

# EXPECTATIONS FOR BANKS



Single  
Resolution Board

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Issuance March 2020

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Print	ISBN 978-92-9475-206-2	doi:10.2877/452384	FP-02-20-111-EN-C
PDF	ISBN 978-92-9475-204-8	doi:10.2877/409755	FP-02-20-111-EN-N

More information on the European Union is available on the Internet (<http://europa.eu>).

Luxembourg: Publications Office of the European Union, 2020

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SINGLE RESOLUTION BOARD

# **EXPECTATIONS FOR BANKS**

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# ABBREVIATIONS

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<b>BRRD</b>	Bank Recovery and Resolution Directive	<b>MIS</b>	Management Information Systems
<b>BU</b>	Banking Union	<b>MPE</b>	Multiple Points of Entry
<b>CBR</b>	Combined Buffer Requirement	<b>MREL</b>	Minimum Requirement for Own Funds and Eligible Liabilities
<b>CCP</b>	Central Counterparty	<b>NCWO</b>	No Creditor Worse Off
<b>CRD</b>	Capital Requirements Directive	<b>NRA</b>	National Resolution Authority
<b>CRR</b>	Capital Requirements Regulation	<b>SRB</b>	Single Resolution Board
<b>CSD</b>	Central Securities Depository	<b>SRM</b>	Single Resolution Mechanism
<b>DR</b>	Delegated Regulation	<b>SRMR</b>	Single Resolution Mechanism Regulation
<b>EBA</b>	European Banking Authority	<b>SSM</b>	Single Supervisory Mechanism
<b>ECB</b>	European Central Bank	<b>TLAC</b>	Total Loss-Absorbing Capacity
<b>EfB</b>	Expectations for Banks		
<b>EU</b>	European Union		
<b>FMI</b>	Financial Market Infrastructure		
<b>FSB</b>	Financial Stability Board		
<b>GL</b>	Guidelines		
<b>G-SII</b>	Global Systemically Important Institution		
<b>HQLA</b>	High-Quality Liquid Assets		
<b>IR</b>	Implementing Regulation		
<b>IRT</b>	Internal Resolution Team		
<b>ISIN</b>	International Securities Identification Number		
<b>ISDA</b>	International Swaps and Derivatives Association		

# 1. INTRODUCTION

The SRB, Single Resolution Board, is the central resolution authority within the Banking Union (BU). Together with the National Resolution Authorities (NRAs) of participating Member States, it forms the Single Resolution Mechanism (SRM).

Its mission is to ensure an orderly resolution of failing banks with minimum impact on the real economy, the financial system, and the public finances of the participating Member States and beyond. The role of the SRB is proactive, focusing on resolution planning well before a crisis occurs, and on enhancing resolvability to avoid potential negative impacts of a bank failure on the economy and financial stability.

The SRM and the SRB were established through the Single Resolution Mechanism Regulation (SRMR<sup>(1)</sup>) and operate within the Single Rulebook. The Rulebook is composed of a wide set of harmonised prudential rules which institutions throughout the European Union (EU) must respect, including: prudential requirements for banks (Capital Requirements Regulation, CRR<sup>(2)</sup>, and Capital Requirements Directive, CRD<sup>(3)</sup>), rules on the potential failure of banks (the Bank Recovery and Resolution Directive, BRRD<sup>(4)</sup>) and a Directive on national deposit guarantee schemes<sup>(5)</sup>, with all related level-2 and level-3 regulations. The regulatory context within which the SRB operates is evolving, with the adoption of the revised CRR<sup>(6)</sup>, CRD<sup>(7)</sup>, BRRD<sup>(8)</sup> and SRMR<sup>(9)</sup>, and the upcoming related level-2 acts and level-3 guidance.

## 1.1. Role of the SRB and banks in respect of resolvability

### 1.1.1. Role of the SRB

The SRB is the resolution authority for:

- ▶ the entities<sup>(10)</sup> and groups directly supervised by the European Central Bank (ECB); and
- ▶ other cross-border groups, i.e. groups that have entities established in more than one participating Member State,

hereinafter referred to as “banks”<sup>(11)</sup>.

<sup>(1)</sup> Regulation (EU) No 806/2014 of 15 July 2014.

<sup>(2)</sup> Regulation (EU) No 575/2013 of 26 June 2013.

<sup>(3)</sup> Directive 2013/36/EU of 26 June 2013.

<sup>(4)</sup> Directive 2014/59/EU of 15 May 2014.

<sup>(5)</sup> Directive 2014/49/EU of 16 April 2014.

<sup>(6)</sup> Regulation (EU) 2019/876 of 20 May 2019, amending Regulation (EU) 575/2013.

<sup>(7)</sup> Directive (EU) 2019/878 of 20 May 2019, amending Directive 2013/36/EU.

<sup>(8)</sup> Directive (EU) 2019/879 of 20 May 2019, amending Directive 2014/59/EU.

<sup>(9)</sup> Regulation (EU) 2019/877 of 20 May 2019, amending Regulation (EU) 806/2014.

<sup>(10)</sup> For the purpose of this document, the term “entities” shall be considered as referring to entities falling within the scope of the SRMR, and the term “group” shall refer to a parent undertaking and its subsidiaries that are entities falling within the scope of the SRMR.

<sup>(11)</sup> These include institutions and groups where the SRB is involved as home or host resolution authority. The *Expectations for Banks* will be tailored to bank and resolution strategy specifics in both cases.

The SRB in cooperation with the National Resolution Authorities is responsible for the resolution planning of these banks and, should they fail, for their orderly resolution.

A key aspect of resolution planning is the assessment of resolvability aiming at achieving the banks' preparedness for a potential resolution.

To this end, the SRB works proactively on resolution planning to ensure banks are resolvable.

When drafting a resolution plan, the SRB assesses the extent to which a bank is resolvable by considering if it is feasible and credible to either wind-up (liquidate) the bank under normal insolvency proceedings or to resolve it by applying resolution tools to it while avoiding any significant adverse consequences for the financial system and the real economy<sup>(12)</sup>.

The SRB assesses whether it is feasible to apply the selected resolution strategy effectively in an appropriate timeframe and identifies potential impediments to the implementation of the strategy<sup>(13)</sup>. The SRB also assesses the credibility of the resolution strategy, taking into consideration the likely impact of resolution on the financial system and real economy of any Member State or of the Union, with a view to ensuring the continuity of critical functions carried out by the banks<sup>(14)</sup>.

The SRB has the power to instruct the National Resolution Authorities to require banks to take proportionate and targeted measures to remove substantive impediments<sup>(15)</sup>. The measures range from additional information requirements to the cessation of activities<sup>(16)</sup>.

### 1.1.2. Role of banks in achieving resolvability

"Working together" is crucial for building resolvability.

The legal framework acknowledges the important role of banks in the context of resolution planning<sup>(17)</sup> and crisis management. According to Art. 8 (8) SRMR, the SRB may require banks to assist it in the drawing up and updating of resolution plans.

#### PROVISION OF INFORMATION AND REPORTING

The provision of information for resolution planning and crisis management is one important aspect. Banks are required to deliver information according to the SRMR, BRRD and Commission Implementing Regulations:

- ▶ According to Art. 34 (1) SRMR, the SRB may require banks to provide all of the information necessary to perform the tasks conferred on it by the SRMR. The SRB, in cooperation with the National Resolution Authorities, has the authority to collect from banks information for

<sup>(12)</sup> For further details see Art. 10 (3) SRMR.

<sup>(13)</sup> Art. 26 (1) Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 ("DR 2016/1075").

<sup>(14)</sup> Art. 32 (1) DR 2016/1075.

<sup>(15)</sup> Art. 10 (10) SRMR.

<sup>(16)</sup> See Art. 10 (11) SRMR as well as the European Banking Authority (EBA) Guidelines (GL) on the specification of measures to reduce or remove impediments to resolvability and the circumstances in which each measure may be applied under BRRD (EBA/ GL/2014/11) for further details.

<sup>(17)</sup> Art. 8,10 and 34 SRMR, Art. 11, 13 BRRD and Section B of the Annex to the BRRD.



drawing up and implementing resolution plans, among others, information and analyses specified in Section B of the Annex to the BRRD<sup>(18)</sup>.

- ▶ Commission Implementing Regulation (IR) (EU) 2018/1624 provides for a minimum set of standard templates<sup>(19)</sup> for the provision of core information by institutions to resolution authorities on a regular basis. However, this does not prevent the resolution authority from collecting any additional information it deems necessary. The SRB can ask banks to provide additional information not covered by any template<sup>(20)</sup> that is necessary for the purposes of drawing up and implementing resolution plans or where the format in which this information is provided by the competent authority pursuant to Art. 8 (2) Commission Implementing Regulation (IR) (EU) 2018/1624 is not suitable<sup>(21)</sup>.
- ▶ The SRB will closely cooperate with competent authorities<sup>(22)</sup> to obtain the information<sup>(23)</sup> that is already available to these authorities. In particular recovery plans are one of the main inputs for the drawing up of resolution plans and are subject to a yearly SRB examination for assessing banks' resolvability<sup>(24)</sup>; so the quality of information they contain is key and assessed as part of the yearly SRB examination.

### PROPOSAL OF MEASURES TO ADDRESS OR REMOVE IMPEDIMENTS

When drafting and updating resolution plans, the SRB assesses the extent to which banks are resolvable<sup>(25)</sup>, and focuses on any impediments to resolvability<sup>(26)</sup>.

In this context, banks are expected to play an active role in the process of identifying and removing impediments; this is the most efficient way to progress towards resolvability. It is the SRB's task to set the direction and to ensure that it actually happens.

In cases where the Board<sup>(27)</sup>, pursuant to an assessment of the banks' resolvability according to Art. 10 (3) and (4) SRMR, determines that there are substantive impediments<sup>(28)</sup>, this triggers the procedure for addressing these impediments under Art. 10 SRMR (Chapter 3).

Where the SRB determines substantive impediments, banks will receive a report from the SRB outlining those impediments and recommending measures to remove them. Within four months from the date of receipt of the report, banks shall provide the SRB with proposals of possible measures to address or remove the substantive impediments identified in the report<sup>(29)</sup>.

<sup>(18)</sup> Pursuant to Art. 8 (4) SRMR, Art. 11 (1) BRRD and Section B of the Annex to the BRRD.

<sup>(19)</sup> E.g. Liability Data Report, Critical Functions Report and FMI Report.

<sup>(20)</sup> See Annex 1 IR 2018/1624 for further details.

<sup>(21)</sup> Art. 7 IR 2018/1624.

<sup>(22)</sup> Art. 34 SRMR, Art. 11 (2) BRRD.

<sup>(23)</sup> Also see MoU between the SRB and the ECB in respect of cooperation and information exchange.

<sup>(24)</sup> Art. 10 (2) SRMR.

<sup>(25)</sup> Art. 10 (1) and (3) SRMR.

<sup>(26)</sup> Art. 22 (7) DR 2016/1075.

<sup>(27)</sup> After consulting the competent authorities, including the ECB.

<sup>(28)</sup> Art. 10 (7) SRMR.

<sup>(29)</sup> Art. 10 (9) SRMR.

## 1.2. Purpose and scope

This document sets out the SRB's *Expectations for Banks* (EfB) in the resolution planning phase, to demonstrate that they are resolvable and prepared for crisis management. The *Expectations for Banks* document is a guidance on the actions banks under the SRB's remit are expected to undertake to ensure an appropriate level of resolvability. This document only focuses on the resolvability of banks for which the strategy is resolution<sup>(30)</sup>.

The work on resolvability is an iterative process between the SRB and banks. The banks themselves are the first line of defence towards resolvability and they should work on making themselves resolvable.

The SRB will support and guide banks in this process in the form of (i) the *Expectations for Banks*, (ii) additional operational guidance documents and (iii) the cooperation between the Internal Resolution Teams (IRTs) and individual banks.

The expectations in Chapter 2 describe the necessary steps and initiatives banks are expected to take to demonstrate they are resolvable. The *Expectations for Banks* represents a common approach to ensure consistency and a level playing field within the Banking Union and, therefore, was developed for all banks under the SRB's remit. While the expectations are general in nature, their application to each bank will have to be tailored, taking into account the proportionality principle, and based on a dialogue between each bank and its IRT. The expectations included in the following chapters are not exhaustive and do not prejudice the content of further SRB communications related to resolvability requirements for banks. In this context, IRTs may request information and analyses on specific topics in addition to what is described in the *Expectations for Banks* when relevant to progress in resolution planning and to improve the resolvability of the bank throughout the respective resolution planning cycle. Taking proportionality considerations (see 1.5) into account when applying the expectations, IRTs might also decide not to fully apply all of the expectations, provided they consider this appropriate and proportionate in light of the bank-specific characteristics.

Banks are expected to work towards resolvability having regard to the principles set out in this document. However, the *Expectations for Banks* will be subject to a gradual phase-in as further detailed in Chapter 3 and as reflected in the yearly dedicated priority letters communicated to banks.

In any case, banks are expected to build EfB capabilities for a steady state of resolution planning by 31 December 2023, except where indicated otherwise.

The SRB will update the *Expectations for Banks* document following further developments in policies and/or changes as required. Therefore, banks are invited to take into account any additional SRB guidance for implementing the expectations<sup>(31)</sup>.

## 1.3. Definition of resolvability

Pursuant to Art. 10 (3) SRMR an entity shall be deemed to be resolvable, if it is feasible and credible to either liquidate it under normal insolvency proceedings or to resolve it by applying

<sup>(30)</sup> The EfB document does not cover normal insolvency proceedings which are carried out at national level.

<sup>(31)</sup> E.g. the SRB *Expectations for Banks* in the context of Brexit: <https://srb.europa.eu/en/node/743>.

to its resolution tools and exercising resolution powers while avoiding, to the maximum extent possible, any significant adverse consequences for financial systems, including circumstances of broader financial instability or system-wide events, of the Member State in which the entity is situated, or other Member States, or the Union and with a view to ensuring the continuity of critical functions carried out by the entity<sup>(22)</sup>.

The SRB assesses whether the selected resolution strategy is feasible, in particular whether (i) it is effectively applicable in an appropriate timeframe, (ii) any potential impediments to the implementation of the selected resolution strategy, including impediments to the short-term stabilisation of the institution or group, have been identified and (iii) in the case of open bank bail-in, any foreseeable impediments to a business reorganisation, which is required pursuant to Art. 52 BRRD or otherwise likely to be required if the resolution strategy envisages all or part of the institution or group being restored to long-term viability, have been considered<sup>(23)</sup>.

The *Expectations for Banks* is structured along the following dimensions for assessing resolvability:

- ▶ Governance;
- ▶ Loss absorption and recapitalisation capacity;
- ▶ Liquidity and funding in resolution;
- ▶ Operational continuity and access to Financial Market Infrastructure (FMI) services;
- ▶ Information systems and data requirements;
- ▶ Communication; and
- ▶ Separability and restructuring.

These dimensions build on objectives, principles and expectations. The objectives (the first layer) describe a steady state and the steps banks are expected to take, in principle, to become resolvable. Each objective lays down principles derived from the legal framework (second layer), which can be demonstrated in practice by a set of expectations (third layer). The objectives are the following:

## 1) Governance

Banks have in place robust governance processes that facilitate the preparation as well as the implementation of the resolution strategy. Robust governance arrangements ensure (i) a timely and accurate provision of relevant information on a regular and ad hoc basis, (ii) effective oversight during resolution planning and in crisis and (iii) efficient decision-making at the time of resolution.

## 2) Loss absorption and recapitalisation capacity

Banks have sufficient loss absorption capital available and, if applicable, recapitalisation capacity at the point of entry to absorb losses in resolution, to comply with the conditions for authorisation and to regain market confidence post-resolution, allowing the continued performance of critical functions during and after resolution. Banks also maintain loss absorption

<sup>(22)</sup> For the resolvability assessment for groups, please refer to Art. 10 (4) SRMR.

