SOLVENT WIND-DOWN OF TRADING BOOKS

Guidance for banks
July 2025

Single Resolution Board

srb.europa.eu

Disclaimer

This publication sets out the main expectations that banks under the SRB's remit with material trading activities are expected to develop to support the planning and execution of the solvent wind-down of derivatives and trading books. Depending on the situation and in line with the applicable legal framework, the SRB reserves the right to deviate from the actions and expectations described in this publication.

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Content

Abbreviations

AMV	Asset management vehicle
AST	Asset separation tool
AVA	Additional value adjustment
BCP	Business continuity planning
BRP	Business reorganisation plan
BRRD	Bank Recovery and Resolution Directive
CCP	Central counterparties
CSA	Credit support annex
CVA	Credit valuation adjustment
EBA	European Banking Authority
EfB	SRB’s ‘Expectations for Banks’
EU	European Union
FMI	Financial market infrastructure
FSB	Financial Stability Board
FX	Foreign exchange
IRT	Internal resolution team
ISDA	International swaps and derivatives association
KLE	Key liquidity entities
KLD	Key liquidity drivers
KVA	Capital value adjustment
LCR	Liquidity coverage ratio
MA	Master agreement
MVA	Margin value adjustment
NRA	National Resolution Authority
NSFR	Net stable funding ratio
OCIR	Operational continuity in resolution
OTC	Over-the-counter

PRS	Preferred resolution strategy
RWA	Risk-weighted assets
SoB	Sale of Business
SRB	Single Resolution Board
SRMR	Single Resolution Mechanism Regulation
VaR	Value at risk
VRS	Variant Resolution strategy

1. Introduction

1.1. Purpose and objectives

The solvent wind-down (SWD) of trading books is an approach that can be used for exiting trading activities in an orderly manner, while avoiding posing risks to financial stability. The absence of a credible SWD plan can jeopardise the credibility and feasibility of the resolution strategy of a bank with material trading books. Due to the size and complexity of some banks' trading books, SWD planning contributes to banks' resolvability.

The objective of this operational guidance is to provide SRB entities[1], invited to prepare a SWD of trading books, with a framework to ensure they build up and maintain the adequate capabilities to execute it. These banks are expected to demonstrate a thorough understanding of their trading books, including the main internal and external dependencies. This assessment should also inform the drawing up of operational steps to support an execution of a wind-down of trading activities in the run-up to, during and after resolution.

This document sets out the scope and main expectations for SWD planning and its potential execution. It supports the objectives to: (i) understand the size and complexity of the trading books and implications for resolution, (ii) adequately prepare, develop and maintain the banks' capabilities (including, but not limited to, funding needs in and post-resolution) for the planning of a SWD and (iii) ensure execution capabilities of the SWD plan in a reasonable timeframe.

As trading activities often have a regional or global footprint, this guidance ensures a level playing field among the banks concerned. To that end, the SRB has sought alignment with other jurisdictions, where relevant. The application of this guidance may be adapted to individual specificities of banks, considering the principle of proportionality. It is also based on a dialogue between each bank and its Internal Resolution Team (IRT).

This document builds on the first SWD guidance published in 2021 and the assessment of SWD plans and playbooks submitted over the last resolution planning cycles. The update incorporates banks and other stakeholders' feedback and addresses the shortcomings identified by the SRB via the review of banks' deliverables. It also simplifies the first operational guidance by removing complexity and enhances proportionality. In the context of the SRB's move to resolvability testing, this guidance clarifies operational aspects of phased-in capabilities.

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[1] The SRB is the resolution authority for: the entities 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".

1.2. Background

This guidance helps banks by setting expectations on how to meet principle 7.1 of the Expectations for Banks (EfB) related to "Structure, complexity and interdependencies" with regard to the size and complexity of trading books[2]. For some banks, the size and complexity of trading books can impede the credible and feasible implementation of their resolution strategies. This can entail operational, financial and contagion risks, highlighting the need for a precise, overall description of activities regardless of the envisaged exit options.

For banks with an open-bank bail-in as a resolution strategy, the SWD of trading books directly supports banks' business reorganisation plans (BRP) in line with EfB principle 7.3 to restore confidence in their business model post-resolution. The SWD of trading books can act as a key reorganisation measure to generate liquidity, reduce risk-weighted assets (RWA) and facilitate the bank's reorganisation. Provided it is smoothly executed, it can help mitigate the impact on the financial system by limiting stress and contagion to financial markets[3]. Therefore, banks are expected to embed SWD preparations into the drawing up of their BRP analysis reports, ensuring that measures are consistent and aligned.

Preparations for the SWD of trading books can enhance banks' separability in line with EfB principle 7.2, facilitating the application of a partial transfer tool in resolution. Both the preparation and execution of the SWD of trading books can help achieve transparency on banks' trading books in the context of the application of transfer strategies. This can lead to an earlier identification of losses, enhance asset quality and mitigate risks. It also helps reduce balance sheet uncertainty and boost confidence in the institution post-resolution.

Because SWD of trading books can also be relevant for banks under business as usual or as a recovery option, it is expected that banks already have some capacity to wind-down their trading activities in an orderly way if needed. For the purpose of this guidance, the focus is on the SWD as an element of resolution planning, resolution and after resolution.

