Financial Conduct Authority

Consultation Paper CP14/15**

Recovery and Resolution Directive

August 2014

Contents

We are asking for comments on this Consultation Paper by 1 October 2014.

You can send them to us using the form on our website at:
www.fca.org.uk/your-fca/documents/consultation-papers/cp14-15-response-form.

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Abbreviations used in this paper

Bank	Bank of England
CA	Competent Authority
CBA	Cost benefit analysis
Commission	European Commission
CP	Consultation Paper
CRD	Capital Requirements Directive (EU Directive 2013/36/EU) – which forms part of the CRD IV legislative package
CRD IV	CRR and CRD
CRR	Capital Requirements Regulation (EU Regulation 575/2013) – which forms part of the CRD IV legislative package
EBA	European Banking Authority
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSMA	Financial Services and Markets Act
IFPRU	Prudential Sourcebook for Investment Firms
LCR	Liquidity Coverage Requirement
PRA	Prudential Regulation Authority
MiFID	Markets in Financial Instruments Directive
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MS	Member State

MTF	Multilateral Trading Facility
RRD	Recovery and Resolution Directive
RA	Resolution Authority
SAR	Special Administration Regime for Investment Banks
Treasury	Her Majesty's Treasury

1. Overview

Introduction

1.1 This Consultation Paper (CP) sets out the proposed changes to our Handbook that are required to transpose the Recovery and Resolution Directive (RRD)[1] into the UK regulatory regime for the investment firms and certain group entities that we regulate prudentially and that fall within the scope of the RRD.

1.2 The RRD is concerned with promoting the soundness and stability of firms, and thereby minimising the potential negative impacts of the failure of these firms on markets and on their customers. The recovery and early intervention enhancements that the RRD is expected to bring to the prudential framework should make it less likely that banks and investment firms will fail, thereby improving stability in the financial sector in general.

1.3 We are the Competent Authority (CA) in the UK for the prudential regulation of the majority of the investment firms subject to the RRD, so we are required to implement the RRD for those firms. This requires changes to the Handbook.

1.4 The remaining investment firms falling within the scope of the RRD are prudentially regulated by the Prudential Regulatory Authority (PRA), which published a separate CP on its implementation of the RRD on 24 July.

1.5 The Directive also requires Member States (MSs) of the European Union (EU) to designate an authority for the resolution aspects of the Directive, known as the Resolution Authority (RA). The Bank will be designated by HMT as the RA for the UK.

1.6 The RRD must be transposed into national law by 31 December 2014 and applied from 1 January 2015.

Who does this consultation affect?

1.7 The proposals in this CP apply to investment firms that are solo-regulated by the Financial Conduct Authority (FCA) and that meet the definition in our Handbook of an IFPRU 730k firm.[2] The current population covers approximately 230 firms.[3] It also applies to group entities in a

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

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

3 730k investment firms: this covers certain types of MiFID investment firms caught by the CRR. Owing to the complexities of the CRR there is no simple non-technical 'label' to cover all these firms. Essentially though these are firms that undertake proprietary trading/ take balance sheet risk for their own profit, certain other firms that deal on account for the purposes of executing client orders (provided that certain conditions are met), and operators of multilateral trading facilities.

group that contains a 730k firm or credit institution. This may also include certain types of firms that are authorised by the FCA.[4]

1.8 IFPRU 730k firms carry out the following investment services and activities under the Markets in Financial Instruments Directive (MiFID)[5]:

- dealing on own account
- underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis, and/or
- operating Multilateral Trading Facilities

1.9 This population of firms covers a wide range of business models, both retail and wholesale, and (as Annexes 1 and 3 illustrate) both small and large firms.

Is this of interest to consumers?

1.10 The objectives underpinning the RRD and the associated proposals in our CP relate to reducing the risk posed by firms to system-wide financial stability, and are primarily prudential in nature. While there are no direct implications for consumers, the changes brought about by the RRD are expected to reduce the likelihood of firm failure – or lessen the impact where failure does occur. This should provide significant indirect benefits to consumers, who can suffer major disruption and losses if a firm fails.

1.11 If a firm is failing or likely to fail, the resolution aspects of the RRD are expected to provide more robust measures to increase the likelihood that the process occurs in a more orderly manner, without the need to use public funds.

Context

RRD – Background

1.12 The financial crisis had an unprecedented impact on the financial system and highlighted the impact of the perceived implicit state guarantee of firms that were considered to be 'too big to fail'. What followed was a series of global, European and national initiatives to develop the best measures to reduce future threats to financial stability.

1.13 The recovery and resolution framework developed by the European Commission (Commission) is intended to provide measures, tools and powers for planning for failure, intervening early or resolving firms in a way that reduces the costs to the public and mitigates the impact on the financial system.

1.14 The Directive requires cooperation between the RA and the relevant CA and, in the case of groups with European operations, also among the RAs and CAs of relevant authorities in other EU countries.

4 Please refer to Article 1 of the RRD for a full list of the different types of group entities over which the Directive sets out rules and procedures for recovery and resolution.

5 Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004

1.15 An important objective is to ensure that a CA is able to identify when a firm is in financial distress and to intervene sufficiently early to mitigate failure. In cases where failure is imminent, the RA will have the ability to use the resolution tools and powers to mitigate any system-wide risks that could otherwise arise from failure of the firm.

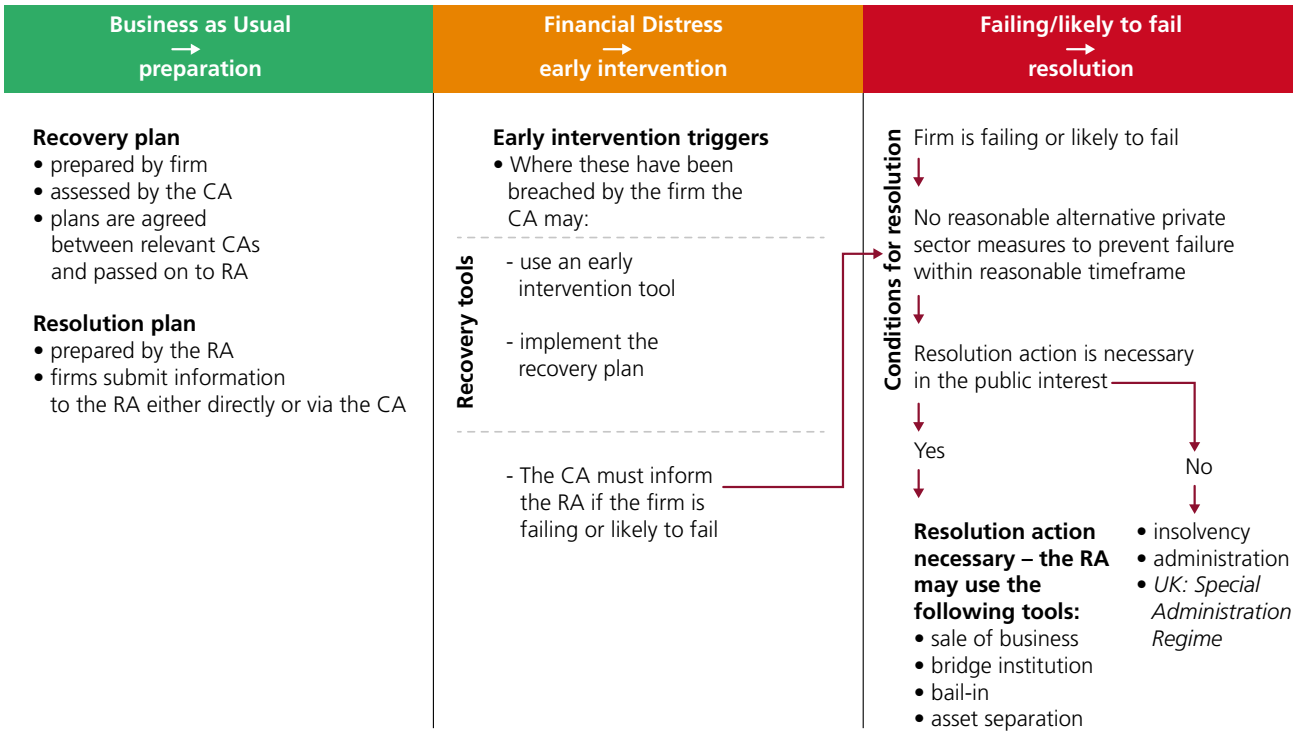
RRD – Key elements

1.16 This section provides a brief overview of the key elements available for the effective recovery and resolution of a firm. However, not all of the elements identified below will fall to us as the CA to implement. In this consultation we only address the elements that we believe will fall to us to transpose into our Handbook.

1.17 The RRD is based firstly on preparation for recovery and the prevention of failure. Thereafter, the focus shifts to early intervention, should a firm breach certain regulatory requirements (see Article 27(1) for more details[6]). The framework also provides for credible resolution tools when a firm is failing or likely to fail. The diagram in Figure 1[7] illustrates the stages under each phase and the key authorities that will be responsible for each.

1.18 The relevant investment firms will have to submit recovery plans to the FCA, and will be under an obligation to respond to information requests from the RA to assess their resolvability so that the RA may prepare resolution plans for the firms.

Figure 1



6 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0059

7 This diagram is representational and not an exhaustive list of requirements.

Preparation

1.19 Recovery: firms will have to provide us with a recovery plan which will be reviewed. Firms will have to update these plans regularly.

1.20 Resolution: the RA will draw up a resolution plan based on the information provided by firms as required by the RA.

Early intervention

1.21 Once a firm breaches a trigger, the CA may intervene (please see Chapter 7 for a discussion on early intervention triggers). The CA has a choice of courses of action, including: replacing the firm's management; requiring the firm to draw up an action plan to mitigate the problems; implementing aspects or all of the firm's recovery plan; or moving the firm into the resolution phase (if the firm is failing or likely to fail).

Resolution

1.22 Where a firm is failing or likely to fail and there is no reasonable prospect of alternative private recovery measures the RA will decide whether it should use its tools and powers. The RA may apply any resolution strategies necessary, including taking the decision that the firm should follow the normal insolvency procedures. (In the UK, for some firms this may include entering the Special Administration Regime (SAR) under the Investment Bank Special Administration Regulations 2011[8] where they are subject to that regime.)

RRD and the FCA objectives

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

1.24 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 prior 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 reduces the risk of contagion and counterparty defaults, and also helps to ensure that the firm will put plans in place to, for example, ensure that client positions are unwound in a timely manner.

1.25 Strengthened resolution powers will also advance these objectives. The RA will have more firm-specific information relevant to resolution than it had had previously, and will consider the possibility of firm resolution in advance of any failure. Again, this increases the likelihood of a coordinated approach to firm resolution, including timely updates to the market, and reduces the risk of market dislocation in the period following the failure of the firm.

1.26 We do not expect any adverse effect on competition as a result of the proposals in this CP. While the requirements increase the costs to the industry, they strengthen market integrity and help ensure a competitive playing field where the risk of a firm failure does not pose a risk to the prudential soundness of its counterparties and consumers.

RRD – Implementation in the UK

1.27 Our approach to implementing the RRD is, in general, to apply the legal minimum (including 'copy-out') where possible to be proportionate across the population of relevant firms, based on the potential threat of a firm to financial stability and where this approach is in accordance with our objectives.

8 See generally Investment Bank Special Administration Regulations 2011 (SI 2011/245), available at: www.legislation.gov.uk/uksi/2011/245/pdfs/uksi_20110245_en.pdf

1.28 The RRD is a detailed and complex piece of legislation, designed primarily to prevent or mitigate the effects of large banks failing. In general, the same benefits will be available for the FCA investment firms that are in scope, but given the lesser threat to financial stability posed by the majority of them, we believe that recovery efforts must be proportionate. We also believe that a similarly proportionate approach should be used in relation to the range of complex resolution tools available, especially for smaller firms. The starting point for us is that if firms are failing they should do so in an orderly manner, regardless of their size.[9]

1.29 The RRD places a variety of responsibilities on a CA, which in the UK is us for our solo-regulated firms and the PRA for dual-regulated firms.

1.30 The Directive requires the designation by Her Majesty's Treasury (Treasury) of a national RA, which will sit within the Bank of England (Bank). In considering how the RA might act when a firm is entering resolution, stakeholders may find it helpful to refer to the 'Banking Act 2009 – Special resolution regime: Code of Practice'.[10]

1.31 The RRD will therefore need to be transposed in the UK by a number of authorities – the FCA, the PRA, the Treasury and the Bank – who are cooperating closely on this.

Proportionality – Simplified obligations

1.32 We are proposing an approach that simplifies some obligations in the areas of responsibility that will fall to the FCA, where this is allowed by the Directive and where we believe it to be proportionate and appropriate to do so, particularly in relation to our smaller firms.

1.33 The Directive allows this in terms of the content and details of recovery and resolution plans, and the frequency with which these should be updated. We expect to take the opportunity to use 'simplified obligations' for all but our largest IFPRU 730k (i.e. those exceeding certain size thresholds, please see Chapter 2 and Annex 1). This would amount to approximately 190 from the total of 230 firms in scope being subject to a simplified application of the obligations.

New powers

1.34 The Treasury has published a separate consultation document for the aspects of the Directive that require new legislation or amendments to existing legislation to enable us to operate provisions under the RRD effectively. Where relevant, we have taken account of the Treasury's developing work on the implementation of RRD in deciding how to finalise our own rules.

1.35 One such area where we require the Treasury to provide us with additional powers is to enable us to apply the Directive's provisions to UK parent institutions of IFPRU 730k firms where the UK parent institution is not within a CRD IV[11] consolidation group. In the Handbook this is termed a 'qualifying parent undertaking'.

1.36 It is also worth noting that the RRD places obligations on certain group entities, including some unauthorised entities. Where these entities are authorised by the FCA we have sought to impose the obligations on firms directly. However, in circumstances where these entities are not authorised by the FCA, but are UK subsidiaries of an IFPRU 730k firm, or a qualifying parent undertaking, we propose to require the FCA investment firm or qualifying parent undertaking to ensure that the entities in question comply with the obligation.

9 Further detail on our approach to prudential supervision is contained here: www.fca.org.uk/about/what/regulating/how-we-supervise-firms/our-approach-to-supervision

10 www.gov.uk/government/uploads/system/uploads/attachment_data/file/209933/bankingact2009_code_of_practice.pdf

11 The CRD IV legislative package comprises the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation (575/2013)

1.37 Until the European Economic Area (EEA) Joint Committee amends the EEA Agreement, with a view to permitting simultaneous application of the RRD in the EEA States, the RRD only applies in the EU.[12] As a result, throughout this paper we refer to the EU. However, we propose rules in the draft Handbook text on the assumption that the EEA Joint Committee will incorporate the RRD into the EEA Agreement, but a transitional rule will ensure that, before that happens, any reference to the EEA or EEA States in the rules must be interpreted to mean a reference to EU member states. We propose to revoke the transitional rule when the RRD is incorporated into the EEA Agreement.

Resolution planning

1.38 The RRD requires each MS to establish an RA to develop resolution plans and take resolution actions where required. The identification of the RA in the UK will be undertaken by the Treasury, and the Bank will be designated as the RA. The Directive provides for the RA to obtain information either directly from firms or through the CA. The Bank has indicated that its likely preference will be to ask us, on its behalf, to collect initial information for resolution planning from the investment firms that we regulate. This initial information will allow the RA to develop a preferred resolution strategy or strategies for each firm. However, particularly for significant and more complex firms, the RA may require additional information to inform the development of a resolution strategy or strategies.

1.39 We are not consulting on the substantive resolution aspects of the RRD. This consultation covers only those Handbook requirements which we will have to make in order to facilitate effective cooperation with the RA in resolution planning.