<sup>(23)</sup> Pursuant to Art. 26 (1) and (2) DR 2016/1075.

and recapitalisation capacity at subsidiary level, and set up a credible and feasible internal loss transfer and recapitalisation mechanism within resolution groups, if applicable.

### **3) Liquidity and funding in resolution**

Banks have established processes and developed capabilities to (i) estimate the liquidity and funding needs for the implementation of the resolution strategy, (ii) measure and report the liquidity situation in resolution and (iii) identify and mobilise available collateral that can be used to obtain funding during and after resolution.

### **4) Operational continuity in resolution and access to FMI services**

Banks have in place adequate operational arrangements to ensure the continuity of the services that are necessary for preserving critical functions, and the core business lines necessary for the effective implementation of the resolution strategy and any consequent restructuring.

Banks have established the necessary processes and arrangements to maximise the likelihood of maintaining access, ahead of, during and after resolution, to FMIs and to payment, clearing, settlement and custody services provided by intermediaries.

### **5) Information systems and data requirements**

Banks have in place adequate Management Information Systems (MIS), valuation capabilities and technological infrastructure to provide the information necessary for (i) the development and maintenance of resolution plans, (ii) the execution of a fair, prudent and realistic valuation and (iii) the effective application of resolution actions, also under rapidly changing conditions.

### **6) Communication**

Banks have in place communication plans to ensure timely, robust and consistent communication to relevant stakeholders, and to support the implementation of the resolution strategy, as well as governance arrangements to ensure an effective execution of these plans.

### **7) Separability and restructuring**

Banks' structure, complexity and interdependencies do not present obstacles to, and ideally support, the operational implementation of the resolution strategy and the achievement of the resolution objectives.

Notwithstanding the above, the business model, structure and complexity or other areas might have to be addressed to achieve the banks' resolvability.

## **1.4. Phases**

This section aims to shed more light on the different resolution stages banks are expected to prepare for as part of the resolution planning phase. It also provides an overview of activities covered under the resolution planning and the crisis management phases, for banks to develop a better understanding of the purpose of certain expectations.

The crisis management phase covers activities from the enhanced monitoring of ailing banks to the drafting of resolution decisions and the monitoring of their execution. It is subdivided into three phases, namely (i) the preparation for resolution, (ii) the “resolution weekend” and the implementation of the resolution scheme and (iii) the closing of the resolution (see subsections 1.4.2 to 1.4.4).

### 1.4.1. Resolution planning

Resolution planning includes the analysis of the banks’ legal, financial and operational structures; the identification of critical functions and services; the analyses of the banks’ capital and funding structures; and the design and operationalisation of resolution strategies, including the choice of the relevant tool(s) as well as the determination of the minimum requirement for own funds and eligible liabilities that banks will be required to maintain at all times. Moreover, resolution planning includes an assessment as to what extent banks are resolvable and prepared for the execution of the resolution strategy. It includes an identification of potential impediments to their resolvability and, where necessary, the preparation of action plans to address such impediments. Banks are expected to report any information needed to review or update the plans as appropriate<sup>(34)</sup>.

### 1.4.2. Preparation for resolution

During this phase, the SRB prepares for the adoption of the resolution scheme. Valuations are performed to inform, notably:

- ▶ the determination of whether the conditions for resolution or for write-down or conversion are met (Valuation 1);
- ▶ the decision on the appropriate resolution action to be taken and the tools to be applied (Valuation 2).

The ability of the banks’ MIS to provide accurate and timely information in an accessible format is key to supporting reliable valuations. Banks are expected to demonstrate these capabilities in the resolution planning phase, taking into account the principles and methodologies of the SRB Framework for Valuation<sup>(35)</sup>.

### 1.4.3. “Resolution weekend” and implementation of the resolution scheme

The “resolution weekend” starts with the determination that an entity is failing or is likely to fail. While this phase refers to a weekend, this phase could start any time and covers all processes needed for the adoption of the scheme.

The decision to adopt a resolution scheme must be implemented by the competent NRA. The weekend ends the next business day when relevant markets open. Depending on the tool(s) used, the possible business restructuring phase only starts thereafter. In case the open bank bail-

<sup>(34)</sup> Art. 8 (12) SRMR.

<sup>(35)</sup> For further details, please see the SRB Framework for Valuation: [https://srb.europa.eu/sites/srbsite/files/framework\\_for\\_valuation\\_feb\\_2019\\_web\\_0.pdf](https://srb.europa.eu/sites/srbsite/files/framework_for_valuation_feb_2019_web_0.pdf). The SRB Dataset for Valuation, complementing the SRB Framework for Valuation, is under development in close collaboration with the EBA to ensure consistent implementation of the EBA Valuation Handbook (February 2019) and related Data Dictionary for Valuation (March 2020).

in is applied, the bank shall prepare a business reorganisation plan that must be approved by the SRB, in agreement with the competent authority<sup>(36)</sup>.

In this phase, banks need to have adequate governance and communication arrangements in place to support the effective execution of the resolution strategy.

#### 1.4.4. Closing resolution

The SRB shall ensure that a valuation is carried out by an independent valuer as soon as possible after the resolution action or actions have been effected, with the aim of assessing whether affected shareholders and creditors would have received better treatment had the bank entered into normal insolvency proceedings (Valuation 3)<sup>(37)</sup>. The SRB will have to take a decision on whether or not to compensate affected shareholders and creditors, based on the above valuation.

### 1.5. Proportionality

The SRB shall take into account the principle of proportionality when applying the measures of Art. 10 (11) SRMR to remove any impediments identified.

Pursuant to paragraph 5 of the European Banking Authority (EBA) Guidelines on Impediments to Resolvability, each of the measures listed in Art. 17 (5) BRRD (Art. 10 (11) SRMR) are applied if they are (i) suitable, (ii) necessary and (iii) proportionate to reduce or remove the impediments to the implementation of a certain resolution strategy<sup>(38)</sup>.

- ▶ A measure is suitable if it is able to materially reduce or remove the relevant impediment in a timely manner.
- ▶ A measure is necessary if it is required to remove or materially reduce a substantive impediment to the feasible or credible implementation of the relevant resolution strategy, and if there are no less intrusive measures which are able to achieve the same objective to the same extent<sup>(39)</sup>.
- ▶ A measure is proportionate to the threat that those impediments pose to financial stability in the event of a failure of the institution, if the overall benefits for making the resolution of an institution feasible and credible outweigh the overall costs and negative effects of removing the impediments to resolvability. Resolution authorities should also consider less intrusive measures when assessing proportionality.

Proportionality considerations will be taken into account when IRTs apply the expectations included in this document, tailored for each bank based on a dialogue between banks and IRTs.

<sup>(36)</sup> Art. 52 BRRD. Preparatory work for the business reorganisation plan is already expected to be done during the resolution planning phase. Moreover, for transfer strategies, separability analysis is expected to be performed during resolution planning to support the implementation of the transfer tools.

<sup>(37)</sup> Art. 20 (16-18) SRMR.

<sup>(38)</sup> See also Art. 10 (7) (second sentence), (10) (third subparagraph) and (13) (b) SRMR.

<sup>(39)</sup> Intrusiveness shall be assessed by costs and negative effects on the institution and its owners and their right to conduct business, and on the soundness and stability of the ongoing business of the institution.

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## 2. SEVEN DIMENSIONS OF RESOLVABILITY

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### 2.1. Governance

#### 2.1.1. Objective

Banks have in place robust governance processes that facilitate the preparation as well as the implementation of the resolution strategy. Robust governance arrangements ensure (i) timely and accurate provision of relevant information on a regular and ad hoc basis, (ii) effective oversight during resolution planning and in crisis, and (iii) efficient decision-making at the time of resolution.

#### 2.1.2. Background

A precondition of an effective and timely implementation of the resolution strategy by the SRM requires the banks' governance procedures to support timely decision-making in resolution. In this context, key roles must be adequately staffed to support resolution planning, and governance arrangements must provide effective oversight and decision-making. This includes assigning clear responsibilities of business units, senior managers up to and including board members, and identifying a member of the management body<sup>(40)</sup> responsible for ensuring the bank is and remains in compliance with resolution planning requirements; this member of the management body is further responsible for ensuring that resolution planning is integrated into the bank's overall governance processes. In addition, banks should ensure there is an appropriate level of oversight by their board and senior management<sup>(41)</sup> over the staff responsible for the implementation of the principles below.

For an effective and timely execution, banks therefore must establish appropriate governance, business-as-usual procedures and controls to ensure that the banks' assessment is updated on a timely basis, provided that there are any material changes or where evidence suggests that the assessment is no longer accurate.

Dry runs and playbooks can be used to refine these governance processes and the actions to be taken by the board and/or by the management body before, during and after the resolution event.

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<sup>(40)</sup> Art. 2 (24) BRRD, EBA Guidelines on internal governance under Directive 2013/36/EU.

<sup>(41)</sup> Art. 2 (25) BRRD, EBA Guidelines on internal governance under Directive 2013/36/EU.

### 2.1.3. Principles

#### [PRINCIPLE 1.1] ACTIVE INVOLVEMENT OF MANAGEMENT BODY AND SENIOR MANAGEMENT

The management body and the senior management shall provide all necessary assistance for the achievement of the resolution objectives and the operationalisation of the bank's resolution strategy<sup>(42)</sup>.

The management body is actively involved in resolution planning and has identified a member of the management body as well as an experienced senior-level executive to manage the bank's resolution-related activities.

1) Banks are expected to appoint a member of the management body that is responsible for the (internal) work on resolution planning and the implementation of the resolvability work programme<sup>(43)</sup>.

This member:

- ▶ is ultimately responsible for the provision of the information necessary to prepare the bank's resolution plan as well as for those persons responsible, if different, for the relevant legal persons, critical operations and core business lines;
- ▶ is responsible for ensuring that the bank is and remains in compliance with resolution planning requirements;
- ▶ ensures that resolution planning is integrated into the bank's overall governance processes<sup>(44)</sup>;
- ▶ is responsible for amending existing committees or establishing new committees to support resolution activities, where needed;
- ▶ signs off on the main deliverables or ensures adequate delegation arrangements in this respect, as part of appropriate internal control and assurance mechanisms, e.g. the resolution reporting templates;
- ▶ updates on a regular basis the other members of the management body and of the supervisory body on the state of resolution planning activities and the resolvability of the bank, which is documented by means of minutes;
- ▶ ensures adequate budgeting of and staffing for resolution activities. In particular in, but not limited to, the case of a BU entity of groups headquartered in a third country: this member ensures employment of staff knowledgeable of local circumstances and dedicated resolution planning staff that is actively involved in and contributes to the overall group resolution planning activities, with the ability to provide effective support in a group resolution scenario; and
- ▶ identifies a senior-level executive heading and/or coordinating resolution planning activities.

<sup>(42)</sup> Art. 34 (d) BRRD.

<sup>(43)</sup> The appointed member of the management body may be supported by a dedicated committee.

<sup>(44)</sup> For further details, please see Principle 1.2.



2) Banks are expected to appoint an experienced senior-level executive who is responsible for managing and coordinating the (internal) resolution planning/resolvability work programme<sup>(45)</sup>.

The experienced senior-level executive:

- ▶ coordinates and manages resolution activities (e.g. preparation of workshops, completion of questionnaires and other IRT requests);
- ▶ serves, with his/her team, as the main point of contact for the IRT to ensure a coordinated approach for resolution planning and as the main point of contact for the implementation of the resolution strategy across the group;
- ▶ avoids parallel and/or inconsistent communication with resolution authorities/IRTs;
- ▶ coordinates the operationalisation of the resolution strategy (preparation and testing of the relevant steps for the implementation of the strategy in the context of resolution planning) and participates in dry runs to test and evaluate the operational readiness of the bank<sup>(46)</sup>; and
- ▶ where necessary, establishes dedicated work streams to address resolution topics.

#### **[PRINCIPLE 1.2] GOVERNANCE FOR RESOLUTION ACTIVITIES**

**The governance processes and arrangements ensure that resolution planning is integrated into the overall management framework of banks and support the preparation and implementation of the resolution strategy.**

Banks are expected to:

- ▶ ensure that the resolution governance function is adequately staffed to ensure that decisions in the context of resolution before, during and after a resolution event can be made in a timely manner;
- ▶ establish clear lines of responsibility, including reporting lines and escalation procedures up to and including board members and approval processes, for both resolution planning and crisis management (e.g. the implementation of the resolution decision, communication with relevant stakeholder groups<sup>(47)</sup>, etc.), all of which is documented in dedicated policies and procedure documents (incl. playbooks);
- ▶ ensure that strategic decisions take into account resolution-related interconnections impacting resolvability (e.g. M&A activities, legal entity restructuring, changes to the booking model, use of intra-group guarantees and changes to the IT environment);
- ▶ inform resolution authorities without undue delay on material changes planned to elements such as the business model, the structure, the operational set-up (e.g. changes to the IT infrastructure) and the governance having an impact on resolution planning activities or the implementation of the preferred resolution strategy and resolvability<sup>(48)</sup>;

<sup>(45)</sup> This executive might be supported by a team of experts (project team, task force, the set-up of a unit for resolution activities, etc.).

<sup>(46)</sup> For further details, please see Principle 5.1.

<sup>(47)</sup> Please refer to the Principles for Communication (2.6) for further details.

<sup>(48)</sup> Art. 10 (6) BRRD.

- ▶ ensure an efficient flow of information on resolution matters between the management board, the senior level executive and all other relevant staff, enabling them to perform their respective roles before, during and after the resolution event;
- ▶ ensure that intra-group providers of relevant services have their own governance structure and clearly defined reporting lines, do not rely excessively on senior staff employed by other group entities, have contingency arrangements to ensure that relevant services continue to be provided in resolution and that the provision of relevant services within the group is structured to avoid preferential treatment upon the failure or resolution of any group entity; and
- ▶ in the case of a group headquartered in a third country, ensure that the BU entity is well staffed and the BU entity's management is well informed about the group resolution strategy, including the decision-making processes/procedures in a crisis, and is able to balance decision-making by the group headquartered in a third country in going-concern, by taking into account the resolvability of local entities.

#### **[PRINCIPLE 1.3] QUALITY ASSURANCE AND INTERNAL AUDIT**

**Banks have established a quality assurance process to ensure the completeness and accuracy of information sent to resolution authorities for resolution planning purposes. Resolution-relevant information is also regularly reviewed by internal audit.**

Banks are expected to:

- ▶ establish a quality assurance process for resolution-related information;
- ▶ have arrangements that ensure the completeness and accuracy of data;
- ▶ ensure that resolution-relevant information is regularly reviewed by internal audit (resolution planning activities are part of the annual audit plan);
- ▶ ensure that the audit committee monitors the effectiveness of the institution's internal quality control, and receive and take into account audit reports; and
- ▶ ensure that the audit committee or another body periodically reviews these arrangements.

#### **[PRINCIPLE 1.4] TESTING AND OPERATIONALISATION OF THE STRATEGY**

**Banks describe all operational aspects of the resolution strategy in playbooks (including responsibilities and escalation procedures) and regularly evaluate and test those aspects by means of dry runs.**

Since operational aspects of the resolution strategy are mostly linked to the tool to be used, and touch upon several expectations outlined in the following chapters, banks are expected to demonstrate testing and operationalisation capabilities as further described in the below principles and in accordance with any other tailored requests from IRTs.

## 2.2. Loss Absorbing and recapitalisation capacity

### 2.2.1. Objective

Banks have sufficient loss absorption capital available and, if applicable, recapitalisation capacity at the point of entry to absorb losses in resolution, to comply with the conditions for authorisation and to regain market confidence post-resolution, allowing the continued performance of critical functions during and after resolution. Banks also maintain loss absorption and recapitalisation capacity at subsidiary level, and set up a credible and feasible internal loss transfer and recapitalisation mechanism within resolution groups, if applicable.