1.3. Main expectations and scope of application

Banks in scope are expected to develop the capabilities necessary for carrying out a SWD of their trading books. This includes careful planning and analysis to provide:

- An overview of the trading activities at all times, as well as the main dependencies and counterparties, positions, risks and complexities;

[2] EfB 7.1 principle sets out that: "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: [..] reduce the complexity and size of the trading book if this is necessary to apply the resolution tools".

[3] BRRD Articles 31(1), 31(2)(b). Article 14 SRMR.

- A regularly updated and reviewed SWD plan outlining the different segments and the associated exit strategies for its trading activities and potential financial implications;
- Information provision on the SWD planning such as the capacity to update the plan in a timely manner, relying on business-as-usual tools, systems and infrastructures to the extent possible; and
- The capabilities to execute the wind-down, reflected in a SWD playbook focusing on governance, stakeholders and communication[4].

Banks in scope and level of application

The operational guidance applies to SRB entities with material trading activities. This includes all global systemically important institutions (G-SIIs) and other banks identified by IRTs following an assessment of their trading activities. In addition, banks for which the IRT considers the need for (1) a plan for a wind-down of trading books, on a limited or full scope and/or (2) its related playbook can refer to this guidance. Other banks are encouraged to opt-in to this policy if, following a self-assessment and in agreement with the IRT, it is concluded that further analysis of their trading books would be relevant. This may be for resolution planning purposes, if it is concluded that SWD planning may be useful in the run-up to or after resolution, or that it could otherwise improve the bank's resolvability. Branches, including those of a Banking Union entity established in a third country, can be covered if relevant. The principle of proportionality should be applied to tailor expectations to the bank's risk profile.

Compliance with the guidance is encouraged for banks that operate in the Banking Union, but whose parent entity is headquartered and supervised in a third country. In those cases, expectations may be tailored to take the dependencies between the Banking Union subsidiary and the rest of the third-country group into consideration.

The SRB entities that are Banking Union subsidiaries of third-country groups are expected to leverage their group capabilities to meet these expectations. These entities could be asked to document the local implementation of the group-wide capabilities to achieve the following outcomes:

i. produce information and data on the local derivatives and trading portfolio, its segmentation and exit strategies, in order to develop a local SWD plan;

ii. estimate the impact of the SWD plan on the local liquidity and capital position;

iii. develop the operational capabilities for winding-down the Banking Union subsidiary's trading book positions while re-hedging the subsidiary's market risk positions.

[4] In the FSB discussion paper, the FSB includes the following regarding "playbooks": "[…] some firms have adopted playbooks to help provide clarity on the necessary steps and actions of the solvent wind-down strategy, both in recovery and in resolution, including, for example, identification of key sign-off and escalation points, parties involved in the decision-making in a solvent wind-down, their responsibilities in the execution of a solvent wind-down and communication with relevant stakeholders.". The paper is available here: https://www.fsb.org/uploads/P030619-1.pdf.

When the third-country group does not have sufficient capabilities to meet these expectations, the Banking Union subsidiaries are invited to develop local capabilities of their own.

Trading activities in scope

All activities in the trading books are expected to be covered by the SWD planning[5]. Assets in the banking book such as derivatives should only be included if they are related to trading book activities (e.g., for hedging purposes). Banks are invited to assess the importance of trading desks and market activities for their business model. In particular, banks are expected to be able to indicate whether trading desks are necessary for the provision of critical functions such as retail activities and core business lines, especially if these generate profit or liquidity. Intra-desk dependencies (e.g., hedging, funding desk) and external counterparties (as a provider of market-making or acting as intermediary for clearing services) should also be identified.

The aim is to understand the challenges and potential impediments to winding down the underlying books or desks. This should allow the determination of the sequencing of a potential wind-down and identify desks and books that would remain in the resolved entity, if any. Banks are invited to leverage any past experience in winding down trading books for the analysis.

[5] In the particular case where an IRT considers a bank to be in scope, the IRT can limit the scope of the SWD plan and playbook.

2. Overview of trading activities

Before planning for a wind-down, it is important that banks establish a precise overview of their trading business under business as usual. This covers the content of the portfolio, nature of the activities, level and sources of complexity, any dependencies and its impact on the execution of resolution tools. This chapter elaborates on the SRB's expectations towards banks in their analysis of the trading activities that should be included in the SWD plan.

2.1. Description

Banks are invited to describe their trading activities at a level of granularity that captures the size and complexity of their business, including the underlying portfolios and trades, as well as interdependencies. Information in the SWD plan should ideally be provided at desk level[6], except if that is not the most appropriate segment. The latter could for example be a business unit if this corresponds to the bank's internal segmentation of activities. When providing information at such a level of granularity is not achievable, for example for the Credit Valuation Adjustment (CVA) computed at the counterparty level, banks can provide the information at a level that is more appropriate. Counterparty level segmentation is welcomed when a SWD exit strategy can be applied at counterparty rather than at a trade or desk level.

Once the most appropriate segmentation of the activities has been determined, banks are expected to prepare a short 'identity card' for each segment. These cards should describe the desk(s) name(s), location, legal entity or branch (including outside the Banking Union), asset class and trade types (e.g., fixed income flow, FX options, equity derivatives) and main counterparties.

