovery plans and resolution planning enables firms to spread their reporting obligations more efficiently.

Consequently, we confirm that we will proceed with the reporting reference dates and submission dates for recovery plans on which we consulted.

Notification of failure or likely to fail

2.32 Chapter 3 of our CP considered the obligation on firms and certain group entities to notify their CA where the management body of that firm or group entity considers that it is failing or likely to fail.

2.33 Firstly, we set out the circumstances defined in the RRD in which the management board of a firm or group entity should deem that the firm or group entity is failing or likely to fail. We then proposed to transpose these provisions directly into our Handbook in IFPRU 11.7 together with a requirement that the firm or group entity in question notifies the FCA immediately.[14]

2.34 In the consultation we asked:

Q8: ***Do you agree with our transposition of the requirement for notification of failure or likely to fail?***

2.35 None of the respondents to our CP chose to comment on this proposal for transposition.

Our response

We did not receive any responses from stakeholders on our suggested approach. We are therefore proceeding with the rules as proposed in our CP. However, given the importance to a CA of being notified of the likelihood of failure, we will also keep this area under review and assess it in the light of our and firms' experiences with the application of the rules.

It is also important to note that this provision applies on an entity level, as described in the guidance provision IFPRU 11.1.6G and the associated table in IFPRU 11.1.7G.

14 Firms should also have regard to forthcoming EBA Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail. The EBA consulted from 22 September to 22 December 2014 on its draft Guidelines, EBA/CP/2014/22, Consultation Paper on Draft Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU: http://www.eba.europa.eu/documents/10180/820069/EBA-CP-2014-22+%28CP+on+GL+on+failing+or+likely+to+fail%29.pdf

Resolution

2.36 In chapter 4 of our CP, we set out our proposed approach to resolution planning. We explained that firms are required under the RRD to provide information to the RA in order for the RA to draw up a resolution plan for each firm.

2.37 We proposed in our CP to mirror the approach to information collection that is already employed by the PRA for resolution planning purposes.[15] This would involve the collection of information from firms in three phases.

- **Phase 1 – baseline information**
  The FCA will gather from all firms the necessary baseline information to enable the Bank to start drawing up resolution plans.

- **Phase 2 – supplementary information**
  Supplementary information may be requested from individual firms following assessment of baseline information by the Bank if it considers further information is necessary to inform the development of resolution strategies.

- **Phase 3 – contingent information**
  As a firm approaches resolution, the Bank may request from individual firms further information to facilitate resolution contingency planning or to update information provided previously.

2.38 Although resolution planning falls under the remit of the Bank as the RA, the RRD permits an RA to ask the CA to collect the data on its behalf. The FCA has agreed to collect the baseline information (phase 1) on behalf of the Bank and this is reflected in the proposed rules and guidance. The FCA and/or the Bank will provide more information on the collection and nature of the supplementary information (Phase 2) in due course.

2.39 We highlighted our intention to ensure that the information requested from firms is proportionate to the threat that they pose to financial stability. We also noted that, while the draft request in our proposed IFPRU 11 Annex 2R is based on that developed by the PRA for dual-regulated firms, we have refined it to reflect differences in the activities undertaken.

2.40 We proposed that the first reporting reference date for baseline information should be 30 June 2015 for 'significant' 730k investment firms and groups that include a 'significant' 730k investment firm, or do not include an IFPRU 730k firm, and 31 December 2015 for other firms and groups. The submission deadline would be three months after the reporting reference date. We suggested that 'significant' firms and groups submit revised baseline information every two years and other firms and groups every three years. The same reporting reference date should be used each time.

2.41 In the consultation we asked:

> ***Q9:*** ***Do you agree that the proposed baseline information request covers all activities that solo FCA-regulated firms might undertake?***
>
> ***Q10:*** ***Do you agree with the use of the CRD IV significance criteria to identify 'significant' firms for the timing of the***

15 PRA Supervisory Statement SS19/13, Resolution planning, December 2013: http://www.bankofengland.co.uk/pra/Documents/publications/ss/2013/ss1913.pdf

baseline information request of resolution planning is appropriate?

Q11: ***Do you agree that the initial submission dates are reasonable to prepare the first baseline information submission? If not, please explain why not and suggest an alternative approach.***

Q12: ***Do you agree that allowing smaller firms and groups to submit their initial baseline information later than is required for significant firms is proportionate?***

Q13: ***Do you agree that the different submission frequencies for significant and the remaining firms are appropriate?***

2.42 We did not receive any responses to our proposals on resolution planning.

Our response

We did not receive any responses from stakeholders on our suggested approach. We are therefore proceeding with the rules and guidance as proposed in our CP.

Intra-group financial support

2.43 The Directive provides that group entities must be permitted to enter into agreements with other entities in the group to provide financial support to any other party to the agreement should the need arise. We laid out our proposals for implementing the provisions on intra-group financial support (IGFS) in chapter 5 of our CP.

2.44 Our proposed approach to IGFS agreements was to transpose the relevant RRD Articles directly into our Handbook. We proposed to include the requirements, conditions and procedures set out in the RRD in the provisions in IFPRU 11.5. This therefore consists of rules relating to:

- the procedure for submitting an application to the FCA for the authorisation of an IGFS agreement
- the elements that an IGFS agreement must contain and the principles with which it must comply
- the conditions which must be met before financial support can be provided
- the content of the decision of the management body of a group entity to provide financial support
- the obligation to notify the relevant authorities of the provision of financial support
- the procedure for obtaining the agreement of the CA to the provision of financial support

- the requirement on all firms and QPUs to make public whether or not they have entered into an IGFS agreement, the terms of any such agreement, and to update the information at least annually

2.45 In the consultation we asked:

> ***Q14: Do you agree with our transposition of the Directive provisions relating to IGFS?***

2.46 We received one response to this question. This stakeholder did not comment directly on our proposed approach to transposing the RRD provisions on IGFS agreements, but instead sought clarification of one particular aspect. This respondent asked us to clarify that the obligations to submit an application for approval of IGFS only falls to a QPU if it is the EEA parent undertaking of the RRD group.

Our response

We did not receive any responses on our overall approach to IGFS and will therefore proceed with our proposals as consulted upon.

We have added some guidance on the scope of financial support in IFPRU 11.5.2G and summarised the RRD intra-group financial support conditions in IFPRU 11.5.3G to make the requirements clearer. We have also added a requirement that amendments to IGFS agreements need to be submitted to us for approval to align with the position taken by the PRA and the final version of the UK legislation.

Contractual recognition of bail-in

2.47 In chapter 6 of our CP, we explained that the RRD requires all IFPRU 730k firms and certain relevant group entities to include a contractual term by which the creditor or party to the agreement creating the liability recognises that the liability may be subject to the exercise of bail-in by the RA. The Directive provides that this requirement must apply to liabilities that are:

- not excluded from the scope of the bail-in tool in Article 44(2) RRD
- not deposits referred to in Article 108(a) RRD
- governed by the law of a third country
- issued or entered into after the date on which the rules on contractual recognition of bail-in come into force

2.48 We proposed to implement this by means of IFPRU 11.6, which seeks to reproduce the requirements of the RRD.

2.49 As we set out in our CP, the rules implementing the section of the RRD relating to bail-in can – but do not have to – be applied before 1 January 2016. We proposed that IFPRU 11.6 enter into force on 1 January 2016.

2.50 In the consultation we asked:

> ***Q15:*** ***Do you agree with our transposition of the Directive provisions relating to contractual recognition of bail-in and do you have a view regarding the date of the commencement of this provision?***

2.51 One stakeholder chose to respond to this question. The respondent expressed support for our transposition proposal and highlighted its preference for the later date of commencement proposed for our rules (i.e. not to implement these requirements before the last possible date of 1 January 2016). This was deemed important because of a need to first await the draft final RTS that will further define the liabilities that are excluded from the scope, and the contents of the contractual term. This RTS is currently under development by the EBA[16] but does not have to be submitted to the European Commission until 3 July 2015 and is not likely to be adopted as a delegated act before autumn 2015. The respondent argued that the complex questions posed by the contractual recognition of bail-in mean that the RTS will play a crucial role in ensuring that all firms take the same approach to complying with this requirement. In order that firms are able to take the final RTS into account 1 January 2016 was the preferred date of commencement for our rules.

Our response

Respondents raised no objections to our proposal to transpose the Directive requirements on contractual recognition of bail-in into the FCA Handbook. We will therefore maintain this approach in our final rules.

The feedback we received regarding the date of entry into force of these rules supported our suggestion to delay application until 1 January 2016.

We have therefore concluded that, in the case of IFPRU 730k investment firms, the later date of commencement is the more proportionate approach to the transposition of this RRD requirement. Our rules on the contractual recognition of bail-in will enter into force on 1 January 2016.

Issues for discussion

2.52 In addition to consulting on proposed changes to our Handbook, we also requested stakeholders' views on three further issues arising from the Directive. We dedicated chapter 7 of our CP to early intervention triggers, the possibility of requiring firms to maintain records of their financial contracts, and the minimum requirement for own funds and eligible liabilities (MREL).

2.53 The purpose of including this discussion chapter was to set out our preliminary thoughts on the three issues and to elicit views from stakeholders to help inform any future approaches we might adopt or requirements we might consider. In the case of MREL, we wanted to better

16 The EBA is consulting until 5 February 2015 on its draft RTS, EBA/CP/2014/33, Consultation Paper on Draft Regulatory Technical Standards on the contractual recognition of write-down and conversion powers under Article 55(3) of the Bank Recovery and Resolution Directive: http://www.eba.europa.eu/documents/10180/882606/EBA-CP-2014-33+%28Draft+CP+on+RTS+on+contractual+recognition+of+bail-in%29.pdf

understand what an MREL might mean for investment firms so that we might be able to assist the Bank when it sets the MREL of those firms that we regulate prudentially.

2.54 We set out how we intend to take each of these issues forward below.

Early intervention triggers

2.55 We explained in our discussion chapter that Article 27 of the RRD gives a CA the power to apply early intervention measures to firms where they infringe early intervention triggers set by the CA that are above the regulatory minimum.

2.56 In our discussion chapter we considered the factors that are listed in the Directive as examples of prudential risks that could be used to inform the definition of early intervention trigger metrics. We explained why we do not consider liquidity, leverage, non-performing loans or the concentration of exposures to be suitable trigger metrics for IFPRU 730k investment firms. We suggested that suitable triggers might be based on the own funds requirements of Article 92 CRR and proposed three separate triggers that are calibrated to be the three capital ratios of Article 92 CRR plus a figure of 1.5%.