### 2.2.2. Background

Resolution authorities must have the necessary flexibility to allocate losses to creditors in a range of circumstances<sup>(49)</sup>. For this purpose, it is desirable that the power of write-down and conversion as well as the bail-in tool can be applied, in line with the appropriate resolution strategy, to as wide a range of the unsecured liabilities of a failing institution as possible, subject to the mandatory exclusions provided in the legal framework<sup>(50)</sup>. Moreover, the resolution authority may exclude or partially exclude certain liabilities, in a number of circumstances defined by the regulation<sup>(51)</sup>. To meet this goal, banks need to implement adequate internal processes, governance arrangements and MIS capabilities to identify liabilities, notably those which are mandatorily excluded from bail-in; support the resolution authorities' assessment for the adoption of discretionary exclusions; and support the execution of the resolution tools.

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is a requirement set by resolution authorities in order to ensure that banks maintain a minimum amount of own funds and eligible liabilities at all times and to facilitate the implementation of the preferred strategy. MREL is set at consolidated resolution group level with requirements to be met with externally-issued eligible liabilities at the level of the resolution entity and own funds at the level of the resolution group, and for subsidiaries at individual level in view of enforcing an effective loss-transfer mechanism to the resolution entity.

Building up and maintaining MREL capacity by focusing on quantity, quality, governing law and appropriate location of MREL instruments plays a key role in improving the banks' resolvability, by underpinning the credibility and feasibility of the preferred resolution strategies and by giving resolution authorities greater flexibility and confidence. In particular, subordination requirements set by the SRB improve resolvability by reducing the risk of breaching the No Creditor Worse Off (NCWO) principle, while ensuring an adequate location of eligible instruments issued in jurisdictions where they can be enforced is instrumental to supporting the implementation of the resolution strategy.

Banks need to be involved in order to provide resolution authorities with bank-specific information necessary to determine MREL in a timely manner, to monitor MREL build-up and to ensure compliance with MREL requirements.

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<sup>(49)</sup> Recital (68) BRRD.

<sup>(50)</sup> Recital (70) BRRD.

<sup>(51)</sup> Recital (72) BRRD.

### 2.2.3. Principles – Loss absorption and recapitalisation capacity and cross-border recognition of resolution actions

#### [PRINCIPLE 2.1] SUFFICIENT LEVEL OF LOSS ABSORPTION AND RECAPITALISATION CAPACITY

Banks have a sufficient level of loss absorption and recapitalisation capacity to allow the allocation of losses to as wide a range of liabilities as possible<sup>(52)</sup> and to ensure the effective application of the resolution strategy<sup>(53)</sup>.

In particular, banks are expected to identify and quantify, subject to specific guidance, in a timely and reliable manner<sup>(54)</sup>:

- ▶ the amount of liabilities which are likely, under the preferred resolution strategy, to contribute to loss absorption or recapitalisation;
- ▶ the amount of liabilities which are mandatorily excluded from write-down and conversion<sup>(55)</sup>; and
- ▶ the amount of liabilities which are not likely to contribute to loss absorption or recapitalisation, if applicable, considering at a minimum the following factors<sup>(56)</sup>:
  - maturity;
  - subordination ranking;
  - the types of holders of the instrument, or the instrument's transferability;
  - legal impediments to loss absorbency such as lack of recognition of resolution tools under foreign law or existence of set-off rights;
  - other factors creating risk that the liabilities would be exempted from absorbing losses in resolution; and
  - the amount and issuing legal entities of qualifying eligible liabilities or other liabilities which would absorb losses.

The set of liabilities not excluded from bail-in is broken down by classes of creditors in the institution, in accordance with the applicable hierarchy of claims<sup>(57)</sup>. Additionally, banks are expected to provide all relevant information needed to estimate the treatment that each class of shareholders and creditors would be expected to receive if the institution were wound up under normal insolvency proceedings<sup>(58)</sup>, in order to support the application of the NCWO principle and to respect the *pari passu* principle.

<sup>(52)</sup> Also Recital (70) BRRD.

<sup>(53)</sup> Recital 79 and Art. 54 (1) BRRD, DR 2016/1075 25 (3) (b).

<sup>(54)</sup> Art. 20 (14) SRMR.

<sup>(55)</sup> Art. 27 (3) SRMR.

<sup>(56)</sup> DR 2016/1075 (28) (2).

<sup>(57)</sup> See SRB publication on insolvency ranking: [https://srb.europa.eu/sites/srb-site/files/ldr\\_-\\_annex\\_on\\_insolvency\\_ranking\\_2019\\_clean\\_v2\\_v1.1.pdf](https://srb.europa.eu/sites/srb-site/files/ldr_-_annex_on_insolvency_ranking_2019_clean_v2_v1.1.pdf).

<sup>(58)</sup> Art. 20 (16-18) SRMR.

## [PRINCIPLE 2.2] CROSS-BORDER RECOGNITION OF RESOLUTION ACTIONS

**Banks have adequate arrangements in place to ensure the cross-border recognition and effectiveness of resolution actions.**

For agreements governed by the laws of a third country, banks are expected to include contractual terms that are effective and enforceable in that third country to:

- ▶ ensure that the write-down and conversion of liabilities would be effective and enforceable in that third country, in line with Art. 55 BRRD<sup>(59)</sup>. For derivatives transactions executed under an International Swaps and Derivatives Association (ISDA) Master Agreement (or another Protocol-covered agreement), adherence by all parties to the relevant ISDA bail-in protocol can be one suitable way to achieve such bail-in recognition; and
- ▶ bind the counterparty of a financial contract to the restrictions of Art. 68 BRRD, so that crisis prevention measures or crisis management measures including any directly linked events (such as e.g. change of control) shall not entitle the counterparty to terminate, suspend, modify, net or set-off contracts or to enforce security rights, including in cross-default constellations and ensure that the contract may be subject to the exercise of suspension powers under Art. 69-71 BRRD. Adherence by all parties to a covered agreement to the ISDA 2015 Universal Resolution Stay Protocol and/or the relevant modules under the ISDA 2016 Jurisdictional Modular Protocol can be one suitable way to achieve such resolution stay recognition for derivatives or securities financing transactions executed under a Master Agreement covered by the Protocols.

In addition to ISDA Protocols, national initiatives might be available or bilateral contract clauses may be inserted to achieve recognition of resolution actions.

Banks are expected to regularly inform the IRT on their progress with regard to achieving cross-border recognition (e.g. through the Liability Data Report).

## [PRINCIPLE 2.3] OPERATIONALISATION OF WRITE-DOWN AND CONVERSION

**Banks have in place adequate governance arrangements, internal processes and MIS capabilities to support the operational execution of the write-down and conversion, both internally and by third parties, and regularly evaluate and test their effectiveness.**

Banks have processes and infrastructure in place to provide resolution authorities with a complete set of data regarding the loss absorption capacity of a wide range of liabilities, in a very short timeframe, upon request.

Banks are expected to develop a bail-in playbook, which should outline:

- ▶ all governance arrangements, actions and processes to be undertaken by or on behalf of the banks to effectively execute write-down and conversion;
- ▶ the sequence of events based on the expected timeline for the drafting and adoption of the resolution scheme, the legal, operational, accounting and tax considerations relevant for each type of eligible instrument in the execution of bail-in, and the governance

<sup>(59)</sup> This applies unless and until the SRB determines that write-down and conversion powers by the resolution authority of a Member State are recognised pursuant to the law of the relevant third country or pursuant to a binding agreement concluded with that third country.

arrangements applying to each stage of the sequence (i.e. task-owning units and their respective responsibilities);

- ▶ arrangements for the external execution of write-downs and conversions, including communication arrangements with external stakeholders important for execution (Central Securities Depositories (CSDs), exchanges, etc.). Banks have systems and resources in place to generate rapidly – e.g. within a few hours – up-to-date information on (a) Securities within the scope of bail-in, including name of the issuance and International Securities Identification Number (ISIN) or other relevant identification code and (b) CSDs in which the securities were issued and are subject to safekeeping. Banks are able to identify the agents that would need to be involved in executing the write-down and conversion;
- ▶ mechanisms allowing for the upstreaming of losses from the subsidiaries within the resolution group to the resolution entity and for the downstreaming of own funds from the resolution entity to the subsidiaries where relevant;
- ▶ arrangements to ensure that the information delivered to the resolution authorities for the operationalisation of bail-in is complete, accurate and has been subject to a quality-assurance process. The playbook documents the readiness of the group's MIS on data provision for timely, accurate and complete information in order to implement and operationalise bail-in. Chapter 2.5 outlines the detailed expectations related to the management of information and the arrangements to ensure that the information delivered to the resolution authorities for the operationalisation of bail-in is complete, accurate and has been subject to a quality-assurance process; and
- ▶ arrangements to address relevant cross-border issues as referenced above.

The banks' senior management approves bail-in playbooks.

#### **2.2.4. Principles – Minimum requirement for own funds and eligible liabilities (MREL)**

##### **[PRINCIPLE 2.4] SUFFICIENT LEVEL OF INSTRUMENTS ELIGIBLE FOR THE MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES**

Banks maintain a sufficient amount of instruments eligible for the MREL, set by the SRB in line with the bank's resolution strategy, business model, funding model, risk profile and SRB resolvability assessment.

Banks are expected to:

- ▶ be able to provide, at all times, in a timely and reliable manner, all information necessary to enable the SRB to determine MREL, including bank-specific adjustments to the requirement; and
- ▶ meet at all times the MREL requirement communicated by means of the NRA national implementing act of the relevant SRB MREL determination.

##### **[PRINCIPLE 2.5] HIGH QUALITY OF ELIGIBLE INSTRUMENTS**

Banks maintain eligible instruments that can credibly and feasibly be used to absorb losses and recapitalise the banks in resolution, including a minimum amount of subordinated

**instruments, set by the SRB in line with the bank's resolution strategy, business model, funding model, risk profile and SRB resolvability assessment.**

In this context, banks are expected to:

- ▶ be able to provide, at all times, in a timely and reliable manner, all information including, where appropriate, legal opinions necessary to justify the eligibility of own funds and liabilities where needed;
- ▶ ensure that subordination requirements are met with appropriate eligible liabilities;
- ▶ insert, where applicable, contractual bail-in recognition clauses for eligible liabilities governed by the law of third countries by which holders explicitly recognise that the liability may be subject to the write-down and conversion powers and other relevant powers of EU resolution authorities, and be prepared to demonstrate that any decision of a resolution authority would be effective<sup>(60)</sup>; or consider issuing instruments, which are intended to be eligible to meet the MREL target, under the governing law of one of the EU Member States, to achieve legal certainty with regard to their loss absorption and recapitalisation capacity, if applicable;
- ▶ decrease the potentially excessive reliance on issuances of senior and subordinated eligible instruments towards retail investors, and be able to provide all necessary information to enable the SRB to identify potential impediments to resolvability related thereto;
- ▶ decrease the potential reliance on issuances of instruments via special purpose vehicles and other similar funding arrangements that could hamper their MREL eligibility, and be able to provide all necessary information to justify that the specific features of the funding structure do not impair the credibility and feasibility of the resolution strategy;
- ▶ for banking groups identified as Global Systemically Important Institutions (G-SIIs), identify direct, indirect and synthetic holdings of (Total loss-absorbing capacity, TLAC-) eligible instruments issued by the G-SII itself, or other G-SIIs in view of their deduction from the stock of (TLAC-) eligible liabilities;
- ▶ submit any relevant documentation prior to call, redeem, repay or repurchase eligible liabilities instruments covered by the permissions regime, including those with residual maturity of less than one year, before they reach their contractual maturity, in line with the operational provisions specified by the SRB<sup>(61)</sup>;
- ▶ banking groups subject to a Multiple Points of Entry (MPE) strategy should not rely on issuances of eligible instruments, beyond equity participations, purchased by other resolution groups of the same banking group, acknowledging that limited interconnections and interdependencies may exist for operational or financial reasons in order to maintain the group efficiency and compliance with regulatory constraints. Contagion risk shall be deemed minimised insofar as the resolution groups subject to the MPE strategy can be resolved without causing immediate MREL shortfalls in other resolution group(s); and
- ▶ where relevant, for banking groups under a cooperative structure<sup>(62)</sup>, subject to bank-specific characteristics and the applicable resolution strategy, consider issuing MREL-eligible instruments from the central body in order to facilitate the operationalisation of bail-in.

<sup>(60)</sup> Art. 55 BRRD.

<sup>(61)</sup> [https://srb.europa.eu/sites/srbsite/files/crr\\_addendum\\_to\\_the\\_2018\\_srb\\_mrel\\_policy.pdf](https://srb.europa.eu/sites/srbsite/files/crr_addendum_to_the_2018_srb_mrel_policy.pdf)

<sup>(62)</sup> Irrespective of the assessment of the SRB regarding the perimeter of the loss-absorption and recapitalisation requirements.

## [PRINCIPLE 2.6] EFFECTIVE INTERNAL LOSS TRANSFER AND RECAPITALISATION MECHANISM

Banks set up and maintain a credible and feasible internal loss transfer and recapitalisation mechanism within resolution groups at all times, in order to properly upstream losses and downstream capital in resolution<sup>(63)</sup>.

Banks are expected to:

- ▶ be able to provide in a timely and reliable manner, all necessary information to enable the SRB to determine the MREL for non-resolution entities, where applicable, including bank-specific adjustments to the requirement;
- ▶ ensure that, beyond the compliance with this requirement, an effective internal loss transfer and recapitalisation mechanism is implemented from subsidiaries to resolution entities in a resolution group, taking into account the nature of the holder of the instruments and the need for appropriate subordination;
- ▶ when material impediments to the application of the resolution tools have been identified, adapt their organisational and financial structure with a view to enhancing internal loss-transfer and recapitalisation mechanisms;
- ▶ for banking groups established under a holding company structure, and where the holding company is identified as point of entry, ensure that MREL issuances from the operating company to the holding company allow for an adequate upstream of losses; and
- ▶ where applicable, provide all necessary information to enable the SRB to assess potential requests for waivers of individual requirements.

## 2.3. Liquidity and funding in resolution

### 2.3.1. Objective

Banks have established processes and developed capabilities to (i) estimate the liquidity and funding needs for the implementation of the resolution strategy<sup>(64)</sup>, (ii) measure and report the liquidity position in resolution<sup>(65)</sup> and (iii) identify and mobilise available collateral that can be used to obtain funding during and after resolution.

### 2.3.2. Background

Banks are likely to remain under liquidity stress for some time after resolution due to an asymmetry of information regarding their viability and the sustainability of the business model. Nevertheless, banks need to ensure that they continue to meet their obligations as they fall due both during and after resolution.

<sup>(63)</sup> This expectation should be read in conjunction with the applicable legislation that provides for internal MREL requirements in accordance with the provisions introduced in BRRD2 and SRMR2, becoming applicable from 28 December 2020, and to be reflected in SRB's MREL Policy implementing the Banking Package and related bank-specific decisions on MREL.

<sup>(64)</sup> Art. 10 (7) (i), 12 (3) (ii), 15 (1), 16 (1) BRRD and Section C (3) of the Annex to the BRRD.

<sup>(65)</sup> Art. 22 SRMR.



Against this background, banks are expected to develop methodologies to estimate ex ante their liquidity needs for the implementation of the resolution strategy. Banks are expected to develop capabilities to identify and report, in a timely manner, the unencumbered assets that could be rapidly mobilised as collateral and describe operationally how to mobilise those assets and address any legal, regulatory and/or operational obstacle to their mobilisation under stressed conditions. In meeting these expectations, banks are invited to leverage on any capability already developed for supervisory purposes. However, banks need to be able to address the following resolution-related aspects.