Additionally, banks are expected to describe and analyse the key characteristics that will affect the exit strategy. These can include:

i. product type (cash, spot, derivatives, exotic etc.);
ii. underlying type (equity, forex, interest rate etc.);
iii. currency;
iv. maturity;
v. first order sensitivity to the main underlying (delta, PV01 etc. depending on which is the most relevant for the product type);
vi. VaR or expected shortfall values and limits and market risk related considerations;

[6] Similar to the split proposed by the Fundamental Review of Trading Books (Basel Committee on Banking Supervision, 2019)

vii. market type (OTC vs. listed etc.);

viii. master agreements' (MA) credit support annexes (e.g., CSA[7] for ISDA MA), adhesion to the ISDA Stay Protocol or other resolution-related contingencies, and long form confirmations; and

ix. dependencies (see next sections).

2.2. Internal dependencies

Trading activities are often interconnected on a local, regional or global level and come with many financial and operational interdependencies within banking groups. These range from the simple dependency of an exotic desk on more plain vanilla desks to the use of global operating models or of certain booking practices across entities. Local regulatory requirements, as well as capital and risk management considerations, have driven cross-border and intra-group booking practices for trading activities and in particular for derivatives. Banks are invited to demonstrate a sound understanding of these dependencies and mitigate them wherever these may constitute material barriers to the execution of the SWD.

Banks are expected to provide an extensive description of internal interdependencies in the overview of trading activities. This description should cover every segment and take both intra- and inter-desk dependencies into account, along with the intra-group dependencies such as on internal services providers (e.g., information technology or human resources). This will help to identify the parts of the bank's trading activities that need to be maintained for the rest of the group. The funding desk or basic FX activities can for example prove relevant for retail or corporate banking. With regard to dependencies on internal service providers, banks can leverage work completed on Business Continuity Planning (BCP) as well as Operational Continuity in Resolution (OCIR), as relevant[8].

Banks can break down internal dependencies using the categorisation they consider appropriate. The categorisation should at least cover the following dimensions:

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[7] Document that defines the terms for the provision of collateral by the parties in derivatives transactions. It is one of four parts of a standard contract or master agreement developed by the International Swaps and Derivatives Association (ISDA).

[8] This is the case when some of the bank's trading activities are considered as a critical function under the "Capital Markets" or "Wholesale funding" category and/or when they represent a core business line. In the context of the work on OCIR, banks identify, among others, critical and/or essential services (and service providers) needed for the effective implementation of the resolution strategy and any consequent restructuring, and map such services to the necessary operational assets and staff and to critical functions and core business lines.

Table 1. Internal interdependencies

Internal Interdependencies	Description
Operational and IT services	Describe material dependencies that arise from operational or IT services shared among trading desks and/or between desks and core business lines external to the trading activity within the banking group (internal dependencies). Third party dependencies are covered in Section 2.3.
Legal and contractual	Include the legal or contractual dimensions related to legally binding agreements or terms between counterparties that may need to be addressed or managed before executing the wind-down of the trades.
Compliance	Assess regulatory and compliance requirements to be considered before and during resolution as well as monitored post-resolution.
Support to financial or business functions	Assess business or financial dependencies between desks as well as links with core business lines external to the trading activities (e.g., retail banking) that are relevant during resolution and post-resolution.

Banks are invited to highlight the desks and activities or services that support critical functions and core business lines. This analysis can be illustrated as a table. In case a bank does not identify any such dependencies, this should be explicitly mentioned.

For each segment and category, banks are expected to assess the materiality of the dependency in the context of the execution of the SWD. Banks are invited to elaborate on the expected impact, for example via the use of a score or heatmap (e.g., low to high impact). A description of corresponding mitigation measures should be included, where relevant. These measures should be consistent with the BRP analysis report, if applicable. Charts and visual elements can be useful to support this analysis.

2.3. External dependencies

Financial, operational and other dependencies may exist with external parties as well. These can take multiple forms, from accessing FMIs to transacting with customers, or models and platforms relying on third party services. The impact of the SWD of trading books on the rest of the group can be assessed by analysing operational and financial interdependencies, including the access to FMIs, shared services, IT infrastructure, cost allocation or liquidity. In particular, the description and analysis of external service dependencies should leverage on the institutions' work on BCP as well as OCIR, as relevant (see section 2.2).

Banks are invited to indicate if they expect such dependencies to become irrelevant after the wind-down. For example, if a bank ceases to use a given product type, access to the relevant central counterparties (CCP) might not be needed following the SWD application.

Banks can break down external dependencies using the categorisation they consider appropriate. The categorisation should at least cover the following dimensions:

Table 2. External interdependencies

EXTERNAL INTERDEPENDENCIES	DESCRIPTION
Operational and IT services	Describe any material external (third party) dependency regarding operational or IT services shared among trading desks. Indicate also if access would become irrelevant (no longer needed) after the wind-down.
Legal and contractual	Cover legally binding agreements between counterparties and identify provisions or terms that may need to be resolved or managed before winding down the trading desks. A particular focus should be put on resolution-related contingent terms in contracts, if any, in particular in the absence of adherence to the ISDA Resolution Stay protocol, or alternative arrangements.
Compliance	Refers to regulatory and compliance requirements to be considered before and during resolution as well as monitored post-resolution.
Access to FMI service providers	Identify specific FMI service providers and their respective jurisdiction for which access needs to be ensured during the SWD period. Indicate also if access would no longer be needed after the wind-down, and if FMI access criteria/requirements might be at risk at any time during (and due to) the wind-down.
Counterparties	Identify the largest counterparties by type (incl. financial institutions, governments, non-bank financial institutions) as well as their jurisdiction and expected stickiness (e.g., sophistication level). The financial stability impact (e.g., in a fire sale) should be assessed, considering institutional or structural factors.