Our overall approach to RRD transposition

1.40 This CP sets out our proposals for implementing changes brought about by the RRD which can be done through the rules and guidance in our Handbook under existing or proposed FSMA powers. We propose to include these rules in a new chapter in the Prudential Sourcebook for Investment Firms (IFPRU), i.e. IFPRU 11.

1.41 This CP:

- covers aspects of the Directive that are allocated, with agreement from the Treasury, for transposition by the FCA
- provides for the collection of certain information on behalf of the Bank as the RA
- has a consultation period of two months
- may be followed up by further consultation, if appropriate, depending upon the final decisions of the Treasury to achieve transposition together with feedback from stakeholders

1.42 Given the short timetable for implementation we are transposing only those elements that need to be in place by 1 January 2015.

Pre-consultation with the industry

1.43 We have had pre-consultation discussions with industry through our Industry Standing Group on Prudential Issues for firms that deal on own account and the Smaller Business Practitioner Panel. There was general support for our overall approach to RRD transposition.

12 EEA states include all twenty-eight EU member states plus Iceland, Liechtenstein and Norway

Further obligations

1.44 Firms subject to the RRD will also need to comply with resultant technical standards and guidance from the European Banking Authority (EBA) arising from the Directive, in addition to the requirements in the Handbook.

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

Summary of our proposals

1.45 The key topics covered under each Chapter of the CP are as follows:

Chapter 2	Requirements for recovery plans including: • determination of scope for general and simplified obligations • general application of obligations • simplified application of obligations
Chapter 3	Requirements and conditions for notification of failure or likely to fail
Chapter 4	Information requirements for resolution planning covering: • baseline information • supplementary information • keeping information up to date
Chapter 5	Conditions for intra-group financial support agreements
Chapter 6	Contractual recognition that liabilities may be subject to bail-in
Chapter 7	Discussion chapter covering: • early intervention triggers • record of financial contracts • minimum requirement for own funds and eligible liabilities (MREL)
Annex 1	Metrics for determination of Significance
Annex 2	Recovery plans for firms subject to simplified application of obligations
Annex 3	Cost benefit analysis
Annex 4	Compatibility statement
Annex 5	List of questions
Appendix 1	Draft Handbook text

Equality and diversity considerations

1.46 We have assessed the likely equality and diversity impacts of the proposals and do not think they give rise to any material concerns.

What do you need to do next?

1.47 We want to know what you think of our proposals and would welcome comments by 1 October 2014.

How?

1.48 Use the online response form on our website or write to us at the address on page 2.

What will we do?

1.49 We will consider your feedback and publish our rules in a Policy Statement in December 2014, in time for implementation on 1 January 2015.

2. Recovery

Introduction

2.1 This chapter considers the following issues:

- The criteria for determining which firms will be subject to the general application of the obligations for recovery planning under the RRD ('significant firms')
- Which firms will qualify for a simplified application of the obligations under the Directive, as per Article 4
- The scope, content, frequency and first submission date under the Directive for both the general and simplified application of obligations under the Directive

Determination of the scope of application of general obligations and simplified obligations

Background

2.2 As a starting point, firms are required to apply all of the obligations (referred to as 'general application') under the RRD. However, Article 4 permits the FCA to apply a proportionate approach to firms whose failure would not cause a 'significant impact' and may therefore simplify the obligations on those firms (referred to as 'simplified application').

2.3 In order to determine which firms pose a 'significant impact' and would therefore not be eligible for the simplified application of obligations, we have undertaken an analysis similar to that used to determine prudentially 'significant firms' implementing CRD IV as set out in table 1.

2.4 This approach provides an unambiguous and objective definition with pre-defined thresholds that firms can use to determine whether the relevant requirements apply to them. Those firms deemed significant must apply the general application of obligations and the remaining firms (i.e. non-significant) will be permitted to use the simplified application of obligations. This also means that greater consistency is achieved across the various pieces of EU prudential legislation. The threshold is based on the marginal impact of including or excluding a firm within the scope of 'significant'. This is set out in more detail in the section on 'methodology'.

2.5 Again, consistent with CRD IV, if a firm exceeds a threshold and is caught by this definition, and then drops below the threshold at a later date, we propose that the rules for a 'significant firm' continue to apply for one year from the date at which the firm drops below the relevant threshold. This is to prevent arbitrage, to reduce the incentive to structure a business model to avoid regulatory scrutiny and to provide an element of continuity.

2.6 The CRD IV significant firm analysis covers all IFPRU firms, whereas the RRD only applies to IFPRU 730k firms.

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.

Methodology and market analysis

2.7 Our approach is designed to identify 'significant' firms using five impact factors calibrated on the basis that they capture those firms whose failure is likely to have a 'significant negative effect'.

2.8 The impact factors we chose are designed to capture the various different business models. To be deemed significant only one of these thresholds has to be met or exceeded.

2.9 This approach is consistent with the approach used to identify 'CRD IV significant firms', in Chapter 5 of CP13/6, *CRD IV for Investment Firms*. The calibrated impact factor thresholds are as follows:

Table 1: Thresholds

Impact factor	Threshold
Total assets	£530m
Total liabilities	£380m
Client money	£425m
Client assets	£7.8bn
Annual fees and commission income	£160m

2.10 The analysis used for determining the thresholds for 'CRD IV significant firms' in CP13/6 was based on a wider population of firms than that covered by the RRD. Therefore, we have reassessed the thresholds for the purposes of the RRD by undertaking the analysis for just the IFPRU 730k firm population and have found them to still be appropriate.[13]

2.11 The proposed definition provides a clear industry-wide quantitative measure of significance. If necessary, on a case-by-case basis, we may require firms not caught by this definition to comply with the relevant prudential requirements.

2.12 Firms that meet this test of significance will be referred to in this CP as being subject to the 'general application'. Those who do not will be referred to as being subject to a 'simplified application'.

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.

13 See Annex 1 for the calculations of the Significance metric

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.**

Population of firms affected

2.13 This proposed approach results in approximately 190 firms (82%) being eligible to apply the simplified application of the obligations and the approach taken is consistent with that used for defining 'significant firms' for CRD IV prudential requirements. The approximately 40 significant firms which are not eligible for the simplified application of the obligations comprise significant market participants across a range of business models.

2.14 These firms have been identified using tailored metrics. We are conscious that any metric and threshold may be unlikely to capture all appropriate firms in every situation, so we reserve the right to apply these policies to firms that do not meet the criteria.

General application of obligations

Scope

2.15 Firms subject to the general application of obligations must submit recovery plans on an individual basis unless they are part of a group that is subject to consolidated supervision under CRD IV. Then the group will prepare a group recovery plan. Where a group recovery plan is prepared, firms in that group will not need to submit individual plans unless the FCA deems this necessary for specific institutions on a case-by-case basis.

2.16 A group recovery plan will be prepared using the general application of obligations if there is one or more significant IFPRU 730k firm in the group.

2.17 Where an FCA investment firm is part of a group that is subject to consolidated supervision under CRD IV by another CA, the group recovery plan will be the responsibility of that other CA.

Content

2.18 General application firms must submit a recovery plan to us that incorporates all of the information required as outlined in the proposed IFRPU 11 rules on recovery plans (see Appendix 1 and its associated annex).[14] Firms should also be mindful of the EBA binding technical standard that will specify the information to be contained in recovery plans.[15]

2.19 Firms are obliged to update their plans annually and when there are material changes that need to be reflected in the plan.

14 These requirements transpose Articles 4 and 5, and Section A of the Annex to the RRD.

15 www.eba.europa.eu/-/eba-publishes-final-draft-technical-standards-and-guidelines-on-recovery-plans

2.20 When preparing their recovery plans, general application firms must not assume any access to extraordinary public financial support. Recovery plans should also set out a range of recovery options designed to respond to macroeconomic and financial stress scenarios[16], and incorporate measures that could be taken by the firm when the conditions for early intervention are met.

2.21 The Directive requires firms to include in recovery plans a framework of indicators[17] established by the firm [element (20) Section A of the Annex to the RRD]. The purpose of indicators is to connect a firm's financial position with its risk management and decision-making processes. Breaching an indicator should start an internal escalation and decision-making process, which should include analysing the best way to proceed and determining whether a recovery option should be applied. Indicators do not, however, have to lead to specific recovery options. As a result, suitable indicators should be incorporated into a firm's governance processes and overall risk management framework so that they are capable of being monitored. Indicators are an integral aspect of the operation of recovery plans and they have to be agreed by the CA when assessing a firm's recovery plan.

Frequency and submission

2.22 To manage the large number of recovery plans that we will receive, we propose to phase firms' first recovery plan reporting reference dates. The date on which firms must report their first recovery plan will be based on their size relative to the other FCA solo-regulated firms that are subject to general obligations for recovery planning. The size criteria that we propose to use will be total balance sheet assets. For group recovery plans where there is a significant firm in the group, the first group recovery plan reference date is based on the total balance sheet assets of the largest significant firm in the group.

2.23 We propose that a firm's first recovery plan reporting reference date will be one of the quarter-end dates between June 2015 and March 2016 (i.e. June 2015, September, 2015, December 2015 or March 2016). Our phased approach means that larger firms will have an earlier recovery plan reporting reference date. As a result, we will receive recovery plans earlier from firms that pose the greatest risks to markets were they to fail.

2.24 Firms must submit their plans to us within three months of their reporting reference date. We will notify firms in due course of their first recovery plan reporting reference date. Thereafter we propose that firms must report their recovery plans on an annual basis using the same reporting reference date.

2.25 Firms will be required to submit their recovery plan as a PDF document and the intention will be to schedule reporting reference dates in our GABRIEL reporting system. SUP16.20 in the draft Handbook text in Appendix 1 provides further reporting details.

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.

16 The EBA has issued 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

17 The EBA will issue Guidelines for recovery plan indicators within 12 months after the date of entry of the Directive.

Simplified application of obligations

Scope

2.26 Firms that fall below the thresholds for the significance metric must also submit recovery plans, but will be eligible for a simplified application of obligations as per Article 4 of the Directive. This allows for a simplification of the content of recovery plans, and for a reduction in frequency of updates. We outline our proportionate recovery plan proposals here for firms subject to the simplified approach of obligations.

2.27 Firms subject to the simplified application of obligations must submit plans on an individual basis unless they are part of a group subject to consolidated supervision by us under CRD IV. Firms reporting on a group basis will not need to submit individual plans unless we deem it necessary for specific institutions on a case-by-case basis.

2.28 A consolidated group where all firms are within the scope of the simplified application of obligations may prepare a group recovery plan on a simplified application basis.

2.29 Where an FCA investment firm is part of a group that is subject to consolidated supervision under CRD IV by another CA, the group recovery plan will be the responsibility of that other CA.

Content

2.30 Section A of the Annex to the Directive outlines information to be included in recovery plans.[18] We propose that firms subject to the simplified application of obligations should include the following information in their recovery plan:

- A summary of the key elements of the recovery plan [element (1) in Section A].
- Information on governance, including how the recovery plan is integrated into the corporate governance of the firm and the firm's overall risk management framework [element (9) in Section A].
- A description of the legal and financial structures of the entities covered by the plan and identification of the core business lines and critical functions [element (7) in Section A].
- Identification of recovery options. This should include a range of capital and liquidity actions required to maintain or restore the financial viability and financial position of the firm [element (4) in Section A], arrangements and measures to conserve or restore the firm's own funds [element (10) in Section A] and an assessment of the expected timeframe for the implementation of recovery options [element (5) in Section A].
- A summary of overall recovery capacity of the firm [element (1) in Section A] including risks associated with recovery options, and an analysis of material impediments to the effective and timely execution of the plan and whether and how such impediments could be overcome [element (6) in Section A].
- A summary of any material changes to the plan since the previous version of the recovery plan submitted to the competent authority [element (2) in Section A].
- A communication and disclosure plan [element (3) in Section A].

18 Firms should also be mindful of the EBA binding technical standards that will specify the information to be contained in recovery plans. See www.eba.europa.eu/-/eba-publishes-final-draft-technical-standards-and-guidelines-on-recovery-plans

- Preparatory measures that the institution has taken or plans to take to facilitate the implementation of the recovery plan [element (19) in Section A].

- Possible measures which could be taken by the firm where the firm has met the conditions of an RRD early intervention trigger.

2.31 Although firms subject to the simplified obligations have a simplified set of summary information in their recovery plans, they should, when preparing their recovery plans, have regard to other elements listed in Section A of the Directive Annex and Article 4 (transposed into IFPRU Annex 1R) if the firm considers them to be material to their particular business.

2.32 Equally, firms subject to the simplified application of obligations firms will also have to have regard to the rules and guidance proposed in IFPRU 11.2.7G to 11.2.10R (which copies out provisions from Articles 5 and 9 of the Directive). These include not assuming any access to extraordinary public financial support, and contemplating a range of scenarios of severe macroeconomic and financial stress[19] relevant to the firm's specific conditions when identifying appropriate recovery options.

2.33 Paragraph 2.21 explains that the Directive requires firms to include in recovery plans a framework of indicators established by the firm [element (20) in Section A]. We explain that indicators[20] are an integral aspect of the operation of recovery plans and they have to be agreed by CAs when assessing recovery plans. So we propose that firms subject to simplified obligations should also embed a framework of indicators that identifies points at which appropriate actions referred to in the recovery plan may be taken.

2.34 Annex 2 of this CP summarises recovery plan requirements for firms subject to the simplified application of obligations.

Frequency and submission

2.35 Similar to our proposals for firms subject to the general application of obligations, we will phase firms' first recovery plan reporting reference date. The date on which firms must report their first recovery plan will be based on their size relative to other FCA solo-regulated firms that are subject to simplified obligations. The size criteria that we propose to use will be total balance sheet assets. For group recovery plans where there are no significant firms in the group the first group recovery plan reporting reference date is based on the total balance sheet assets of the largest IFPRU 730k firm in the group.

2.36 A firm subject to the simplified application of the obligations will have a first recovery plan reporting reference date that will be one of the quarter-end dates between September 2015 and June 2016 (i.e. September 2015, December 2015, March 2016 or June 2016). Our approach means that larger firms subject to the simplified application of obligations will have an earlier reporting reference date compared to smaller firms.

2.37 Firms will be required to submit their recovery plan as a PDF document and the intention will be to schedule reporting reference dates in our GABRIEL reporting system. SUP16.20 in the draft Handbook text in Appendix 1 provides further reporting details.

19 The EBA has issued 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

20 The EBA will issue Guidelines for recovery plan indicators within 12 months after the date of entry of the Directive.

2.38 Firms must submit their plans to us within three months of the reporting reference date. We will notify firms in due course of their first recovery plan reporting reference date. Thereafter, we propose that firms subject to the simplified obligation approach should report plans every two years using the same reporting reference date.

2.39 Firms subject to the simplified application of obligations must update their plans biennially and when there are material changes to the plan.

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.

3.
Notification of failure or likely to fail

3.1 This chapter sets out the requirements under the Directive for certain group entities (see Article 81 (and Article 1) for a complete list) to notify the FCA where the management body of the entity considers that it is failing or is likely to fail. The FCA (CA) and the Bank (RA) will then discuss whether resolution is necessary.

3.2 Article 81 of the RRD requires certain group entities to notify the FCA when its management body considers that one or more of the following situations have occurred with regard to the entity:

- the assets of the entity are less than its liabilities
- there are objective elements to support a determination that the assets of the entity will, in the near future, be less than its liabilities
- the entity is unable to pay its debts or other liabilities as they fall due
- there are objective elements to support a determination that the entity will, in the near future, be unable to pay its debts or other liabilities as they fall due
- there are objective elements to support a determination that the entity will, in the near future, be unable to satisfy one or more of the threshold conditions
- extraordinary public financial support is required for the entity, except when it takes any of the forms allowed by Article 32(4)(d)(i) to (iii)

3.3 Article 81 also requires IFPRU 730k firms to notify the FCA if the firm is failing to satisfy one or more of the threshold conditions.