2.57 In the consultation we asked:

> ***Q16:*** ***Do you consider that having early intervention triggers based on the own funds requirements is sufficient, or should there be a wider set of triggers based on other prudential requirements (e.g. liquidity)? Please explain your answer and, where appropriate, provide alternative suggestions for triggers based on other prudential requirements.***

> ***Q17:*** ***For the purposes of an early intervention trigger based on deteriorating capital adequacy, do you consider that three early intervention triggers that are calibrated to be the three CRR Article 92 own funds requirements plus 1.5% is appropriate? And should any additional own funds requirement set under the supervisory review process also be taken into account? Please explain your answers and, where relevant, please provide any alternative suggestions for an own funds-based early intervention trigger.***

2.58 One stakeholder commented on our ideas for early intervention trigger metrics. This respondent raised concerns around the use of own funds as the sole trigger, noting that own funds data alone does not necessarily generate an accurate picture of the financial health of a firm and so cannot be relied on as an indicator of financial distress. The respondent also argued that own funds metrics are susceptible to manipulation by firms. It was therefore suggested that we also consider using a trigger based on liquidity requirements.

Our response

Since our CP, there have been two regulatory developments to note.

Firstly, in October 2014, the European Commission adopted a Delegated Regulation on the liquidity coverage requirement (LCR).[17] This Delegated Regulation does not apply to investment firms which means that, initially, there is no CRR binding minimum liquidity requirement on investment firms. Furthermore, there is to be a review of the applicability of the LCR to investment firms, which we would not wish to pre-judge.[18] As a result, we confirm that we do not currently consider there is enough certainty for liquidity to be an appropriate early intervention trigger metric for investment firms.

Secondly, in September 2014, the EBA issued two sets of draft guidelines. One set was out for consultation until late December 2014 and aims to promote the consistent application of early intervention triggers.[19] The other set of draft guidelines was out for consultation until early January 2015 and covers the minimum list of recovery plan indicators that firms are to include in their recovery plans.[20]

There are clear relationships between these two sets of guidelines and the potential setting of appropriate early intervention trigger metrics by CAs. In light of this, we believe that we should await the outcome of the two EBA consultations and consider the final Guidelines before assessing whether it is appropriate to set early intervention trigger metrics above the regulatory minimum.

Initially, therefore, we will not be making any rules to specify particular early intervention triggers. If we subsequently determine that it is appropriate to set early intervention trigger metrics, then we will consult accordingly.

Financial contracts

2.59 We explained in our CP that the RRD permits the CA to require a firm to maintain detailed records of financial contracts to which that firm is a party. We also set out the definition of financial contract contained in the Directive. The definition includes contracts for securities, commodities, futures and forwards as well as swap agreements and inter-bank borrowing agreements. Any master agreements for these contracts or agreements are also included within the definition.

17 Commission Delegated Regulation to supplement Regulation (EU) 575/2013 with regard to liquidity coverage requirement for Credit Institutions, C(2014) 7232 final: http://ec.europa.eu/finance/bank/docs/regcapital/acts/delegated/141010_delegated-act-liquidity-coverage_en.pdf

18 This is provided for in Article 508(2) of the CRR.

19 EBA/CP/2014/21, Consultation Paper on Draft Guidelines on triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU: http://www.eba.europa.eu/documents/10180/820129/EBA-CP-2014-21+%28CP+on+GL+on+early+intervention++triggers%29.pdf

20 EBA/CP/2014/28, Consultation Paper on Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators: http://www.eba.europa.eu/documents/10180/828451/EBA-CP-2017-28+CP+on+GL+on+Minimum+List+of+Recovery+Plan+Indicators.pdf

2.60 We therefore asked stakeholders about the extent to which they already maintain such records and, if not, whether this would be feasible and at what cost.

2.61 In the consultation we asked:

> ***Q18: Do you consider that requiring firms to maintain detailed records of financial contracts as part of recovery plans is appropriate? If not, please explain why.***

2.62 We did not receive any responses to this question.

Our response

We did not receive any responses from stakeholders on the appropriateness of such a requirement. We will not be taking this issue forward at the present time, although we will continue to explore the appropriateness of these requirements for the future.

Minimum requirement for own funds and eligible liabilities

2.63 We set out in the discussion chapter of our CP that the RRD introduces a requirement that firms meet an MREL. The MREL is to be set by the RA from 1 January 2016. The Directive sets out the broad criteria on the basis of which the RA is to determine a MREL for each individual firm. The EBA is presently working on RTS that specify these criteria further.[21]

2.64 While it is the Bank, as the RA in the UK, that will determine the MREL, the RRD requires the RA to consult the FCA when setting the MREL of solo-regulated firms. We therefore sought the views of stakeholders to better understand what an MREL might mean for investment firms.

2.65 In the consultation we asked:

> ***Q19: How would investment firms be affected by an MREL standard and what do you consider to be an appropriate way to set MREL for a firm on an individual basis? Please provide reasons to support your response.***

2.66 We received four responses to this question. Three respondents expressed concern that the extent to which investment firms would be affected by an MREL is dependent on which accounting standards they use. They argued that firms using IFRS or UK GAAP are at a disadvantage compared to firms using US GAAP because the latter has less strict netting requirements.

2.67 In particular, IFRS and UK GAAP require certain trades, for example matching trades, to be booked gross. This means that the firm appears to be more highly leveraged under IFRS and UK GAAP and to have larger gross liabilities than it would under US GAAP; under the latter therefore the MREL would be lower.

21 EBA/CP/2014/41, Consultation Paper on Draft Regulatory Technical Standards on criteria for determining the minimum requirement for own funds and eligible liabilities under Directive 2014/59/EU: http://www.eba.europa.eu/documents/10180/911034/EBA+CP+2014+41+%28CP+on+draft+RTS+on+MREL%29.pdf

2.68 Respondents argued that using IFRS or UK GAAP would be unrepresentative of the actual level of risk to which the firm is exposed and would result in a lack of congruency between the MREL and the Common Equity Tier 1 ratio of the firm. They also pointed out that the disparity between the two metrics would increase with the more trades a firm performs that are booked gross.

2.69 Respondents suggested that these difficulties with a MREL could be mitigated by using the leverage ratio calculated under the CRR to set the firm's MREL. They argued that the use of the leverage ratio would be appropriate because it reflects the level of liabilities to which a firm is exposed. Moreover, it already factors in the disparity between the netting regimes of the different accounting standards.

2.70 We received further suggestions for firm-specific criteria that individual respondents considered would contribute to ensuring that MREL better reflects the actual level of risk to which an investment firm is exposed. Suggestions included the firm's business model, its loss absorbing capacity, the individual capital guidance (ICG) issued by the FCA, and the Pillar 1 and Pillar 2 capital requirements.

Our response

We are grateful to stakeholders for providing us with their views on MREL and what it may mean for FCA solo-regulated investment firms. As we explained in our CP, it is the Bank in its capacity as the RA that will be responsible for setting the MREL, after consulting with us as the relevant CA. We will discuss respondents' views with the Bank.

Cost benefit analysis

2.71 We are required under FSMA to publish a cost benefit analysis (CBA) to accompany any new rules we propose. We set out our analysis of the costs and benefits of our proposed transposition of the RRD in Annex 3 of the CP.

2.72 We explained in Annex 3 that we conducted our CBA at the level of the whole Directive because the different elements of the RRD are closely interlinked. We also set out why we believe that we have proposed the most proportionate approach possible under the RRD by making use of the discretion in relation to simplified obligations.

2.73 We identified three types of costs:

- additional compliance costs to firms (we subdivided these into one-off and ongoing expenditure and provided quantitative estimates of each)
- indirect costs to firms (potentially slightly higher funding costs although we considered these to be much more significant in the case of dual-regulated firms due to their greater systemic importance)
- implementation costs to the FCA (prudential, conduct and operational consequences of the recovery and resolution regime)

2.74 We explained in our CP that the expected benefits are less tangible than the costs. As a result, we concluded that it would not be reasonably practicable for us to produce a quantitative estimate. The benefits we identified were:

- strengthening firms' risk management and governance capabilities, thereby reducing the likelihood of firms failing in a disorderly manner
- improving consumer protection and consumer confidence
- enhancing market integrity

2.75 In the consultation we asked:

*Q20: **Do you have any comments on this CBA?***

2.76 We did not receive any comments on our cost benefit analysis.

Our response

We did not receive any responses from stakeholders on our CBA. As the final rules do not differ significantly from the draft rules on which we consulted, the CBA published in Annex 3 of our CP remains valid.

Annex 1
List of non-confidential respondents

We received 11 responses to our CP. Five of the respondents requested confidentiality; the six non-confidential respondents are listed below.

BMO Financial Group

City Index

Hudson River Trading Europe Ltd.

International Swaps and Derivatives Association (ISDA)

Moore Stephens LLP

Wholesale Markets Brokers' Association (WMBA)

Appendix 1
Made rules (legal instrument)

RECOVERY AND RESOLUTION DIRECTIVE INSTRUMENT 2015

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 139A (Power of the FCA to give guidance);
(4) section 192J (Rules requiring provision of information by parent undertakings); and
(5) section 192JB (Rules requiring parent undertakings to facilitate resolution).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force as follows:

(1) Part 2 of Annex B (IFPRU) comes into force on 1 January 2016; and
(2) the remainder of this instrument comes into force on 19 January 2015.

Amendments to the FCA Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for Investment Firms (IFPRU)	Annex B
Supervision manual (SUP)	Annex C

Notes

E. In the Annexes to this instrument, the "notes" (indicated by "**Note:**") are included for the convenience of readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Recovery and Resolution Directive Instrument 2015.

By order of the Board of the Financial Conduct Authority
15 January 2015

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical positions. The text is new and is not underlined.

core business lines

business lines and associated services which represent material sources of revenue, profit or franchise value for an *RRD institution* or an *RRD group*.

[**Note:** article 2(1)(36) of *RRD*]

critical functions

activities, services or operations the discontinuance of which is likely, in one or more *EEA States*, to lead to the disruption of essential services to the real economy or to disrupt financial stability due to the:

(a) size;

(b) market share;

(c) external and internal interconnectedness;

(d) complexity; or

(e) cross-border activities,

of an *RRD institution* or *RRD group*, particularly bearing in mind the substitutability of those activities, services or operations.

[**Note:** article 2(1)(35) of *RRD*]

EEA parent undertaking

(a) an *EEA parent institution*; or

(b) an *EEA parent financial holding company*; or

(c) an *EEA parent mixed financial holding company*.

[**Note:** article 2(1)(85) of *RRD*]

extraordinary public financial support

State aid within article 107(1) of the *Treaty*, or any other public financial support at supra-national level, which, if given at national level, would constitute state aid that is given to preserve or restore the viability, liquidity or solvency of any member of an *RRD group*.

[**Note:** article 2(1)(28) of *RRD*]

group recovery plan

a document which provides for measures to be taken in relation to an *RRD group*, or any *RRD institution* in the *group*, to achieve the stabilisation of the *group* as a whole, in cases of financial stress, to address or remove the causes of the stress and restore the financial

position of the *group* or the *RRD institution*.

[**Note:** articles 2(1)(33) and 7(4) of *RRD*]

MiFID II Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending the *insurance mediation directive* and *AIFMD* (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_173_R_0009&from=EN).