In particular, banks are invited to consider the risks and vulnerabilities associated with counterparties and describe these from a qualitative and quantitative perspective. The qualitative description should at least cover the main characteristics of the counterparty, including their type (e.g., high-net-worth individuals, hedge funds, pension funds), behaviour, level of sophistication, the stickiness of the position as well as any contractual terms or other obstacles that may need to be resolved or managed. For certain business models, these obstacles can come from institutional or structural factors such as the membership in a wider network of banks, which may trigger difficulties in winding down instruments (e.g., a member winding down a certificate owned by the central body of the network). A quantitative analysis proportionate to the relevance (in terms of size and complexity) of the desk should accompany the description with information on the size of the counterparty and credit risk. The objective of this assessment is to anticipate financial stability and contagion risks and to identify sticky trades for which the winding down will prove more difficult.

For each segment and category, banks are expected to assess the materiality of the dependency in the context of the SWD execution. Banks can adopt a similar approach as for internal dependencies and assign an impact grade via a score or use of a heatmap (e.g., low to high impact). As part of this assessment, banks are invited to describe corresponding mitigation measures (if any), ensuring their actions are aligned with the BRP, if applicable.

2.4. Complexity

Trade complexity is one of the determining factors that can affect the SWD strategy. More complex positions can be assumed to be less liquid, to hold a bigger risk of being inadequately priced and to require more time to be wound down. Hence, it is particularly important to identify such positions during the SWD planning.

To better assess the complexity of trades held by a given desk, banks are expected to leverage the EBA product complexity categorisation taxonomy or, alternatively, the IFRS13 accounting standards. The fair value amount of positions falling under each level of the IFRS13 accounting standards or under each category of the EBA RTS/2016/07 should be reported, as well as the first order sensitivity to the main underlying/risk factor (delta, PV01 etc. depending on which is most relevant for the product type). If applicable, banks are encouraged to provide an enhanced overview of level 3 or category 3 trades, describing the nature of the complexity, expected level of stickiness and mitigants.

Box 1. EBA product complexity categorisation taxonomy and IFRS13 accounting standards

Based on RTS/2016/07 related to Article 363 of Regulation 575/2013, the EBA has developed a product taxonomy to categorise instruments negotiated by the desk according to their complexity in terms of the models used:

- Category 1: simple instruments, such as spot positions, cash equities, bonds, interest rate swaps, cross-currency swaps, credit default swaps, inflation swaps, equity swaps, volatility swaps, forward rate agreements, forwards and futures.
- Category 2: instruments other than those in category 1 without path-dependent features, on a single underlying including indices with a continuous payoff in the same currency as the underlying.
- Category 3: instruments with path-dependent features, instruments on multiple underlyings and underlyings across different asset classes, instruments with payoffs in different currencies.

IFRS 13 establishes a fair value hierarchy based on the financial instruments' uncertainty. This standard allows to gain insights into instruments' liquidity, allowing to develop assumptions about the potential required time to wind it down and by extension, resolution. Three levels constitute the fair value hierarchy:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

2.5. Risk data and granularity

To support the analysis of SWD exit strategies, banks are expected to rely on accurate and up-to-date risk information at the relevant level of granularity. Banks are invited to use trading data, information and metrics using current business as usual systems. This is key to ensure that the bank possesses the operational capacity to monitor the wind-down of trading positions, to execute a wind-down and ensure timely reporting to management and authorities. If applicable, banks are invited to demonstrate that service level agreements for these systems are in place and can be maintained during resolution.

Banks are expected to describe the fair value and risk component of their trading books. Ideally at desk-level, banks are invited to report the main valuation and risk indicators used such as VaR or Expected Shortfall. Taking into account the impact of diversification and hedging between desks, the description should cover the same risk indicators at a higher level.

This information should be elaborated in business as usual and accompany the SWD plan submission to the SRB in the form of a quantitative overview. For resolution planning purposes, banks are expected to provide a detailed overview of their trading positions at a chosen reference date in a data-friendly and machine-readable format of choice. The overview should be at desk or business segment level (i.e., mirroring the chosen identity card – see section 2.1) and by legal entity. The overview should include:

- Trading desk/Segment ID and name;
- Balance sheet positions: assets and liabilities, positive and negative fair value amounts, of which IFRS13 Level 2 and IFRS 13 Level 3;
- Product type (at a minimum distinguishing derivative and non-derivative instruments);
- Carrying amount;
- First order sensitivity (delta, PV01 etc. depending on product type and underlying);
- Net Banking Income;
- Operational costs, with a granular split of direct and indirect costs;
- RWA (Market, Counterparty, Credit; CVA could be a lumpsum);
- Valuation adjustments;
- VaR and/or Expected Shortfall (ES).

The overview should be accompanied by a methodological note explaining the approach and parameters used to derive the VaR and ES metrics reported in the trading desk dataset, with:

- The confidence level;
- Time horizon;
- Methodology to derive them (e.g., historical approach, variance-covariance approach, Monte Carlo simulation approach, etc.)