3.4 We propose to copy-out the Directive provisions into our Handbook in IFPRU 11.7.

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

4. Resolution

Resolution planning and information requirements

4.1 The Directive sets out the need for resolution planning, which falls under the remit of the RA. The Treasury will designate the Bank as the RA. However, the Directive also provides for the RA to ask a CA to collect data on its behalf and we are likely to be asked to do so on behalf of the RA. This chapter will cover the content and timings of the requests that we are likely to make on behalf of the Bank for resolution planning.

Background

4.2 The RA is required by Articles 10 and 12 of the Directive to draw up a resolution plan for FCA solo-regulated firms and FCA consolidation groups that fall within the scope of the RRD. To do this it will require information that allows it to identify appropriate resolution strategies to resolve a firm or group in an orderly manner. This information will also help the RA to identify and address any material impediments to the potential use of the identified resolution strategies.

4.3 We propose that there will be three potential phases for the collection of information from firms to inform the development by the RA of resolution plans for them: baseline, supplementary and contingent. These three phases will mirror the approach previously adopted by the PRA[21] for those firms for which it is responsible.

4.4 We, acting on behalf of the RA, will gather the first, baseline tranche of information necessary for the RA to start drawing up the resolution plan, from all FCA solo-regulated firms and FCA consolidation groups that fall within the scope of the Directive. For this phase we propose using a request similar in content to that adopted by the PRA, to promote the collection of consistent information, comparable across all of the firms for which the RA must develop resolution plans.

4.5 The baseline information will be reviewed by the RA, in conjunction with other relevant information, which may result in a request for supplementary information to a firm or group so that the preferred resolution strategy or strategies can be further refined, using any other relevant information as necessary. The resolution plan will be finalised by the RA and updated where necessary to ensure that it remains relevant to the business and financial position of the firm or group. Firms or groups will be required to notify the FCA where there are any material changes to their legal or operational structures or to their financial circumstances and submit updated information if requested to do so by the RA.

21 Supervisory Statement SS19/13 on Resolution planning (December 2013)

4.6 Finally, as a firm or group approaches possible resolution, the RA may also request contingent information from the firm or group, potentially at short notice. This will allow the RA to facilitate various aspects of potential resolution contingency planning or to update information previously provided.

Proportionality

4.7 The RA is responsible for drawing up a resolution plan for each firm and group within the scope of the RRD, and will need to request appropriate information from firms and groups to allow it to do so. We recognise that the request for information from firms and groups should be proportionate to the threat that they might pose to financial stability and that this may be reflected in both the content and the timing of the requests for baseline information. Alongside the RA, we are developing and proposing a request that we believe is proportionate on that basis.

4.8 We propose adopting a request for baseline information for all our firms and groups within scope that mirrors the content of that developed previously by the PRA under the Banking Act for relevant dual-regulated firms. This is because there is overlap between the activities undertaken by FCA solo-regulated firms and the larger firms regulated by the PRA. We recognise, however, that there are specific activities that are not relevant to FCA solo-regulated firms, e.g. deposit-taking, so the baseline information request has been refined to reflect that.

4.9 We recognise, however, that within the population of FCA solo-regulated firms the smaller, less significant ones will generally have simpler legal and organisational structures and a less extensive range of activities than those covered in the proposed data request. We recognise that their responses may be less detailed, or even 'not applicable' where they do not undertake a particular activity, and will reflect their lesser threat to financial stability.

Our approach – Baseline information

4.10 The request for baseline information would comprise two sections. The first would request information related to the group structure, business and financial models, and risk management practices of a firm or group, the second on its economic functions and interaction with the wider financial system. All firms and groups within scope would be expected to provide this information, although we recognise that the level of detail in responses from firms and groups should be proportionate to their size, nature and complexity.

4.11 Keeping the request in the same format for all firms and groups will enable the RA to make an assessment of the resolution strategies based on consistent information. Using a similar, refined format to that used for PRA-regulated firms would also allow the RA to have a comprehensive set of data that is consistent and comparable across all of the eligible firms and groups for which it is responsible for drawing up resolution plans. The proposed, detailed form of the request is contained in Annex 2R of IFPRU 11.

4.12 It will be important for the RA to receive baseline information in a single submission and, as closely as possible, for a given point in time. All of the baseline information requested should be provided to us, even where it is believed that this information might be available to us or the RA from other, existing regulatory or supervisory returns.

Q9: Do you agree that the proposed baseline information request covers all activities that solo FCA-regulated firms might undertake?

Our approach – Initial submissions of baseline information

4.13 We recognise that significant firms and groups that are judged to pose a greater potential threat to financial stability will generally have more complex structures, operations and interactions with other firms. This is likely to make collecting the information for the baseline information request a more extensive operation for the firm/group, but this needs to be offset against their greater potential threat to financial stability.

4.14 We are proposing that the initial reporting reference date for baseline information by firms and groups will be the end of June 2015 for significant firms and groups that include significant firms and the end of December 2015 for other firms and groups.

Q10: Do you agree with the use of the CRD IV significance criteria to identify 'significant' firms for the timing of the 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?

Our approach – Subsequent submissions of baseline information

4.15 It is important that resolution plans are kept up-to-date. Following the initial submission of baseline information and the finalisation of the resolution plan, firms will be required to submit revised baseline information. In keeping with the principle of proportionality we are proposing that significant firms submit revised baseline information on a two-yearly cycle, and the remaining firms and groups on a three-yearly cycle. We will tell the firm the date, having determined it in conjunction with the RA.

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

4.16 Where a firm and group believes there may be a material change to its business or financial circumstances, it will be required to notify the FCA. The RA may then determine whether the resolution plan needs to be updated.

Baseline information – Submission format

4.17 Firms and groups will be required to submit their baseline information in a PDF document and the intention will be to schedule submissions via our GABRIEL reporting system. SUP16.20 in the draft Handbook text in Appendix 1 provides further reporting details.

Our approach – Supplementary information

4.18 The RA will review the baseline information and determine whether further, supplementary information is required to inform the development of the resolution plan, again consistent with the precedent set for PRA-regulated deposit-takers. The content of any request of this type will be based on the assessment of the baseline information and any other relevant information, the preferred resolution strategy or strategies identified, and the potential threat that the firm or group might pose to financial stability in the event that it enters resolution. In some cases, however, the RA may decide that no further information is required to inform the development of the preferred resolution strategy or strategies. The FCA and the Bank will provide more information on the nature and collection of this supplementary information in due course.

5.
Intra-group financial support

5.1 This chapter sets out the proposed implementation of the RRD provisions relating to intra-group financial support (IGFS).

5.2 The Directive permits group entities to enter into group financial support agreements with other entities in the group to provide financial support in case one or more group entities meets the conditions for early intervention (see Article 19(1) (and Article 1) for a complete list of group entities that are covered by these requirements).

5.3 A group financial support agreement does not affect existing intra-group financial arrangements, including funding arrangements and the operation of centralised funding arrangements, as long as none of the parties to such arrangements meet the conditions for early intervention.

5.4 The group financial support agreement may cover one or more subsidiaries of the group, and may provide for financial support from the parent undertaking to subsidiaries, from subsidiaries to the parent undertaking, between subsidiaries of the group or any combination of those entities.

Proposals relating to IGFS

Conditions for group financial support agreements

5.5 IFPRU 11.5.10R to 11.5.13R set out our proposals on the conditions for entering into an IGFS and the conditions for providing group financial support using a group financial support agreement.

5.6 This copies out the relevant provisions in the Directive, Articles 19(7) to 19(9) and Article 23(1) respectively. These conditions include specifying the principles for the calculation of the consideration for any transaction made under the agreement and that there is a reasonable prospect that the financial support significantly redresses the financial difficulties of the group entity receiving the support.

Submission and approval of group financial support agreements

5.7 IFPRU 11.5.8R sets out our proposals on the procedures for submitting an application for the authorisation of any proposed group financial support agreement, and what the application must contain. IFPRU 11.5.9G outlines conditions where we will not approve a group financial support agreement.

Decisions to provide and accept IGFS and notification requirements

5.8 The proposed rules (IFPRU 11.5.15R) require the decision to provide support in accordance with the group financial support agreement is taken by the management body of the group entity providing financial support.

5.9 Also, the decision to accept financial support in accordance with the agreement shall be taken by the management body of the group entity receiving financial support.

5.10 The proposed rules explain the notification requirements that the management body of the group entity that intends to provide group financial support shall make. This notification will include a reasoned decision of the management body explaining how the financial support complies with the conditions in IFPRU 11.5.13R.

5.11 Following receipt of the notification, we have five business days to agree, restrict or prohibit the provision of IGFS. A decision to prohibit or restrict the financial support shall be reasoned and can be subject to EBA non-binding mediation if there is disagreement among the CAs of the group entities that are party to the proposed financial support. A decision to agree financial support will require the management body of the group entity providing financial support to make notifications to relevant regulatory authorities.

5.12 In addition, our proposed rules copy out Article 26 of the Directive.[22] This requires group entities to make public whether they have entered into an IGFS agreement. This shall include a description of the general terms of any such agreement and the names of the group entities that are party to the IGFS. This information must be updated at least annually. The EBA will draft implementing technical standards to specify the form and content of this requirement.

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

22 This is transposed by IFPRU 11.5.19R in the new draft handbook rules which can be found in Appendix 1

6. Contractual recognition of bail-in

6.1 This chapter sets out the proposed implementation of the RRD provisions relating to contractual recognition of bail-in.

6.2 The requirement in Article 55 of the Directive to include a contractual term is the only RRD provision relating to bail-in that falls to the FCA to transpose. We understand that for initial transposition purposes any other bail-in provisions fall to the Treasury and the RA to transpose.

6.3 Article 55 of the Directive requires all IFPRU 730k firms and certain group entities (see Article 55(1) (and Article 1) for a complete list) 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.

6.4 This requirement will apply to liabilities that are governed by the law of a third country and are neither excluded from the bail-in tool nor are deposits referred to in Article 108(a) of the RRD.

6.5 The requirement will only apply to liabilities issued or entered into force after the rules come into effect (i.e. the requirement will not apply to existing liabilities). The Directive provides that this requirement must be in place by 1 January 2016 at the latest and we do not propose to implement this sooner. However, this is being considered as part of the overall UK approach to Bail-in and as such it may be necessary, for consistent UK transposition, to apply this provision by 1 January 2015.

6.6 The requirement will not apply where the RA has determined that the liabilities can be subject to write-down and conversion powers by the RA of a MS under the law of the third country, or a binding agreement concluded with that third country.

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?

7. Discussion chapter

Early intervention triggers, financial contracts and minimum requirement for eligible liabilities

Introduction

7.1 The Directive contains two important technical areas where we believe that, because of our specific population of investment firms, we would be particularly interested in views from stakeholders before any possible rule proposals. The areas are: (1) what metric or metrics to have as early intervention triggers; and (2) should firms be required to maintain detailed records of financial contracts as part of recovery plans?

7.2 The Directive also introduces a new binding minimum requirement for own funds and eligible liabilities (MREL). The Bank, as the RA, will determine the MREL of each firm, after consulting the relevant CA.[23] We are, therefore, using this discussion chapter as an opportunity to seek views from FCA investment firms on the MREL.

7.3 The aim of this chapter is to raise awareness of these issues and to encourage views from stakeholders to help inform any future approaches. We will analyse the responses and, in due course, consider the need to consult on any proposals for early intervention triggers for FCA investment firms, and whether it is necessary to exercise the national discretion to introduce a rule requiring FCA investment firms to have detailed records of financial contracts.

Early intervention triggers

7.4 Article 27 of the Directive gives the CA the power to apply early intervention measures on firms (e.g. require changes to a firm's business strategy) when firms infringe early intervention triggers set by the CA that are above the regulatory CRD IV minimum. The Directive presents prudential risks that could inform the setting of early intervention triggers, including: deteriorating liquidity; deteriorating capital adequacy; increasing leverage; increasing non-performing loans; and concentration of exposures.

7.5 This section presents our initial thinking on what we believe may be appropriate early intervention trigger metric(s) and encourages views from stakeholders before any rule proposals.

7.6 We do not believe that liquidity is currently an appropriate early intervention trigger metric for investment firms, for two reasons. Firstly, there is the impending Capital Requirement Regulation (CRR) review by the Commission into the application of the liquidity coverage requirement (LCR) for investment firms; this will report on whether and how the LCR should apply to investment firms. Until the outcome of that review it would not seem appropriate to

23 Article 45(6) of the RRD

use the LCR as an early intervention metric. Secondly, we have applied the CA discretion in Article 11(3) of the CRR such that only significant FCA IFPRU 730k firms that trade proprietary positions are subject to the LCR. So it would be inappropriate to set a standard for firms that are not subject to the minimum liquidity requirement.

7.7 We do not consider that leverage would be a suitable trigger either because there is not yet a finalised minimum standard for the leverage requirement (it is currently a reporting requirement only). Finally, we do not believe that FCA investment firm business models accommodate setting early intervention triggers based on non-performing loans and concentration of exposures, which are more suited to banks.

7.8 This would suggest that a suitable early intervention trigger for FCA investment firms might be based on the own funds requirements in Article 92 of the CRR. Given that the CRR requires firms to comply with three capital ratios reflecting the quality of different levels of capital instruments, it may be appropriate to use a similar approach for early intervention triggers. Article 27 of the Directive suggests the option of the firm's own funds requirement plus 1.5 percentage points as a possible trigger, but does not appear to mention any 'additional own funds' agreed as part of the supervisory review process.

7.9 We would also consider whether it is appropriate to phase-in a trigger(s).

7.10 The EBA will issue guidelines to promote consistent application of triggers.[24] Taking into account experience acquired in the application of those guidelines, the EBA may develop draft regulatory technical standards to specify a minimum set of triggers.

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.

Financial contracts

7.11 Under RRD Article 5(8), the CA has the power to require a firm to maintain detailed records of financial contracts to which the firm is a party. Financial contracts are defined in the Directive.[25]

24 These are expected to be issued within 12 months of the date of entry into force of the RRD.

25 Article 2(1)(100) of the RRD

7.12 'Financial contracts' includes the following contracts and agreements:

a. securities contracts, including:

i. contracts for the purchase, sale or loan of a security, a group or index of securities;

ii. options on a security or group or index of securities;

iii. repurchase or reverse repurchase transactions on any such security, group or index;

b. commodities contracts, including:

i. contracts for the purchase, sale or loan of a commodity or group or index of commodities for future delivery;

ii. options on a commodity or group or index of commodities;

iii. repurchase or reverse repurchase transactions on any such commodity, group or index;

c. futures and forwards contracts, including contracts (other than a commodities contract) for the purchase, sale or transfer of a commodity or property of any other description, service, right or interest for a specified price at a future date;

d. swap agreements, including:

i. swaps and options relating to interest rates; spot or other foreign exchange agreements; currency; an equity index or equity; a debt index or debt; commodity indexes or commodities; weather; emissions or inflation;

ii. total return, credit spread or credit swaps;

iii. any agreements or transactions that are similar to an agreement referred to in point (i) or (ii) which is the subject of recurrent dealing in the swaps or derivatives markets;

e. inter-bank borrowing agreements where the term of the borrowing is three months or less;

f. master agreements for any of the contracts or agreements referred to in points (a) to (e).

7.13 Before we consider whether we would introduce a rule requiring firms to maintain records of financial contracts as part of recovery planning, we are interested to seek views from stakeholders on the extent to which firms may already be maintaining such records (and for how long) or, if not, the feasibility and cost of doing so.

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.