MiFIR Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending *EMIR* (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_173_R_0005&from=EN).

qualifying parent undertaking has the meaning in section 192B (meaning of "qualifying parent undertaking") of the *Act* which, in summary, is a *parent undertaking* of:

(a) an *authorised person* that is a *body corporate* incorporated in the *UK* where the *parent undertaking* is:

(i) a *PRA-authorised person*; or

(ii) an *investment firm*; or

(b) a *recognised investment exchange* that is not an *overseas investment exchange*;

where the *parent undertaking* is:

(c) a *body corporate* which:

(i) is incorporated in the *UK*; or

(ii) has a place of business in the *UK*;

(d) not an *authorised person*, a *recognised investment exchange* or a *recognised clearing house*; and

(e) any of the following:

(i) an *insurance holding company*;

(ii) a *financial holding company*;

(iii) a *mixed financial holding company*;

(iv) for certain purposes, a *mixed-activity holding company*.

recovery capacity the capability of an *RRD institution* to restore its financial position

following a significant deterioration.

[**Note:** article 2(1)(103) of *RRD*]

recovery plan a document which provides for measures to be taken by an *RRD institution* which is not subject to supervision on a *consolidated basis* to restore its financial position following a significant deterioration of its financial situation.

[**Note:** articles 2(1)(32) and 5 of *RRD*]

resolution authority

(a) (in the *UK*) the Bank of England; or

(b) (in another *EEA State*) an authority designated as a resolution authority by that *EEA State* under article 3 of *RRD*.

[**Note:** article 2(1)(18) of *RRD*]

RRD Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending the directives and regulations set out in that directive (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_173_R_0008&from=EN).

RRD early intervention condition the requirements of:

(a) the *EU CRR*; or

(b) the laws, regulations and administrative provisions necessary to comply with *CRD*; or

(c) the laws, regulations and administrative provisions necessary to comply with title II of *MiFID II*; or

(d) articles 3 to 7, 14 to 17, 24, 25 and 26 of *MiFIR*.

[**Note:** article 27(1) of *RRD*]

RRD group a *group* that:

(a) includes an *RRD institution*; and

(b) is headed by an *EEA parent undertaking*.

RRD group financial support agreement an agreement to give financial support to an *RRD institution* which, at any time after the agreement has been concluded, has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.

RRD group member a member of an *RRD group* that is:

	(a) an *RRD institution*; or (b) a *financial institution*; or (c) a *financial holding company*; or (d) a *mixed financial holding company*.
RRD institution	(a) a *credit institution*; or (b) an *investment firm* that is subject to the *initial capital* requirement in article 28(2) of the *CRD* (a €730k *investment firm*). [**Note:** article 2(1)(23) of *RRD*]
significant branch	a *branch* that would be considered significant in a *Host State* under article 51(1) of *CRD*. [**Note:** article 2(1)(34) of *RRD*]
write-down and conversion powers	the powers referred to in article 59(2) and in points (e) to (i) of article 63(1) of *RRD*. [**Note:** articles 2(1)(66) of *RRD*]

Annex B

Amendments to the Prudential sourcebook for Investment Firms (IFPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

Part 1: Comes into force on 19 January 2015

2 Supervisory processes and governance

…

2.5 Recovery and resolution plans

2.5.1 R ~~A *firm* must have in place:~~

~~(1) recovery plans for the restoration of its financial situation following a significant deterioration; and~~

~~(2) viable resolution plans setting out options for the orderly resolution of the *firm* in the case of failure.~~ [deleted]

2.5.2 R ~~For the purpose of *IFPRU* 2.5.1R, a *firm* must:~~

~~(1) cooperate closely with resolution authorities; and~~

~~(2) provide the resolution authorities with all information necessary for their preparation and drafting of the resolution plans.~~ [deleted]

~~[**Note:** article 74(4) of *CRD*]~~

After IFPRU 10 insert the following new chapter. The text is not underlined.

11 Recovery and resolution

11.1 Application and purpose

Application

11.1.1 R *IFPRU* 11 applies to:

(1) an *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis*;

(2) a *firm* that is an *RRD group member*;

(3) a *qualifying parent undertaking* that is an *RRD group member*; and

(4) a *qualifying parent undertaking* that is a *mixed activity holding company* of an *IFPRU 730k firm*.

11.1.2 G (1) An *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis* will not be an *RRD group member*.

(2) An *IFRPU 730k firm* may be subject to supervision on a *consolidated basis* by the *FCA*, the *PRA* or another *competent authority*.

Exclusion of PRA authorised persons and groups

11.1.3 R This chapter does not apply to:

(1) a *PRA authorised person*;

(2) an *RRD group member* that is:

(a) a *qualifying parent undertaking* of a *PRA authorised person*; and

(b) subject to supervision on a *consolidated basis* by the *PRA*; and

(3) a *qualifying parent undertaking* that is a *mixed activity holding company* of a *PRA authorised person*.

Exclusion of non-UK firms

11.1.4 R This chapter does not apply to:

(1) an *incoming firm*; or

(2) a *firm* that is incorporated in, or formed under the law of, a *third country*.

Purpose

11.1.5 G This chapter implements certain provisions of *RRD*.

Guidance on application

11.1.6 G (1) *RRD* applies to *credit institutions* and to *investments firms* with an *initial capital* requirement of €730,000. Together, these are referred to as *RRD institutions* in our *rules*.

(2) It also applies to *financial institutions*, *financial holding companies* and *mixed financial holding companies* within the same *group* as these *institutions* that are *subsidiaries* of an *EEA parent undertaking*. An *EEA parent undertaking* is an *institution*, a *financial holding company* or a *mixed financial holding company* in the *EEA* that is not itself a *subsidiary* of an *institution*, a *financial holding company* or a

mixed financial holding company in the *EEA*.

(3) A *group* of these types of *institutions* and *group* members is referred to as an *RRD group* in our *rules* and the members of an *RRD group* are referred to as *RRD group members*.

(4) If the *group* includes a *BIPRU firm* this *firm* will be an *RRD group member* because a *BIPRU firm* is a *financial institution*.

(5) Some parts of *RRD* also apply to *mixed activity holding companies* of *RRD institutions*.

(6) The table in *IFPRU* 11.1.7G summarises the application of *IFPRU* 11.

11.1.7 G The table below summarises whether a section of *IFPRU* 11 applies to a *firm* or *qualifying parent undertaking*:

	(1) *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis*	(2) *firm* or *qualifying parent undertaking* that is the *EEA parent undertaking* of an *RRD group*	(3) specific application to an *IFPRU 730k firm* that is a *subsidiary* of an *EEA parent undertaking* in another *EEA State* (note 1)	(4) *firm* or *qualifying parent undertaking* that is a *subsidiary* of an *EEA parent undertaking* of an *RRD group*	(5) *qualifying parent undertaking* that is a *mixed activity holding company* of an *IFPRU 730k firm*
IFPRU 11.1 (Application and purpose)	Yes	Yes	No	Yes	Yes
IFPRU 11.2 (Individual recovery plans)	Yes	No	No	No	No
IFPRU 11.3 (Group recovery plans)	No	Yes	Yes	No	No
IFPRU 11.4 (Information for resolution plans)	Yes	Yes	Yes	No	No
IFPRU 11.5	No	Yes	Yes –	Yes	Yes (note 2)

(Intra-group financial support)			*IFPRU* 11.5.7R only		
IFPRU 11.6 (Contractual recognition of bail-in)	Yes	Yes	No	Yes	Yes (note 3)
IFPRU 11.7 (Notifications)	Yes	Yes	No	Yes	Yes
Note 1: *IFPRU* 11.3.1R(3) and *IFPRU* 11.4.1R(4) more fully describe this type of *firm*. Where specific application is not provided for this type of *firm*, the application is explained by (4).					
Note 2: *IFPRU* 11.5 only applies to *mixed activity holding companies* of an *IFPRU 730k firm* in an *RRD group*.					
Note 3: *IFPRU* 11.6 only applies to *mixed activity holding companies* that do not hold an *RRD institution* using an intermediate *financial holding company* or *mixed financial holding company*.					

11.2 Individual recovery plans

Application

11.2.1 R This section applies to an *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis*.

11.2.2 G This section applies differently depending on whether the *firm* is a *significant IFPRU firm* or a non-*significant IFPRU firm* as explained in the table below.

Provisions of *IFPRU* 11.2	Who it applies to
IFPRU 11.2.4R to *IFPRU* 11.2.5G	All *firms*.
IFPRU 11.2.6R	*Significant IFPRU firms* only.
IFPRU 11.2.7R to *IFPRU* 11.2.8G	Non-*significant IFPRU firms* only.
IFPRU 11.2.9G to *IFPRU* 11.2.17R	All *firms*.
IFPRU 11.2.18R(1)	*Significant IFPRU firms* only.
IFPRU 11.2.18R(2)	Non-*significant IFPRU firms* only.
IFPRU 11.2.18R(3)	All *firms*.

IFPRU 11.2.19R	All *firms*.

11.2.3 G *IFPRU* 1.2 (Significant IFPRU firm) explains the definition of a *significant IFPRU firm*.

Requirement to draw up and maintain a recovery plan

11.2.4 R A *firm* must draw up and maintain a *recovery plan*.

[**Note:** article 5(1) of *RRD*]

11.2.5 G A *recovery plan* is a governance arrangement for the purposes of *SYSC* 4.1.1R (General requirements).

Recovery plan for a significant IFPRU firm

11.2.6 R If a *firm* is a *significant IFPRU firm*, its *recovery plan* must include the information in *IFPRU* 11 Annex 1R (Contents of recovery plans for significant IFPRU firms and group recovery plans for groups that include significant IFPRU firms).

[**Note:** article 5(5) of *RRD*]

Recovery plan for a non-significant IFPRU firm

11.2.7 R If a *firm* is not a *significant IFPRU firm* its *recovery plan* must include:

(1) a summary of the key elements of the *recovery plan*;

(2) information on the governance of the *firm*, including:

(a) how the *recovery plan* is integrated into the corporate governance of the *firm*; and

(b) the *firm's* overall risk management framework;

(3) a description of the legal and financial structures of the *firm*, including:

(a) the *core business lines*; and

(b) *critical functions*;

(4) recovery options, including:

(a) capital and liquidity actions required to maintain or restore the viability and financial position of the *firm*; and

(b) arrangements and measures to conserve or restore the *firm's own funds*;

(5) an assessment of the expected timeframe for implementing recovery

options;

(6) a summary of the overall *recovery capacity* of the *firm*, including:

(a) the risks associated with recovery options;

(b) an analysis of any material impediments to the effective and timely execution of the *recovery plan*; and

(c) whether and how material impediments could be overcome;

(7) a summary of any material changes to the *recovery plan* since the previous version was sent to the *FCA*;

(8) preparatory measures the *firm* has taken or plans to take to help implement the *recovery plan*; and

(9) the measures which the *firm* could take if it has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.