This risk assessment should be performed and described before, during and after the SWD execution. The initial snapshot (i.e., the starting point of the wind-down period) should be complemented with the estimated impact of the wind-down over a period of 24 months, with quarterly milestones (see section 3.3). Should a longer timeline be needed, banks are expected to provide the rationale. The risk exposure of the rump portfolio (see definition in section 3.2.1) should be described. During a SWD, depending on the market circumstances, banks may consider to adapt or revisit the exit strategies. In this sense, banks are expected to be able to perform the appropriate sensitivity analysis to inform the management decision.

Trading data and valuation

Banks are encouraged to take advantage of potential synergies with the SRB valuation data set. The expectations of this guidance on data, in terms of granularity and underlying the quantitative overview, have been set to be consistent with the valuation data set as well as banks' capabilities to support a timely and robust valuation. As the SRB valuation data set[9] contains derivatives and trading book information, it is expected that the data describing the trading books presented in this section is consistent with the valuation data set (i.e., trading book data set). Both sets include the same key data points. To reconciliate SWD and valuation data, each segment should be associated with the same unique identifier (trading desk ID).

[9] Information on the SRB valuation data set is available here: https://www.srb.europa.eu/en/content/valuation-data-set

3. Planning for the solvent wind-down of trading books

3.1. Underlying assumptions on idiosyncrasy and market conditions

Banks are invited to assume that the wind-down unfolds following the application of their preferred resolution strategy (PRS). While this is the base assumption, an analysis under other circumstances, such as the application of the variant resolution strategy (VRS), could also be expected from banks, in agreement with IRTs. Banks are encouraged to be able to refresh their analysis and perform sensitivity checks to account for changing market conditions under real-life circumstances.

The bank's failure is expected to take place under an idiosyncratic scenario and under normal market conditions. The wind-down should be assumed to take place in a scenario where solely the concerned bank is failing with no impact on counterparty banks and under normal market conditions.

The implications of a stressed market environment can also be considered. However, an analysis in a stressed environment should only be considered on top of the base scenario (i.e., idiosyncratic failure, normal market circumstances). When the bank explores a stressed environment, it should apply the same limitations outlined below. Any additional assumptions should be explained. Banks are invited to use stress assumptions from other EfB dimensions. For example, if the bank explores a wind-down under liquidity stress, it should ensure that the narrative is consistent with liquidity simulations under EfB principle 3.1.

Banks are invited to consider the following limitations and adverse reactions from counterparties during the execution of their SWD strategy:

- **A passive wind-down during the first three to six months following the cut-off date**. This is the reference date chosen for the input data and assumed to be the date of resolution for the exercise. The bank should not assume that it can terminate a trade, unless the termination facilitates the close-out of a client-initiated termination. It should not assume the application of SWD strategies and the wind-down of the financial institution's positions only results from contractual run-off and client-initiated terminations. The duration recommended for the passive wind-down is six months. If the bank wishes to consider another length, it should be no shorter than three months. Any length shorter than three or longer than six months should be supported by a sound justification by the bank and limited to specific trades.
- **The bank has failed to maintain or restore market confidence**. As a result, it should not continue OTC trading . Ceasing activities on OTC markets signals to the market that the bank is on its way out from complex trading activities. The bank is encouraged to prioritise listed products for hedging from day one of the implementation of the SWD strategy. Once the

passive wind-down period is over, bilateral OTC markets can be accessed, but only if justified for active wind-down purposes.

- **The bank can assume an active wind-down during the remainder of the wind-down period**. Between the fourth and seventh (depending on the length of the passive wind-down) and 24th month following the cut-off date, the bank can initiate the termination of a trade, in case it has the contractual rights to do so (e.g., cancellable swaps) and apply more proactive SWD techniques than a simple run-off (see section 3.2).
- **The bank can assume the continuation of all direct and indirect FMI accesses, which were available prior to resolution**. An FMI cannot terminate a bank's access on the grounds of resolution alone. This assumption is extended to existing indirect accesses to CCPs (and other FMIs) via clearing members.
- **Higher margin requirements from existing direct and indirect FMI accesses***.* FMIs may impose higher liquidity requirements on the bank as it heads to resolution. The bank needs to account for these margin/collateral requirements to maintain access to FMIs.
- **The bank is expected to actively pursue cost reduction from direct and indirect FMI accesses**. The bank should not maintain indirect clearing clients as a rationale to preserve membership to a CCP after the SWD period. This function should be assumed to be substitutable over the SWD period. Its wind-down should be part of an overall strategy to reduce costs. Banks are expected to describe the FMI service provider to which they need to maintain access post-SWD and the ones to which access can be partially or fully terminated.

Specific assumptions related to the Business Reorganisation Plan

For banks subject to an open bank bail-in resolution strategy, the measures of the SWD strategy should be consistent with and integrated into the BRP. In practice, this entails that the strategy adopted by the bank for its wind-down should be referred to in the BRP analysis reports and that both BRP and SWD plans are consistent. Given the uncertainty that may arise at the moment of preparation of the BRP, banks can retain some flexibility to amend the SWD section. This can for example be a change of the scope of trading books covered.