### 2.3.3. Principles

#### [PRINCIPLE 3.1] ESTIMATION OF LIQUIDITY AND FUNDING NEEDS IN RESOLUTION

**Banks have developed robust methodologies to estimate ex ante, under different assumptions, the liquidity and funding needed for the implementation of the resolution strategy and have identified possible liquidity sources supporting resolution.**

Banks are expected to identify key liquidity drivers in case of resolution at the level of the resolution group and at the level of each material legal entity in the perimeter of the resolution group.

In the analysis of their liquidity drivers in resolution, banks are expected to consider crises of different natures (e.g. sudden/slow-developing crisis, solvency/pure liquidity crisis, etc.) and to identify drivers of liquidity risks relevant to them (e.g. deposits outflows, FMI liquidity needs, etc.).

Banks are expected to develop methodologies to simulate, under different resolution scenarios, the cash flows arising from assets, liabilities and off-balance sheet items as well as the evolution of the counterbalancing capacity across time buckets.

Simulations need to include:

- ▶ contractual cash inflows and outflows;
- ▶ behavioural cash inflows and outflows; and
- ▶ evolution of the counterbalancing capacity and its liquidity value after presumed haircuts.

These cash flows and the counterbalancing capacity shall be simulated:

- ▶ for the resolution group, for each material legal entity and, when relevant, for specific branches in the perimeter of the resolution group on an individual basis;
- ▶ at aggregated level in the reporting currency and at the level of each material currency including all currencies relevant to banks' participation in FMIs; and
- ▶ over a certain number of time periods, from overnight to a sufficient time horizon (e.g. six months) after the resolution event.

When estimating the liquidity and funding needed to implement the resolution strategy, banks are expected to take a conservative approach and to pay particular attention to:

- ▶ legal, regulatory and operational obstacles to the transferability of liquidity, especially between resolution group entities;

- ▶ obligations related to payment, clearing and settlement activities, including potential liquidity effects of risk management actions by FMIs or FMI intermediaries;
- ▶ counterparty/collateral requirements, including requirements stemming from direct and indirect membership of Central Counterparties (CCPs) and other FMIs, such as increased initial or variation margin requirements for financial instruments during and after the resolution event;
- ▶ contractual suspension, termination and netting/set-off rights that counterparties may exercise upon the banks' resolution;
- ▶ liquidity flows between the resolution group and group entities which are not part of the resolution group;
- ▶ legal and operational obstacles to pledge available collateral in a timely manner;
- ▶ specific "peak" intraday liquidity needs on top of the other elements mentioned above; and
- ▶ available central bank liquidity facilities, and their terms and conditions for access and repayment (e.g. eligible collateral, haircuts and timeframe).

Banks are expected to be able to justify the key assumptions (e.g. haircuts, rollover rates, runoff rates) underpinning their estimations in a dedicated document.

Banks are also expected to take into account the outcome of the above analysis in the liquidity risk strategy in resolution and in the respective funding plan. Where relevant, banks are expected to demonstrate how potential shortfalls, in particular in material currencies, could be addressed<sup>(66)</sup>.

### **[PRINCIPLE 3.2] MEASUREMENT AND REPORTING OF THE LIQUIDITY SITUATION IN RESOLUTION**

**Banks have established processes and developed capabilities to measure and report their liquidity and funding needs in case of resolution, as well as the liquidity sources that are available, at the level of the resolution group and at the level of material legal entities in the perimeter of the resolution group.**

Banks are expected to demonstrate that they are able to measure and report their liquidity position at short notice. Moreover, banks are expected to be able to forecast their net liquidity position across time periods (including intraday) by reporting:

- ▶ cash inflows and outflows (differentiating between contractual and behavioural flows); and
- ▶ the counterbalancing capacity and its liquidity value after presumed haircuts.

Banks are expected to be able to report the metrics above at the level of the resolution group as well as for each material legal entity and, when relevant, for specific branches in the perimeter of the resolution group, in aggregate, on an individual basis and by material currency.

Banks are also expected to detail the assumptions (e.g. haircuts, rollover rates, runoff rates) applied to forecast the evolution of the liquidity value of the counterbalancing capacity.

<sup>(66)</sup> Please also refer to Chapters: 2.4 on maintaining access to FMIs and 2.5 which outlines the overall expectations related to the management of information of importance for resolution purposes.

### [PRINCIPLE 3.3] IDENTIFICATION AND MOBILISATION OF COLLATERAL DURING AND AFTER RESOLUTION

Banks have established processes and developed capabilities to identify and mobilise assets that can be used as collateral to obtain funding during and after resolution. In order to ensure an effective and efficient deployment of the collateral that is available in resolution, banks have identified the time needed to mobilise it for refinancing operations and anticipated the steps needed to make it acceptable to counterparties.

To that end, banks are expected to develop capabilities to:

- ▶ Identify available collateral and
  - identify all assets that could potentially qualify as collateral eligible to support funding in resolution (i.e. High-Quality Liquid Assets (HQLA) and especially non-HQLA);
  - differentiate between encumbered and unencumbered assets, and determine legal rights to all collateral (pledged or not pledged);
  - monitor the unencumbered/available collateral at the level of the resolution group, and at the level of each material legal entity or branch in the perimeter of the resolution group on an individual basis, for each material currency; and
  - develop the capacity to report information on the available collateral at a granular level (e.g. central bank eligibility, currency, type of assets, location, credit quality, etc.), even under rapidly changing conditions;
- ▶ Operationalise mobilisation of collateral and
  - develop and document all necessary operational steps (including the time horizon and governance processes) to mobilise collateral also located in non-Eurozone subsidiaries/branches; and
  - focus in particular on less marketable assets (e.g. credit claims);
- ▶ Assess mobilisation of collateral, and regularly (at least annually) evaluate and test the operational robustness and effectiveness of the mobilisation of the available collateral (e.g. the ability to sell, repo or borrow against certain assets).

## 2.4. Operational continuity in resolution and access to FMI services

### 2.4.1. Objective<sup>(67)</sup>

Banks have in place adequate operational arrangements to ensure the continuity of the services that are necessary for preserving critical functions and the core business lines needed for the effective implementation of the resolution strategy and any consequent restructuring.

<sup>(67)</sup> Expectations with regard to Governance, Communication and, more specifically, MIS related to operational continuity and access to FMI services are included in Chapters 2.1, 2.6 and 2.5, respectively. Expectations with regard to liquidity related to maintaining access to FMI services are included in Chapter 2.3.

Banks have established the necessary processes and arrangements to maximise the likelihood of maintaining access, ahead of, during and after resolution, to FMI and to payment, clearing, settlement and custody services provided by intermediaries.

### 2.4.2. Background

Operational continuity in resolution refers to the ability to effectively implement, from an operational point of view, the resolution strategy and, consequently, to stabilise and restructure the bank. To this end, appropriate arrangements need to be in place to ensure the continued provision of services needed for:

- (i) maintaining the bank's critical functions to the real economy and financial markets ("critical services"); and
- (ii) supporting the bank's core business lines that are necessary for the effective implementation of the resolution strategy and any consequent restructuring ("essential services")<sup>(68)</sup>.

Together these services are referred to as "relevant services".

The operational continuity framework comprises the identification and mapping of relevant interdependencies<sup>(69)</sup>, the assessment of operational continuity risk, putting in place actions to mitigate risks to operational continuity and measures to improve preparedness for resolution<sup>(70)</sup>, and having adequate management information systems<sup>(71)</sup>.

Appropriate operational continuity arrangements may differ depending on the service delivery model employed by the bank. Moreover, the identified preferred and variant resolution strategy and other factors, such as the law applicable to the contracts governing relevant services ("relevant contracts"), may also play a role and may impact the prioritisation for implementing certain arrangements.

The continuity objective also applies to FMI services, i.e. payment, clearing, settlement and custody services provided either by an FMI or by an intermediary. Without access to such services ahead of and during resolution, banks would not be in a position to continue operating, which would hamper the stabilisation of the institution and prevent the continued performance of critical functions.

In that regard, banks need to have a clear overview of their use of such services<sup>(72)</sup> and develop contingency plans and measures to ensure continuity in access to FMI services<sup>(73)</sup>.

<sup>(68)</sup> Art. 15 (2) BRRD and Section C (3) of the Annex to the BRRD.

<sup>(69)</sup> Art. 10 (7) BRRD and Section B (4), (15) and Section C (1) of the Annex to the BRRD, Art. 22 (4) and Art. 27 (2) Commission Delegated Regulation 2016/1075 (CDR).

<sup>(70)</sup> Section C (3), (4), (6) and (19) of the Annex to the BRRD, Art. 27 (1) and Art. 31 (2) CDR.

<sup>(71)</sup> Section B (13), (14), (18), (19) BRRD and Section C (8) and (9) of the Annex to the BRRD, Art. 29 (1) CDR.

<sup>(72)</sup> Section B (12) of the Annex to the BRRD.

<sup>(73)</sup> Section C (7) of the Annex to the BRRD, EBA GL 2014/11.

### 2.4.3. Principles – Operational continuity in resolution

#### [PRINCIPLE 4.1] IDENTIFICATION AND MAPPING OF INTERCONNECTEDNESS FOR OPERATIONAL CONTINUITY

Banks have identified all relevant services, as well as operational assets and roles/staff, necessary for the continuity of critical functions and the core business lines needed for the effective implementation of the resolution strategy and any consequent restructuring, and mapped them to legal entities, critical functions, core business lines and related contractual arrangements.

Banks are expected to:

- ▶ carry out and maintain a comprehensive identification of the relevant services (provided within the group or by third parties), operational assets and roles/staff, based on the respective definitions<sup>(74)</sup>. Services are not considered relevant where (i) their disruption has no material impact on the bank's ability to continue to provide critical functions and core business lines (as referred to above) or (ii) they can be provided by another provider within a reasonable timeframe to a comparable extent as regards object, quality and cost<sup>(75)</sup>;
- ▶ carry out and maintain a comprehensive mapping of all relevant services to critical functions, core business lines and legal entities (providing and receiving the services), as well as relevant operational assets and roles/staff and their location (within the group and physically). These operational interconnections should also include services provided between different providers (e.g. an intra-group provider sub-contracting with a third party provider);
- ▶ carry out and maintain a mapping of relevant services to the contracts/arrangements governing them<sup>(76)</sup>; and
- ▶ develop and maintain an up-to-date searchable database ("service catalogue") in which all the above mapped information is gathered and can be accessed reliably, including in a stressed situation, for resolution planning or execution purposes.

Banks are also expected to:

- ▶ ensure that the relevant contractual arrangements<sup>(77)</sup>, with both third party and intra-group providers, are well documented and include all the information that would enable resolution authorities to take appropriate decisions and to apply resolution powers to them (e.g. transfer of service provision); and
- ▶ when the provision of relevant services is carried out by units/divisions within the same legal entity (intra-entity services), document the information which would facilitate the services being easily identified and transitional service agreements quickly drawn up, should this be required under the resolution strategy.

<sup>(74)</sup> Banks can use the high-level list of services in [EBA/GL/2015/06](#) (EBA Guidelines on the minimum list of services or facilities that are necessary to enable a recipient to operate a business transferred to it under Art. 65 (5) BRRD) and the [FSB \(Financial Stability Board\) 2013 Guidance on Identification of Critical Functions and Critical Shared Services](#) as a starting point, but are expected to identify services in a much more detailed and targeted way in order to allow the mapping exercise at granular level to reflect accurately how the bank is structured to provide services to critical functions and core business lines.

<sup>(75)</sup> In this regard banks can refer to [FSB Guidance on Identification of Critical Functions and Critical Shared Services \(2013\) Section 3](#).

<sup>(76)</sup> This includes mapping licensing and usage arrangements related to operational assets.

<sup>(77)</sup> E.g. contracts for service provision, service level agreements with other group entities, software licence agreements and property leases.

## [PRINCIPLE 4.2] ASSESSMENT OF OPERATIONAL CONTINUITY RISK

Banks have comprehensively assessed risks to operational continuity in resolution, such as the interruption of relevant services, loss of access to relevant operational assets and vacancy/unavailability of relevant roles/staff. As a result of this risk analysis, banks have a good understanding of how their operational arrangements would support the execution of the resolution strategy, and facilitate post-resolution restructuring.

Once relevant services, assets and roles/staff are identified and mapped (Principle 4.1), banks are expected to assess the risk of the interruption or discontinuance of these dependencies in resolution. Banks are expected to carry out a comprehensive risk analysis based on a preliminary identification of all potential events (risk drivers<sup>(78)</sup>) that may result in the disruption or discontinuance of the relevant operational dependencies identified in Principle 4.1.

The risk analysis needs to take into account elements such as:

- ▶ the law applicable to the relevant contracts;
- ▶ the location and legal status (e.g. owned or leased) of relevant assets; and
- ▶ the potential vacation of relevant roles in resolution, including where relevant staff are employed by a group legal entity that could be wound down or divested in resolution.

As part of this risk analysis, banks are also expected to assess whether (i) relevant contracts are adequately documented, (ii) cost and pricing structures are transparent and set on an arm's length basis, and (iii) service providers have sufficient financial resources to allow the continuity of provision of relevant services during and after resolution (see Principle 4.3).

## [PRINCIPLE 4.3] ACTIONS TO MITIGATE RISKS TO OPERATIONAL CONTINUITY AND MEASURES TO IMPROVE PREPAREDNESS FOR RESOLUTION

Banks have ensured that the identified risks to operational continuity in resolution are addressed, through appropriate mitigating actions and measures to improve preparedness for resolution and to facilitate post-resolution restructuring<sup>(79)</sup>.

Banks are expected to identify and put in place appropriate mitigating actions to address the risks to operational continuity in resolution identified in Principle 4.2.

- ▶ Banks are expected to ensure that relevant contracts for services provided by intra-group and third party providers are resolution-resilient<sup>(80)</sup>. This means that, as long as substantive obligations continue to be performed, contracts ensure:
  - non-termination, suspension or modification on the grounds of resolution/restructuring;
  - transferability of the service provision to a new recipient by the service recipient or the resolution authority because of resolution/restructuring;
  - support for transfers necessitated by, or termination occurring during resolution/restructuring; and

<sup>(78)</sup> Risk drivers are therefore those potential events that may lead to materialisation of operational continuity risks in resolution (e.g. unilateral termination of critical services by the provider when the bank is put in resolution).

<sup>(79)</sup> Please also refer to Chapter 2.7 on separability and restructuring.

<sup>(80)</sup> Resolution-resilient features are outlined in full in the Glossary.

- continued service provision to a divested group entity during resolution/restructuring.

Resolution-resilience can be achieved through explicit clauses or by application of law or jurisdiction. In particular, for contracts where the law and jurisdiction is that of an EU Member State, making the counterparty aware about resolution authority powers may be sufficient. However these contracts may need to be amended to ensure that relevant services can continue during post-resolution restructuring under a business reorganisation plan. Contracts to which the law or jurisdiction of an EU Member State does not apply may need to be amended to achieve the necessary resolution-resilient features described above, given that resolution authority powers under the BRRD may not be effective in this case.

Where banks are genuinely unable to achieve resolution-resilient contracts, they are expected to provide the IRT with sufficient justification as to why the contracts could not be amended and to present potential alternative strategies, for example moving to providers who will allow for the inclusion of resolution-resilient terms. For instance, where the law applicable to a non-resolution-resilient contract with a third party provider is that of a third country, banks may also be expected to maintain sufficient liquidity resources to pre-fund the contract costs of the service for a reasonable period of time (minimum six months) once a crisis management measure<sup>(81)</sup> is applied.