[**Note:** articles (4)(1), 5(5) and Annex A of *RRD*]

11.2.8 G A *firm* should include additional information from *IFPRU* 11 Annex 1R (Recovery plans for significant IFPRU firms and group recovery plans for groups that include significant IFPRU firms) in its *recovery plan* where this information is material to its business.

[**Note:** article 5(5) of *RRD*]

Recovery options

11.2.9 G (1) When identifying recovery options, a *firm* should consider a range of scenarios of severe macroeconomic and financial stress relevant to the *firm's* specific conditions.

(2) The range of scenarios should include system-wide events and stress specific to individual legal persons and *groups*.

[**Note:** article 5(6) of *RRD*]

Extraordinary public financial support

11.2.10 R A *firm* must not assume any access to, or receipt of, *extraordinary public financial support* in its *recovery plan*.

[**Note:** article 5(3) of *RRD*]

Use of central bank facilities

11.2.11 R If the *recovery plan* includes the use of central bank facilities, the *firm* must:

(1) include an analysis of how and when the *firm* may apply for the use of central bank facilities; and

(2) identify those assets which would be expected to qualify as collateral.

[**Note:** article 5(4) of *RRD*]

Recovery plan indicators

11.2.12 R A *firm* must:

(1) include a framework of indicators in its *recovery plan* which identify when it may take appropriate actions in the plan;

(2) ensure the *recovery plan* indicators can be monitored easily; and

(3) have arrangements to monitor the *recovery plan* indicators regularly.

11.2.13 G The *recovery plan* indicators may relate to the *firm's* financial position and may be of a qualitative or a quantitative nature.

11.2.14 R Where the relevant indicator has not been met, a *firm* must decide whether or not it is appropriate to take action under its *recovery plan*.

11.2.15 R A *firm* must notify the *FCA* without delay of a decision to take an action referred to in its *recovery plan* or of a decision not to take action.

[**Note:** article 9(1) of *RRD*]

Assessment and review by the management body

11.2.16 R A *firm* must ensure its *management body* assesses and approves the *recovery plan* before sending it to the *FCA*.

[**Note:** article 5(9) of *RRD*]

11.2.17 R A *firm* must demonstrate to the *FCA* that:

(1) carrying out its *recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *firm*, taking into account the preparatory measures that the *firm* has taken, or plans to take; and

(2) its *recovery plan*:

(a) is reasonably likely to be carried out quickly and effectively in situations of financial stress; and

(b) avoids, to the maximum extent possible, any significant adverse effect on the financial system, including in scenarios which would lead other *RRD institutions* to implement

recovery plans and *group recovery plans* at the same time.

[**Note:** article 6(1) of *RRD*]

Updating and submission of recovery plans

11.2.18 R (1) A *significant IFPRU firm* must update its *recovery plan* at least annually.

(2) A *firm* that is not a *significant IFPRU firm* must update its *recovery plan* at least once every two years.

(3) A *firm* must also update its *recovery plan* after a change to any of the following which could materially affect its *recovery plan*:

(a) its legal or organisational structure;

(b) its business; or

(c) its financial situation.

[**Note:** articles 4(1)(b) and 5(2) of *RRD*]

11.2.19 R A *firm* must send its *recovery plan* to the *FCA* in line with *SUP* 16.20 (Recovery plans and information for resolution plans).

[**Note:** article 6(1) of *RRD*]

11.3 Group recovery plans

Application

11.3.1 R This section applies to:

(1) a *firm* that is the *EEA parent undertaking* of an *RRD group*;

(2) a *qualifying parent undertaking* that is the *EEA parent undertaking* of an *RRD group*; and

(3) an *IFPRU 730k firm* that is the *subsidiary* of the *EEA parent undertaking* of an *RRD group* where:

(a) the *EEA parent undertaking* is an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* that is incorporated in, or formed under, the law of an *EEA state* other than the *United Kingdom*; and

(b) the *IFPRU 730k firm* has the *FCA* as its *consolidating supervisor*.

11.3.2 G This section applies differently depending on whether the *group* includes a *significant IFPRU firm* or a non-*significant IFPRU firm*, as explained in the table below.

Provisions of *IFPRU* 11.3	Who it applies to
IFPRU 11.3.4R to *IFPRU* 11.3.7R	All *groups*.
IFPRU 11.3.8R	*Groups* that include an *IFPRU 730k firm* that is a *significant IFPRU firm* and *groups* that do not include an *IFPRU 730k firm* only.
IFPRU 11.3.9R to *IFPRU* 11.3.10G	Non-*significant IFPRU firm groups* only.
IFPRU 11.3.11G to *IFPRU* 11.3.19R	All *groups*.
IFPRU 11.3.20R(1)(a)	*Groups* that include an *IFPRU 730k firm* that is a *significant IFPRU firm* and *groups* that do not include an *IFPRU 730k firm* only.
IFPRU 11.3.20R(1)(b)	Non-*significant IFPRU firm groups* only.
IFPRU 11.3.20R(2)	All *groups*.
IFPRU 11.3.21R	All *groups*.

11.3.3 G *IFPRU* 1.2 (Significant IFPRU firm) explains the definition of a *significant IFPRU firm*.

Requirement to draw up and maintain a group recovery plan

11.3.4 R A *firm* or *qualifying parent undertaking* must draw up and maintain a *group recovery plan*.

[**Note:** article 7(1) of *RRD*]

General requirements of the group recovery plan

11.3.5 R The *group recovery plan* must:

(1) consist of a plan for the recovery of the *RRD group* as a whole; and

(2) identify measures the *group* may need to implement at the level of:

(a) the *EEA parent undertaking*; and

(b) each individual *subsidiary*.

[**Note:** article 7(1) of *RRD*]

11.3.6 R The *group recovery plan* must include arrangements to ensure the coordination and consistency of measures for each *RRD group member*, including, where applicable, each *significant branch*.

[**Note:** article 7(4) of *RRD*]

11.3.7 R The *group recovery plan* must:

(1) aim to stabilise the *RRD group* as a whole and each *RRD institution* in the *group*, when the *group*, or any *RRD institution* in the *group*, is under financial stress;

(2) aim to address or remove the causes of the financial stress and restore the financial position of the *group* or the *RRD institution* in question; and

(3) at the same time consider the financial position of other *group* members.

[**Note:** article 7(4) of *RRD*]

Group recovery plan for a group that includes an IFPRU 730k firm that is a significant IFPRU firm or does not include an IFPRU 730k firm

11.3.8 R The *group recovery plan* must include the information in *IFPRU* 11 Annex 1R (Recovery plans for significant IFPRU firms and group recovery plans for groups that include significant IFPRU firms) if the *RRD group*:

(1) includes an *IFPRU 730k firm* that is a *significant IFPRU firm*; or

(2) does not include an *IFPRU 730k firm*.

[**Note:** articles 5(5) and 7(5) of *RRD*]

Group recovery plan for a group that includes an IFPRU 730k firm that is not a significant IFPRU firm

11.3.9 R If the *RRD group* includes an *IFPRU 730k firm* that is not a *significant IFPRU firm* (and does not include an *IFPRU 730k firm* that is a *significant IFPRU firm*) the *group recovery plan* must include:

(1) a summary of the key elements of the *group recovery plan*;

(2) information on the governance of the *group*, including:

(a) how the *group recovery plan* is integrated into the corporate governance of the *group*; and

(b) the *group's* overall risk management framework;

(3) a description of the legal and financial structures of the *group* members covered by the plan, including:

(a) the *core business lines*; and

(b) *critical functions*;

(4) recovery options, including:

(a) capital and liquidity actions required to maintain or restore the viability and financial position of the *group*; and

(b) arrangements and measures to conserve or restore the *own funds* of each *RRD institution* in the *group* on an *individual* and a *consolidated basis*;

(5) an assessment of the expected timeframe for implementing recovery options;

(6) a summary of the overall capability of the *group* to restore its financial position following a significant deterioration, including:

(a) the risks associated with recovery options;

(b) an analysis of any material impediments to the effective and timely execution of the *group recovery plan*; and;

(c) whether and how those impediments could be overcome;

(7) a summary of any material changes to the *group recovery plan* since the previous version was sent to the *FCA* or other *EEA consolidating supervisor*;

(8) preparatory measures the *group* has taken, or plans to take, to help implement the *group recovery plan*; and

(9) the measures which the *group* could take if any *RRD institution* in the *group* infringes an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.

[**Note:** articles (4)(1), 5(5), 7(5) and Annex A of *RRD*]

11.3.10 G A *firm* or *qualifying parent undertaking* should include additional information from *IFPRU* 11 Annex 1R (Recovery plans for significant IFPRU firms and group recovery plans for groups that include significant IFPRU firms) in its *group recovery plan* where this information is material to the business of the *group*.

[**Note:** article 5(5) of *RRD*]

Recovery options

11.3.11 G (1) When identifying recovery options, a *firm* or *qualifying parent undertaking* should consider a range of scenarios of severe macroeconomic and financial stress relevant to the *group's* specific conditions.

(2) The range of scenarios should include system-wide events and stress specific to individual legal persons and *groups*.

(3) For each of the scenarios in (1), a *group recovery plan* should identify whether there are:

(a) obstacles to implementing recovery measures within the *group*, including at the level of individual members covered by the plan; and

(b) substantial practical or legal impediments to the prompt transfer of *own funds* or the repayment of liabilities or assets within the *group*.

[**Note:** articles 5(6) and 7(6) of *RRD*]

Extraordinary public financial support

11.3.12 R A *firm* or *qualifying parent undertaking* must not assume any access to, or receipt of, *extraordinary public financial support* in its *group recovery plan*.

[**Note:** articles 5(3) and 7(5) of *RRD*]

Use of central bank facilities

11.3.13 R If the *group recovery plan* includes the use of central bank facilities, the *firm* or *qualifying parent undertaking* must:

(1) include an analysis of how and when members of the *group* may apply for the use of central bank facilities; and

(2) identify those assets which would be expected to qualify as collateral.

[**Note:** articles 5(4) and 7(5) of *RRD*]

Group recovery plan indicators

11.3.14 R A *firm* or *qualifying parent undertaking* must:

(1) include a framework of indicators in its *group recovery plan* which identify when it, or another *group* member, may take appropriate actions in the plan;

(2) ensure the *group recovery plan* indicators can be monitored easily; and

(3) have arrangements to monitor the *group recovery plan* indicators regularly.

11.3.15 G The *group recovery plan* indicators may relate to the *group's* financial position and may be of a qualitative or a quantitative nature.

11.3.16 R Where the relevant indicator has not been met, a *firm* or *qualifying parent undertaking* must decide whether or not it is appropriate to take action under the *group recovery plan*.

11.3.17 R A *firm* or *qualifying parent undertaking* must notify the *FCA* without delay of a decision to take an action referred to in the *group recovery plan* or of a decision not to take action.

