Financial Services Regulatory Insights

PRA strengthens approach to firms' trading wind-down plans

AT A GLANCE

May 2022

What's new?

- The PRA published a [Policy Statement (PS) 4/22] on 6 May 2022, with accompanying Supervisory Statements ([SS1/22], [Statement of Policy], [SS9/17]), confirming the final policy towards trading activity wind-down originally proposed in [Consultation Paper (CP) 20/21].
- The statement requires those firms in scope of the requirements to be able to implement a full or partial wind-down of their trading activities (termed 'TWD'), either as part of their recovery or post-resolution restructuring. The PRA expects firms to meet its strengthened policy requirements by 3 March 2025.

What does this mean?

- The PRA's proposals applies to the relatively few PRA-regulated firms engaged in significant trading activity, identified by the PRA as 'Trading Wind-Down' (TWD) firms through several criteria:
  - designated as an '[other systemically important institution]';
  - having either full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option; and
  - having been notified by the Bank of England that their preferred resolution strategy is Bank-led bail-in, or that they are a 'material subsidiary' of an overseas-based banking group (for the purposes of setting internal MREL in the UK).
- In CP20/21 the PRA proposed specific expectations on TWD firms, further to existing policy requirements:
  - to include a baseline set of factors when firms design scenarios to test their wind-down plans for trading activity (termed the 'TWD scenario')
  - to develop their governance capability in relation to information provision, decision-making and refresh of their trading wind-down plans (termed 'TWD capabilities')
  - to produce and maintain sufficiently detailed data consistent with the templates provided in the draft Supervisory Statement attached to CP20/21.
- The PRA largely confirms its original proposals in PS4/22, with several modifications:
  - The PRA has provided further clarification on the projection of risk-based losses (RBLs), stating that it may use other relevant factors aside from Pillar 1 and Pillar 2 capital to assess firms' RBL calculations
  - the TWD templates have been renamed and the PRA has clarified its expectations towards firms that adopt their own format of TWD templates
  - the PRA has provided additional guidance for TWD firms that are part of third-country groups, stating that these firms should include the TWD option at the legal entity level in their own recovery plans and provide local assurance of their capabilities for executing the TWD option.

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- The PRA's motivation for publishing CP20/21 was driven by the results of the Solvent Wind-Down supervisory exercise that the PRA ran between 2014 - 2021, to assess firms' ability to implement their trading wind-down plans. In particular, the PRA was concerned that TWD firms showed a lack of capability to execute orderly wind-downs, despite this being explicitly required through existing PRA rules.
- The PRA states that firms should interpret its TWD policy in conjunction with the expectations set out through the Bank of England's Resolvability Assessment Framework.

What do firms need to do?

- TWD firms will need to review their approach to TWD planning in line with the strengthened expectations set out by the PRA in PS4/22 and the related Supervisory Statements (SS1/22, Statement of Policy, SS9/17).
- They will need to be ready to engage with their PRA supervisory leads in H2 2022, to discuss how they intend to address any identified gaps or deficiencies in their approach to implementation.
- Major UK banks and building societies should also note that they are required to publish a public summary of their wider resolution preparedness by June 2022 (the Bank of England has stated that it intends to make its first public statement on the resolvability of these firms by June 2022).

Next steps

The PRA expects firms to meet the requirements by 3 March 2025 (extended from the original deadline 1 January 2025).

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