- ▶ Banks are expected to have cost and pricing structures in place for relevant services they receive that are transparent, predictable and set on an arm's length basis. This is in order to provide ex ante certainty about the costs at which relevant services will continue to be provided in resolution and to facilitate decision-making in restructuring.
- ▶ Banks are expected to ensure that relevant service providers are financially resilient in resolution, in order to manage the risks they are exposed to in stress or in a resolution event of any group entity:
  - The method by which banks are expected to ensure that relevant service providers are financially resilient varies depending on whether the services are provided from within the group, by an unregulated<sup>(82)</sup> intra-group provider or from outside the group.
  - Where relevant services are provided by an unregulated intra-group provider, banks receiving the services are expected to ensure that the provider has adequate liquid resources (at least equivalent to 50% of annual fixed overheads<sup>(83)</sup>) which are segregated from other group assets. This may imply holding liquid assets or making deposits with third parties. Where relevant services are provided by a non-group provider, banks are expected to undertake adequate due diligence of the financial resilience of the third party provider, in line with the approach in the "EBA Guidelines on outsourcing arrangements"<sup>(84)</sup>.
- ▶ Banks are expected to have arrangements in place to ensure the continued access to relevant operational assets in the event of resolution or restructuring of any group legal entity, such as having leasing or licencing contracts that are resolution-resilient. Where banks cannot adequately ensure this, they may be expected to arrange that these assets are owned or leased by the service provider or recipient.

<sup>(81)</sup> As defined in Art. 2 (1) (102) BRRD.

<sup>(82)</sup> Not subject to prudential regulation regarding capital/liquidity on an individual basis.

<sup>(83)</sup> Annual fixed overheads are expected to be calculated based on the method set out in Art. 1 of Commission Delegated Regulation 2015/488 as regards own funds requirements for firms based on fixed overheads.

<sup>(84)</sup> Section 12.3 EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02).

- ▶ Banks are expected to have in place contingency arrangements to help ensure that relevant roles would be adequately staffed in resolution. This includes:
  - retention plans (and related governance and processes) detailing measures the bank can take at short notice in the run-up to and during resolution to mitigate against resignation of staff in relevant roles;
  - contingency arrangements for addressing the loss of relevant staff in resolution, such as up-to-date succession plans that seek to ensure that alternative staff with adequate skills and knowledge would be available to perform relevant vacant roles; and
  - arrangements to address the risks associated with dual-hatted employees in resolution<sup>(85)</sup>, where relevant.

Banks should take into account relevant labour law and regulatory requirements such as necessary approvals for changes to staff responsibilities and remuneration.

#### 2.4.4. Principles – access to FMI services

##### [PRINCIPLE 4.4] IDENTIFYING, MAPPING AND ASSESSING DEPENDENCIES ON FMI SERVICE PROVIDERS<sup>(86)</sup>

Banks have identified all critical and essential FMI service providers (FMIs and FMI intermediaries) and mapped such providers to legal entities, critical functions and core business lines <sup>(87)</sup>.

Banks are expected to:

- ▶ identify all FMI service providers that they are using, as well as trading venues. FMI service providers are either FMIs (i.e. payment and settlement systems, central counterparties or trade repositories) or FMI intermediaries offering payment, clearing, settlement or custody services, such as correspondent or custodian banks;
- ▶ identify which of the related FMI services are necessary for the continuity of critical functions (“critical FMI services”) and core business lines (“essential FMI services”). To that aim, banks are expected to develop an objective approach, taking into account, among others, the potential impact of discontinued or degraded<sup>(88)</sup> access
  - on their critical functions and core business lines, as well as, to the extent feasible,
  - on the business of key customers, for the relevant legal entities that act as intermediaries in delivering FMI services to other institutions.
- ▶ map those critical or essential FMI services to each legal entity and to the related critical functions and core business lines; and

<sup>(85)</sup> For example, an agreement that allows the entities to access functions provided by the staff member on a transitional basis.

<sup>(86)</sup> FMIs and FMI intermediaries are referred to as ‘FMI service providers’. CPMI-IOSCO’s definition of FMIs refers to payment systems, CSDs, Securities Settlement Systems, CCPs and Trade Repositories (TRs). Banks are not expected to meet the subsequent principles for trading venues or TRs; the SRB’s operational continuity expectations apply.

<sup>(87)</sup> Art. 8 (9) (k) SRMR, Section B (11) and (12) of the Annex to the BRRD, Art. 22 (4) (b) DR 2016/1075/EU, CIR 2018/1624.

<sup>(88)</sup> For example, in case the FMI or intermediary does not accept new trades (whilst continuing to service outstanding trades), reduces intraday credit provision or limits usage of certain dedicated services (e.g. securities lending, collateral management, etc.).



- ▶ identify the roles that they play with respect to FMIs<sup>(89)</sup>.

Banks are expected to provide this information in the FMI report<sup>(90)</sup> and in the FMI contingency plan (cf. Principle 4.6).

#### [PRINCIPLE 4.5] UNDERSTANDING THE REQUIREMENTS FOR CONTINUED ACCESS

**Banks (i) have a clear understanding of the conditions for continued access to critical and essential FMI services<sup>(91)</sup> and (ii) have documented and assessed the potential financial and operational requirements that FMIs and FMI intermediaries may impose ahead of and during resolution.**

Banks are expected to:

- ▶ have a clear understanding of the conditions for continued access to critical and essential FMI services. They are expected to identify and document the substantive obligations, in particular financial and operational obligations, under FMI rulebooks and contracts with FMI intermediaries, and consider which obligations the successor entity may have difficulties in meeting post-resolution<sup>(92)</sup>. Similarly, they are expected to identify the substantive obligations under their contracts with other service providers, whose services are necessary for using the services of FMIs<sup>(93)</sup>;
- ▶ consider the actions that FMIs and FMI intermediaries would be likely to take, such as increased margin requirements or reductions in outstanding credit lines, and in which circumstances these actions might be taken and within which timeline (e.g. intraday or within a few days);
- ▶ consider the liquidity requirements they may face under different stress scenarios and provide a reasonable estimate in the FMI report, together with relevant data on credit lines and credit line usage, as well as the historical peak of (intraday) liquidity or collateral usage over a given time horizon<sup>(94)</sup>; and
- ▶ explain in their FMI contingency plan the methodology underpinning their estimates of liquidity requirements under stress, including any assumptions related to the expected volume of business activity. Banks are also expected to include additional information on potential requirements (e.g. fees) that other service providers necessary for access to FMIs may impose, whenever this is relevant.

#### [PRINCIPLE 4.6] FMI CONTINGENCY PLAN AND MEASURES TO ENSURE CONTINUITY IN ACCESS TO FMI SERVICES

**Banks have developed an FMI contingency plan outlining the measures that they have implemented to support continued access to FMI services or a smooth transfer or wind-down of activities<sup>(95)</sup>. This includes (i) measures to maximise the likelihood that they would**

<sup>(89)</sup> Such as nostro agent, custodian, liquidity provider, etc. The services provided by banks to FMIs are reported in the FMI report.

<sup>(90)</sup> Banks have been requested to complete the FMI report since 2017: <https://srb.europa.eu/en/content/fmi-report>. This page also contains guidance for banks on how to complete the FMI report.

<sup>(91)</sup> Art. 68 (1) (3) and 94 (4) (d) BRRD.

<sup>(92)</sup> For example, as a consequence of difficulties the bank may face in mobilising the necessary liquidity.

<sup>(93)</sup> Such as communication service providers (for example SWIFT), nostro agents (for ensuring continued access to the services of the foreign-exchange settlement system Continuous Linked Settlement, CLS) or IT service providers (for example where usage of particular software is necessary to access an FMI).

<sup>(94)</sup> Liquidity requirements related to banks' participation in FMIs need to be taken into account in the assessment of banks' overall liquidity needs ahead of and during resolution, as per Chapter 2.3.

<sup>(95)</sup> Section C (7) of the Annex to the BRRD.

**continue meeting the requirements for continued access ahead of and during resolution as well as (ii) other measures supporting resolution action.**

Banks are expected to develop an FMI contingency plan to support continued access to relevant FMI services. The FMI contingency plan is an operational playbook, approved by the bank's senior management, outlining, among others, for each critical and essential FMI or intermediary:

- ▶ the mitigation actions that the FMI service provider would be expected to take ahead of and during resolution;
- ▶ the infrastructure, processes and operational arrangements that the banks have put in place to ensure they continue to satisfy the substantive obligations included in FMI rulebooks and contracts with FMI intermediaries, so as to preserve the access, at a minimum, to all critical and essential FMI services. This should rest on a thorough identification of key systems and personnel required to maintain access to FMI services, and arrangements to ensure they remain available or can credibly be replaced in a crisis; and
- ▶ the actions the banks would undertake to mitigate threats related to discontinued or degraded access on the performance of its critical functions and core business lines, for example, through the active management of exposures, the pre-funding of obligations or credible ex ante alternative arrangements. For banks that have developed a solvent wind-down plan, this should also take into account relevant elements of that plan (including the timeline for its implementation).

In this context, banks are also expected to consider the following measures to enhance resolution preparedness:

- ▶ where banks have found that their contracts with intermediaries or with other service providers necessary for maintaining access to FMIs are not resolution-resilient, making these bilateral contracts resolution-resilient, as appropriate<sup>(96)</sup>;
- ▶ identifying possible substitutes for the FMI services that they are using, if any, and their respective jurisdictions. The SRB acknowledges that such substitution may not be realistically achievable during the resolution "weekend". Nevertheless, it may play an important role in the reorganisation phase, e.g. through rationalisation of FMI participations or memberships. Only alternative providers with whom banks have an established contractual relationship may be considered as potentially credible substitutes; and
- ▶ identifying the requirements for customer portability across all relevant services, so as to be able to support customer portability, in line with the relevant FMI's processes and procedures<sup>(97)</sup>. This entails:
  - providing sufficient information with regard to client portability<sup>(98)</sup> related to CCPs, per CCP and per segment in which they are acting as clearing member (e.g. in the FMI report, the segregation regime and type of client accounts, and the number of clients under different account structures); and
  - having the resources and systems in place to maintain up-to-date information, which could be provided rapidly in resolution to ensure that client positions at CCPs, as well as client assets in CSDs, are transferred smoothly, including the list of:

<sup>(96)</sup> Please refer to Principle 4.3 related to operational continuity in resolution for an overview of resolution-resilient features and of the steps that banks may be asked to undertake to ensure resolution resilience to the greatest extent possible.

<sup>(97)</sup> Art. 8 (9) (l) SRMR, Art. 22 (4) (c) DR 2016/1075.

<sup>(98)</sup> In particular Art. 39 and 48 of the European Market Infrastructure Regulation (EMIR, Regulation (EU) No 648/2012 of 4 July 2012).

- clients for each omnibus account;
- client positions, margins and assets received as collateral per individual client; and
- individual client assets held at the CSD.

## 2.5. Information systems and data requirements

### 2.5.1. Objective

Banks have in place adequate MIS<sup>(99)</sup>, valuation capabilities and technological infrastructures to provide the information necessary for (i) the development and maintenance of resolution plans<sup>(100)</sup>, (ii) the execution of a fair, prudent and realistic valuation<sup>(101)</sup> and (iii) the effective application of resolution actions<sup>(102)</sup>, also under rapidly changing conditions<sup>(103)</sup>.

### 2.5.2. Background

Banks are requested to provide the SRB with all the information necessary for the preparation, update<sup>(104)</sup> and implementation of resolution plans and, to this end, to cooperate as much as necessary with the SRB.

In this context, and as part of its annual resolvability assessment<sup>(105)</sup>, the SRB will assess the capacity of banks to collect and provide said information to resolution authorities and/or valuers in a timely fashion.

In order to obtain the necessary information and to conduct related assessments, the SRB will closely cooperate with competent authorities<sup>(106)</sup>, taking into account information that is already available as well as assessments performed under supervisory tasks (e.g. on-site inspections).

In this section, MIS/database, valuation capabilities and technological infrastructure are referred to as “MIS capabilities”.

### 2.5.3. Principles

#### OVERARCHING EXPECTATIONS

**Banks are expected to establish adequate governance, quality assurance and continuity arrangements to ensure that their MIS capabilities satisfy the below principles before and during the resolution event.**

<sup>(99)</sup> Section C (8) (9) (10) (11) of the Annex to the BRRD.

<sup>(100)</sup> Art. 8 (4), 22 SRMR, Art. 11 BRRD and Section B of the Annex to the BRRD.

<sup>(101)</sup> Art. 20 (14) SRMR, Art. 27 (1) (h), 36, 46 (4) BRRD.

<sup>(102)</sup> Art. 63 (1) BRRD and Section C (9) of the Annex to the BRRD.

<sup>(103)</sup> Art. 27 BRRD and Section C (9) of the Annex to the BRRD.

<sup>(104)</sup> Art. 27 BRRD.

<sup>(105)</sup> Section C of the Annex to the BRRD.

<sup>(106)</sup> Recital 93, Art. 31, 34 SRMR, Art. 11 (2), 27, 90 BRRD.

As part of their resolution governance arrangements (referred to in Chapter 2.1), banks are expected to establish, under the direct responsibility of the management body, effective governance arrangements to ensure that their MIS are able to provide the information necessary for resolution planning and execution on a timely basis and taking into consideration the principles laid down below.

In particular, banks are expected to demonstrate that their governance arrangements adequately address:

- ▶ the processes for consistent data collection and aggregation across the different areas of the bank and group entities, and for their timely delivery;
- ▶ the processes, communication channels and clear allocation of responsibilities for the efficient coordination of the information exchange between the banks, the resolution authorities, the competent authorities, the valuer as well as other relevant authorities and stakeholders; and
- ▶ the framework and processes for quality assurance and the continuity of MIS capabilities.

Banks are expected to demonstrate that they have quality assurance arrangements<sup>(107)</sup> in place and ensure that their MIS capabilities achieve preparedness for resolution. More specifically, banks are expected to demonstrate the periodic testing and upgrading of their MIS capabilities both in normal times and under stress scenarios as defined by the resolution authority<sup>(108)</sup>. The testing exercises aim to assess and validate that MIS capabilities comply with the below principles, and notably cover:

- ▶ the swift provision of data and information to the SRB, competent authorities, the valuer and other relevant stakeholders;
- ▶ the consistent aggregation of data across the different areas of the bank and group entities, also in compliance with any additional SRB guidance; and
- ▶ the sensitivity and flexibility of their internal valuation models.

Banks are expected to report the results of the validation exercise to the management body and to the SRB. Validation reports should identify possible shortcomings and remedial actions. Any relevant internal or external audit reports, or reports from supervisory<sup>(109)</sup> and/or other resolution authorities in relation to the MIS and valuation capabilities<sup>(110)</sup> of the banks, may also be requested.

Banks are also expected to maintain up-to-date documentation describing how these capabilities can be relied upon to satisfy the principles laid down below. The documentation describes the source systems used for the production of the data and how the systems operate, the controls in place, and the stakeholders involved in the preparation and validation of the data.

Having regard to the principles laid down in Chapter 2.4, banks are expected to make arrangements ensuring the continuity of their critical MIS capabilities during and after the resolution event, both for transferred and remaining activities. These arrangements shall be considered part of the bank's contingency planning.

<sup>(107)</sup> See also Chapter 2.1.

<sup>(108)</sup> Section C (10) of the Annex to the BRRD.

<sup>(109)</sup> Also see Fn. 23, MoU between the SRB and the ECB.

<sup>(110)</sup> E.g. regarding the banks' internal valuation models.

## **[PRINCIPLE 5.1] MIS CAPABILITIES TO PROVIDE INFORMATION NECESSARY FOR THE PREPARATION AND UPDATE OF RESOLUTION PLANS**

**Banks have in place adequate MIS capabilities to produce information necessary for resolution planning.**

Inter alia, banks are expected to demonstrate the following capabilities:

- ▶ report on the resolution planning standard forms and templates<sup>(11)</sup> in a sufficiently accurate and complete manner, and at a sufficiently granular level, as part of the annual resolution planning exercise; and
- ▶ produce information referred to under Principles 5.2 and 5.3 below, in the course of ad-hoc dry-run exercises<sup>(12)</sup>.

Banks are also expected to provide a detailed description of the arrangements in place, ensuring that the information required to draw up resolution plans is up-to-date and at the disposal of the resolution authorities at all times<sup>(13)</sup>.