Minimum requirement for own funds and eligible liabilities

7.14 Article 45(1) of the Directive requires firms to meet a minimum requirement for own funds and eligible liabilities (MREL):

$$\text{MREL} = \frac{\text{Own funds + eligible liabilities}}{\text{total liabilities including own funds}}$$

7.15 Eligible liabilities are defined in Article 2(1)(71) and further defined for the purposes of the MREL ratio calculation in Article 45(4) of the Directive. In essence, eligible liabilities for the purpose of the MREL are capital instruments that do not qualify as own funds and liabilities that are not excluded from the scope of the bail-in tool.

7.16 The RA will be responsible for setting MREL, after consulting with the CA. MREL will be set on a firm specific basis from 1 January 2016 so as to ensure that firms may be resolved in an orderly fashion.

7.17 The EBA will draft a regulatory technical standard further specifying the assessment criteria outlined in the directive on the basis of which MREL will be determined. In addition the Bank, in its capacity as RA, will consider its approach to setting MREL for all firms (not just investment firms) prior to 1 January 2016.

7.18 To assist in this process we, as the CA, would like to gain a clearer understanding on what a minimum MREL % might mean for FCA investment firms. We are conscious that the MREL ratio would be a new binding minimum requirement on firms and we would therefore welcome thoughts from investment firms on this, which we will share with the RA.

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.

Annex 1:
Metrics for determination of Significance

1. The graphs below show the cumulative distribution for each of the impact factors and the proposed thresholds.

Figure 1: Cumulative total assets

2. The marginal impact analysis of the total assets impact factor shows that, based on the CRD IV significant firm threshold of £530m, 90% of all balance sheet assets are held by 32 (14%) of the approximately 230 FCA solo-regulated IFPRU 730k firms.

3. The marginal benefit of imposing requirements due to the impact resulting from the amount of assets held on the balance sheet rapidly declines after this point. This would mean that, based on a threshold of £530m of total assets, 32 firms (14%) of FCA solo-regulated IFPRU 730k firms would have to apply the general obligation approach and the remaining 198 firms (86%) can apply the simplified obligation approach.

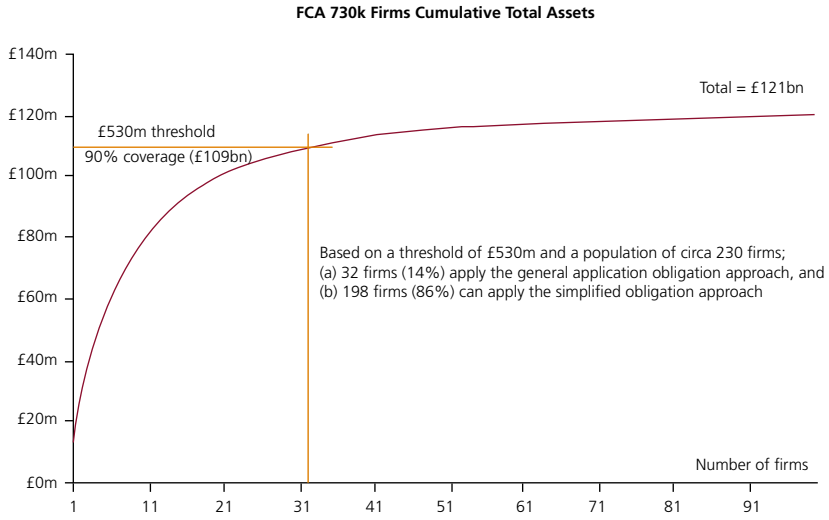


Figure 2: Cumulative total liabilities

4. The marginal impact analysis of the total liabilities impact factor shows that, based on the CRD IV significant firm threshold of £380m, 94% of all balance sheet liabilities are held by 35 (15%) of the approximately 230 FCA solo-regulated IFPRU 730k firms.

5. The marginal benefit of imposing requirements due to the impact resulting from the amount of liabilities held on the balance sheet rapidly declines after this point. This would mean that based on a threshold of £380m of total liabilities 35 firms (15%) of FCA solo -regulated IFPRU 730k firms would have to apply the general obligation approach and the remaining 195 firms (85%) can apply the simplified obligation approach.

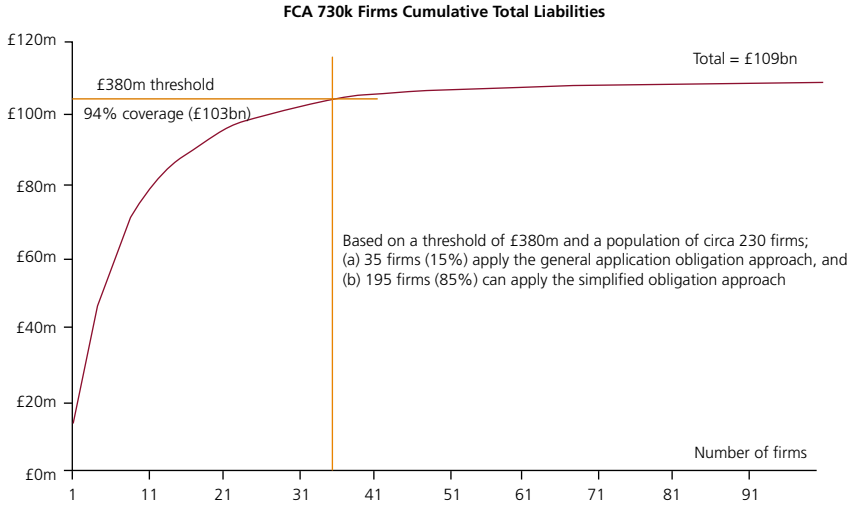


Figure 3: Cumulative total client money

6. The marginal impact analysis of the total client money impact factor shows that, based on the CRD IV significant firm threshold of £425m, 62% of all client money is held by eight (3%) of the approximately 230 FCA solo-regulated IFPRU 730k firms. It should be noted that non-730k FCA solo-regulated IFPRU firms hold 68% of all client money. This means the key impact factor for IFPRU 730k firms remains balance sheet assets and liabilities.

7. Given this, we do not consider there to be sufficient evidence of there being a material marginal benefit achieved by reducing the RRD client money threshold below that of CRD IV. This would mean that, based on a threshold of £425m of total client money, eight (3%) of the FCA solo-regulated IFPRU 730k firms would have to apply the general obligation approach and the remaining 222 firms (97%) can apply the simplified obligation approach.

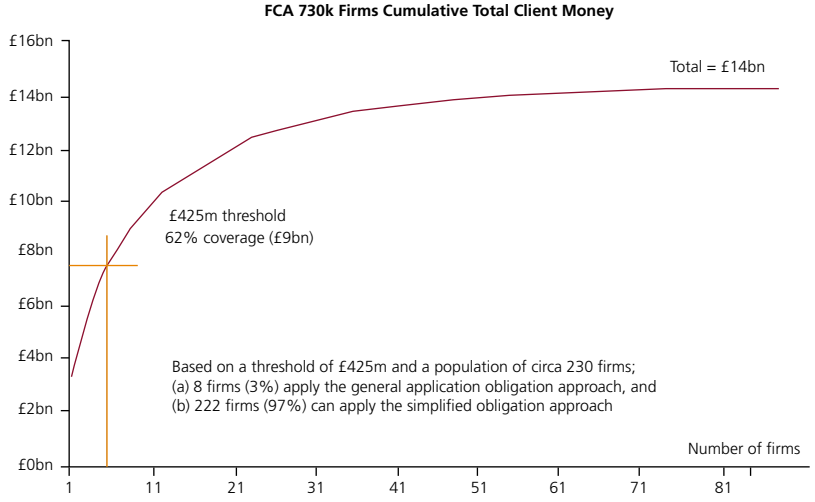


Figure 4: Cumulative total client assets

8. The marginal impact analysis of the total client assets impact factor shows that based on the CRD IV significant firm threshold of £7.8bn, 74% of all client assets is held by six (3%) of the approximately 230 FCA solo-regulated IFPRU 730k firms. It should be noted that non-730k FCA solo-regulated IFPRU firms hold 98% of all client assets and that the key impact factor for IFPRU 730k firms remains balance sheet assets and liabilities.

9. Given this we do not consider there to be sufficient evidence of there being a material marginal benefit achieved by decreasing the client assets RRD threshold below that of CRD IV. This would mean that, based on a threshold of £7.8bn of total client assets, six firms (3%) of FCA solo-regulated IFPRU 730k firms would have to apply the general obligation approach and the remaining 224 firms (97%) can apply the simplified obligation approach.

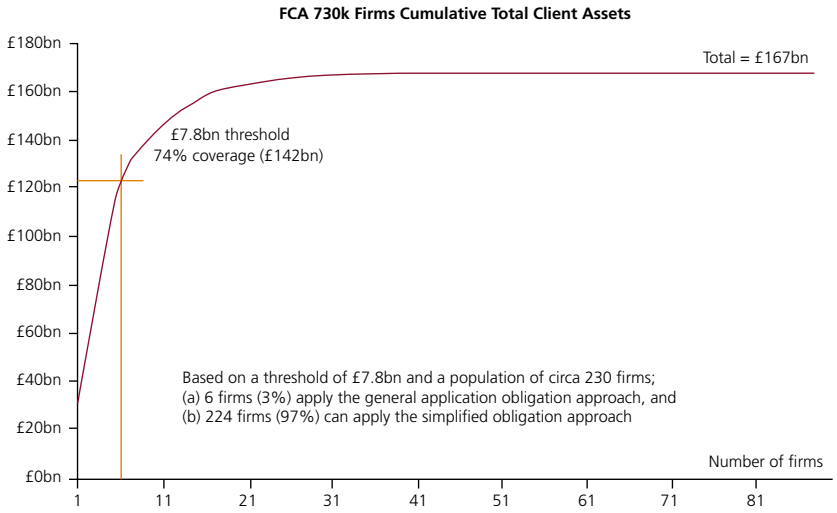
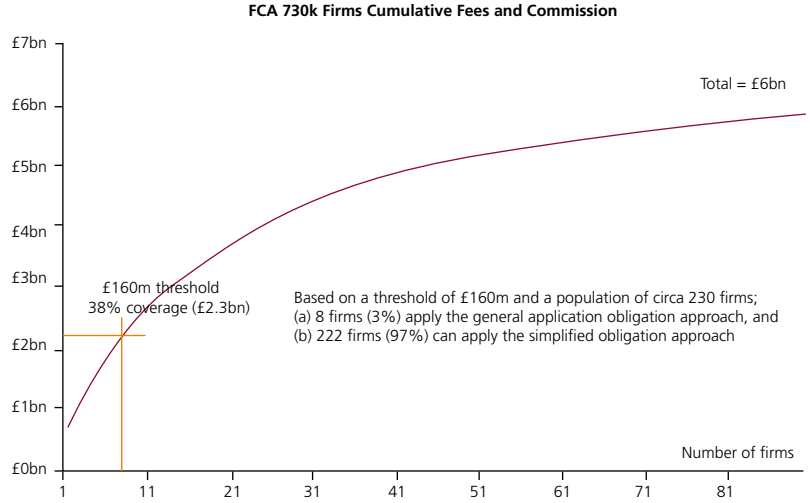


Figure 5: Cumulative total fees and commission income

10. The marginal impact analysis of the total fees and commission income impact factor shows that, based on the CRD IV significant firm threshold of £160m, 38% of all fees and commission income is held by eight (3%) of the approximately 230 FCA solo-regulated IFPRU 730k firms. Non-730k FCA solo-regulated firms hold 99% of all fees and commission income, that the curve is considerably flatter than that for the other impact factors and that the key impact factor for IFPRU 730k firms remains balance sheet assets and liabilities.

11. Given this we do not consider there to be sufficient evidence of there being a material marginal benefit achieved by reducing the RRD fees and commission income threshold below that of CRD IV. This would mean that, based on a threshold of £160m of total fees and commission, eight (3%) of FCA solo-regulated IFPRU 730k firms would have to apply the general obligation approach and the remaining 222 firms (97%) can apply the simplified obligation approach.



12. This definition of significant provides a base case. While the expectation is that the base case will apply across the affected FCA firm population, where necessary (e.g. to be proportionate) it can be modified on a case-by-case basis while retaining the advantage of being able to reconcile it back to the base case analysis.

Annex 2
Simplified application of recovery plan requirements

1. This Annex summarises recovery plan requirements for firms subject to the simplified application of obligations.

Recovery plan contents[1]	Proposed IFPRU rulebook references
A summary of the key elements of the recovery plan [element (1) in Section A]. Information on governance, including how the recovery plan is integrated into the corporate governance of the firm and the firm's overall risk management framework [element (9) in Section A]. A description of the legal and financial structures of the entities covered by the plan and identification of the core business lines and critical functions [element (7) in Section A]. Identification of recovery options. This should include a range of capital and liquidity actions required to maintain or restore the financial viability and financial position of the firm [element (4) in Section A], arrangements and measures to conserve or restore the firm's own funds [element (10) in Section A] and an assessment of the expected timeframe for the implementation of recovery options [element (5) in Section A]. A summary of overall recovery capacity of the firm [element (1) in Section A] including risks associated with recovery options, and an analysis of material impediments to the effective and timely execution of the plan and whether and how such impediments could be overcome [element (6) in Section A]. A summary of any material changes to the plan since the previous version of the recovery plan submitted to the competent authority [element (2) in Section A]. A communication and disclosure plan [element (3) in Section A]. Preparatory measures that the institution has taken or plans to take to facilitate the implementation of the recovery plan [element (19) in Section A]. Possible measures that could be taken by the firm where the firm has met the conditions of an RRD early intervention trigger.	IFPRU 11.2.6R
Have regard to other elements listed in IFPRU Annex 1R if the firm considers them to be material to their particular business.	IFPRU 11.2.7G (2)
Embed a framework of indicators which identifies points at which appropriate actions referred to in the plan may be taken [element (20) in Section A].	IFPRU 11.2.10R to IFPRU 11.2.13R
Have regard to the rules: • contemplating a range of scenarios of severe macroeconomic and financial stress relevant to the firm's specific conditions when identifying appropriate recovery options • not assuming any access to extraordinary public financial support • on use of central bank facilities	IFPRU 11.2.7G (1) IFPRU 11.2.8 R IFPRU 11.2.9

1 All references to Section A are to Section A the Annex of the RRD.

Annex 3: Cost benefit analysis

Summary

1. In April 2014 the Commission adopted the RRD, which is a key component of the post-crisis EU financial reform package. The primary purpose of this Directive is to implement necessary mechanisms for dealing with failing credit institutions and certain investment firms in a way that will minimise the need to access public money.

2. In the UK the Directive will predominantly focus on credit institutions (and several designated investment firms) regulated by the PRA. Because of the large market size, the banking sector is where most of the costs and benefits of this Directive are to be found.

3. Nevertheless, the scope of the Directive also captures approximately 230 FCA prudentially-regulated investment firms, subject to an initial capital requirement of €730,000 (i.e., IFPRU 730k firms). Although much smaller in its size, this sector will be the subject of this cost benefit analysis (CBA) since it is under our remit.

4. We have analysed the costs and benefits at the level of the entire Directive rather than its constituent components. For the costs, we expect these approximately 230 investment firms to be faced mainly with additional compliance expenditures. In general, higher costs of capital are expected for PRA-regulated banks and designated investment firms, but we do not rule out the possibility that some FCA prudentially-regulated investment firms may face funding cost pressures as well, although at moderate levels.

5. The overall benefits will come from the enhanced macro-prudential resilience, since the Directive aims to curb excessive risk-taking by shrinking the government safety net. We believe that these macro-prudential effects (in terms of both costs and benefits) will be driven by PRA-regulated systemically important institutions and not the FCA prudentially-regulated investment firms captured by the Directive.

General approach to the CBA

6. When proposing new rules, we are required under section 138I of FSMA to publish an analysis of costs and benefits, unless we believe the rules will lead to insignificant or no costs at all. The analysis must be accompanied with an estimate of costs and benefits, unless they cannot be reasonably estimated or it is not reasonably practicable to produce an estimate.