One of the key assumptions is that the bank executes the wind-down of trading books itself. This implies that the bank should not assume the partial or full transfer of its portfolio to a third party, at least for the duration of the SWD exercise over 24 months. This assumption is important to ensure the bank takes appropriate measures to fully unwind its trading books. Nevertheless, a scenario where an arrangement via a limited or partial transfer would occur could unfold outside of resolution planning, in agreement with the IRT.

Specific assumptions for Transfer Strategy and Separability

Preparations for the SWD of trading books can enhance banks' degree of separability, facilitating the application of partial transfer tools during resolution. The preparation and application of the SWD of trading books can help achieve transparency on the bank's trading books.

This can help to identify losses earlier, enhance asset quality and transfer the risks. It also reduces balance sheet uncertainty and boosts confidence in the bank's business model after resolution. It can therefore constitute an attractive feature for a buyer taking over the trading activities and prove useful for an Asset Management Vehicle (AMV) performing the wind-down. In this way, SWD planning increases the degree of optionality in resolution.

The SWD of trading books can support transfer strategies in the following scenarios:

- Transfer of assets from the trading book to an AMV, using the Asset Separation Tool (AST). These assets would be wound down if there is no immediate market appetite for a purchase of the vehicle itself[10]. This would allow the isolation of risks related to the trading activities.
- Sale of the trading book portfolio in the context of a Sale of Business (SoB) via a share or asset deal to an external counterparty that could perform the wind-down. The trading book could be sold with the rest of the entity and wound down by the new owner. The SWD strategy would help the buyer forecast how the new balance sheet would look like following the clean-up.

For these reasons, while under a transfer strategy the resolved bank might not execute the wind-down of trading books itself, banks with material trading books and earmarked for a transfer strategy may opt to draft a complete SWD plan. When preparing the plan, the bank should not assume the partial or full transfer of its portfolio to a third party, at least for the duration of the SWD over 24 months. This assumption is important to ensure that variant options can still be considered and that any potential buyer or AMV can benefit from a readymade SWD plan to take appropriate measures to unwind its trading books.

In agreement with the IRT, banks can also consider a scenario with a limited or partial transfer to an external provider. While banks are first expected to demonstrate capabilities to wind down their trading books themselves, banks (subject to their PRS) are also invited to explore and discuss these additional considerations with their IRT. These include developing a capacity to identify and transfer trading books or a portion of activities, if need be. Banks can arbitrage which books or portion would rather benefit from a partial transfer to an external party instead of a bank-led wind-down.

3.2. Exit strategies and related costs

Exit Strategies

The overall strategy for exiting trading activities should be holistic and structured. The SWD strategy should not treat relevant segments or business lines independently but rather be driven by a general and structured approach. This entails a clear sequencing of events (e.g., as opposed to a

[10] Provided the requirements under Article 42(5) BRRD are met.

simultaneous wind-down of trading activities with no consideration for the impact on internal dependencies or shared services).

For all relevant segments in their trading books, banks are expected to assign an exit strategy as well as a timeline and costs to exit these. Where the exit strategy is a sale or novation (i.e., termination of a contract and its replacement with a new economically equivalent contract, but with a different counterparty), the bank is expected to have identified potential acquirers (by name or type).

The winding down of trading book positions, including derivatives, can be achieved through different exit strategies that may be used on their own or in combination[11]:

- Close-out or termination of position prior to maturity
    - Negotiate Closeout (individual trades or by counterparty);
    - Bilateral Tear Up;
    - Cash Security Sale or Buyback.
- **Contractual run-off** (i.e., allowing contracts to run to maturity within the wind-down period and without being replaced or renewed)
    - Contractually Matures (3rd Party);
    - Contractually Matures (Intra-Group).
- **Auction, transfer or novation of positions** (i.e., termination of a contract or its partial replacement with a new contract)
    - Package and sell;
    - Return of Collateral;
    - Securitisation.
- **Compression or Consensual tear-up** (i.e., replacing a portfolio of derivative contracts with an economically equivalent portfolio with a lower exposure expressed in terms such as gross notional outstanding.)
- **Rump**[12] (i.e., remaining/residual portfolio after performing the wind-down)
    - Discretionary rump (i.e., the positions the bank believes can be liquidated but where the cost to do so would be greater than the full cost of maintaining positions to maturity or to some future date where liquidation would be optional);
    - Structural rump (i.e., positions the bank believes it would be unable to liquidate under certain scenarios despite all reasonable efforts).

[11] The proposed taxonomy is inspired by the FSB discussion paper on SWD of derivatives and trading portfolios (available here: https://www.fsb.org/uploads/P030619-1.pdf).

[12] While this does not qualify as an exit strategy by definition, this is part of the taxonomy banks should use to classify portfolios.

Banks are expected to provide a detailed description of their rump portfolio. It should cover both the discretionary and structural rump, following a similar granularity as for the initial portfolio described in section 2, as well as the target RWA post wind-down.

Estimation of SWD costs

A sound wind-down analysis should rely on a realistic estimation of the costs incurred to wind down positions in the trading books, including exit, operational and risk-based costs. To achieve this, banks can use methods rooted in prudential frameworks related to market risk and their own metrics, provided they can duly justify their relevance.

Banks can leverage on standards included in the EU regulatory framework for market risk and prudent valuation[13] to estimate the cost of their SWD strategies. In particular, banks are expected to calculate and report value adjustments via prudential additional value adjustments (AVAs). These can be used as indicators for costs incurred by the different exit strategies and should be calculated following the core approach. For each relevant segment, banks are expected to be capable of breaking down the components of the prudential AVAs (e.g., model risk, price uncertainty, close-out costs, early termination).