In relation to specific MIS, database and reporting capabilities supporting their operational continuity arrangements, banks are expected to:

- ▶ have comprehensive, searchable and updated (with an adequate frequency) MIS/databases providing rapid access to the information needed to support resolution and post-resolution restructuring. This includes in particular:
  - the service catalogue referenced in Principle 4.1, and
  - a repository of relevant service contracts in a searchable format.

In respect of MIS capabilities related to critical and essential FMI services, banks are expected to demonstrate ability to produce timely and up-to-date information on:

- ▶ their usage of critical and essential FMI services in a timely manner, and to monitor and report key metrics, distinguishing between proprietary and client activity<sup>(14)</sup>;
- ▶ types of collateral accepted by each FMI;
- ▶ outstanding collateral pledged with each FMI; and
- ▶ material upcoming settlement and delivery obligations by value and type of asset, including time-critical obligations.

Banks are also expected to demonstrate the capability to:

- ▶ estimate and manage liquidity and collateral requirements related to their participation in FMIs on a forward-looking basis, as part of their overall liquidity needs (Chapter 2.3);
- ▶ monitor available liquidity and collateral at each FMI service provider in real time; and

<sup>(11)</sup> Art. 11 (3) BRRD, IR 2018/1624/EU resolution reporting templates and the additional templates developed by the SRB for reporting information on critical functions, liability data, and FMIs.

<sup>(12)</sup> Dry-runs will be organised on the basis of a dialogue between IRTs and individual banks under a proportionate approach with the aim to provide sufficient preparation time and avoid disruption to normal course of business.

<sup>(13)</sup> Art. 8 (9) (h) SRMR, Art. 10 (7) (h) BRRD.

<sup>(14)</sup> Section C (8), (9) and (28) of the Annex to the BRRD.

- ▶ mobilise collateral and transfer it to all relevant locations and currencies.

### **[PRINCIPLE 5.2] MIS CAPABILITIES TO PRODUCE NECESSARY INFORMATION FOR THE EXECUTION OF A FAIR, PRUDENT AND REALISTIC VALUATION**

Banks have in place MIS capabilities to produce information that is as up-to-date and complete as reasonably possible<sup>(115)</sup>, to ensure a fair, prudent and realistic valuation<sup>(116)</sup>.

Banks are expected to:

- ▶ self-assess the availability of data and their data aggregation capabilities during the resolution planning phase, as defined in the SRB Dataset for Valuation<sup>(117)</sup> complementing the SRB Framework for Valuation. Banks are also expected to submit a report with the conclusions of such analysis and, if needed, to engage in dialogue with the SRB to discuss any remedial actions to fill potential gaps or enhance data aggregation capabilities;
- ▶ perform dry-run exercises to test the bank's capacity to produce, within a timeframe defined by the SRB in dialogue with the banks, the whole or part of the relevant dataset (i.e. SRB Dataset for Valuation) that is needed to conduct an economic valuation<sup>(118)</sup> or financial due diligence; and
- ▶ explain and clearly justify the underlying data sources, assumptions and methodologies of each of their internal valuation models.

### **[PRINCIPLE 5.3] MIS CAPABILITIES TO PRODUCE NECESSARY INFORMATION FOR THE EFFECTIVE APPLICATION OF RESOLUTION ACTIONS**

Banks have in place MIS capabilities to produce the necessary information<sup>(119)</sup> for the implementation of the resolution tools at all times, even under rapidly changing conditions<sup>(120)</sup>.

Banks are expected to demonstrate the following:

- ▶ the ability to (i) adequately assess the level of their loss absorption capacity<sup>(121)</sup> and (ii) provide information needed to execute the bail-in tool, taking into account national provisions. In this respect, banks are expected to have established:
  - a repository that includes a list of minimum information about each capital instrument and every other security issued by any group entity within the scope of BRRD2;
  - a process for keeping this information up-to-date; and
  - an analysis that determines which of these securities meet the CRR2 conditions for a) own funds instruments on either individual level of the resolution entity or only at consolidated level of the resolution entity or for b) eligible liabilities for the resolution entity.

<sup>(115)</sup> Art. 20 (14) SRMR, Art. 46 (4) BRRD.

<sup>(116)</sup> Art. 20 (14) SRMR, Art. 27 (1) (h), 36, 46 (4) BRRD.

<sup>(117)</sup> The SRB dataset for Valuation is currently under development.

<sup>(118)</sup> Delegated Regulations No 2018/344-345/EU.

<sup>(119)</sup> The set of information to apply the resolution tools includes, but is not limited, to the information and data as defined in the SRB Dataset for Valuation, currently under development.

<sup>(120)</sup> Section C (9) of the Annex to the BRRD.

<sup>(121)</sup> Also refer to Principles 2.1 and 2.4 in this respect.

- ▶ the maintenance of detailed records of financial contracts<sup>(122)</sup>;
- ▶ where transfer tools are envisaged, for all assets and liabilities identified to be transferred, (i) the ability to readily provide available information necessary for the relevant Valuations and (ii) the ability to give easy and swift access to necessary data to all relevant stakeholders, e.g. through the set-up and population of a Virtual Data Room in view of a due diligence; and
- ▶ the ability to simultaneously produce multiple data, for instance relating to liquidity management (see Chapter 2.3) and valuation, under time pressure or financial stress conditions defined by the SRB.

## 2.6. Communication

### 2.6.1. Objective

Banks have in place communication plans to ensure timely, robust and consistent communication to relevant stakeholders and to support the implementation of the resolution strategy, as well as governance arrangements to ensure an effective execution of these plans.

### 2.6.2. Background

The resolution of a bank is expected to generate high interest from numerous stakeholders and a lack of adequate communication could compromise the success of resolution. Effective communication will be crucial to promote confidence and reduce uncertainty in the resolution process.

The coordinated provision of information to stakeholders in the event of resolution has, inter alia, the following objectives:

- ▶ ensuring that shareholders and creditors are informed about the resolution decision;
- ▶ ensuring that covered deposit holders, and potentially other protected creditors, are informed about their protected status;
- ▶ ensuring that employees, clients, suppliers, FMI service providers, and other affected parties are informed about the resolution decision; and
- ▶ instilling confidence in the markets in which the institution operates and avoiding actions being taken by other parties that could impede the resolution process.

In this regard, a communication plan already needs to be prepared in the context of resolution planning<sup>(123)</sup>.

<sup>(122)</sup> Commission Delegated Regulation 2016/1712.

<sup>(123)</sup> Art. 10 (7) (n) BRRD.

### 2.6.3. Principles

#### [PRINCIPLE 6.1] COMMUNICATION PLAN

Banks have developed a comprehensive communication plan informing relevant stakeholders of the implications of the resolution, with the aim of limiting contagion and avoiding uncertainty.

More precisely, banks are expected to:

- ▶ identify critical external and internal stakeholder groups, which need to be informed in the resolution process, including the stakeholder groups set out in Art. 22 (6) Commission DR (EU) 2016/1075 as well as relevant providers of services or operational assets;
- ▶ prepare and maintain an up-to-date list of the critical<sup>(124)</sup> external and internal stakeholders;
- ▶ share with the SRB a list of the identified stakeholder groups included in the communication plan;
- ▶ draft a targeted communication strategy for the identified stakeholder groups<sup>(125)</sup>, with pre-defined messages<sup>(126)</sup> tailored to the resolution strategy determined by the SRB, anticipating confidentiality considerations<sup>(127)</sup>. For each identified stakeholder group, the communication plan:
  - contains the key messages (and the level of detail of those messages) to be communicated to promote confidence in the bank throughout resolution. The key messages should be robust, consistent and easily understandable and include, among others:
    - a general statement based on the level of communication that would likely be required according to the resolution actions which might be taken; and
    - information about the consequences of the resolution for the respective stakeholder group<sup>(128)</sup>, in order to promote certainty and predictability<sup>(129)</sup>.
  - determines when communication with the identified stakeholders is necessary;
  - defines a strategy and procedures to prevent potential leaks of information;
  - identifies the owner of the communication (unit/function responsible for defining the message) and, if different, the unit/function responsible for disseminating the message; and
  - identifies effective communication channels and the infrastructure that will be needed and used to implement the communication strategy and disseminate relevant messages.

<sup>(124)</sup> EBA/RTS/2014/15.

<sup>(125)</sup> If appropriate, different communication protocols may need to be foreseen for parts of these stakeholder groups, or even for individual stakeholders. This might be true, for example, for FMI: CCPs might need different information than payment systems, and different CCPs might need to receive tailored messages at different times (depending on e.g. the market segment that they serve, their geographical location and cut-off times).

<sup>(126)</sup> Pre-defined messages may be drafted in different languages (national language, English, and, where relevant, in the languages of the countries where the bank operates).

<sup>(127)</sup> What information can be made public and when.

<sup>(128)</sup> I.a. an analysis of the impact of the plan on the employees of the institution, including an assessment of any associated costs, and a description of envisaged procedures to consult staff during the resolution process, taking into account national systems for dialogue with social partners where applicable, Art. 10 (7) (m) BRRD.

<sup>(129)</sup> Consequences might be updated and tailored to the respective crisis situation, where applicable.



- ▶ supplement the key messages through the development of template documents and emails, frequently asked questions and other tools (e.g. establishment of call centres on an ad-hoc basis) to be used in the resolution process; and
- ▶ identify any communications to market participants that may be required under applicable national legal disclosure regimes.

#### [PRINCIPLE 6.2] COMMUNICATION GOVERNANCE

**Banks have in place governance arrangements to ensure an effective execution of the communication plan in close coordination with the SRB.**

Banks are expected to:

- ▶ ensure that the expectations set out under Principle 6.1 are enshrined in the governance arrangements;
- ▶ determine responsibilities for the drafting and the execution of the communication plan in the resolution process (i.e. unit/function responsible);
- ▶ define an approval process that covers all dimensions of the communication plan in the resolution process including ultimate sign off to ensure that uniform messages are disseminated;
- ▶ ensure that relevant employees are aware of their roles in terms of communication with identified stakeholder groups in crisis situations, in coordination with resolution authorities;
- ▶ have arrangements in place that ensure the aforementioned confidentiality requirements;
- ▶ ensure that sufficient infrastructure and resources are available to effectively communicate with the identified stakeholder groups. This may include infrastructure that is available in business-as-usual as well as additional infrastructure arranged in the lead up to resolution (e.g. public relations firms, additional call centre capacities to deal with an increased volume of calls);
- ▶ put processes in place to ensure that potential disclosure requirements according to the relevant national law are met;
- ▶ proactively inform the SRB where disclosure requirements may unduly impact the implementation of the resolution strategy;
- ▶ where relevant, have in place governance arrangements which allow for a consistent, efficient and effective execution of the communication plan in different jurisdictions, taking into account, inter alia, local language, disclosure requirements and time differences; and
- ▶ put in place processes to monitor the execution of the communication.

## 2.7. Separability and restructuring

### 2.7.1. Objective

Banks' structure, complexity and interdependencies do not present obstacles to, and ideally support, the operational implementation of the resolution strategy and the achievement of the resolution objectives.

### 2.7.2. Background

The legal, operational and financial structure of a bank may create impediments to the effective implementation of resolution actions.

To ensure that the banks' structure, complexity and interdependencies do not present obstacles to resolvability, the resolvability assessment includes an assessment of the following, as appropriate<sup>(130)</sup>:

- ▶ Changes to the banks' structure

On the basis of their bank-specific resolvability assessment, resolution authorities have the power to require changes to the structure and organisation of banks, if these measures are necessary and proportionate in the bank-specific case in order to reduce or remove substantive impediments to the application of resolution tools, and to ensure and improve the resolvability of banks. In this regard, the SRB would assess to what extent the structure of a bank might need to be changed or the complexity of a group might need to be reduced to ensure resolvability, e.g. by requiring an institution to ex ante change its legal structure to improve the feasibility and credibility of the preferred resolution strategy<sup>(131)</sup>. Moreover, where the preferred resolution strategy includes a separation of entities within a group, it may be necessary in a specific case to ex ante reduce the financial and operational interconnectedness of a group to be able to maintain access to critical economic functions in resolution<sup>(132)</sup>. Resolution plans, where necessary and proportionate, may provide for the resolution tools to be applied to a parent holding company<sup>(133)</sup>.

However, the SRB would apply those potential ex ante structural measures only where necessary and proportionate in the specific case to ensure the bank's resolvability<sup>(134)</sup>.

- ▶ Separability

Separability reflects the extent to which the separation of critical functions or core business lines can be achieved under appropriate continuity arrangements<sup>(135)</sup>. The separability assessment is a pre-requisite for the preparation of a partial transfer strategy as it supports the transfer strategy's feasibility assessment. The separability assessment aims at assessing the interconnections between assets and liabilities, related services, staff, and supporting infrastructure, as well as any other financial, legal and IT-related interconnections, and informs the choice of transfer

<sup>(130)</sup> Art. 10 (6) SRMR and Section C of the Annex to the BRRD.

<sup>(131)</sup> Art. 10 (11) SRMR.

<sup>(132)</sup> Art. 17 (5) (g) BRRD.

<sup>(133)</sup> Art. 10 (11) (h) SRMR.

<sup>(134)</sup> Art. 10 (10) and (13) (b) SRMR.

<sup>(135)</sup> Art. 8 (9) (c) SRMR, Section C (1-9), (11), (19) of the Annex to the BRRD.

perimeters<sup>(136)</sup>. The separability assessment is closely linked to the criticality assessment referred to under the expectations on operational continuity arrangements, but it extends to corresponding liabilities and non-operational assets to ensure the continuity of new perimeters. The initial separability analyses performed by the banks and provided in the resolution planning phase form a substantial and essential element, which is considered by the respective IRT when conducting its own separability assessment of the bank.

► Business reorganisation plan measures

The open bank bail-in tool is only applicable<sup>(137)</sup> if there is a reasonable prospect that the application of that tool, together with other relevant measures, including measures implemented in accordance with the business reorganisation plan<sup>(138)</sup>, will restore the bank to financial soundness and long-term viability. To this end, already in the resolution planning phase<sup>(139)</sup>, potential restructuring measures need to be considered that are generally suited to meet the resolution objectives, to fulfil relevant regulatory requirements on a forward-looking basis and to return back to a viable business model that is sustainable in the long-term. In addition, it is key that banks are able to plan and execute restructuring effectively and on a timely basis in the event of resolution.

Therefore, key elements of a potential business reorganisation assessment need to be already prepared in going concern (i.e. in the resolution planning phase). For these purposes, banks can leverage on, to a significant extent, the content of the recovery plan.

Depending on the potential restructuring measure to be considered, separability analyses are of relevance in the context of the business reorganisation plan<sup>(140)</sup>.

### 2.7.3. Principles

#### [PRINCIPLE 7.1] STRUCTURE, COMPLEXITY AND INTERDEPENDENCIES

**Banks have identified, reduced and, where necessary, removed sources of undue complexity in their structure, which pose a risk to the implementation of the resolution strategy.**

Banks are expected, where necessary and proportionate in the specific cases, to:

- consider implementing measures to arrive at operationally independent material legal entities to support the envisaged resolution strategy, in particular where the resolution strategy envisages a break up or restructuring<sup>(141)</sup>;
- limit complex practices related to how trading or hedging operations are marketed, booked (their location within the group), funded and risk-managed<sup>(142)</sup>;

<sup>(136)</sup> Please also refer to Chapter 2.4 for further details.

<sup>(137)</sup> Art. 27 (2) SRMR.

<sup>(138)</sup> Art. 27 (16) SRMR, Art. 52 BRRD.

<sup>(139)</sup> Art. 26 (2) (second sentence) CDR 2016/1075, which provides that “[r]esolution authorities shall also consider any foreseeable impediments to a business reorganisation which is required pursuant to Art. 52 [BRRD] or otherwise likely to be required if the resolution strategy envisages all or part of the institution or group being restored to long-term viability”.