7. For looking at costs and benefits, we refer to the combination of all the components, powers and tools that the Directive proposes. We have not separated our analysis by specific elements of the Directive, as various elements are interlinked, and by the nature of the Directive, there is flexibility over the use of recovery and resolution tools on a case-by-case basis.

8. We have referenced the analysis and studies carried out by other authorities and market participants. Where necessary, we will explain and calibrate the results to fit the characteristics of our population of firms.

9. In particular, when considering and estimating the additional compliance costs driven by the Directive, we have used the analysis of the Financial Services Authority (FSA) in 2011[1], when a domestic recovery and resolution regime was implemented. The FSA conducted a survey among high/medium/medium-low and low impact groups and compiled an analysis for each impact segment. Given the generally less complex nature of FCA prudentially-regulated investment firms, we have used the results of the medium-low and low impact firms to act as a proxy of the cost effects for the approximately 230 FCA prudentially-regulated firms in scope. In this case, we have no reason to believe that costs to affected firms would lie outside the range incurred by FSA's medium-low and low impact firms. Compiling a more accurate cost analysis would require us to survey affected firms, thereby imposing additional costs on them. We do not feel that this is proportionate, as these rules stem from an EU Directive, so we have to implement them.

10. In addition, for technical analysis on whether average costs of capital for firms may increase after the bail-in powers are implemented by the Directive, we have referenced (a) the Treasury's recovery and resolution impact assessment from 2013[2] and (b) a research carried out by JPMorgan in 2010[3] around bail-in implications.

11. As for the benefits of the new recovery and resolution regime, we expect an improvement in macroeconomic resilience arising from the regulation of systemically important institutions. This will be achieved by limiting excessive risk-taking and ensuring that firms have plans in place to respond should they come under stress.

12. Naturally, due to the low impact of IFPRU 730k firms on macro-prudential stability, we believe that our population of affected firms will have less significant contribution to the macro-prudential benefits of this Directive. However, where we see clear benefits from applying the Directive to our population of captured investment firms is to enhance consumer confidence and market integrity, which could easily suffer after a failure in the market, even if the failing firm is an investment firm with very low impact in macro-prudential terms.

The market affected

13. At the time of publishing this CP, the scope of this Directive captures approximately 230 FCA solo-regulated (this number is not static and may change due to variations in firms' authorisations, entry/exit, etc.) and a small number of dual-regulated investment firms, all subject to the €730,000 initial capital requirement. This CBA will focus on the population of these circa 230 firms only, since the other €730,000 investment firms are designated under the remit of the PRA.

1 FSA (2011), CP11/16: Recovery and Resolution Plans [www.fsa.gov.uk/pubs/cp/cp11_16.pdf]

2 HMT (2013), Impact Assessment: Amendment to the Financial Services (Banking Reform) Bill – Introducing a Bail-in Power [www.gov.uk/government/uploads/system/uploads/attachment_data/file/ 271121/Bail-in_IA.pdf]

3 JPMorgan (2010) [http://ftalphaville.ft.com//2010/10/25/380806/european-bank-bail-ins-will-cost-87-basis-points/]

14. In terms of the permission type the impacted population has the following structure:

IFPRU firm type	Number
Full scope	170
Limited activity	40
Limited license	20
Total	**230**

15. For the purpose of this CBA we have ignored the differences in permission/activity types across the population of IFPRU 730k firms and have assumed to have a homogenous population since:

- an attempt to separate the impact would not add value as the population-level impact is not large enough
- the Directive does not differentiate the application of its provisions by types of IFPRU 730k firms

16. These approximately 230 investment firms will be required to comply with the applicable provisions of the Directive, including the relatively more operationally burdensome ones – preparation/submission of recovery plans and provision of information for resolution plans. However, we believe this requirement is an advantageous part of firms' risk management system and will add to their contingency planning/stress-testing capabilities.

Market failure analysis

17. In 2008 to 2010, the Commission approved €3.6 trillion of state aid measures to financial institutions, of which €1.2 trillion was effectively used[4] (in the UK, £37bn of taxpayer money was used to bail-out largest failing banks in the UK[5]). If not rescued, the failure of these banks would have triggered an even deeper crisis.

18. The government safety net creates moral hazard and market failures that are difficult to overcome. In particular, some firms become incentivised to take higher risks and enjoy profits in good times, with the possibility of passing the losses to taxpayers in bad times. The situation is exacerbated with the operational and collaborative failures in supervisory information and responses. Some of the impediments to timely and effective supervisory/resolution intervention were[4]:

- lack of contingency planning and sub-optimal level of preparedness to deal with distress from the side of both supervisors and banks
- lack of clear visibility into complex operations and structures of banking groups across borders
- divergent and ineffective early intervention triggers, powers and tools available to supervisory/resolution authorities
- inefficient resolution powers and strong legal obstacles for timely and effective resolution of institutions

4 EU Commission (2012), Impact Assessment: Establishing a Framework for the Recovery and Resolution of Credit Institutions and Investment Firms [http://ec.europa.eu/internal_market/bank/docs/crisis-management/2012_eu_framework/impact_ass_en.pdf]

5 HMT (2013), Impact Assessment: Amendment to the Financial Services (Banking Reform) Bill – Introducing a Bail-in Power [www.gov.uk/government/uploads/system/uploads/attachment_data/file/ 271121/Bail-in_IA.pdf]

- misalignment between national and cross-border responsibilities for early intervention and resolution
- divergent and conflicting arrangements across member states for accessing public/private funds to support failing institutions

Application of simplified obligations

19. Article 4 of the Directive allows competent authorities to apply simplified obligations on certain firms, considering a wide range of factors primarily focused on the impact of the institution. We have considered various approaches to exercising this discretion, including on a case-by-case basis, and various other metrics. We are proposing to apply a simplified approach to the obligations to a subset of the IFPRU 730k firm population, which are not significant IFPRU firms (see Annex 1). We introduced this category of firms in CP13/6, so the analysis of this policy should be read along the CBA in that consultation.

20. The graphs in Annex 1 of this CP replicate the analysis in CP13/6, but only for IFPRU 730k firms. It shows that out of approximately 230 FCA prudentially-regulated investment firms, 32 firms account for 90% of the total assets held by those firms.

21. Strongly supported by our supervisory knowledge, our view is that IFPRU 730k firms that are not significant IFPRU firms qualify to have simplified obligations applied as per the criteria under Article 4 of the RRD, particularly in the context of the UK market. This said, we reserve the right to apply full obligations to non-significant IFPRU firms should we find exceptions.

22. It should also be noted that there is a small number of PRA prudentially-regulated investment firms that have balance sheets of over £15bn, as well as a number of banking groups that carry out large volumes of trading activity. Were these firms also plotted on these graphs in Annex 1, the significance of non-significant IFPRU firms is shown to be further reduced, adding further evidence that they qualify under Article 4 (again, supported by our supervisory knowledge of these firms).

23. We believe that this is the most proportionate approach we have the discretion to take, and we do not feel that simplified obligations could be applied to more firms except for on a case-by-case basis.

24. This is the most proportionate legally permissible approach that we can take within the legal boundaries of the Directive, and also without posing undue risk to our statutory objectives. We do not believe that it is proportionate to carry out a full impact assessment on the application of simplified obligations, given that we cannot envisage a credible approach that would be less burdensome on the industry. To do so would ultimately require involvement from and further costs to firms, as well as absorbing significant FCA resource.

25. Finally, we believe that exercising this discretion will not diminish the overall benefits of this Directive in any way and will not lead to additional costs/effects for third parties. The reason is that simplified obligations will only 'simplify' the contents and frequency of recovery plans prepared by firms. This discretion will neither reduce the obligation for firms to think through and design recovery plans nor will it take away any resolution tools/powers from the supervisory/resolution authorities.

26. We would welcome comments on this approach.

Cost analysis

27. We have analysed – and where reasonable estimates could be sourced – estimated the costs driven by this Directive into the following buckets:

- compliance costs to firms
- indirect costs to firms
- implementation costs to the FCA

28. Although the largest share of these costs will be associated with systemically important banks, the effect of the Directive could be important for some of FCA prudentially-regulated investment firms as well.

Compliance costs to firms

29. In 2011 the FSA carried out a CBA to gauge the impact of introducing recovery and resolution plans and presented the findings in FSA CP11/16. In that analysis, a number of high/medium/medium-low and low impact firms were surveyed to come up with the cost of compliance. These estimates were separated into one-off and ongoing expenditures, mainly driven by the requirements to prepare/submit recovery plans and provide resolution information on group structure to supervisory/resolution authorities.

30. We believe that the scope and complexity of IFPRU 730k firms will be similar to – if not less than – those inherent to the medium-low and low impact group in the FSA's study. Therefore, we have adopted the most pragmatic approach to mirror the compliance cost estimates of FSA's medium-low and low impact group and used it as a proxy for IFPRU 730k firms.

31. The table below summarises the compliance cost estimates, broken down by types of expenditures required for the development/ submission of recovery plans and provision of resolution information (see the FSA's survey results[6] for details around the numbers below).

Expenditure types	One-off (£)	Ongoing (£)
Producing relevant data for recovery plans	23,000-130,000	8,000-200,000
Producing derivatives/group structure information	2,000-125,000	1,000-15,000
Providing for adequate internal governance	N/A	4,000-14,000
Total	**25,000-255,000**	**13,000-229,000**

32. In terms of one-off compliance costs, the main drivers will be the implementation of IT systems, new processes, staff training, etc. Survey responses suggested a range of £25,000–£255,000 per firm. The large range can be explained by the nature of responses to the survey and the dramatic differences across firms, depending on their scope, complexity and group structure (whether or not they have strong systems higher in the group hierarchy).

33. In terms of ongoing costs, the main drivers will be internal data generation, providing of adequate governance, etc. Survey responses suggested a range of £13,000–£229,000 per firm. The large range can be explained by the same factors above.

6 FSA (2011), CP11/16: Recovery and Resolution Plans [www.fsa.gov.uk/pubs/cp/cp11_16.pdf]

34. In total terms, the one-off and ongoing costs of compliance for the whole population of IFPRU 730k firms will be in the range of £5.8m-£58.9m and £3m-£52.9m, respectively. We believe that the majority of FCA-regulated investment firms are likely to be less significant in size/ complexity than FSA's medium-low and low-impact group. Also, some of the IFPRU 730k firms will make use of simplified obligations to produce reduced-level recovery plans, consuming less resource. We would reasonably expect that – due to both reasons discussed – actual compliance costs for the affected population will be within the lower bound of the total cost range.

Indirect costs to firms

35. A Government safety net has always been factored into credit ratings of firms[7], the removal of which can lead to potential downgrades[8], leading to higher funding cost. This increase is likely as certain liabilities will now have an element of equity-conversion, suggesting an extra risk premium to investors. JPMorgan's survey of the market in 2010 produced an estimate of higher funding costs, which was further highlighted and developed in impact assessments by the Commission and the Treasury.

36. Nevertheless, we believe that concerns about a possible increase in average costs of funding will not be significant for our investment firms, since none of them have systemic importance, making it less likely that IFPRU 730k firms will effectively be subjected to the bail-in regime.

Implementation costs to the FCA

37. The Directive is a complex set of measures that will have prudential, conduct and operational consequences for us. Because of this early stage in the implementation process of the Directive – where we are still consulting on the rules – an absolute quantification of our costs is not practical. The Directive is part of the post-crisis EU financial reform package, which we are implementing in the most proportionate matter, being minded that the implementation process will require possible reconsideration and/or reallocation of resources.

38. However, as a general scenario, at this point of our analysis we can envisage the following cost drivers for our implementation of the RRD. Firstly, we anticipate that the largest resource/ cost pressures will arise from the requirement to review each recovery plan individually and contribute to different aspects of resolution for approximately 230 FCA prudentially-regulated investment firms. This may require a review of our existing supervisory resource allocation.

39. In addition, the Directive sets out a comprehensive collaboration framework between (a) competent and resolution authorities and (b) among competent/resolution authorities across MS. This network of information exchange and collaboration may require operational resources.

40. Last but not least, training will be required for our staff (such as supervision teams) to fully understand and implement the requirements of this Directive.

7 IMF (2012), From Bail-out to Bail-in: Mandatory Debt Restructuring of Systemic Financial Institutions [www.imf.org/external/pubs/ft/sdn/2012/sdn1203.pdf]

8 S&P: How A Bail-In Tool Could Affect Our Ratings On EU Banks, 2012 [www.standardandpoors.com/ spf/upload/Ratings_EMEA/ HowABail-InToolCouldAffectOurRatingsOnEUBanks_10May2012.pdf]

Benefit analysis

41. The Directive was adopted with a major focus on large credit institutions, especially for the case of the UK where 74% of credit intermediation is facilitated through banks, compared to 24% in the USA.[9] As FCA prudentially-regulated investment firms have a limited impact on financial markets and business cycles, the benefits under this CBA are discussed in aggregate terms, on the level of the entire financial market.

42. In particular, the benefits arising from the Directive will reduce the probability and social impact of systemic financial crises. Necessary measures are put in place to safeguard taxpayers' money from being used to rescue failing financial institutions, as the costs of crises are now intended to be borne by their shareholder and creditors.

43. The Directive will also enhance risk management and governance capabilities of financial institutions, as they will now be required to have calculated contingency plans in case things go wrong. In particular, requiring firms to compile recovery plans makes it more likely that firms will have planned for and thought about what they might do in case of idiosyncratic or market-wide stress. Should this then happen, it is more likely that they will respond in a more coordinated and orderly manner.

44. Another area where the Directive will add value is transparency and clarity around the powers and tools available to resolution authorities. Available courses of action by supervisors in times of crises will now be clear to the markets and consumers, adding to the predictability of actions and outcomes.

45. It is worth mentioning that the quantitative benefits from implementing this Directive for IFPRU 730k firms is not reasonably practicable to calculate. The reason is that the Directive aims to produce macro-prudential benefits mainly driven by the increased resilience in the banking sector. In this case, given the relative insignificance of investment firms for the financial climate, we believe it would not be proportionate to allocate additional resource for an attempt to quantify the marginal contribution, if any, of IFPRU 730k firms to the macro-prudential resilience.

46. More direct market integrity benefits could arise through affected investment firms having recovery plans in place. For example, where a firm is offering third party clearing, should they not have plans in place to facilitate the continuation of this service to clients when the firm finds itself in a stressed environment, this could leave those clients unable to clear, potentially leading to financial difficulty for those clients and wider market contagion. Alternatively, were a firm acts as an intermediary between larger firms, or manages significant derivative positions on behalf of clients to suddenly cease trading, this could trigger a scare in market confidence, leading to wider market issues. Appropriate planning for this, such as through a timely communications strategy, would reduce this risk.

9 EU Commission (2012), Impact Assessment: Establishing a Framework for the Recovery and Resolution of Credit Institutions and Investment Firms [http://ec.europa.eu/internal_market/bank/docs/crisis-management/2012_eu_framework/impact_ass_en.pdf]

47. All in all, the benefits of the Directive need to be viewed in consistency and complementarity with each other, adding to the resilience of financial markets. A comprehensive study using Bank methodology was carried out by the EU Commission[10], producing an estimate of 0.8% gains in the EU GDP arising from the introduction of the new bail-in regime (costs being twice smaller).

Q20: Do you have any comments on this CBA?

10 EU Commission (2012), Impact Assessment: Establishing a Framework for the Recovery and Resolution of Credit Institutions and Investment Firms [http://ec.europa.eu/internal_market/bank/docs/crisis-management/2012_eu_framework/impact_ass_en.pdf]

Annex 4
Compatibility statement

Introduction and statement of purpose

1. This Annex sets out our views on how the proposals for transposing the RRD in the UK are compatible with our objectives and the principles of good regulation.