Banks may also propose their own metrics, where relevant, in combination with the aforementioned standards, provided they can duly justify their relevance. This approach relies on the bank's internal models and should be carried out on its own or in combination with prudential AVAs (e.g., capital value adjustments (KVA) and margin value adjustments (MVA) as 'add-ons'). In any case, banks are expected to be able to demonstrate the relevance of the metrics chosen, also in a resolution context[14].

In order to provide a realistic and economically plausible estimate of SWD costs, banks' valuation of the positions should recognise costs exceeding the accounting fair value. The accounting fair value is not always an accurate measure under a SWD scenario, as costs to exit positions may significantly exceed the accounting carrying value. The SWD value should be seen as the accounting fair value, supplemented by the SWD costs.

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[13] The framework is driven by regulatory initiatives relating to market risk at a global level (e.g., Basel III and the Fundamental Review of the Trading Book (FRTB)) as well as at EU-level (e.g., CRR III and CRD VI).

[14] For further inspiration on SWD costs and relevant metrics, see the ECB's Occasional Paper on Wind-Down of trading books: https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op316~c92595e295.en.pdf

Figure 1. Solvent wind down costs

- **Exit costs** are the excess costs over the accounting fair value from exiting portfolios through a SWD strategy. Their estimation builds on a combination of quantitative estimates of expected haircuts including close-out costs (CoC AVA) or investing and funding costs AVAs as well as a qualitative judgement of concentration risk, operational risk, early termination and unearned credit spreads. For derivative trading activities, KVA and MVA could also be included as well as day-one profit and loss (DOPnL[15]) deferral.

These costs are dependent on market conditions, assumptions on counterparties' behaviour, trade-offs between the costs of holding the trades and exiting them in resolution or consequences of a fire sale. For these reasons, banks are invited to explicitly describe their methodology and assumptions.

- **Operational costs** are direct and indirect costs of running the operations throughout the wind-down. They include staff costs (e.g., severance packages), IT costs, facilities and occupancies, costs for professional services, infrastructure or legal services. They should reflect the different operating models and intragroup dependencies, if any.

Banks' reporting should be accurate and comprehensive (including interdependencies and shared services). It should be based on a diverse set of assumptions and scenarios over the 24 month-period

[15] DOPnL occur when the entity uses a model to measure the fair value of the instrument and the model price at initial recognition is different from the transaction price.

of SWD and include the management of the residual positions. One-off costs such as consultancy fees or redundancy packages should be featured in the estimation. Both direct and indirect costs for each relevant segment of activity should be reported.

- **Risk-based costs** are hedging costs and potential losses/additional costs arising from market price movements or counterparty defaulting that cannot be hedged during the execution of the wind-down. Compared to the exit or operational costs, these costs are more complex to estimate and subjective. From an AVA perspective, they correspond to model risk AVAs or market price uncertainty AVAs, to be complemented with additional costs related to the wind-down itself.

Banks are expected to identify risk indicators and events leading to higher risks and potential losses, as additional risk-based costs related to the wind-down of the trading books. The quantification of material risks covering market, credit and operational risks and the underlying methodology should be explained in supporting documentation. The bank's assessment can also be accompanied by a comprehensive risk reduction strategy that can be executed in a timely manner for SWD purposes and characterised by some degree of operational flexibility.

3.3. Capital and liquidity impact

The winding down of trading books will have an impact on banks' capital and liquidity. Banks therefore need to understand and anticipate potential financial implications triggered by the exiting of trading activities. As such, banks are expected to:

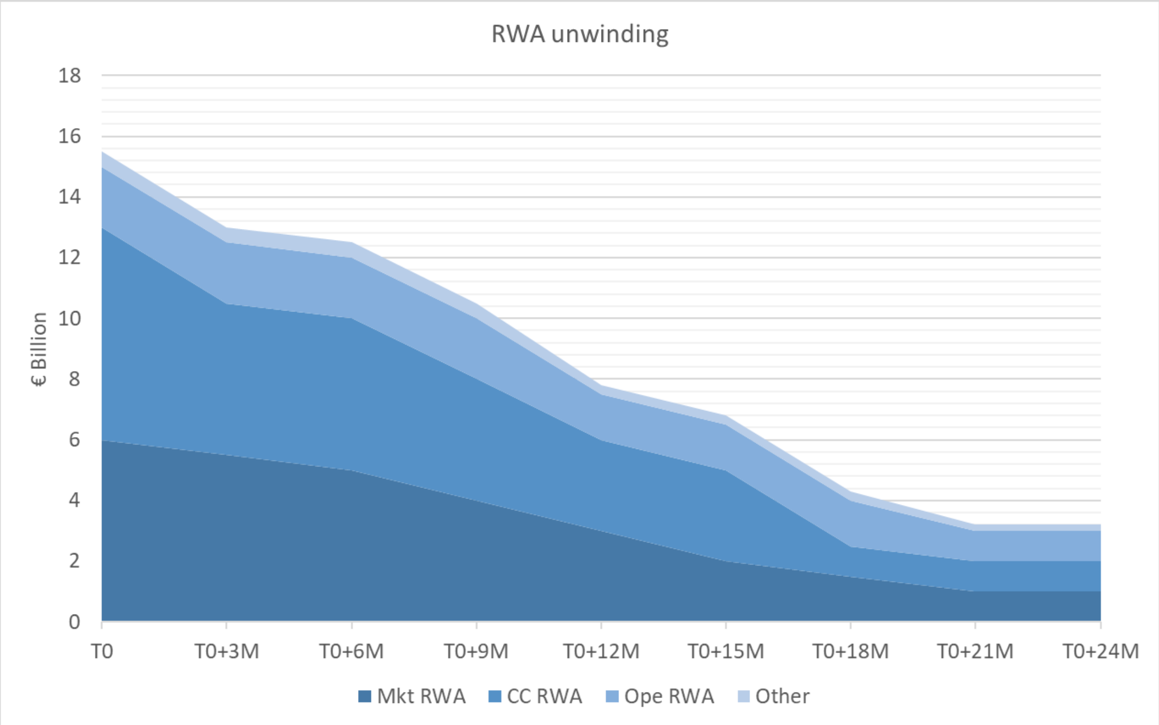
- Estimate the capital and liquidity impact of winding down their trading business.
- Demonstrate their capabilities during execution to regularly monitor capital and liquidity impact of the SWD Plan.