<sup>(140)</sup> Ia., in the case of wind down or sale of entities or business lines.

<sup>(141)</sup> Title III 7 (c) EBA/GL/2014/11.

<sup>(142)</sup> Title III 11 (a) EBA/GL/2014/11.

- ▶ reduce the complexity and size of the trading book if this is necessary to apply the resolution tools<sup>(143)</sup>;
- ▶ ensure that the legal and operational structure is not too complex and interconnected to maintain and ensure continuity of access to critical functions in resolution. Where necessary, banks are expected to take measures to reduce the complexity and/or to simplify the legal entity structure<sup>(144)</sup>;
- ▶ where relevant, align the legal corporate structures of the group with core business lines and critical functions<sup>(145)</sup>;
- ▶ where relevant, ensure that the number of legal persons and the complexity of the group structure do not inhibit the application of the envisaged resolution tools<sup>(146)</sup>;
- ▶ put in place a legal entity structure and intragroup funding arrangements which facilitate the implementation of the resolution strategy<sup>(147)</sup>; and
- ▶ in case of mixed activities (e.g. insurance operations), ensure that (i) these activities are independent from the banking operations and/or (ii) a disruption and/or a discontinuation of the banking activities would not severely affect third parties through the non-banking activities. This implies that the resolution of resolution groups would not have a significant negative impact on non-banking operations that are not part of a resolution group. In this context, banks are expected to demonstrate the independency and resilience of material non-banking operations<sup>(148)</sup>.

#### [PRINCIPLE 7.2] SEPARABILITY ANALYSES FOR PARTIAL TRANSFER TOOLS

**Banks for which IRTs envisage the application of a partial transfer tool<sup>(149)</sup> have conducted a separability analysis to prepare for partial transfer strategies.**

Banks are expected to conduct an initial separability analysis<sup>(150)</sup>. This analysis has to be performed (i) for the current structure<sup>(151)</sup> and (ii) for the structure after the implementation of recovery measures<sup>(152)</sup>. In this context, regulatory, legal, contractual and economic safeguards should be considered.

The analysis should include:

- ▶ a description of the sets of closely interrelated activities (as well as associated services) which could be separated from the rest of the group without undue delay and disproportionately high costs;
- ▶ an assessment whether
  - assets;

<sup>(143)</sup> Title III 13 (n) EBA/GL/2014/11.

<sup>(144)</sup> Title III 13 (a) EBA/GL/2014/11.

<sup>(145)</sup> Section C (2) of the Annex to the BRRD, Title III 13 (b), (e) EBA/GL/2014/11.

<sup>(146)</sup> Title III 13 (a) EBA/GL/2014/11.

<sup>(147)</sup> Title III 13 (j) EBA/GL/2014/11.

<sup>(148)</sup> Art. 10 (11) SRMR.

<sup>(149)</sup> I.e. cases of a Sale of Business, Bridge Institution tool or Asset Separation tool.

<sup>(150)</sup> Title III 7 (c) and 13 (e), (i), (k) EBA/GL/2014/11.

<sup>(151)</sup> I.e. the structure at year end and based on financial information at year end, unless indicated otherwise by the IRT.

<sup>(152)</sup> I.e. how the implementation of recovery measures would affect the outcome of the separability analyses.

- liabilities;
  - services;
  - staff; and
  - where relevant, other supporting infrastructure,
  - which are related to relevant services and which are part of possible transfer perimeters could be transferred to third parties<sup>(153)</sup>;
- ▶ an assessment of whether assets and liabilities which are not related to critical or essential services, but earmarked for a possible transfer perimeter, can be transferred;
  - ▶ a description, in which perimeter clearing, payment and settlement activities are located (transferred perimeter or liquidated perimeter);
  - ▶ a description of the IT systems and licence ownerships, people and critical shared services that are necessary to support the new perimeter(s);
  - ▶ a self-assessment of potential (including legal) constraints to separability;
  - ▶ a description of operational efforts and of the expected time necessary for the delivery of the information and of the relevant assessments;
  - ▶ a description of the costs when applying the aforementioned transfer perimeters; and
  - ▶ a description of the liquidity and funding needs for the new transfer perimeters as well as a description of potential sources of funding (after separation).

### **[PRINCIPLE 7.3] BUSINESS REORGANISATION PLAN AFTER OPEN BANK BAIL-IN**

**Banks for which IRTs envisage the application of the open bank bail-in tool as part of the resolution strategy have identified and evaluated the measures available to restore their long-term viability post open bank bail-in, and have detailed the measures that could be considered in a business reorganisation plan.**

The SRB expects banks to prepare ex ante preliminary assessments of key elements of a business reorganisation plan<sup>(154)</sup> to ensure resolution readiness. To that end, banks are expected to, inter alia, (i) identify and describe potential measures aiming to restore the long-term viability of the bank and provide an initial evaluation of those measures, (ii) indicate timelines needed for the execution/implementation, including a description of the necessary steps and (iii) put in place sufficient capabilities that enable resolution authorities to assess the elements under (i) to (ii) during resolution.

- ▶ More specifically, banks are expected to conduct an analysis of measures potentially available to restore long-term viability and identify measures that could be implemented post open bank bail-in by means of a business reorganisation plan.

Potential reorganisation measures may include, but are not limited to<sup>(155)</sup>:

<sup>(153)</sup> Art. 76 et seq BRRD safeguards to be considered.

<sup>(154)</sup> When preparing a preliminary assessment of the key elements of a business reorganisation plan, banks are advised to take into account Art. 27 (16) SRMR, Art. 52 BRRD and the Commission Delegated Regulation (EU) 2016/1400 and the EBA Guidelines on the minimum criteria to be fulfilled by a business reorganisation plan (EBA/GL/2015/21).

<sup>(155)</sup> Art. 27 (16) SRMR, Art. 52 (5) BRRD.

- ▶ a reorganisation of the activities;
- ▶ changes to the operational systems and infrastructure;
- ▶ a withdrawal from loss-making activities;
- ▶ a restructuring of existing activities that can be made competitive;
- ▶ a sale of assets or of business lines; and
- ▶ a solvent wind-down of trading activities, where relevant.

In this context, banks are expected to consider and identify any restructuring options identified in the recovery plan<sup>(156)</sup> which might not be used in the recovery phase or might not have been identified as recovery options, but which (i) would have restructuring/business model-implications and would deliver benefits in the long term or which (ii) would not themselves deliver capital or liquidity benefits when executed, but contribute to the overall achievement of the restructuring objectives.

If a wind-down and/or sale of parts of the group is envisaged as a potential business restructuring measure, banks are expected to identify, also taking recovery planning considerations into account: (i) the relevant entity or business line, the method for the winding down or sale, including the underlying assumptions, any expected losses and liquidity needs; (ii) any financing or services provided by or to the remainder; and (iii) products and services to be discontinued because they don't support the achievement of the resolution objectives or the use of the resolution tool(s).

In the analysis of measures, banks are expected to:

- ▶ demonstrate how long-term viability could potentially be restored through the proposed measures<sup>(157)</sup>. In this context, banks might want to consider:
  - potential costs and the impact of the business reorganisation on the profit and loss statement and the balance sheet;
  - a description of potential funding requirements during the reorganisation period and potential sources of funding; and
  - any potential proceeds from the divestment of assets, entities or business lines envisaged by the business reorganisation plan.
- ▶ indicate the relevant steps<sup>(158)</sup> and their expected timeline for the implementation of the proposed measures<sup>(159)</sup>; and
- ▶ conduct the above assessment on the basis of the following assumption(s):
  - the analyses are performed (i) for the current structure<sup>(160)</sup> and (ii) for the structure after the implementation of recovery measures<sup>(161)</sup>.

<sup>(156)</sup> Art. 2 (6) CDR 2016/1400.

<sup>(157)</sup> Art. 3 (1) (a) and (b) DR 2016/1400/EU.

<sup>(158)</sup> Banks might want to take into account the executive plans drafted in the context of recovery plans, where relevant.

<sup>(159)</sup> In this context banks are invited to consider the availability of documentation produced for other purposes, like recovery planning, where available.

<sup>(160)</sup> I.e. the structure at year end and based on financial information at year end, unless indicated otherwise by the IRT.

<sup>(161)</sup> I.e. how the implementation of recovery measures would affect the outcome of the business reorganisation.

- where state aid rules are applicable, the proposed measures must be compatible with the requirement stated in the restructuring plan, which aims to restore the institution's or entity's long-term viability at minimum cost to the state and which also aims to mitigate potential distortions to competition<sup>(162)</sup>.

The analyses should be underpinned by necessary information to allow IRTs to assess the impact of the business reorganisation on critical functions and financial stability, e.g. by (i) stating the underlying assumptions, such as key macroeconomic variables; (ii) projecting the impact on/evolution of the profit and loss statement and the balance sheet; and (iii) describing the evolution of the key financial metrics. In this context, banks are invited to consider the availability of documentation produced for other purposes, like recovery planning.

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<sup>(162)</sup> Recital (69) Art. 43 (2a), 52 (1) BRRD.

## 3. PHASE-IN OF THE EXPECTATIONS FOR BANKS

The *Expectations for Banks* (EfB) will be subject to a gradual phase-in. The table below contains general phase-in dates, clarifying when banks are expected to build up their capabilities in respect to specific dimensions of the EfB. Banks are expected to have built up their EfB capabilities by the end of 2023, except where indicated otherwise. IRTs may bilaterally agree on alternative phase-in dates, taking into account bank-specific features and circumstances, as appropriate. This will ensure a proportionate approach to achieving resolvability.

EfB Dimensions	Bank deliverable and context	Resolution planning cycle (RPC)
1. Governance	<p>► <b>Governance arrangements supporting resolution preparedness</b></p> <p>Appropriate governance arrangements were part of the minimum expectations communicated to banks in previous priority letters. Detailed expectations related to governance with regard to other dimensions (e.g. operational continuity, access to FMIs, MIS) may be communicated in future cycles.</p>	Ongoing
2. Loss absorbing and recapitalisation capacity		
a. MREL	Banks are expected to meet the MREL requirements in line with the legal framework, the SRB MREL policy and as specified in individual decisions, taking into account the transitional periods.	Intermediate MREL targets by 1 January 2022 Final MREL target by 1 January 2024
b. Operationalisation of bail-in	<p>► <b>Bail-in playbooks</b></p> <p>Banks are expected to prepare full bail-in playbooks covering internal and external bail-in execution. Banks have already been requested to work on bail-in playbooks, as communicated in previous priority letters.</p>	2020-2021
3. Liquidity and funding in resolution	Banks are expected to work on liquidity as a priority as from the 2021 resolution planning cycle, starting with the ability to estimate liquidity and funding needs in resolution. Going forward, banks are expected to demonstrate capabilities to measure, report and forecast their liquidity position in resolution, as well as to identify and monitor assets that can be used as collateral to obtain funding in resolution.	2021-2023
4. Operational continuity in resolution and access to FMI services		See below



EfB Dimensions	Bank deliverable and context	Resolution planning cycle (RPC)
a. Operational continuity	<ul style="list-style-type: none"> <li>▶ <b>Identification and mapping of interconnectedness and assessment of operational continuity risk.</b></li> <li>▶ <b>Actions to mitigate risks to operational continuity and measures to improve preparedness for resolution.</b></li> </ul> <p>Banks have already been requested to work on operational continuity arrangements, as communicated in previous priority letters. The expectations on operational continuity arrangements will first support the continuity of critical functions before extending to other necessary services, as needed.</p>	<p>Ongoing</p> <p>2020-2023 (critical functions prioritised)</p>
b. Access to FMIs	<ul style="list-style-type: none"> <li>▶ <b>Identifying, mapping and assessing of dependencies</b></li> </ul> <p>Banks have been requested to provide the FMI Report annually since 2017.</p> <ul style="list-style-type: none"> <li>▶ <b>FMI contingency plan</b></li> </ul> <p>Banks have been requested to develop FMI contingency plans in previous priority letters. Such plans are expected to cover, at a minimum, five key FMI service providers in 2020 (prioritising critical providers that may take risk management measures).</p>	<p>Ongoing</p> <p>2020-2023 (critical functions prioritised)</p>
5. Information systems and data requirements	<ul style="list-style-type: none"> <li>▶ <b>MIS for bail-in execution</b></li> </ul> <p>Banks are requested to prepare the MIS to extract in a timely and complete fashion the necessary liability data for bail-in. All banks are expected to demonstrate progress in 2020/2021 and establish the MIS capabilities to deliver the liability data for bail-in at short notice by end of 2022. This capability will be tested and the results will be assessed by the resolution authorities.</p>	2020-2022
	<ul style="list-style-type: none"> <li>▶ <b>MIS for Valuation<sup>(163)</sup></b></li> </ul> <p>The work on MIS for valuation will become a priority in 2021. In 2020, according to individual priorities, certain banks will conduct a gap assessment and subsequently elaborate a workplan to show substantive progress going forward. In principle, all banks are expected to have MIS capabilities for valuation by the end of 2023.</p>	2020/2021-2023
6. Communication	<ul style="list-style-type: none"> <li>▶ <b>Communication plan</b></li> </ul> <p>Communication capabilities in resolution were part of the minimum expectations communicated to banks in previous priority letters.</p>	Ongoing
7. Separability and restructuring	<ul style="list-style-type: none"> <li>▶ <b>Separability and business reorganisation measures</b></li> </ul> <p>Banks are expected to develop these capabilities, where necessary and proportionate, having regard to the yearly working priorities that will be communicated in the priority letters.</p>	2021-2023 Bank-specific

<sup>(163)</sup> Banks also need to have the capabilities to deliver other reports, in particular with respect to the resolution reporting templates mandated under Commission Implementing Regulation 2018/1624 and the additional templates developed by the SRB for reporting information on critical functions, liability data and FMIs.

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## 4. DIALOGUE WITH BANKS IN CASE OF IMPEDIMENTS

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### 4.1. Background

In the context of the resolvability assessment, IRTs engage with banks to conclude whether they are currently resolvable<sup>(164)</sup> and to define any measures to address or remove identified impediments, if applicable.

If the SRB identifies substantive impediments to resolvability and an SRB assessment concludes, after consulting the competent authorities, that the measures proposed by the bank do not effectively reduce or remove them, the SRB instructs the NRA(s) to require the bank to take relevant measures<sup>(165)</sup>.

### 4.2. Dialogue with banks on identified impediments

#### 4.2.1. Start of the discussion on identified impediments

Potential impediments to resolvability are discussed between IRTs and banks on an ongoing basis, e.g. by means of workshops, teleconferences etc. The discussion is, in particular, expected to focus on the expectations outlined in Chapter 2 and any specific working priorities communicated by the IRT, in light of the specific characteristics of the bank and the envisaged resolution strategy.

#### 4.2.2. Proposal of banks on how to address impediments

Banks are expected to draft a comprehensive resolvability work programme endorsed by the banks' management bodies, which outlines how the potential impediments are addressed through (i) concrete deliverables, (ii) timelines and (iii) milestones.

In their resolvability work programme, banks should in particular propose measures to address the abovementioned potential impediments to resolvability identified by the IRT.

Proposals to address those impediments have to be:

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<sup>(164)</sup> Art. 22 (7) (a) DR 2016/1075/EU.

<sup>(165)</sup> Art. 10 (11) SRMR: substantive impediment (henceforth "the substantive impediments procedure").

- ▶ specific, i.e. the measure addresses the identified impediment;
- ▶ measurable, i.e. the envisaged reduction or elimination of the impediment can be clearly ascribed to the measure and can be properly assessed;
- ▶ achievable, i.e. sufficient resources are devoted to the implementation of the measure; and
- ▶ realistic, i.e. the measure can be feasibly implemented within the proposed timeframe.

This will allow the SRB to assess whether the proposed measures are adequate to improve and/or achieve resolvability.