[**Note:** article 9(1) of *RRD*]

Assessment and review by the management body of the EEA parent undertaking

11.3.18 R (1) A *firm* that is an *EEA parent undertaking* or a *qualifying parent undertaking* must ensure that its management body assesses and approves the *group recovery plan* before sending it to its *consolidating supervisor*.

(2) An *IFPRU 730k firm* that is not an *EEA parent undertaking* must ensure the management body of its *EEA parent undertaking* assesses and approves the *group recovery plan* before the *IFPRU 730k firm* sends it to its *consolidating supervisor*.

[**Note:** article 7(7) of *RRD*]

11.3.19 R A *firm* or *qualifying parent undertaking* must demonstrate to its *consolidating supervisor* that:

(1) carrying out its *group recovery plan* is reasonably likely to maintain or restore the viability and financial position of *RRD institutions* in the *group*, taking into account the preparatory measures that the *group* has taken, or plans to take; and

(2) its *group recovery plan*:

(a) is reasonably likely to be carried out quickly and effectively in situations of financial stress; and

(b) avoids, to the maximum extent possible, any significant adverse effect on the financial system, including in scenarios which would lead other *RRD institutions* to implement *recovery plans* and *group recovery plans* at the same time.

[**Note:** article 6(1) of *RRD*]

Updating and submission of group recovery plans

11.3.20 R (1) A *firm* or *qualifying parent undertaking* must update the *group recovery plan* at least:

(a) annually, if the *group*:

(i) includes an *IFPRU 730k firm* that is a *significant IFPRU firm*; or

(ii) does not include an *IFPRU730k firm*; or

(b) once every two years, if the *group* includes an *IFPRU 730k firm* that is not a *significant IFPRU firm*.

(2) A *firm* or *qualifying parent undertaking* must also update its *group recovery plan* after a change to any of the following which could materially affect the *group recovery plan*:

(a) its legal or organisational structure;

(b) its business; or

(c) its financial situation.

[**Note:** articles 4(1)(b), 5(2) and 7(5) of *RRD*]

11.3.21 R (1) A *firm* or *qualifying parent undertaking* must send the *group recovery plan* to its *EEA consolidating supervisor*.

(2) Where the *consolidating supervisor* is the *FCA*, a *firm* or *qualifying parent undertaking* must send the *group recovery plan* in line with *SUP* 16.20 (Recovery plans and information for resolution plans).

[**Note:** articles 6(1) and 7(1) of *RRD*]

11.4 Information for resolution plans

Application

11.4.1 R This section applies to:

(1) an *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis*;

(2) a *firm* that is the *EEA parent undertaking* of an *RRD group*;

(3) a *qualifying parent undertaking* that is the *EEA parent undertaking* of an *RRD group*; and

(4) an *IFPRU 730k firm* that is the *subsidiary* of the *EEA parent undertaking* of an *RRD group*:

(a) where the *EEA parent undertaking* is an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* that is incorporated in, or formed under, the law of an *EEA state* other than the *United Kingdom*; and

(b) the *IFPRU 730k firm* has the *FCA* as its *consolidating supervisor*.

11.4.2 R This section only applies if the Bank of England is the *resolution authority* of the *firm* or *group*.

Submission of resolution plan information

11.4.3 R A *firm* or *qualifying parent undertaking* must send the information in *IFPRU* 11 Annex 2R (Resolution plan information) to the *FCA* in line with *SUP* 16.20 (Recovery plans and information for resolution plans).

[**Note:** article 11(1)(b) of *RRD*]

Notification of material change to resolution plan information

11.4.4 R A *firm* or *qualifying parent undertaking* must notify the *FCA* without delay of a change to any of the following which could have materially affect the information in *IFPRU* 11 Annex 2R (Resolution plan information):

(1) its legal or organisational structure;

(2) its business; or

(3) its financial situation.

[**Note:** article 10(6) second paragraph of *RRD*]

11.5 Intra-group financial support

Application

11.5.1 R This section applies to:

(1) a *firm* that is an *RRD group member*;

(2) a *qualifying parent undertaking* that is an *RRD group member*; and

(3) a *qualifying parent undertaking* that is a *mixed activity holding company* of an *IFPRU 730k firm* in an *RRD group*.

Scope of financial support covered by IFPRU 11.5

11.5.2 G (1) This section applies where an *RRD group member* gives, or proposes to give, intra-*group* financial support using an *RRD group financial*

support agreement.

(2) It does not apply to other sorts of intra-*group* financial arrangements, including funding arrangements and the operation of centralised funding arrangements.

(3) It does not apply to financial support arrangements where none of the parties to the arrangement has infringed, or is likely to infringe, an *RRD early intervention condition*.

(4) A *firm* or *qualifying parent undertaking* does not have to use an *RRD group financial support agreement* to give financial support to another *group* member that has infringed, or is likely to infringe, an *RRD early intervention condition*.

(5) A *firm* or *qualifying parent undertaking* may give financial support on a case-by-case basis according to the *group* policies, if the support does not represent a risk for the whole *group*.

[**Note:** article 19(2) and (3) of *RRD*]

Summary of RRD intra-group financial support conditions

11.5.3 G (1) *RRD* recognises a specific form of intra-group financial support. This allows an *RRD group member* in one *EEA State* to give financial support to an *RRD institution* in its *group* in another *EEA* State, when that institution has infringed or is likely to infringe an *RRD early intervention condition*.

(2) To give this specific form of financial support an *RRD group member* must use an *RRD group financial support agreement* and satisfy the applicable conditions.

(3) If the *RRD group member* meets the applicable conditions, other *EEA States* will recognise this financial support.

(4) This section sets out the conditions which, in summary, are:

(a) the *consolidating supervisor* of the *group* approves the proposed *RRD group financial support agreement* (see *IFPRU* 11.5.7R to *IFPRU* 11.5.8G);

(b) the agreement complies with the conditions for entering into an *RRD group financial support agreement* (see *IFPRU* 11.5.9R to *IFPRU* 11.5.13G);

(c) the financial support complies with the conditions for giving financial support using an *RRD group financial support agreement* (see *IFPRU* 11.5.14R to *IFPRU* 11.5.15G);

(d) the management bodies of the relevant *group* members take the decision to give and receive financial support (see *IFPRU*

11.5.16R to *IFPRU* 11.5.17R);

(e) the relevant *group* members notify the relevant authorities of the intention to give financial support (see *IFPRU* 11.5.18R to *IFPRU* 11.5.21R); and

(f) the relevant *group* members make the relevant disclosures (see *IFPRU* 11.5.22R to *IFPRU* 11.5.23G).

RRD group financial support agreement

11.5.4 G An *RRD group financial support agreement* may:

(1) cover one or more *subsidiaries* of the *group*; and

(2) allow for financial support:

(a) from the *parent undertaking* to *subsidiaries*;

(b) from *subsidiaries* to the *parent undertaking*;

(c) between *subsidiaries* of the *group* that are party to the agreement; or

(d) between any combination of those *group* members.

[**Note:** article 19(5)(a) of *RRD*]

11.5.5 G An *RRD group financial support agreement* may allow for financial support:

(1) in the form of:

(a) a loan;

(b) a guarantee;

(c) the use of assets as collateral; or

(d) any combination of those forms; and

(2) in one or more transactions, including between the beneficiary of the support and a third party.

[**Note:** article 19(5)(b) of *RRD*]

11.5.6 G An *RRD group financial support agreement* may include a reciprocal agreement so the *group* member receiving financial support can give financial support to the *group* member agreeing to give financial support.

[**Note:** article 19(6) of *RRD*]

Approval of RRD group financial support agreements

11.5.7 R (1) The following must apply to their *consolidating supervisor* for approval of any proposed *RRD group financial support agreement* or of any amendment to that agreement:

(a) a *firm* that is the *EEA parent undertaking* of an *RRD group*;

(b) a *qualifying parent undertaking* that is the *EEA parent undertaking* of an *RRD group*; and

(c) an *IFPRU 730k firm* that is a *subsidiary* of an *EEA parent undertaking* of an *RRD group*:

(i) where the *EEA parent undertaking* is an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* that is incorporated in, or formed under, the law of an *EEA State* other than the *United Kingdom*; and

(ii) has the *FCA* as its *consolidating supervisor*.

(2) An application for the approval or amendment of an *RRD group financial support agreement* must:

(a) include the proposed *RRD group financial support agreement*; and

(b) identify the members in the *RRD group* that are intended to be a party to the agreement.

[**Note:** article 20(1) of *RRD*]

11.5.8 G The *FCA* will not approve an *RRD group financial support agreement* unless:

(1) in its opinion, none of the parties has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future;

(2) the agreement complies with the conditions for entering into an *RRD group financial support agreement* in *IFPRU* 11.5.9R to *IFPRU* 11.5.12R; and

(3) the terms of the proposed agreement are consistent with the conditions for giving financial support in *IFPRU* 11.5.14R.

[**Note:** articles 19(8), 20(1) and 20(3) of *RRD*]

Conditions for entering into an RRD group financial support agreement

11.5.9 R The parties to an *RRD group financial support agreement* must include:

(1) one or more of the following:

(a) a *parent institution in a Member State*;

(b) an *EEA parent institution*;

(c) a *financial holding company*;

(d) a *mixed financial holding company*;

(e) a *mixed activity holding company*; and

(2) one or more *subsidiaries* of the *group* member in (1) which is an *RRD institution* or a *financial institution*.

11.5.10 R Before entering into an *RRD group financial support agreement*, a *firm* or *qualifying parent undertaking* must ensure that:

(1) the *RRD group financial support agreement* includes principles for the calculation of the consideration for any support made under it;

(2) these principles include a requirement that the consideration is set when the financial support is given;

(3) each party acts freely and in its own best interests in entering into the *RRD group financial support agreement*;

(4) each party acts in its own best interests in deciding the consideration for the financial support;

(5) each party giving financial support has full disclosure of relevant information from any party receiving financial support before deciding:

(a) the consideration for the support; and

(b) to give the support; and

(6) only the parties to the agreement can exercise any right, claim or action arising from the *RRD group financial support agreement*.

[**Note:** articles 19(7)(a) to (c) and 19(9) of *RRD*]

11.5.11 R When entering into the proposed *RRD group financial support agreement*, a *firm* or *qualifying parent undertaking* must ensure that none of the parties:

(1) has infringed an *RRD early intervention condition*; or

(2) is likely to infringe one of those conditions in the near future.

[**Note:** article 19(8) of *RRD*]

11.5.12 R (1) The principles for calculating the consideration for financial support do not need to take account of any anticipated temporary impact on market prices arising from events external to the *group*.

(2) The consideration for financial support may take account of information that the party giving the support has, based on:

(a) the party giving support being in the same *group* as the party receiving the support; and

(b) the information not being available to the market.