2. RRD is an EU Directive to establish a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

Compatibility with our objectives and general duties

3. Our planned transposition of RRD, as set out in this CP and the draft Handbook text that accompanies it, aims primarily to meet our market integrity objective. However, our consumer protection objective is also relevant and we do not believe that competition will be adversely impacted.

Integrity objective

4. This objective requires us to protect and enhance the integrity of the UK financial system. RRD is an agreed European standard for banks and investment firms. Its implementation will materially strengthen these firms, both through improved internal and external governance.

5. Our proposals in this CP and the draft Handbook rules and guidance seek to reduce the risk of market disruption arising from the failure of an authorised firm or group of firms. This is achieved through improved planning by institutions (Recovery Plans) and enhanced powers and focus by the RA and CAs.

6. As described in the CBA, we expect an improvement in macro-prudential stability. This will be achieved by limiting excessive risk-taking and ensuring that firms have plans in place to respond should they come under market or idiosyncratic stress. Naturally, these benefits will arise from the regulation of systemically important institutions and consequently we emphasise that improvements to market integrity should be considered in conjunction with the implementation of RRD by PRA and other member states.

7. We believe that many of our prudentially-regulated firms do not pose a systemic threat and so have taken a proportionate approach to the implementation of this Directive. As detailed in Chapter 2 we propose that many of our firms qualify for simplified obligations and have determined that that this will not compromise our market integrity objective.

Consumer protection objective

8. This objective requires us to secure an appropriate degree of protection for consumers.

9. The RRD supports increased protection of consumers. If improved governance were to avert a firm failure this would directly benefit consumers. Equally, in the case of a firm failure, an improved wind-down process would also benefit consumers.

10. We expect that the enhancements made to the governance arrangements for firms, as a result of the RRD requirements, will make it less likely that institutions fail in a disorderly manner. This should have positive outcomes for consumers.

11. As outlined in Chapter 2 and in the CBA we have determined that introducing simplified obligations for some firms will not result in any increased risk for consumers and that a standard insolvency process may be appropriate for many situations.

Competition objective

12. It should be noted that our overall approach towards the exercise of any RRD discretions (where the least burdensome outcomes are being sought) will result in the minimum feasible impacts on competition in the market.

13. As described in Chapter 1 we do not expect any adverse effect on competition as a result our transposition of the RRD. The small increase in the cost of doing business should be offset by the strengthen market integrity and competitive playing field.

14. There may be some beneficial impacts on competition from improved market confidence.

Compatibility with the need to have due regard to the principles of good regulation

15. Under section 1B (5) of FSMA, we must consider the specific matters set out below, when carrying out our general functions.

Need to use resources in the most efficient and economic way

16. The overall timeline for transposition is dictated by the EU legislation and is quite challenging. The publication of this CP with a consultation period over the summer allows the industry time to consider and to implement the relevant changes brought about by RRD. Furthermore, the timing enables the FCA to publish, in due course, a policy statement in response to comments from industry and other stakeholders on our implementation proposals with the aim of providing the final rules in time for RRD implementation on 1 January 2015.

17. We outline our overall approach to RRD transposition in Chapter 1. Our proportionate approach to transposition should help to keep down the implementation costs for us and for firms.

Principle that a burden or restriction imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected

18. We have undertaken a cost benefit analysis of the material areas of the changes in order to help with this CP.

19. Our overall approach to this Directive implementation has been one of legal minimum and seeking not to change current policy where possible. In this way we have demonstrated and exercised proportionality.

Principle that consumers should take responsibility for their own decisions

20. This principle is not directly relevant to this CP, as our proposals do not remove consumer's responsibility for their financial decisions.

Desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

21. Our overall approach of applying the minimum requirements and, where possible, not seeking to change current policy, exercising national discretions in a proportionate manner, and allowing firms time to implement the requirements should help to limit any overall increase in costs.

22. Improvements to the integrity of the market will support sustainable growth in the market and the economy more widely.

Responsibilities of those who manage the affairs of authorised persons

23. In general, our approach to intelligent 'copy-out' of EU law – where possible – is consistent with our implementation of the original requirements of the RRD. This means there will be less prescription and guidance for firms, shifting onto them more responsibility for compliance.

Desirability of exercising our functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons

24. The RRD doesn't differentiate between types of firm so we have assumed a homogenous population for the purpose of the CBA in Annex 3.

25. We are currently the prudential regulator of wide range of investment firms – covering a range of business models (including broker dealers, operators of multilateral trading facilities, retail and wholesale, and some large through to many very small firms). However, this universe is mostly homogenous in that they do not pose a systemic threat. For this Directive it would be disproportionate to differentiate widely by business model. Rather we retain discretion to differentiate on a case-by-case basis if necessary.

Desirability of publishing information relating to persons

26. This principle is not relevant to the proposals in this CP.

Principle that we should exercise our functions as transparently as possible

27. We have engaged with firms throughout this process in relation to our overall approach to RRD transposition including our timeline for this consultation process.

Expected effect on mutual societies

28. Our proposals in this CP refer to firms in the investment sector affected by RRD, but they do not refer to mutual societies.

Equality and diversity

29. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conduct an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered.

30. Our equality impact assessment suggests that our proposals do not result in direct discrimination for any of the groups with protected characteristics i.e. age, disability, gender, pregnancy and maternity, race, religion and belief, sexual orientation and transgender, nor do we believe that our proposals should give to rise to indirect discrimination against any of these groups. We would nevertheless welcome any comments respondents may have on any equality issues they believe may arise.

Annex 5
List of questions

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

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.

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.

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.

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

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 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 to submit their initial baseline information later than is required for significant firms is proportionate?

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

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

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 commencement date of this provision?

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.

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.**

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.**

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

Appendix 1: Draft Handbook text

Appendix

RECOVERY AND RESOLUTION DIRECTIVE INSTRUMENT 2014

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)][1].

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][2]; and
(2) the remainder of this instrument comes into force on 1 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 2014.

[1] This section is not yet in force, but it is expected to be brought into force and amended to allow for the implementation of the Recovery and Resolution Directive.
[2] Subject to the outcome of the consultation, these provisions may come into force on 1 January 2015.

By order of the Board of the Financial Conduct Authority
[*date*]

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	(in accordance with article 2(1)(36) of *RRD*) business lines and associated services which represent material sources of revenue, profit or franchise value for an *institution* or a *group* of which an *institution* forms part.
critical functions	(in accordance with article 2(1)(35) of *RRD*) activities, services or operations the discontinuance of which is likely in one or more *EEA States*, to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity or cross-border activities of an *institution* or *group*, with particular regard to the substitutability of those activities, services or operations.
EEA parent undertaking	(in accordance with article 2(1)(85) of *RRD*): (a) an *EEA parent institution*; or (b) an *EEA parent financial holding company*; or (c) an *EEA parent mixed financial holding company*.
extraordinary public financial support	(in accordance with article 2(1)(28) of *RRD*) State aid within the meaning of article 107(1) of the *Treaty*, or any other public financial support at supra-national level, which, if provided for at national level, would constitute State aid, that is provided in order to preserve or restore the viability, liquidity or solvency of any of the following: (a) an *institution*; (b) an *RRD financial institution*; (c) an *RRD holding company*; (d) an *RRD parent holding company*; (e) a *group* of which an *institution* or entity referred to in (a) to (d) forms part.
group financial support agreement	an agreement to provide financial support to an *institution* at a time when the *institution* has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future that is entered into between:

(a) any of the following entities:

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

(ii) an *EEA parent institution*;

(iii) an *RRD holding company*;

(iv) an *RRD parent holding company*; and

(b) a *subsidiary* of an entity in (a) that is:

(i) established in a different *EEA State* to the entity in (a) or in a *third country*; and

(ii) an *institution* or a *financial institution* covered by the supervision of the *parent undertaking* on a *consolidated basis*.

group recovery plan (in accordance with articles 2(1)(33) and 7(4) of *RRD*) a plan providing for measures to achieve the stabilisation of a *group* as a whole, or any *institution* in a *group*, when it is in a situation of distress, so as to address or remove the causes of the distress and restore the financial position of the *group* or the *institution* in question, at the same time taking into account the financial position of other *group* entities.

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 *United Kingdom* 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 *United Kingdom*; or

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

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

(e) a *financial institution* of any of the following kinds:

(i) an *insurance holding company*;

(ii) a *financial holding company*;

(iii) a *mixed financial holding company*;

(iv) [a *mixed-activity holding company*][3].

recovery capacity (in accordance with article 2(1)(103) of *RRD*) the capability of an *institution* to restore its financial position following a significant deterioration.

recovery plan (in accordance with articles 2(1)(32) and 5 of *RRD*) a plan providing for measures to be taken by an *institution* to restore its financial position following a significant deterioration of its financial situation.

resolution authority (in accordance with article 2(1)(18) of *RRD*):

(a) in the *United Kingdom*, the Bank of England; or

(b) in another *EEA State*, an authority designated as a resolution authority by that *EEA State* in accordance with article 3 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:

[3] A mixed activity holding company is not currently included in the definition of a qualifying parent undertaking. However, we expect that a mixed activity holding company will be brought within the definition of a qualifying parent undertaking as par to the implementation of the Recovery and Resolution Directive.

(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 financial institution — a *financial institution* that is:

(a) established in the *EEA*;

(b) a *subsidiary* of any of the following:

(i) a *credit institution*;

(ii) *investment firm*;

(iii) an *RRD holding company*;

(iv) an *RRD parent holding company*; and

(c) covered by the supervision of the *parent undertaking* referred to in (b) on a *consolidated basis*.

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

RRD holding company — any of the following members of a *group* which is established in the *EEA*:

(a) a *financial holding company*;

(b) a *mixed financial holding company*;

(c) a *mixed-activity holding company*.

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

RRD parent holding company — any of the following members of a *group* which is:

(a) a *parent financial holding company in a Member State*;

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

(c) a *parent mixed financial holding company in a Member State*;

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

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

significant branch	(in accordance with article 2(1)(34) of *RRD*) a *branch* that would be considered significant in a *Host State* in accordance with article 51(1) of *CRD*.
write-down and conversion powers	(in accordance with article 2(1)(66) of *RRD*) the powers referred to in article 59(2) and in points (e) to (i) of article 63(1) *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 1 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*; and

(2) a *firm* that is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*;

(d) a *financial institution* that is a *subsidiary* of any of the following and is covered by the supervision of the *parent undertaking* on a *consolidated basis*:

(i) an *EEA parent institution*;

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

(iii) an *RRD holding company*;

(iv) an *RRD parent holding company*; and

(3) a *qualifying parent undertaking* that is the *parent undertaking* of an *IFPRU 730k firm* and is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*.

Purpose

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

Application of recovery and resolution rules in relation to group members

11.1.3 G (1) The *RRD* imposes requirements at both *firm* and *group* level and in certain circumstances requires an action to be taken by the *EEA parent undertaking* or other member of a *group*.

(2) Where a *group* member falls within the definition of a *firm* or a *qualifying parent undertaking*, the *FCA* can impose requirements directly on the *firm* using its rule-making powers in section 137A of the *Act* or on the *qualifying parent undertaking* using its rule-making powers in section 192J or 192JB of the *Act*.

(3) However, where a *group* member does not fall within the definition of a *firm* or a *qualifying parent undertaking*, the *FCA* does not have rule-making powers over that entity, and therefore the requirements in this chapter have been imposed on *IFPRU 730k firms* and *qualifying parent undertakings* to ensure that the *group* member complies with the relevant requirement where it is a *UK subsidiary* of the *IFPRU 730k firms* or *qualifying parent undertaking*.

(4) Where a *firm* or *qualifying parent undertaking* is required to ensure compliance with a requirement by another *group* member, it may discharge that requirement by complying with the requirement directly.

11.2 Individual recovery plans

Application

11.2.1 R This section applies to an *IFPRU 730k firm* that is not part of a *group* that has a *consolidating supervisor*.

11.2.2 G The *consolidating supervisor* of an *IFPRU 730k firm* may be the *FCA*, the *PRA* or a *competent authority* based in an *EEA State* other than the *United Kingdom*.

Requirement to draw up and maintain a recovery plan

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

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

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

Contents of a recovery plan for significant IFPRU firms

11.2.5 R If the *firm* is a *significant IFPRU firm*, the *firm* 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) in its *recovery plan*.

Contents of a recovery plan for non-significant IFPRU firms

11.2.6 R If the *firm* is not a *significant IFPRU firm*, the *firm* must include the following information in its *recovery plan*:

(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 entity covered by the plan, including an identification of:

(a) the *core business lines*; and

(b) *critical functions*;

(4) an identification of recovery options, including:

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

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

(c) an assessment of the expected timeframe for the implementation of recovery options;

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

(a) the risks associated with recovery options;

(b) an analysis of material impediments to the effective and timely execution of the plan and whether and how such impediments could be overcome;

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

(7) a communication and disclosure plan;

(8) preparatory measures that the *firm* has taken or plans to take in order to facilitate the implementation of the *recovery plan*; and

(9) the possible measures which could be taken by the *firm* where the *firm* 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*]

11.2.7 G (1) When identifying recovery options for the purposes of *IFPRU* 11.2.6R(4), a *firm* should contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the *firm's* specific conditions, including system-wide events and stress specific to individual legal persons and to *groups*.

(2) A *firm* should 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) that is not included in *IFPRU* 11.2.6R in its *recovery plan* where this information is material to its business.

[**Note:** articles (4)(1), 5(5), 5(6) and Annex A of *RRD*]

Extraordinary public financial support

11.2.8 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

11.2.9 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 in the conditions addressed by the plan; and

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

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

Recovery plan indicators

11.2.10 R A *firm* must:

(1) include in its *recovery plan* a framework of indicators established by the *firm* which identify the points at which appropriate actions referred to in the *recovery plan* may be taken;

(2) ensure that the *recovery plan* indicators must be capable of being monitored easily; and

(3) monitor the *recovery plan* indicators regularly.

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

11.2.12 G A *firm* may:

(1) take action under its *recovery plan* where the relevant indicator has not been met if the *management body* of the *firm* considers it appropriate in the circumstances; or

(2) refrain from taking action if the *management body* does not consider it to be appropriate in the circumstances.

11.2.13 R A *firm* must notify the *FCA* without delay of a decision to take an action referred to in its *recovery plan* or to refrain from taking such an action.

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

Assessment and review by the management body

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

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

11.2.15 R A *firm* must demonstrate that its *recovery plan* meets the following criteria:

(1) the implementation of the arrangements proposed in the 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 has planned to take; and

(2) the plan and specific options within the plan are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *recovery plans* within the same time period.

[**Note:** article 6(2) of *RRD*]

Updating and submission of recovery plans

11.2.16 R A *firm* must update its *recovery plan*:

(1) at least:

(a) annually, in the case of a *significant IFPRU firm*; or

(b) once every two years, in the case of a *firm* that is not a *significant IFPRU firm*; and

(2) after a change to the legal or organisational structure of the *firm*, its business or its financial situation, which could have a material effect on the *recovery plan* or necessitates a material change to the *recovery plan*.

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

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

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

11.3 Group recovery plans

Application

11.3.1 R This section applies to:

(1) an *IFPRU 730k firm* that is part of a *group* that:

(a) is an *FCA consolidation group*; and

(b) includes an *EEA parent undertaking* that is not a *qualifying parent undertaking*; and

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

(a) an *EEA parent undertaking*; and

(b) a *parent undertaking* of an *IFPRU 730k firm*.

11.3.2 R Where a *rule* in this section applies to an *IFPRU 730k firm*, the *firm* must:

(1) comply with the *rule* directly, where it is an *EEA parent undertaking*; or

(2) ensure that its *EEA parent undertaking* complies with the *rule*, where the *firm* is not an *EEA parent undertaking*.

