

Questions & Answers

1. What is a bail-in playbook?

The bail-in playbook is an internal document of banks, establishing a minimum set of objectives, processes and governance structures to support the implementation of write down and conversion powers¹ by National Resolution Authorities (NRAs).

The first versions of the bail-in playbook should focus on the time between the run-up to resolution and the finalization of the internal and external execution after the resolution weekend. Future versions are expected to gradually expand this scope, potentially covering additional elements such as the arrangements to ensure the ability to provide a business reorganisation plan. The playbook should thus provide a documentation of the preparation for the internal and external execution of write-down and conversion powers and the bail-in tool, conducted by the banks in cooperation with the Internal Resolution Teams (IRTs) in normal times.

2. How do the 'Operational Guidance on Bail-in Playbook' and the minimum data expectations for bail-in relate to the SRB Expectations for Banks?

On 1 April 2020 the SRB published the 'SRB Expectations for Banks' (EfB) where it outlines the role of banks² in working together with resolution authorities to achieve resolvability. Banks should work on making themselves resolvable. The SRB supports and guides banks in this process through (i) the EfB, (ii) additional operational guidance documents, and (iii) the cooperation between IRTs and individual banks.

Bail-in is a key resolution tool that can be used on a stand-alone basis or in combination with other tools. Its effective implementation requires complete, accurate and up-to-date bail-in-specific information to be timely received. The effective implementation of the bail-in is linked to other expectations referred to in the EfB, namely for banks to have a sufficient level of loss absorption and recapitalisation capacity and to allow the allocation of losses to as wide a range of liabilities as possible. In particular, banks are expected to identify and quantify, in a timely and reliable manner, the amount of liabilities which are likely, under the preferred resolution strategy, to contribute to loss absorption or recapitalisation.

3. What does internal execution mean?

¹ Covering both write down and conversion under Article 21 SRMR and the bail-in tool.

² For the purposes of this document the term "bank" shall be understood as encompassing the entities falling within the scope of the SRMR and not only credit institutions.

Internal execution refers to the arrangements that banks need to implement within the group to ensure that write-down and conversion powers are effectively applied and recorded in the systems and accounting books of the group, for all relevant liabilities and instruments.

In terms of scope, the work on internal execution should cover, besides the areas directly linked to bail-in execution, aspects related to the adjustment of the balance sheet following the result of relevant valuations, as well as the update of the prudential reports.

Moreover, the playbook is expected not only to establish the mechanisms in place to ensure such an effective implementation of bail-in, but also to identify potential challenges and obstacles, of any nature, that should be considered when operationalising the tool, in order to anticipate potential problems for bail-in execution within the organisation.

4. What does external execution mean?

External execution refers to the actions taken by third parties (such as regulated markets and/or trading venues, central securities depositories (CSDs), operational agents, national numbering agencies, other depositories and market authorities) in support of the exercise, by resolution authorities, of the write-down and conversion powers.

The actions taken by financial market infrastructures (FMIs) and other external parties will ultimately depend on the instructions received from the NRAs and/or market authorities. For example, the implementation of bail-in by CSDs will be based on the information provided in the implementing act published by NRA and on additional information provided by the bank under resolution and its operational agent. This may directly impact also the internal execution of bail-in. Such instructions include, for example, whether securities are to be cancelled or not, whether interim rights/instruments should be allocated to converted creditors instead of (or in addition to) shares, etc.

Therefore, external execution should be understood, in a broad way, as all actions taken by external parties, including not only FMIs, which are based on information and instructions given by the authorities and the bank under resolution (via its operational agent). This is why banks may need to take assumptions with regard to actions resting on a decision, instructions and information to be provided by the resolution authority and other relevant stakeholders. In those cases, the bank is expected to mention what assumptions have been taken.

5. Why do resolution authorities need more data points than the ones provided in the Liability Data Report (“LDR”)?

The LDR is a regular report primarily aimed at collecting information for drawing up resolution plans (e.g. assessing banks’ loss absorbing and recapitalisation capacity) and setting up MREL targets. Having these two purposes in mind, the LDR provides an optimal balance between i) the level of granularity needed to inform and implement the MREL decision for all banks under the SRB remit and to prepare

and update resolution plans, on the one hand, and ii) the efforts banks would need to make to report this standard information on a regular basis.

However, while the information provided in the LDR may suffice to execute bail-in on some instruments, some of these data points are currently non-mandatory (as is the case of the CSD of issue for securities). Some other instruments may need more granular information not covered in the scope of the LDR. Some of the reasons why these additional data points may be needed are:

- The information needed by the SRB to determine the perimeter of liabilities to be bailed-in and inform its resolution scheme;
 - The LDR cannot ensure the existence of a unique identifier enabling counterparties to verify whether their claims will be subject to write down or conversion.
 - Prudential filters lead to distorted valuations of own funds and bailable liabilities.
 - The LDR does not entail information on fees, charges and agios.
- Differences in national insolvency frameworks, as well as some additional country-specific peculiarities, which may imply a need of additional information for NRAs to issue the implementing act for resolution;
- The identification of internal operative hurdles banks may face to execute bail-in.

6. What is the timeframe for the submission of information and data to resolution authorities?

In line with the EfB on operationalisation of write-down and conversion, banks should be ready to deliver to resolution authorities at short notice the necessary information to complete their resolution decision and implementing act that include bail-in as resolution tool.

As this aim is ambitious and cannot be reached over night, banks should consider budgeting investments in their IT systems with the view of phasing-in the delivery of the necessary data as required for bail-in in a complete and adequate fashion at short notice. To achieve this goal, banks should test their IT-systems once the banks have started to implement them, in line with the EfB timeline in this area (see also Principle 1.4. of the EfB). The purpose of the tests would be to reduce the amount of workarounds over time and to achieve the delivery of complete and adequate data at short notice.

7. What should be the accounting basis for the execution of bail-in? National GAAP or IFRS?

While IFRS seem to be the standard that would allow for better comparability, it should be noted that the execution of bail-in depends on the national legislation and, in many cases, this imposes the use of national GAAP. Moreover, resolution groups are expected to comply with the relevant capital requirements both on an individual basis (for which several national competent authorities still require the use national GAAP) and on a consolidated basis (for which the SSM takes IFRS as a reference). Moreover, consolidation requires a review of the individual balance sheet (likely to be done under national GAAP) as a first

step. Therefore, adjustments under both national GAAP and IFRS may be relevant for the same resolution group.