[**Note:** article 19(7)(d) and (e) of *RRD*]

11.5.13 G In deciding whether a party is acting in its own best interests, the party may take account of any direct or indirect benefit that may accrue to a party as a result of giving financial support.

[**Note:** article 19(7)(b) of *RRD*]

Conditions for giving group financial support using an RRD group financial support agreement

11.5.14 R A *firm* or *qualifying parent undertaking* must not give financial support using an *RRD group financial support agreement* unless it is satisfied that:

(1) there is a reasonable prospect that giving the support will significantly redress the financial difficulties of the *group* member receiving the support;

(2) the support has the objective of preserving or restoring the financial stability of:

(a) the *group* as a whole; or

(b) any members of the *group*;

(3) the support is in the interests of the *group* member giving the support;

(4) the support is given on terms which meet the conditions in *IFPRU* 11.5.9R to *IFPRU* 11.5.12R;

(5) there is a reasonable prospect, based on information available to the management body of the *group* member giving the support when it takes the decision to grant support, that:

(a) the consideration for the support will be paid;

(b) if the support is in the form of a loan, the *group* member receiving the support will reimburse the loan; and

(c) if the support is in the form of a guarantee or any form of security, the *group* member receiving the support will reimburse the amount of the guarantee or security if the guarantee or security is enforced;

(6) the support will not jeopardise the liquidity or solvency of the *group* member giving the financial support;

(7) the support will not create a threat to financial stability, in particular in the *United Kingdom*;

(8) the *group* member giving the support complies with the following when giving the support:

(a) the requirements of the *CRD* relating to capital and liquidity;

(b) any requirements imposed under article 104(2) (additional own funds requirements) of the *CRD*; and

(c) the requirements relating to large exposures in the *CRR* and in the *CRD*;

(9) the support will not cause the *group* member giving the support to infringe any of the requirements in (8) as a result of giving the financial support; and

(10) the support will not undermine the resolvability of the *group* member giving the support.

[**Note:** article 23(1) of *RRD*]

11.5.15 G The *FCA* may modify or waive the requirements of *IFPRU* 11.5.14R(8) if the conditions in section 138A (modification or waiver of rules) of the *Act* are met.

[**Note:** article 23(1)(g) of *RRD*]

Decision to give and receive group financial support using an RRD group financial support agreement

11.5.16 R A *firm* or *qualifying parent undertaking* intending to give financial support must ensure that:

(1) its management body takes the decision to give *group* financial support using an *RRD group financial support agreement*; and

(2) it is a reasoned decision that sets out:

(b) the objective of the proposed support; and

(c) how the support complies with the conditions for giving *group* financial support using an *RRD group financial*

support agreement in *IFRPU* 11.5.14R.

11.5.17 R A *firm* or *qualifying parent undertaking* intending to receive financial support must ensure that its management body takes the decision to accept the support using an *RRD group financial support agreement*.

[**Note:** article 24 of *RRD*]

Notice of intention to give financial support using an RRD group financial support agreement

11.5.18 R A *firm* or a *qualifying parent undertaking* intending to give financial support using an *RRD group financial support agreement* must ensure that its management body notifies:

(1) its *competent authority*;

(2) where different, its *consolidating supervisor*;

(3) where different, the *competent authority* of the *group* member receiving the financial support; and

(4) the *EBA*.

11.5.19 R A *firm* or a *qualifying parent undertaking* must:

(1) send a notice of an intention to give financial support before the financial support is given; and

(2) include in the notice:

(a) the reasoned decision referred to in *IFPRU* 11.5.16R of the management body of the *group* member intending to give the support; and

(b) details of the proposed financial support including a copy of the *RRD group financial support agreement*.

[**Note:** article 25(1) of *RRD*]

11.5.20 R An *RRD group member* may only give financial support using an *RRD group financial support agreement* if the *FCA* has:

(1) agreed to the giving of the support with restrictions; or

(2) agreed to the giving of the support without restrictions; or

(3) not prohibited the support within five *business days* of receiving a notice of intention to give financial support.

[**Note:** article 25(2) and (5) of *RRD*]

11.5.21 R An *IFPRU 730k firm* must ensure it sends the decision of its *management body* to give financial support to:

(1) its *competent authority*;

(2) where different, its *consolidating supervisor*;

(3) where different, the *competent authority* of the *group* member receiving the support; and

(4) the *EBA*.

[**Note:** article 25(6) of *RRD*]

Disclosure of group financial support using an RRD group financial support agreement

11.5.22 R A *firm* or *qualifying parent undertaking* must:

(1) make public:

(a) whether or not they have entered into an *RRD group financial support agreement*;

(b) a description of the general terms of any *RRD group financial support agreement*; and

(c) the names of the *group* members that are a party to the *RRD group financial support agreement*; and

(2) update the information in (1) at least annually.

[**Note:** article 26 of *RRD*]

11.5.23 G Regulations 431 to 434 of the *EU CRR* apply to the disclosures in *IFPRU* 11.5.22R.

[**Note:** article 26(1) of *RRD*]

11.6 Contractual recognition of bail-in

[to follow]

11.7 Notifications

Application

11.7.1 R This section applies to:

(1) an *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis*;

(2) a *firm* that is an *RRD group member*;

(3) a *qualifying parent undertaking* that is an *RRD group member*; and

(4) a *qualifying parent undertaking* that is a *mixed activity holding company* of an *IFPRU 730k firm*.

Resolution notifications

11.7.2 R A *firm* or *qualifying parent undertaking* must notify the *FCA* immediately if its management body considers that any of the following have occurred:

(1) the assets of the *firm* or *qualifying parent undertaking* have become less than its liabilities; or

(2) the *firm* or *qualifying parent undertaking* is unable to pay its debts or other liabilities as they fall due; or

(3) there are objective reasons to support a determination that (1) or (2) will occur in the near future; or

(4) *extraordinary public financial support* is needed for the *firm* or *qualifying parent undertaking*, except if it takes any of forms allowed by section 7(5E) of the Banking Act 2009.

11.7.3 R A *firm* must also notify the *FCA* immediately if its *management body* considers that:

(1) the *firm* is failing to satisfy any of the *threshold conditions*, including due to the *firm* having incurred, or being likely to incur, losses that will deplete all, or a significant amount of, its *own funds*; or

(2) there are objective elements to support a determination that the *firm* will fail to satisfy any of the *threshold conditions* in the near future.

[**Note:** article 81(1) of *RRD*]

11.7.4 R A *firm* or *qualifying parent undertaking* must notify the *FCA* by sending an e-mail to its usual supervisory contact.

11 Annex 1R Recovery plans for significant IFPRU firms and group recovery plans for groups that include significant IFPRU firms

(1)	A summary of the key elements of the plan.

(2)	A summary of the overall *recovery capacity* or the capability of the *group* to restore its financial position following a significant deterioration.
(3)	A summary of the material changes to the *firm* or *group* since the most recently filed plan.
(4)	A communication and disclosure plan outlining how the *firm* or *group* intends to manage any potentially negative market reactions.
(5)	A range of capital and liquidity actions required to maintain or restore the viability and financial position of the *firm* or *group*.
(6)	An estimation of the timeframe for executing each material aspect of the plan.
(7)	A detailed description of any material impediment to the effective and timely execution of the plan, including consideration of impact on the rest of the *group*, customers and counterparties.
(8)	An identification of *critical functions*.
(9)	A detailed description of the processes for determining the value and marketability of the *core business lines*, operations and assets of the *firm* or *group*.
(10)	A detailed description of how recovery planning is integrated into the corporate governance structure of the *firm* or *group*.
(11)	The policies and procedures governing the approval of the plan.
(12)	An identification of the persons in the organisation responsible for preparing and implementing the plan.
(13)	The arrangements and measures to conserve or restore the *own funds* of the *firm* on an individual basis and, where applicable, on a *consolidated basis*.
(14)	The arrangements and measures to ensure that the *firm* or *group* has adequate access to contingency funding sources, including potential liquidity sources.
(15)	Where applicable, arrangements for intra-*group* financial support using an *RRD group financial support agreement*.
(16)	An assessment of available collateral.
(17)	An assessment of the possibility to transfer liquidity across *group* members and business lines, to ensure that the *firm* or *group* can carry on its operations and meet its obligations as they fall due.
(18)	Arrangements and measures to reduce risk and leverage.

(19)	Arrangements and measures to restructure liabilities.	
(20)	Arrangements and measures to restructure business lines.	
(21)	Arrangements and measures necessary to maintain continuous access to financial markets infrastructures.	
(22)	Arrangements and measures necessary to maintain the continuous functioning of the operational processes of the *firm* or *group*, including infrastructure and IT services.	
(23)	Preparatory arrangements to facilitate the sale of assets or business lines in a timeframe appropriate for the restoration of financial soundness.	
(24)	Other management actions or strategies to restore financial soundness and the anticipated financial effect of those actions or strategies.	
(25)	Preparatory measures that the *firm* or *group* has taken, or plans to take, to facilitate the implementation of the plan, including those necessary to enable the timely recapitalisation of the *firm* or *group*.	
(26)	A framework of indicators which identifies when the appropriate actions in the plan may be taken.	
(27)	A wide range of recovery options.	
(28)	Appropriate conditions and procedures to ensure the timely implementation of recovery actions.	
(29)	The possible measures which could be taken by the *firm* or *group* if a *firm* or any *RRD institution* in a *group* has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.	
(30)	A contemplation of a range of scenarios of severe macroeconomic and financial stress relevant to the specific conditions of the *firm* or *group*, including system-wide events and stress specific to individual legal persons and to *groups*.	
(31)	For each of the scenarios in (30), a *group recovery plan* must identify whether there are:	
	(a)	obstacles to implementing recovery measures within the *group*, including at the level of individual members covered by the plan; and
	(b)	substantial practical or legal impediments to the prompt transfer of *own funds* or the repayment of liabilities or assets within the *group*.