Requirement to draw up and maintain a group recovery plan

11.3.3 R A *firm* and a *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

11.3.4 R A *firm* and a *qualifying parent undertaking* must ensure that the *group recovery plan*:

(1) consists of a plan for the recovery of the *group* headed by the *EEA parent undertaking* of the *group* as a whole; and

(2) identifies measures that may be required to be implemented at the level of:

(a) the *EEA parent undertaking*; and

(b) each individual *subsidiary*.

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

11.3.5 R A *firm* and a *qualifying parent undertaking* must ensure that the *group recovery plan* includes arrangements to ensure the coordination and consistency of measures to be taken at the level of:

(1) the *EEA parent undertaking*;

(2) each *RRD holding company*;

(3) each *RRD parent holding company*;

(4) each *subsidiary* of the entities referred to in (1) to (3); and

(5) where applicable, each *significant branch*.

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

11.3.6 G The *group recovery plan* should aim to achieve the stabilisation of the *group* as a whole, or of any *institution* of the *group*, when it is in a situation of distress, so as to address or remove the causes of the distress and restore the financial position of the *group* or the *institution* in question, at the same time taking into account the financial position of other *group* entities.

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

Contents of a group recovery plan for a group that includes a significant IFPRU firm

11.3.7 R If the *group* includes a *significant IFPRU firm*, the *firm* and the *qualifying parent undertaking* 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) in its *group recovery plan*.

Contents of a group recovery plan for a group that does not include a significant IFPRU firm

11.3.8 R If the *group* does not include a *significant IFPRU firm*, the *firm* and the *qualifying parent undertaking* must include the following information in the *group recovery plan*:

(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 entities covered by the plan, including an identification of:

(a) the *core business lines*; and

(b) *critical functions*;

(4) an identification of recovery options, including:

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

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

(c) an assessment of the expected timeframe for the implementation of recovery options;

(5) a summary of 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 material impediments to the effective and timely execution of the plan and whether and how those impediments could be overcome;

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

(7) a communication and disclosure plan;

(8) preparatory measures that the *group* has taken or plans to take in order to facilitate the implementation of the *group recovery plan*; and

(9) the possible measures which could be taken by the *group* where any *institution* in the *group* 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), 7(5) and Annex A of *RRD*]

11.3.9 G (1) When identifying recovery options for the purposes of *IFPRU* 11.3.8R(4), a *firm* and a *qualifying parent undertaking* should contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the *firm's* specific conditions, including system-wide events and stress specific to individual legal persons and to *groups*.

(2) For each of the scenarios referred to in (1), a *group recovery plan* should identify whether there are obstacles to the implementation of recovery measures within the *group*, including at the level of individual entities covered by the plan, and whether there are substantial practical or legal impediments to the prompt transfer of *own funds* or the repayment of liabilities or assets within the *group*.

(3) A *firm* and a *qualifying parent undertaking* should 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) that is not included in *IFPRU* 11.3.8R in its *group recovery plan* where this information is material to the business of the *group*.

[**Note:** articles (4)(1), 5(6), 7(5), 7(6) and Annex A of *RRD*]

Extraordinary public financial support

11.3.10 R A *firm* and a *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

11.3.11 R If the *group recovery plan* includes the use of central bank facilities, the *firm* and the *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 in the conditions addressed by the plan; 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

11.3.12 R A *firm* and a *qualifying parent undertaking* must:

(1) include in the *group recovery plan* a framework of indicators established by the *firm* or the *qualifying parent undertaking* which identify the points at which appropriate actions referred to in the *group recovery plan* may be taken;

(2) ensure that the *group recovery plan* indicators are capable of being monitored easily; and

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

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

11.3.14 G A *firm* and a *qualifying parent undertaking* may:

(1) take action under the *group recovery plan* where the relevant indicator has not been met if the management body of the *EEA parent undertaking* considers it appropriate in the circumstances; or

(2) refrain from taking action if the management body of the *EEA parent undertaking* does not consider it to be appropriate in the circumstances of the situation.

11.3.15 R A *firm* and a *qualifying parent undertaking* must notify the *FCA* without delay of a decision to take an action referred to in the *group recovery plan* or to refrain from taking such an action.

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

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

11.3.16 R A *firm* and a *qualifying parent undertaking* must ensure that the management body of the *EEA parent undertaking* assesses and approves the *group recovery plan* before submitting it to the *FCA* or other *EEA consolidating supervisor*.

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

11.3.17 R A *firm* and a *qualifying parent undertaking* must demonstrate that the *group recovery plan* meets the following criteria:

(1) the implementation of the arrangements proposed in the plan is reasonably likely to maintain or restore the viability and financial position of the *group*, taking into account the preparatory measures that the *group* has taken or has planned to take; and

(2) the plan and specific options within the plan are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *recovery plans* within the same time period.

[**Note:** article 6(2) of *RRD*]

Updating and submission of group recovery plans

11.3.18 R A *firm* and a *qualifying parent undertaking* must update the *group recovery plan*:

(1) at least:

(a) annually, in the case of a *group* that includes a *significant IFPRU firm*; or

(b) once every two years, in the case of a *group* that does not include a *significant IFPRU firm*; and

(2) after a change to the legal or organisational structure of the *group*, its business or its financial situation, which could have a material effect on, or necessitates a material change to, the *group recovery plan*.

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

11.3.19 R (1) A *firm* and a *qualifying parent undertaking* must submit the *group recovery plan* to its *EEA consolidating supervisor*.

(2) Where the *consolidating supervisor* is the *FCA*, a *firm* and a *qualifying parent undertaking* must submit it in line with *SUP* 16.20

(Recovery plans and information required for resolution plans).

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

11.4 Information required for resolution plans

Application

11.4.1 R This section applies to:

(1) an *IFPRU 730k firm* that is not part of a *group* that has a *consolidating supervisor*;

(2) an *IFPRU 730k firm* that is part of a *group* that:

(a) is an *FCA consolidation group*; and

(b) includes an *EEA parent undertaking* that is not a *qualifying parent undertaking*; and

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

(a) an *EEA parent undertaking*; and

(b) part of an *FCA consolidation group* that includes an *IFPRU 730k firm*.

11.4.2 G The *consolidating supervisor* of an *IFPRU 730k firm* may be the *FCA*, the *PRA* or a *competent authority* based in an *EEA State* other than the *United Kingdom*.

11.4.3 R Where a *rule* in this section applies to an *IFPRU 730k firm* of the type in *IFPRU* 11.4.1R(2), the *firm* must:

(1) comply with the *rule* directly, where it is an *EEA parent undertaking*; or

(2) ensure that its *EEA parent undertaking* complies with the *rule*, where the *firm* is not an *EEA parent undertaking*.

Submission of resolution plan information

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

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

Notification of material change to resolution plan information

11.4.5 R A *firm* and a *qualifying parent undertaking* must notify the *FCA* without delay of a change to the legal or organisational structure of the *firm* or *group*, its business or its financial situation, which could have a material effect on, or necessitates a material change to, the information in *IFPRU* 11 Annex 2R (Resolution plan information).

11.5 Intra-group financial support

Application

11.5.1 R This section applies to:

(1) an *IFPRU 730k firm* that is any of the following:

(a) an *EEA parent institution*;

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

(c) a *subsidiary* of any of the following that is covered by the supervision of the *parent undertaking* on a *consolidated basis*:

(i) an *EEA parent institution*;

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

(iii) an *RRD holding company*;

(iv) an *RRD parent holding company*; and

(2) a *firm* that is any of the following:

(a) an *RRD holding company*;

(b) an *RRD parent holding company*;

(c) a *financial institution* that is a *subsidiary* of any of the following and is covered by the supervision of the *parent undertaking* on a *consolidated basis*:

(i) an *EEA parent institution*;

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

(iii) an *RRD holding company*;

(iv) an *RRD parent holding company*; and

(3) a *qualifying parent undertaking* that is the *parent undertaking* of an *IFPRU 730k firm* and is any of the following:

(a) an *RRD holding company*;

(b) an *RRD parent holding company*;

11.5.2 R The requirements for the approval of *group financial support agreements* in *IFPRU* 11.5.8R must be complied with as follows:

(1) where an *IFPRU 730k firm* is an *EEA parent undertaking*, the *firm* must comply with those requirements directly;

(2) where an *IFPRU 730k firm* is a *subsidiary* of an *EEA parent undertaking* that is not a *qualifying parent undertaking*, the *firm* must ensure that its *EEA parent institution* complies with those requirements; and

(3) where an *IFPRU 730k firm* is a *subsidiary* of an *EEA parent undertaking* that is an *qualifying parent undertaking*, the *qualifying parent undertaking* must comply with those requirements.

11.5.3 R An *IFPRU 730k firm* and a *qualifying parent undertaking* must comply with the requirements for the entering into and provision of support using a *group financial support agreement* in *IFPRU* 11.5.10R to *IFPRU* 11.5.19R directly and in addition, an *IFPRU 730k firm* and a *qualifying parent undertaking* must ensure its *subsidiary* complies with those requirements where the *subsidiary* is:

(1) a *financial institution* that is a *subsidiary* of any of the following and is covered by the supervision of the *parent undertaking* on a *consolidated basis*:

(a) an *EEA parent institution*;

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

(c) an *RRD holding company*;

(d) an *RRD parent holding company*;

(2) established in the *United Kingdom*; and

(3) not a *firm* or a *qualifying parent undertaking*.

11.5.4 G This section does not apply to intra-*group* financial arrangements (other than *group financial support agreements*) including funding arrangements and the operation of centralised funding arrangements where none of the parties to such an arrangement has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.

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

Guidance on intra-group financial support

11.5.5 G An entity may provide financial support to another *group* member which has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future:

(1) on a case-by-case basis and according to the *group* policies, provided the financial support does not represent a risk for the whole *group*; or

(2) using a *group financial support agreement*, provided all of the requirements in this section are met.

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

11.5.6 G A *group financial support agreement* may:

(1) cover one or more *subsidiaries* of the *group*, and may provide for financial support from the *parent undertaking* to *subsidiaries*, from *subsidiaries* to the *parent undertaking*, between *subsidiaries* of the *group* that are party to the agreement, or any combination of those entities; and

(2) provide for financial support in the form of a loan, the provision of guarantees, the provision of assets for use as collateral, or any combination of those forms of financial support, in one or more transactions, including between the beneficiary of the support and a third party.

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

11.5.7 G Where, in accordance with the terms of a *group financial support agreement*, a *group* entity agrees to provide financial support to another *group* entity, the agreement may include a reciprocal agreement by the latter to provide financial support to the former.

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

Approval of group financial support agreements

11.5.8 R (1) An *IFPRU 730k firm* must ensure that its *EEA parent undertaking* submits an application to the *FCA* for approval of any proposed *group financial support agreement*.

(2) A *qualifying parent undertaking* must submit an application to the *FCA* for approval of any proposed *group financial support agreement*.

(3) The application must contain the text of the proposed *group financial support agreement* and identify any other *person* in the same *group* as the *firm* or *qualifying parent undertaking* that is intended to be a party to the agreement.

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

11.5.9 G The *FCA* will not approve a *group financial support agreement* unless:

(1) in its opinion none of the parties to the agreement 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 a *group financial support agreement* in *IFPRU* 11.5.10R; and

(3) the terms of the proposed agreement are consistent with the terms for providing financial support in *IFPRU* 11.5.13R.

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

Conditions for entering into a group financial support agreement

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

(1) (a) the *group financial support agreement* specifies the principles for the calculation of the consideration for any transaction made under it; and

(b) the principles referred to in (a) include a requirement that the consideration is set at the time of the provision of financial support;

(2) the *group financial support agreement* complies with the following principles:

(a) each party acts freely in entering into the *group financial support agreement*;

(b) each party acts in its own best interests:

(i) in entering into the *group financial support agreement*; and

(ii) in determining the consideration for the provision of financial support; and

(c) each party providing financial support has full disclosure of relevant information from any party receiving financial support before:

(i) determining the consideration for the provision of financial support; and

(ii) making a decision to provide financial support;

(3) at the time the proposed *group financial support agreement* is made, none of the parties has infringed an *RRD early intervention condition*

or is likely to infringe one of those conditions in the near future; and

(4) any right, claim or action arising from the *group financial support agreement* may be exercised only by the parties to the agreement.

[**Note:** articles 19(7)(a) to (c), 19(8) and 19(9) of *RRD*]

11.5.11 G (1) The principles for the calculation of the consideration for the provision of financial support in a *group financial support agreement* need not take account of any anticipated temporary impact on market prices arising from events external to the *group*.

(2) The consideration for the provision of financial support may take account of information in the possession of the party providing financial support based on:

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

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

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

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

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

Conditions for providing group financial support using a group financial support agreement

11.5.13 R A *firm* and a *qualifying parent undertaking* must not provide financial support using a *group financial support agreement* unless it is satisfied that the following conditions are met:

(1) there is a reasonable prospect that providing the financial support would significantly redress the financial difficulties of the *group* entity receiving the support;

(2) the provision of financial support:

(a) has the objective of preserving or restoring the financial stability of the *group* as a whole or any of the members of the *group*; and

(b) is in the interests of the entity providing the support;

(3) the financial support is provided on terms, including consideration, in line with *IFPRU* 11.5.10R;

(4) there is a reasonable prospect, on the basis of the information

available to the management body of the entity providing the financial support at the time when the decision to grant financial support is taken, that:

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

(b) if the financial support is given in the form of a loan, the loan will be reimbursed by the *group* entity receiving the support; and

(c) if the financial support is given in the form of a guarantee or any form of security, the amount of the guarantee or security will be reimbursed by the *group* entity receiving the support if the guarantee or the security is enforced;

(5) the provision of the financial support would not jeopardise the liquidity or solvency of the entity providing the financial support;

(6) the provision of the financial support would not create a threat to financial stability, in particular in the *United Kingdom*;

(7) the entity providing the support complies with the following conditions at the time the financial support is provided:

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

(b) any requirements imposed pursuant to article 104(2) of the *CRD*;

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

(8) the provision of the financial support would not undermine the resolvability of the entity providing the support.

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

11.5.14 G The *FCA* may modify or waive the requirements of *IFPRU* 11.5.13R(7) if the conditions set out in section 138A of the *Act* are met.

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

Decision to provide group financial support using a group financial support agreement

11.5.15 R A *firm* and a *qualifying parent undertaking* must ensure that:

(1) the decision to provide *group* financial support using a *group financial support agreement*:

(a) is taken by the management body of the *group* entity providing financial support;

(b) is reasoned;

(c) indicates the objective of the proposed financial support; and

(d) indicates how the provision of the financial support complies with the conditions for providing *group* financial support using a *group financial support agreement* in *IFRPU* 11.5.13R; and

(2) the decision to accept *group* financial support using a *group financial support agreement* is taken by the management body of the *group* entity receiving financial support.

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

Notification of provision of group financial support using a group financial support agreement

11.5.16 R A *firm* and a *qualifying parent undertaking* must ensure that:

(1) the management body of the *group* entity that intends to provide financial support using a *group financial support agreement* notifies the following bodies, where applicable, before providing the financial support:

(a) its *competent authority*;

(b) its *consolidating supervisor*;

(c) the *competent authority* of the *group* entity receiving the financial support; and

(d) the *EBA*; and

(2) the notification in (1) includes:

(a) the reasoned decision of the management body of the *group* entity providing support in line with *IFPRU* 11.5.15R(1); and

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

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

11.5.17 G (1) The *competent authority* of the *group* entity providing financial support using a *group financial support agreement* may within five *business days*:

(a) agree to the provision of financial support; or

(b) prohibit or restrict the provision of financial support if it assesses that the conditions for providing *group* financial

support using a *group financial support agreement* referred to in *IFRPU* 11.5.13R have not been met.