### 4.2.3. Update on progress (“Resolvability Progress Report”)

Unless indicated otherwise, banks are expected to submit to the SRB a Resolvability Progress Report that is endorsed by the management body at least annually. This report should document the progress made, flag the remaining gaps and suggest priorities for the next resolution cycle. Banks can choose the format in which information is presented. The report, however, should be sufficiently detailed to allow the SRB (i) to assess the banks’ deliverables against milestones included in their resolvability work programme and (ii) to support the resolvability assessment at the end of each resolution planning cycle.

### 4.2.4. IRT assessment of the proposed measures and progress

IRTs may schedule dedicated workshops with banks to discuss (i) the proposed measures, (ii) the implementing timeline, (iii) the key milestones and (iv) the progress made. If the SRB is not able to draw the required information from the progress reports, the SRB will request the banks to provide additional information.

## 4.3. The substantive impediments procedure

When the SRB, taking into account the discussions with the banks, determines that there are substantive impediments to resolvability, it will follow the formal substantive impediments procedure. When drafting its report in accordance with Art. 10 (7) SRMR, the SRB will take into consideration the discussions with the bank, including any measures proposed in the bank’s resolvability work programme but not yet implemented.

### 4.3.1. General

When any substantive impediments are identified<sup>(166)</sup>, the process for the drawing-up of the resolution plan is suspended<sup>(167)</sup> and a formal substantive impediments procedure is triggered<sup>(168)</sup>.

<sup>(166)</sup> The Board, after consulting the competent authorities, determines that there are substantive impediments to the resolvability of an entity or group according to Art. 10 (7) SRMR.

<sup>(167)</sup> Art. 17 (2) BRRD. In the case of a Resolution College bank, the joint decision process for adopting a group resolution plan and resolvability assessment is suspended, Art. 17 (2) BRRD, Art. 69 (4) and Art. 76 (1) DR 2016/1075/EU.

<sup>(168)</sup> The process of the resolution plan resumes once the process referred to in Art. 17 BRRD on measures to address or remove substantive impediments to resolvability has been completed. In the case of a Resolution College bank, it triggers a joint decision process for measures to address substantive impediments; this process is also outlined in DR 2016/1075.

### 4.3.2. Steps

#### STEP 1: NOTIFICATION OF THE BANKS<sup>(169)</sup>

The banks will receive an SRB report, drawn up in consultation with the competent authorities, outlining the identified substantive impediments (Art. 10 (7) SRMR).

The report will:

- ▶ contain a reasoned assessment of substantive impediments to the effective application of resolution tools and the exercise of resolution powers; and
- ▶ consider the impact on the banks' business model and recommend any proportionate and targeted measures that, in the view of the SRB, are necessary or appropriate to remove those impediments.

From the date of receipt of the report, banks have four months to propose possible measures to address or remove the substantive impediments identified in the report.

#### STEP 2: SRB ASSESSMENT OF PROPOSED MEASURES AND DECISION (ART. 10 (10)-(11), (13) SRMR)

The SRB, in consultation with the competent authorities, will assess the proposal of the banks:

- ▶ If the SRB concludes that the proposed measures effectively reduce or remove the substantive impediments, the SRB will accept the proposal and adopt the resolution plan (i.e. the suspension is lifted and the cycle resumes).
- ▶ If the SRB concludes that the proposed measures do not effectively reduce or remove the substantive impediments to resolvability, the SRB will:
  - demonstrate that the proposed measures are not sufficient and that the alternative measures are proportionate in removing impediments<sup>(170)</sup>; and
  - take a decision on measures to address or remove substantive impediments to resolvability, taking into account, where appropriate, the views provided by the banks<sup>(171)</sup>.

Competent authorities will be consulted in this process.

#### STEP 3: IMPLEMENTATION OF SRB DECISION (ART. 10 (12) SRMR) AND MONITORING

The NRA(s) will implement the SRB decision. In order to monitor the implementation of the measures to address impediments to resolvability, the bank will have to provide progress reports on a regular basis.

<sup>(169)</sup> Art. 10 (7-9) SRMR, Art. 18 (2) BRRD and Section C of the Annex to the BRRD.

<sup>(170)</sup> Before taking any decision on alternative measures, it shall consult with the supervisor and, if appropriate, the macro prudential authority (Art. 10 (10) SRMR).

<sup>(171)</sup> In the case of a Resolution College bank: when no joint decision of the respective RA in the resolution college might be reached within four months and when an RA referred to EBA, the EBA shall take a decision within one month (Art. 18 (4), (6), (7) BRRD).

## 5. GLOSSARY

Asset Separation Tool	As defined in Art. 3 (32) SRMR.
Arrangement	An arrangement is any agreement, contract, policy, procedure, guideline or practice governing the provision of a service.
Back-to-back (booking) Transaction	A pair of legally separate transactions, but with the same terms of trade and involving three parties. One party is the intermediary, as the buyer in one transaction and the seller in the second transaction. This allows institutions to book the transaction in a different place to the original business.
Bail-in	As defined in Art. 3 (33) SRMR.
Bridge Institution	As defined in Art. 3 (31) SRMR.
Business Lines	A structured set of activities, processes and operations that is developed by the institution for third parties to achieve the organisation's goals <sup>(172)</sup> .
Business Reorganisation Plan	The restructuring post bail-in should be achieved through the implementation of a business reorganisation plan. Where applicable, such plans should be compatible with the restructuring plan that the entity is required to submit to the Commission under the Union state aid framework. In particular, in addition to measures aiming at restoring the long-term viability of the entity, the plan should include measures limiting the aid to the minimum burden sharing, and measures limiting distortions of competition (Art. 27 (16) SRMR and Art. 52 (12), (13) BRRD).
Capital Requirements Directive (CRD)	Directive 2013/36/EU.
Central Counterparty (CCP)	An entity that places itself, in one or more markets, between the counterparties to the contracts traded, becoming the buyer to every seller and the seller to every buyer, and thereby guaranteeing the performance of open contracts <sup>(173)</sup> .
Central Securities Depository (CSD)	An entity that 1) enables securities transactions to be processed and settled by book entry; 2) provides custodial services (e.g. the administration of corporate actions and redemptions); and 3) plays an active role in ensuring the integrity of securities issues <sup>(174)</sup> .
Clearing	The process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement. Sometimes this term is also used (imprecisely) to cover settlement. For the clearing of futures and options, this term also refers to the daily balancing of profits and losses and the daily calculation of collateral requirements <sup>(175)</sup> .
College Banks	Banks for which a college has been established, in accordance with Art. 88 BRRD.
Combined Buffer Requirement (CBR)	Total CET1 capital required to meet the requirements for the capital conservation buffer <sup>(176)</sup> .
Core Business Lines	Business lines and associated services that represent material sources of revenue, profit or franchise value for an institution, or for a group of which an institution is a part <sup>(177)</sup> .
Critical Financial Market Infrastructure (FMI services)	Payment, clearing, settlement or custody services, provided by an FMI or by an intermediary, which are necessary for the continuity of one or several critical functions.

<sup>(172)</sup> Commission Delegated Regulation (EU) 2016/778 of 2 February 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to the circumstances and conditions under which the payment of extraordinary ex-post contributions may be partially or entirely deferred, and on the criteria for the determination of the activities, services and operations with regard to critical functions, and for the determination of the business lines and associated services with regard to core business lines, OJ L131, 20.5.2016, 41.

<sup>(173)</sup> ECB Glossary of terms related to payment, clearing and settlement systems, December 2009.

<sup>(174)</sup> Ibid.

<sup>(175)</sup> Ibid.

<sup>(176)</sup> Directive 2013/36/EU 128.

<sup>(177)</sup> Art. 2 (1) (36) BRRD.

Critical Functions	Activities, services or operations, the discontinuance of which is likely to lead in one or more Member States 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 <sup>(178)</sup> .
Critical Functions Report	An SRB reporting requirement for banks to provide information on their self-assessment of critical functions: <a href="https://srb.europa.eu/en/content/critical-functions-report">https://srb.europa.eu/en/content/critical-functions-report</a>
Critical Services	Services, which are necessary for one or more critical functions, that are performed for group business units or entities and whose discontinuity would seriously impede or prevent the performance of those critical functions <sup>(179)</sup> .
Dual-hatting	Describes situations where an employee paid by one legal entity provides services to another entity within the group.
Essential Services	Services associated with core business lines <sup>(180)</sup> , whose continuity is necessary for the effective implementation of the resolution strategy and any consequent restructuring.
Essential FMI Services	Payment, clearing, settlement or custody services, provided by an FMI or by an FMI intermediary, which are necessary for the continuity of one or several core business lines (please refer to the definition of “Essential services”).
FMI Intermediaries	FMI service providers other than FMIs. More often than not, these will be other institutions offering payment, clearing and settlement services, including by way of facilitating indirect access to an FMI.
FMI Report	An SRB reporting requirement for banks to provide information on participation in or membership of FMIs and use of FMI intermediaries for payment, clearing, settlement and custody services: <a href="https://srb.europa.eu/en/content/fmi-report">https://srb.europa.eu/en/content/fmi-report</a>
Group Entities	Each legal entity that is part of a group <sup>(181)</sup> .
Indirect Holding	In accordance with Art. 1 (114) CRR.
Institution	A credit institution or investment firm <sup>(182)</sup> .
Internal Resolution Team (IRT)	IRTs are responsible for preparing resolution plans for banks under the SRB’s remit. They consist of experts from the SRB as well as relevant NRAs.
International Securities Identification Number (ISIN)	The International Securities Identification Number (ISIN, ISO 6166) is the recognised global standard for unique identification of financial instruments.
Material Legal Entities	Subset of group entities. The parent institution must always be included. Material group entities are the most significant entities within the group, whether that be due to the provision of critical funds or through generating a significant portion of the institution’s revenue.
No Creditor Worse Off (NCWO)	The No Creditor Worse Off principle states that no creditor of an institution should incur greater losses in resolution than they would have incurred under normal insolvency proceedings <sup>(183)</sup> .
Open Bank Bail-in	In accordance with Art. 27 (1) (a) SRMR.
Operational Plan	Part of the Resolvability Work Programme that operationalises the programme through (i) concrete deliverables, (ii) timelines and (iii) milestones.
Operational Assets	An asset that is not a financial asset and that is required to perform relevant services, such as real estate; intellectual property including trademarks, patents and software; hardware; IT systems and applications; and data warehouses. Operational assets are critical/essential where access to them is required in order to perform a critical/essential service.
<i>Pari passu</i>	The situation where two or more assets, securities, creditors or obligations are treated equally and managed without preference.
Preferred Resolution Strategy	Defined as in Art. 2 (3) Delegated Regulation 2016/1075.
Relevant Services	Services which underpin (i) the bank’s critical functions to the economy (critical services) and (ii) core business lines (essential services) for which continuity is necessary for the effective implementation of the resolution strategy. These categories may overlap. This applies analogously to operational assets and staff.

<sup>(178)</sup> Art. 2 (1), (31) BRRD.

<sup>(179)</sup> Art. 6 (4) DR 2016/778.

<sup>(180)</sup> Art. 7 DR 2016/778/EU.

<sup>(181)</sup> Art. 1 (2), (31) BRRD.

<sup>(182)</sup> Art. 2 (1), (23) BRRD.

<sup>(183)</sup> Described in Art. 15 SRMR, Art. 73 BRRD.

Resolution Entity	A resolution entity means an entity established in the Union, which is identified by the resolution authority as an entity in respect of which the resolution plan provides for resolution action.
Resolution Group	A resolution entity and its subsidiaries that are not i) resolution entities themselves, or ii) subsidiaries of other resolution entities or iii) entities established in a third country that are not included in the resolution group in accordance with the resolution plan and their subsidiaries <sup>(184)</sup> .
Resolution Reporting Requirements	Pursuant to Art. 11 (1) BRRD and Section B of the Annex to the BRRD, as well as Art. 8 (4) SRMR, the SRB collects information for drawing up and implementing resolution plans for banks under its remit. The SRB resolution reporting requirements (Liability Data Report, Critical Functions Report and FMI Report) cover the minimum information required by European Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 as well as further details required for the respective area. <a href="https://srb.europa.eu/en/content/reporting">https://srb.europa.eu/en/content/reporting</a>
Resolvability Progress Report	A document reflecting the progress made by the banks in addressing impediments, based on the Resolvability Work Programme. The report should: (i) give sufficient details on the banks' deliverables against milestones and (ii) help IRTs to update the resolvability assessment at the end of each resolution planning cycle.
Relevant Roles	Job roles whose vacancy in resolution may present an obstacle to the continuity of critical functions and the core business lines needed for the effective implementation of the resolution strategy and any consequent restructuring.
Resolution-resilient features include the following:	<ol style="list-style-type: none"> <li>1. Non-termination, suspension or modification Service providers may not terminate, suspend or amend terms and conditions of service provision on the grounds of resolution/restructuring, provided that the substantive obligations under the contract continue to be performed.</li> <li>2. Transferability of the service provision Services can be transferred or assigned to a new recipient by the service recipient or the resolution authority because of resolution/restructuring.</li> <li>3. Support in transfer or termination In the case of transfer of service provision because of resolution/restructuring, the current provider should ensure the orderly transition of service provision to a new provider or to a new recipient, provided that the substantive obligations under the contract continue to be performed. Where required, including in the case of termination during resolution/restructuring, the provider should ensure continuity of service provision on the same terms and conditions for a reasonable period, e.g. 24 months.</li> <li>4. Continued service provision to a divested group entity Services can continue to be provided by the current intra-group provider to entities divested from the group as part of resolution/restructuring. Service provision should continue for a reasonable period following the divestment of the group entity, e.g. 24 months, provided that the substantive obligations under the contract continue to be performed.</li> </ol>
Sale of Business	As defined in Art. 3 (1) (30) SRMR.
Securities Settlement System	A system that allows the transfer of securities, either free of payment or against payment (delivery-versus-payment) <sup>(185)</sup> .
Significant Institution	In accordance with Art. 6 (4) of Regulation (EU) No 1024/2013.
Relevant Staff	Employees of the parent or any group legal entity covering relevant roles.
Substantive Impediments Procedure	The procedure described under Art. 10 SRMR.
Synthetic Holding	In accordance with Art. 1 (126) CRR.
Third country	A non-EU country.
Transitional Service Agreement	An agreement that determines the scope (and other aspects) of services one company should provide to another when there is a change of ownership.
Valuation 1	Valuation 1 is the valuation required under Art. 20 (45) (a) SRRM to assess whether the conditions for resolution, or for write-down or conversion of capital instruments, are met.

<sup>(184)</sup> Art. 23 (1) (24b) (a) SRMR, Art. 2 (1) (83b) (a) BRRD.

<sup>(185)</sup> ECB Glossary.

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Valuation 2	Valuation 2 informs the decision on the appropriate resolution action to be taken and, depending on that action, the decisions on the extent of the cancellation or dilution of instruments of ownership; the extent of the write-down or conversion of relevant capital instruments and eligible liabilities; the assets, rights, liabilities or instruments of ownership to be transferred; and the value of any consideration to be paid. It further ensures that any losses on the assets of the entity are fully recognised. <sup>(186)</sup> Valuation 2 should include an estimate of the treatment that each class of shareholder and creditor would have been expected to receive if an entity were wound up under normal insolvency proceedings <sup>(187)</sup> .
Valuation 3	Valuation 3 aims at determining whether or not shareholders and creditors would have received better treatment if the institution under resolution had entered into normal insolvency proceedings. In other terms, Valuation 3 aims at assessing any possible breach of the NCWO principle <sup>(188)</sup> .
Virtual Data Room	A virtual data room is generally intended to be an online facility where documents and information to perform a due diligence are uploaded.

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<sup>(186)</sup> Art. 20 (5) (b)-(g) SRMR.

<sup>(187)</sup> Art. 20 (9) SRMR.

<sup>(188)</sup> Art. 20 (16-18) SRMR.







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