[**Note:** articles 5(4), 5(5), 5(6), 7(5), 7(6) and Annex A of *RRD*]

11 Annex 2R Information for resolution plans

Part A: Corporate structure and material legal entity information

No	Heading	Required data/Detail required[1]
1	**Group structure and key information on legal entities**	
1.1	*Group* structure	An overview diagram of the material legal entities of the *group* and the ownership structure.
		Group structure charts identifying: • the material legal entities in the *group*; • the jurisdiction of those entities; • the relative size of those entities, by showing amount of revenue generated in each entity, assets and total risk exposure amounts held in each entity; and • the total number of material legal entities in the *group*.
		Group consolidated P&L and balance sheet, with the assets broken down between the *trading book* and *non-trading book*.
1.2	Use of *branches* and *subsidiaries*	Provide the following data and analysis for material legal entities.
		Commentary on the approach to using *branches* and/or *subsidiaries* in different geographies.
		For each key geography that represents material revenues, profits or activity for the *firm*: • a list of *branches* and *subsidiaries*; and • a description of the business undertaken in each *branch* or *subsidiary*; and • key business metrics and summary P&L and balance sheets on a solo basis, where applicable.
2	**Business model**	
2.1	*Core business*	Give an overview of the *firm's* business model. Identify

[1] Where a data item is not applicable to a firm or qualifying parent undertaking it should indicate this in its submission of resolution plan information.

	lines	the business lines which are core to the *group's* operations and profitability and explain their activities. Highlight if a *branch* or *subsidiary* is material in the local market or critical to the *group*.
		For each *core business line*, the analysis should include the following. • An explanation of the main operations with P&L and balance sheet for each business line. • The locations where the business line operates and corresponding analysis, eg, geographic breakdown of revenue, total operating costs, impairments, profit before tax and assets, as well as the client base and jurisdictions by level of activity. Provide an overview of the *branch* network and any services provided to *clients*, *customers* or other market participants. • For each material *branch* or *subsidiary*, provide an indication of the exposures to each counterparty or *group* of connected counterparties that constitute a material part of that entity's total exposures. • Provide an indication of the franchise value of each business line, eg, where a business line provides networks, international linkages or access to markets which are critical for the overall franchise of the *firm*. • An explanation of the governance structure and division of powers between *group* HQ and *core business lines*. • An explanation of how the business line is organised within the *group*, including a high-level overview of the interaction with other areas and service areas (provide metrics, eg, revenue, P&L where material cross-selling occurs). Is the business line standalone or highly interwoven with the rest of the *group*?
3	**Capital and funding**	
3.1	Capital allocation and mobility	For each material legal entity: • the amount of capital required to support each material legal entity; • the amount of capital currently allocated to each entity; • an explanation of the method of capital provision to each entity; and • details of any maintenance and/or repatriation back to the ultimate parent entity (dividends, coupons,

		maturity cash flows, etc).
		Details of at least the following should be supplied for material legal entities: • the minimum capital required by each legal entity to meet the thresholds set by regulators; • an analysis of capital by legal entity on a regulatory basis split into components (CET1, AT1, Tier 2); and • an analysis of capital by legal entity on an accounting basis (permanent share capital, P&L reserves, other reserves, preference shares, subordinated debt and other intermediate capital etc).
		An explanation of the sources of capital raised for each legal entity, including sources external to the *group*.
		Quantification of capital which is surplus to regulatory requirements by each entity and in aggregate.
		Information regarding any restriction on transfers of capital to other *group* entities (dividends, capital contributions, repayments etc) and, in particular, any factors that mean surplus capital held in any entity is not transferable. For each entity, details of material holdings in other *financial institutions*.
3.2	Treasury function	An explanation of how the treasury function is organised.
		An indication of how quickly capital could be transferred to or from an entity if required and the procedures involved.
3.3	Funding	An overview of funding relationships in the *group*, including the main sources of funding for each material entity and intra-*group* flows of funding split across (i) secured and unsecured and (ii) short-term and long-term categories.[2] *Branches* and *subsidiaries* which are material in intra-*group* funding should be highlighted.
		A list of current material intra-*group* balances.
		Details of where there are current and potential impediments to the transfer of liquidity between entities or jurisdictions.
		A summary of other funding sources not captured elsewhere. Examples include:

[2] Short-term refers to tenor of less than 1 year.

		• off balance sheet funding; and • other sources, including covered bonds, securitisation, repos and other short-term secured financing.
3.4	Intra-*group* guarantees	An overview of intra-*group* guarantees, including: • how, why and when intra-*group* guarantees are used; • the types of guarantees extended (eg, limited, unlimited guarantees) and the parties extending and receiving guarantees. • the total exposures under intra-*group* guarantees, categorised into different types; • an overview of when guarantees can be enforced (including cross-defaults or events of default triggered by resolution); • how intra-*group* guarantees are priced; • a list of the most material intra-*group* guarantees; and • a list of the entities that use, the entities sighted, and the underlying amounts of contracts that contain "Specified Entity" or similar clauses.
3.5	Other financial dependencies	An overview of all other material intra-*group* financial dependencies or exposures, including contingent exposures.
3.6	Encumbrances	For each material legal entity, an overview of which assets on the balance sheet are encumbered as at the last year-end. Highlight if they are intra-*group* or external encumbrances.
		Information should also be provided on a *group* basis for *UK* headquartered *groups*. For international *firms* headquartered outside the *United Kingdom*, operating through *UK subsidiaries*, information should be provided at the *UK* consolidated *group* level.
		Details of what proportion of each asset class is encumbered and in what manner including: • the proportion which is not subject to any encumbrance; • the proportion encumbered through overcollateralisation; and • an outline of the *firm's* practice on overcollateralisation. Provide an analysis of assets subject to encumbrance by

		type of instrument, including an approximate split across: securitisations, covered bonds, repo, collateral for OTC derivatives exposure, collateral placed at central banks and any other encumbrances (description of nature and magnitude of other encumbrances should be provided). The analysis should also include an assessment of the split of encumbrances between short-term and long-term encumbrances
4	**Activities and operations**	
4.1	Access to financial market infrastructure (FMI)	A brief overview of the *firm's* access to financial market infrastructure (payment schemes, central counterparties etc), including indirect access to key FMIs. Provide the legal entities that have this access and which entities within the *group* rely on this.
		To what extent does the *firm* provide market access services/clearing services to third parties globally? Please provide the number of customers. To what extent, globally, does the *firm* rely on other *firms* for these services? What agreements govern these relationships and how will they be affected in a resolution?
		If relevant and not covered under 2.1, provide an overview of global payments and clearing and settlement business, including a high-level summary on key products/services provided, types of clients serviced, geographical location of business and the FMIs relied upon.
4.2	Risk-management practices	An overview of the *firm's* booking practices by asset class. Does the *group* manage risk centrally from one entity (please provide main booking hubs by asset class)? To what extent is risk back-to-backed? Give an overview of the *firm's* margining and collateral management for internal trades. Provide information on any remote booking practices. Provide information on the quantum of risk booked into each material entity.
		Give an overview of the use of unregulated affiliates globally for booking trades.
4.3	Counterparty risk management	Give an estimate of trades which are booked through an exchange or a central counterparty (*CCP*), trades booked with a bilateral third party and the *firm's* approach to counterparty risk management. This should include a broad overview on collateral management and the use of netting, including master netting agreements.

4.4	Critical shared services	A summary of how operations are organised in the *firm* or *group*. Provide a high-level summary (including charts where appropriate) of how critical shared services[3] are provided across legal entities, business lines and jurisdictions. At a minimum, split critical services into Treasury, Risk Management, Finance and Operations (this list is not exhaustive). These are services that are crucial to the functioning of the *core business lines* of the *firm*. Please consider, at a minimum (including outsourced services and joint ventures), IT services, staff, premises, licenses and intellectual property. Briefly summarise whether there are contracts which govern the provision of services across business lines, entities and jurisdictions. Provide a brief overview of internal support functions, such as accounting and tax, internal audit and compliance, and human resources. Provide an indication of scale and the location of these functions, including those located outside the *United Kingdom*.
		Please provide a summary of any pension arrangements within the *group*, including in which legal entity pension liabilities and administration reside. How fully-funded is any pension scheme?

Part B: Economic functions

Economic function(s)		**Economic scale metrics** (Monetary amounts should be in millions of GBP (£m), unless otherwise stated, to standardise comparison. Where a different currency is used, please provide the exchange rate to be used.)
Capital Markets & Investment	Trading	
	Derivatives (required report see Table 1)	• Total amount of notional outstanding • Total number counterparties For both derivatives positions and derivatives counterparties, split the reports according to the method by which the derivatives are traded or

[3] For the purpose of these *rules*, a critical shared service has the following elements:
(i) an activity, function or service is performed by either an internal line, a separate legal entity within the *group* or an external provider;
(ii) that activity, function or service is performed for one or more business lines or legal entities of the *group*; and
(iii) the sudden and disorderly failure or malfunction would lead to the collapse of or present a serious impediment to the performance of, *critical functions*.

		cleared/ settled, ie, (i) exchange traded, (ii) OTC cleared through *CCPs* and (iii) OTC settled bilaterally.
	Trading portfolio (required report see Table 2)	• Balance-sheet values by asset class • Risk-weighted exposure amounts
	Other	
	Asset management	• Amount of assets under management • Total number client accounts • Total client money balances For each of the metrics above, please provide the following information. • The legal entity and jurisdiction of clients. Segregate between institutional, retail and wealth management clients. • Estimates of *UK* market share, and identify any issues surrounding replacement of the *firm's* services by other providers. For investment products, identify those that are eligible and not eligible for protection by the *UK Financial Services Compensation Scheme* (*FSCS*). Please provide the number of customers and total value of account balances: • up to the £50k covered by the *FSCS* • above the £50k covered by the *FSCS* • that are ineligible for protection by the *FSCS*.
Wholesale Funding Markets	Securities financing (required report see Table 3)	• Balance sheet values plus aggregate values for collateral accepted and given • Maturity profile • Total number counterparties, including geographic distribution (number)
	Securities lending	For each of the following activities, whether acting as lender or borrower: • direct securities lending; • third-party securities lending (non-custodian lending) • agent lending (custodian lending);

		provide: • gross value of open transactions; and • the total number of clients.
Payments, clearing, custody and settlement[4]	Payment services	For all *UK* and material foreign payment systems[5] used, please provide: • the legal entity which holds membership; • transaction volumes (number, monthly/annual average, peak); • transaction values (number, monthly/annual average, peak); • flow volumes (monthly/annual average); • number of agents (flow volumes for these provided separately); and • market share – provide estimate of *UK* market share, as well as overseas market shares where relevant. Please identify any issues surrounding replacement of the *firm's* services by other providers.
		If required, could the *firm* transition from an affiliate (intra-*group*) network to a third-party correspondent network for payments and clearing? What timeline is required?

Table 1 – Derivatives (complete for each legal entity if firm performs this function)

Outstanding notional contract amounts (£m)				
	Exchange traded derivatives	Other derivatives cleared through *CCPs*	Over-the-counter derivatives settled bilaterally	Total
Equities				
Sovereign credit				
Non-sovereign				

[4] The payments, clearing and settlement function is limited to those provided by firms to their clients.
[5] This refers to foreign payment systems in which the *firm* has direct access. Examples include, but not limited to BACS, CHAPS, Faster Payments, cheque clearing system, Fedwire and TARGET2.

credit products				
Rates				
Foreign exchange				
Commodities				

Number of derivative counterparties		
Exchange-traded derivatives	Other derivatives cleared through *CCPs*	Over-the-counter derivatives settled bilaterally

Table 2 – Trading portfolio (complete for each legal entity if firm performs this function):

	Assets (£m)		Liabilities (£m)
	Balance-sheet values	Risk-weighted assets	Balance-sheet values
Equities			
Treasury			
Sovereign credit			
Non-sovereign credit			
Rates			
Foreign exchange			
Commodities			

Table 3 – Securities financing (complete for each legal entity if firm performs this function)

Reverse repurchase	Repurchase agreements and	Fair value of securities accepted	Fair value of securities given as

agreements and cash collateral on securities borrowed (£m)	cash collateral on securities lent (£m)	as collateral under reverse repurchase agreements and securities borrowing transactions (£m)	collateral under repurchase agreements and securities lending transaction (£m)

continued

Table 4 – Table on economic functions split by legal entities

Where a *firm's* parent organisation is a *UK* incorporated entity, *firms* should complete this table for all material legal entities and *branches* that form part of the *group*, both domestically and internationally, where the economic functions are those that have been identified in Part B above. Where a *firm's* parent organisation is incorporated outside the *United Kingdom*, *firms* should only complete this table for:

- *UK subsidiaries* (and any associated overseas *branches*); and
- *UK branches* of any overseas *subsidiaries*.