(2) If the *competent authority* does not prohibit or restrict the financial support within five *business days*, or has agreed before the end of that period to that support, financial support may (subject to any provisions of domestic legislation in the *EEA State* in question) be provided in accordance with the terms submitted to the *competent authority*.

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

11.5.18 R A *firm* and a *qualifying parent undertaking* must ensure that the decision of the *management body* of the *institution* to provide financial support must, where applicable, be transmitted to:

(1) its *competent authority*;

(2) its *consolidating supervisor*;

(3) the *competent authority* of the *group* entity receiving the financial support; and

(4) the *EBA*.

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

Disclosure of group financial support using a group financial support agreement

11.5.19 R A *firm* and a *qualifying parent undertaking* must ensure that *group* entities:

(1) make public:

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

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

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

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

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

11.5.20 G Regulations 431 to 434 of the *EU CRR* apply to the disclosures in *IFPRU* 11.5.19R.

[**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*;

(2) a *firm* that is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*; and

(3) a *qualifying parent undertaking* that is the *parent undertaking* of an *IPFRU 730k firm* and is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*.

11.7.2 R An *IFPRU 730k firm* or a *qualifying parent undertaking* must ensure that its *subsidiary* complies with the requirement to make a resolution notification in respect of a *group* entity in *IFPRU* 11.7.4R where the *subsidiary* is:

(1) an *RRD financial institution*;

(2) established in the *United Kingdom*; and

(3) not a *firm* or a *qualifying parent undertaking*.

Resolution notifications in respect of an IFPRU 730k firm

11.7.3 R An *IFPRU 730k firm* must notify the *FCA* immediately if its *management body* considers that any of the following situations have occurred:

(1) (a) the assets of the *firm* are less than its liabilities; or

(b) there are objective elements to support a determination that the assets of the *firm* will, in the near future, be less than its liabilities;

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

(b) there are objective elements to support a determination that the *firm* will, in the near future, be unable to pay its debts or other liabilities as they fall due;

(3) (a) the *firm* is failing to satisfy one or more of the *threshold conditions*; or

(b) there are objective elements to support a determination that the *firm* will, in the near future, fail to satisfy one or more of the *threshold conditions*;

including as a result of the *firm* having incurred or being likely to incur losses that will deplete all or a significant amount of its *own funds*;

(4) *extraordinary public financial support* is required for the *firm*, except when it takes any of forms allowed by *[insert reference to UK provision implementing article 32(4)(d)(i) to (iii)]*.

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

Resolution notifications in respect of a group entity

11.7.4 R A *firm* that is an *RRD financial institution*, an *RRD holding company* or an *RRD parent holding company* must notify the *FCA* immediately if the management body of that entity considers that any of the following situations have occurred with respect to that entity:

(1) (a) the assets of the entity are less than its liabilities; or

(b) there are objective elements to support a determination that the assets of the entity will, in the near future, be less than its liabilities;

(2) (a) the entity is unable to pay its debts or other liabilities as they fall due; or

(b) there are objective elements to support a determination that the entity will, in the near future, be unable to pay its debts or other liabilities as they fall due;

(3) *extraordinary public financial support* is required for the entity, except when it takes any of the forms allowed by *[insert reference to UK provision implementing article 32(4)(d)(i) to (iii)]*.

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

Resolution notifications in respect of a qualifying parent undertaking

11.7.5 R A *qualifying parent undertaking* must notify the *FCA* immediately if its management body considers that any of the conditions in *IFPRU* 11.7.4R are met with respect to the *qualifying parent undertaking*.

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

11 Annex 1R Contents of 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 (as applicable).

(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* (as applicable) 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* (as applicable).

(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* (as applicable).

(10) A detailed description of how recovery planning is integrated into the corporate governance structure of the *firm* or *group* (as applicable).

(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* (as applicable) has adequate access to contingency funding sources, including

potential liquidity sources.

(15) An assessment of available collateral.

(16) An assessment of the possibility to transfer liquidity across *group* entities and business lines, to ensure that the *firm* or *group* (as applicable) can carry on its operations and meet its obligations as they fall due.

(17) Arrangements and measures to reduce risk and leverage.

(18) Arrangements and measures to restructure liabilities.

(19) Arrangements and measures to restructure business lines.

(20) Arrangements and measures necessary to maintain continuous access to financial markets infrastructures.

(21) Arrangements and measures necessary to maintain the continuous functioning of the operational processes of the *firm* or *group* (as applicable), including infrastructure and IT services.

(22) Preparatory arrangements to facilitate the sale of assets or business lines in a timeframe appropriate for the restoration of financial soundness.

(23) Other management actions or strategies to restore financial soundness and the anticipated financial effect of those actions or strategies.

(24) Preparatory measures that the *firm* or *group* (as applicable) has taken or plans to take in order to facilitate the implementation of the plan, including those necessary to enable the timely recapitalisation of the *firm* or *group* (as applicable).

(25) A framework of indicators which identifies the points at which appropriate actions referred to in the plan may be taken.

(26) A wide range of recovery options.

(27) Appropriate conditions and procedures to ensure the timely implementation of recovery actions.

(28) The possible measures which could be taken by the *firm* or *group* (as applicable) where the *firm* or any *institution* in a *group* has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.

(29) A contemplation of a range of scenarios of severe macroeconomic and financial stress relevant to the specific conditions of the *firm* or *group* (as applicable), including system-wide events and stress specific to individual legal persons and to *groups*.

(30) For each of the scenarios referred to in (29), a *group recovery plan* must identify whether there are obstacles to the implementation of recovery

measures within the *group*, including at the level of individual entities covered by the plan, and whether there are 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	**Group structure and key information on legal entities**	
1.1	*Group* structure	An overview diagram of the material legal entities of the *group* and 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 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 done 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 lines*	Give an overview of the *firm's* business model. Identify 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: • An explanation of the main operations with P&L and balance sheet for each business line. • The geographies in which the business line operates and corresponding analysis e.g. 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 e.g. 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 e.g. 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 • an explanation of any maintenance and/or repatriation back to the ultimate parent entity (dividends, coupon, 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 into secured/unsecured and short-term/long-term.[4] Highlight *branches* and *subsidiaries* which are material in intra-*group* funding.
		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.

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

		A summary of other funding sources not captured elsewhere. Examples include: • Off balance sheet funding • 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 (e.g. 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 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 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 via *UK subsidiaries*, information should be provided at the *UK* consolidated *group* level.
		Detail of what proportion of each asset class is encumbered and in what manner including: • the proportion of assets which are not subject to any encumbrance; • the proportion of assets encumbered through overcollateralization; and • an outline of the *firm's* practice on

		overcollateralization. Provide an analysis of assets subject to encumbrance by type of instrument including an approximate split by: 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 term split of encumbrances between short-term versus long-term encumbrances
4	**Activities and operations**	
4.1	Access to Financial Market Infrastructure	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 FMI 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 via an exchange or central counterparty clearing (*CCP*) and 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 diagrams where appropriate) of how critical shared services[5] 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** (Value metrics should be in millions of GBP (£mn), unless otherwise stated, to standardise comparison. Where a different currency is used, please provide an exchange rate.)
Capital Markets & Investment	Trading	
	Derivatives (required report see	• Total notional outstanding (£mn) • Total number counterparties For both derivatives positions and derivatives

[5] 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*.

	Table 1)	counterparties, split the reports according to the method by which the derivatives are traded or cleared/ settled, i.e. (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 (£mn) • Risk weighted exposure amounts (£mn)
	Other	
	Asset management	• Assets under management (£mn) • Total number client accounts • Total client money balances For each of the metrics above, please provide: • 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 (£mn) of account balances up to the £50k covered by the *FSCS*. • The number of customers and total value (£mn) of account balances above the £50k covered by the *FSCS*. • The number of customers and total value (£mn) of account balances 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 (£mn) • Maturity Profile • Total number counterparties, including geographic distribution (number)
	Securities	For each of the following activities, whether acting

	Lending	as lender or borrower: • Direct securities lending • Third party securities lending (non-custodian lending) • Agent lending (custodian lending) provide: • Gross value of open transactions (£mn) • Total number clients
Payments, clearing, custody and settlement[6]	Payment Services	For all *UK* and material foreign payment systems[7] used, please provide: • Legal entity which holds membership • Transaction volumes (number, monthly/annual average, peak) • Transaction values (number, monthly/annual average, peak) • Flow volumes (£mn, monthly/annual average) • Number of agents (flow volumes for these provided separately) • 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 (£mn)				
	Exchange traded derivatives	Other derivatives cleared through *CCPs*	Over the counter derivatives settled bilaterally	Total

[6] The payments, clearing and settlement function is limited to those provided by firms to their clients.
[7] 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.

Equities				
Sovereign Credit				
Non-sovereign 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 (£mn)		Liabilities (£mn)
	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 agreements and cash collateral on securities borrowed (£mn)	Repurchase agreements and cash collateral on securities lent (£mn)	Fair value of securities accepted as collateral under reverse repurchase agreements & securities borrowing transactions (£mn)	Fair value of securities given as collateral under repurchase agreements & securities lending transaction (£mn)

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 ***(e.g. 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				

Appendix

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 11.2.13R	*Recovery plan* actions	A decision to take an action referred to in a *recovery plan* or to refrain from taking such action	The decision to take action or refrain from taking action	Without delay
IFPRU 11.3.15R	*Group recovery plan* actions	A decision to take an action referred to in a *group recovery plan* or to refrain from taking such action	The decision to take action or refrain from taking action	Without delay
IFPRU 11.4.5R	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 have a material effect on, or necessitates a material change to, the information in *IFPRU* 11 Annex 2R (Resolution plan information)	Without delay
IFPRU 11.5.16R	Provision of *group* financial support using a *group financial*	The reasoned decision of the management body in line with *IFPRU* 11.5.15R and the details of the proposed financial	An intention to provide *group* financial support using a *group financial*	Before providing the support

	support agreement	support including a copy of the *group financial support agreement*	*support agreement*	
IFPRU 11.5.18R	Provision of *group* financial support using a *group financial support agreement*	The decision of the *management body* of the *institution* to provide financial support	The decision to provide financial support	Not specified
IFPRU 11.7.3R, *IFPRU* 11.7.4R and *IFPRU* 11.7.5R	Resolution notifications	Matters described in *IFPRU* 11.7.3R and *IFPRU* 11.7.4R	The occurrence of the situations described in *IFPRU* 11.7.3R, *IFPRU* 11.7.4R and *IFPRU* 11.7.5R	Immediately on the occurrence of the situations described in *IFPRU* 11.7.3R, *IFPRU* 11.7.4R and *IFPRU* 11.7.5R

Insert IFPRU TP 9 after IFPRU TP 8. The text is all new and is not underlined.

TP 9 Recovery and resolution plans: transitional

Application

9.1 R *IFPRU* TP 9 applies to:

(1) an *IFPRU 730k firm*; and

(2) a *firm* that is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*;

(d) a *financial institution* that is a *subsidiary* of any of the following and is covered by the supervision of the *parent undertaking* on a *consolidated basis*:

(i) an *EEA parent institution*;

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

(iii) an *RRD holding company*;

(iv) an *RRD parent holding company*; and

(3) a *qualifying parent undertaking* that is the *parent undertaking* of an *IFPRU 730k firm* and is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*.

Purpose

9.2 G *RRD* is a text with *EEA* relevance, but it has not been annexed to the *EEA Agreement* and therefore this transitional modifies the meaning of references to *EEA* in *IFPRU* 11 until such time as *RRD* is annexed to the *EEA Agreement*.

Duration of transitional

9.3 G *IFPRU* TP 9 applies from 1 January 2015 until such time as *RRD* is annexed to the *EEA Agreement*.

Modification

9.4 R References to *EEA* in *IFPRU* 11 are to be construed as references to *EU*.

Part 2: Comes into force on [1 January 2016]

The following text is new and is not underlined.

11 Recovery and resolution

…

11.6 Contractual recognition of bail-in

Application

11.6.1 R This section applies to:

(1) an *IFPRU 730k firm*;

(2) a *firm* that is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*; and

(3) a *qualifying parent undertaking* that is the *parent undertaking* of an *IFPRU 730k firm* and is any of the following:

(a) an *RRD financial institution*;

(b) an *RRD holding company*;

(c) an *RRD parent holding company*.

11.6.2 R An *IFPRU 730k firm* and a *qualifying parent undertaking* must comply with the contractual recognition of bail-in requirements in *IFPRU* 11.6.3R directly and, in addition, an *IFPRU 730k firm* and a *qualifying parent undertaking* must ensure its *subsidiary* complies with those requirements where the *subsidiary* is:

(1) an *RRD financial institution*;

(2) established in the *United Kingdom*; and

(3) not a *firm* or a *qualifying parent undertaking*.

Contractual recognition of bail-in

11.6.3 R (1) If a liability meets the conditions in (2), a *firm* or a *qualifying parent undertaking* must include a term in the contract governing the liability whereby 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:

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

(ii) conversion; or

(iii) cancellation;

of that liability that is effected by a *resolution authority*.

(2) The types of liability to which the contractual recognition of bail-in requirement in (1) applies are those which are:

(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 section 48B(8) of the Banking Act 2009;

(d) not a *deposit* referred to in point (a) of *[insert reference to the UK provision implementing article 108 of the RRD]*; and

(e) not liabilities 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) *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 part of an *FCA consolidation group* that includes an *IFPRU 730k firm*	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 required for resolution plans

Application

16.20.1 R This section applies to the following types of *firm* and *qualifying parent undertaking* who are required to submit *recovery plans*, *group recovery plans* and information required for resolution plans to the *FCA* in line with *IFRPU* 11.2 (Individual recovery plans), *IFPRU* 11.3 (Group recovery

plans) or *IFPRU* 11.4 (Information required for resolution plans):

(1) an *IFPRU 730k firm*; and

(2) a *qualifying parent undertaking* that is part of an *FCA consolidation group* that includes an *IFPRU 730k firm*.

16.20.2 G In certain circumstances a *firm* must ensure that its *EEA parent undertaking* submits information to the *FCA*, as further explained in *IFPRU* 11.1.3G (Application of recovery and resolution rules in relation to group members).

Submission of recovery plans and group recovery plans

16.20.3 R *Firms* and *qualifying parent undertakings* must submit their *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	First reporting reference date	Ongoing reporting reference date
firm or *qualifying parent undertaking* in a *group* that includes a *significant IFPRU 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 £2.5 billion	30 September 2015	
		More than £500 million and less than £2.5 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 £2.5 billion	30 September 2015	
		More than £500 million and less than £2.5 billion	31 December 2015	

		Less than £500 million	31 March 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	
firm or *qualifying parent undertaking* in a *group* that does not include 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	

16.20.4 G (1) The calculation of total balance sheet assets for the purposes of *IPFRU* 16.20.3R should be consistent with the way this figure is calculated for the purposes of 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 *IFPRU 730k firm* in the *group*.

16.20.5 R Where a *firm* is authorised after the first reporting reference date that would have applied to that *firm* or *qualifying parent undertaking* of the *firm* in line

with *IFPRU* 16.20.3R, the *firm* or *qualifying parent undertaking* must:

(1) submit its first *recovery plan* or *group recovery plan* within three *months* of the first quarter end date which falls after six *months* of the date of the authorisation of the *firm*; and

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

(a) every year within three *months* of the same date as the first reporting reference date in the case of 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 in the case of a *firm* that is not a *significant IFPRU firm* or a *group* that does not includes a *significant IFPRU firm*.

Submission of information for resolution plans

16.20.6 R A *firm* and a *qualifying parent undertaking* must submit 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 a *group* that includes a *significant IFPRU 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 a *group* that does not include 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.

Financial Conduct Authority

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