	Legal entity/*branch* 1 (£mn)	**Legal entity/*branch* 2 (£mn)**	**Legal Entity/*branch* 3 (£mn)**	**Aggregate across legal entities/*branches* (£mn)**
Where the *United Kingdom* is *Home State*, *firms* should provide information on all material legal entities/*branches*, even if they do not perform any activity in the *United Kingdom*.				
Economic function 1 ***(eg. asset management)***				
Economic function 2 ***(eg, securities lending)***				
Where *United Kingdom* is *Host State*, *firms* should provide information on legal entities/*branches* relevant to the *United Kingdom* as stated above.				
Economic function 1				
Economic function 2				

Amend the following text.

Schedule 2 Notification and reporting requirements

Handbook reference	**Matter to be notified**	**Contents of notification**	**Trigger event**	**Time allowed**
…				
IFPRU 10.5.2R	…	…	…	…
IFPRU 11.2.15R	*Recovery plan* actions	A decision to take an action referred to in a *recovery plan* or a decision not to take action	The decision to take action or not to take action	Without delay
IFPRU 11.3.17R	*Group recovery plan* actions	A decision to take an action referred to in a *group recovery plan* or a decision not to take action	The decision to take action or not to take action	Without delay
IFPRU 11.4.4R	Resolution plan information	The change to the information in *IFPRU* 11 Annex 2R (Resolution plan information)	A change to the legal or organisational structure of the *firm* or *group*, its business or its financial situation, which could materially affect the information in *IFPRU* 11 Annex 2R (Resolution plan information)	Without delay
IFPRU 11.5.18R	Giving *group* financial support using an *RRD group financial support agreement*	The reasoned decision of the management body in line with *IFPRU* 11.5.16R and the details of the proposed financial support including a copy of the *RRD group financial support*	An intention to provide *group* financial support using an *RRD group financial support agreement*	Before providing the support

		agreement		
IFPRU 11.5.21R	Giving *group* financial support using an *RRD group financial support agreement*	The decision of the *management body* of the *RRD institution* to give financial support	The decision to give financial support	Not specified
IFPRU 11.7.2R, and *IFPRU* 11.7.3R	Resolution notifications	Matters described in *IFPRU* 11.7.2R and *IFPRU* 11.7.3R	The occurrence of the situations described in *IFPRU* 11.7.2R, or *IFPRU* 11.7.3R	Immediately on the occurrence of the situations described in *IFPRU* 11.7.2R or *IFPRU* 11.7.3R

Part 2: Comes into force on 1 January 2016

Please insert the following new chapter after IFPRU 11.5. The text is not underlined.

11.6 Contractual recognition of bail-in

Application

11.6.1 R This section applies to:

(1) an *IFPRU 730k firm* that is not subject to supervision on a *consolidated basis*;

(2) a *firm* that is an *RRD group member*;

(3) a *qualifying parent undertaking* that is an *RRD group member*; and

(4) a *qualifying parent undertaking* that is:

(a) a *mixed activity holding company* of an *IFPRU 730k firm*; and

(b) does not hold an *RRD institution* using an intermediate *financial holding company* or *mixed financial holding company*.

11.6.2 G This section is limited to the types of *mixed activity holding company* in *IFPRU* 11.6.1R(4) because, in accordance with article 33(3) of *RRD*, it is

only these types of *mixed activity holding company* that can be subject to the bail-in provisions of *RRD*.

Contractual recognition of bail-in

11.6.3 R (1) If a liability meets the conditions in (2), a *firm* or *qualifying parent undertaking* must include a term in the contract governing the liability which states that the creditor or party to the agreement creating the liability:

(a) recognises that the liability may be subject to *write-down and conversion powers*; and

(b) agrees to be bound by any of the following actions of a *resolution authority* in relation to that liability:

(i) reduction of principal or outstanding amount due; or

(ii) conversion; or

(iii) cancellation.

(2) The contractual recognition of a bail-in requirement in (1) applies to a liability that is:

(a) governed by the law of a *third country*;

(b) issued or entered into after 1 January 2016;

(c) of a type that is not excluded under article 44(2) of *RRD*;

(d) not a *deposit* of a type referred to in point (a) of article 108 of *RRD*; and

(e) not a liability which the *resolution authority* has determined can be subject to *write-down and conversion powers* by the *resolution authority* of an *EEA State* under:

(i) the law of a *third country*; or

(ii) a binding agreement concluded with that *third country*.

[**Note:** article 55(1) of *RRD*]

Annex C

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, except otherwise indicated.

16 Reporting requirements

16.1 Application

…

16.1.1 R This chapter applies to every *firm* and *qualifying parent undertaking* within a category listed in column (2) of the table in *SUP* 16.1.3R and in accordance with column (3) of that table.

…

16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16 and SUP 16.17)

(1) Sections(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
…		
SUP 16.18	A *full-scope UK AIFM* and a *small authorised UK AIFM*	*SUP* 16.18.3R
SUP 16.20	An *IFPRU 730k firm* and a *qualifying parent undertaking* that is required to send a *recovery plan*, a *group recovery plan* or information for a resolution plan to the *FCA*.	Entire section
…		

…

Insert SUP 16.20 after SUP 16.19. The text is all new and is not underlined.

16.20 Submission of recovery plans and information for resolution plans

Application

16.20.1 R This section applies to a *firm* or *qualifying parent undertaking* who is required to send any of the following types of information to the *FCA*:

(1) *recovery plans* in line with *IFRPU* 11.2 (Individual recovery plans); or

(2) *group recovery plans* in line with *IFPRU* 11.3 (Group recovery plans); or

(3) information required for resolution plans in line with *IFPRU* 11.4 (Information for resolution plans).

Submission of recovery plans and group recovery plans

16.20.2 R A *firm* or *qualifying parent undertaking* must send its *recovery plan* or *group recovery plan* to the *FCA* within three *months* of the reporting reference dates specified in the table below:

Type of *firm* or *qualifying parent undertaking*	Type of plan	Total balance sheet assets (see SUP 16.20.3G)	First reporting reference date	Ongoing reporting reference date
firm or *qualifying parent undertaking* in an *RRD group* that includes an *IFPRU 730k firm* that is a *significant IFPRU firm* or does not include an *IFPRU 730k firm*	*group recovery plan*	More than £2.5 billion	30 June 2015	Every year on the same date as the first reporting reference date.
		More than £1 billion and less than £2.5 billion	30 September 2015	
		More than £500 million and less than £1 billion	31 December 2015	
		Less than £500 million	31 March 2016	
significant IFPRU firm	*recovery plan*	More than £2.5 billion	30 June 2015	Every year on the same date as the first reporting reference date.
		More than £1 billion and less than £2.5 billion	30 September 2015	
		More than £500 million and less than £1 billion	31 December 2015	
		Less than	31 March	

		£500 million	2016	
firm or *qualifying parent undertaking* in an *RRD group* that includes an *IFPRU 730k firm* that is not a *significant IFPRU firm* (but does not include an *IFPRU 730k firm* that is a *significant IFPRU firm*)	*group recovery plan*	More than £50 million and less than £500 million	30 September 2015	Every two years on the same date as the first reporting reference date.
		More than £15 million and less than £50 million	31 December 2015	
		More than £5 million and less than £15 million	31 March 2016	
		Less than £5 million	30 June 2016	
non-*significant IFPRU firm*	*recovery plan*	More than £50 million and less than £500 million	30 September 2015	Every two years on the same date as the first reporting reference date.
		More than £15 million and less than £50 million	31 December 2015	
		More than £5 million and less than £15 million	31 March 2016	
		Less than £5 million	30 June 2016	

[**Note:** articles 4(1)(b) and 6(1) of *RRD*]

16.20.3 G (1) The calculation of total balance sheet assets for *IFPRU* 16.20.2R should be consistent with the way this figure is calculated for determining whether a *firm* is a *significant IFPRU firm*.

(2) For *group recovery plans*, the calculation of total balance sheet assets should be based on the assets of the largest *RRD institution* in the *group*.

Submission of information for resolution plans

16.20.4 R A *firm* or *qualifying parent undertaking* must send the information required

for a resolution plan to the *FCA* within three *months* of the reporting reference dates specified in the table below:

Type of *firm* or *qualifying parent undertaking*	First reporting reference date	Ongoing reporting reference date
firm or *qualifying parent undertaking* in an *RRD group* that includes an *IFPRU 730k firm* that is a *significant IFPRU firm* or does not include an *IFPRU 730k firm*	30 June 2015	Every two years on the same date as the first reporting reference date.
significant IFPRU firm	30 June 2015	Every two years on the same date as the first reporting reference date.
firm or *qualifying parent undertaking* in an *RRD group* that includes an *IFPRU 730k firm* that is not a *significant IFPRU firm* (but does not include an *IFPRU 730k firm* that is a *significant IFPRU firm*)	31 December 2015	Every three years on the same date as the first reporting reference date.
non-*significant IFPRU firm*	31 December 2015	Every three years on the same date as the first reporting reference date.

[**Note:** articles 4(1)(b), 11(1) and 13(1) of *RRD*]

Submission of information for RRD institutions and RRD groups authorised or created after the first reporting date

16.20.5 R Where an *RRD institution* is authorised or an *RRD group* is created after the first reporting reference date that would have applied to that *firm* or *qualifying parent undertaking* in line with *SUP* 16.20.2R and *SUP* 16.20.4R, the *firm* or *qualifying parent undertaking* must:

(1) send its first *recovery plan* or *group recovery plan* and resolution plan information within three *months* of the first quarter end date which falls after six *months* of the date of the authorisation of the *RRD institution* or creation of the *RRD group*; and

(2) send its ongoing *recovery plan* or *group recovery plan*:

(a) every year within three *months* of the same date as the first reporting reference date for a *significant IFPRU firm* or a *group* that includes a *significant IFPRU firm*; or

(b) every two years within three *months* of the same date as the first reporting reference date for a *firm* that is not a *significant IFPRU firm* or a *group* that does not includes a *significant IFPRU firm*.

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