Capital Impact

Banks are expected to provide an in-depth estimate of the capital impact of the SWD strategy. This estimate can be provided with quarterly figures that trace the developments of market risk-weighted assets (MRWA), credit risk-weighted assets (CRWA), operational risk-weighted assets (ORWA), credit valuation adjustment (CVA) and the leverage ratio exposure (LRE) over time. The evolution of capital adequacy metrics or ratios, including the capital value adjustment (KVA) impact and associated cost of setting such an amount aside as well as the interplay between the capital consumption and P&L impact may help to provide further insights into the capital impact.

Banks are encouraged to report on the impact on capital with illustrations tracing ratios or indicators over the SWD period. As banks may decide to close a number of desks and downsize others during the SWD period, it may be beneficial to compare the trend of RWA or LRE reductions with the data on desks to be closed or to be continued with reduced activity. An illustration with the overall trend of the components and broken down by category of risk of the RWA can help gauge the extent and pace of reduction for example. Similar illustrations could also be produced for LRE and CVA.

Figure 2. RWA unwinding



NB: This graph is intended for illustration purposes only and is based on fictitious figures.

Liquidity Impact

The SWD of trading books may significantly affect banks' liquidity profile and therefore tracing its impact is key. Banks are therefore expected to provide an in-depth estimation of the potential liquidity impact of winding down their trading books and to forecast the liquidity sources and consumptions during the material period of the wind-down.

The analysis should be supported by the bank's work to meet EfB principles relating to liquidity and funding in resolution. In line with principle 3.1, banks are expected to perform a liquidity analysis at the level of the Key Liquidity Entities (KLE) and identify the Key Liquidity Drivers (KLD). The cost analysis described in section 3.2 should also support these estimates.

Banks are expected to regularly monitor the liquidity impact of the SWD plan with the use of regulatory and internal metrics. The former can include the Liquidity Coverage Ratio (LCR) or the Net Stable Funding Ratio (NSFR). The internal metrics can be extracted from the internal liquidity stress-tests conducted by the bank or in-house liquidity positions for example. In a similar vein to the capital estimates, banks are encouraged to provide quarterly figures on the liquidity impact of the SWD.

These estimates could be split across time buckets and detailed with expected liquidity outflows and inflows during the wind-down to identify potential liquidity surpluses, shortfalls and maturity mismatches. The bank is encouraged to leverage work completed to meet EfB principles 3.1 and 3.3. The bank is not expected to submit a self-funded plan with no liquidity gaps, but should be explicit and transparent about potential shortfalls.

At a minimum, banks are expected to be able to provide the following information in terms of parallel trends in RWA and liquidity consumption or sources. A similar table could be produced to track liquidity regulatory metrics such as LCR.

Table 3. Example: liquidity and capital evolution during solvent wind-down period

Bn EUR		T0	T0+3 M	T0+6 M	T0+9 M	T0+12 M	T0+15 M	T0+18 M	T0+21 M	T0+24 M
LRE	**Total**	122	102	84	73	62	52	45	41	37
RWA	**Market**	6	5.5	5	4	3	2	1.5	1	1
	Credit	7	5	5	4	3	3	1	1	1
	Operational	2	2	2	2	1.5	1.5	1.5	1	1
Liquidity	**Net Position**	-2	-4	-1	1	1	2	3	2	2
	Cash borrowed	15	16	12	9	8	6	4	1	1
	Liquidity raised	13	12	11	10	9	8	7	3	3

NB: This table is intended for illustration purposes only and is based on fictitious figures.

Reporting on the liquidity impact for the purpose of SWD planning should be consistent with expectations set in the EfB principle 3.1. Banks are invited to use a similar reporting term structure (i.e., time buckets) for the first six months period (weekly buckets for the first month, monthly buckets for the first semester, etc.). If banks consider additional liquidity stress factors in their estimations, the assumptions underlying the pace of liquidity developments should be described. These assumptions should be based on realistic market conditions and can be complemented with lessons from past experience. They should also be consistent with the narrative used for the general liquidity estimations chosen for EfB 3.1. For example, the liquidity analysis can be enhanced by considering at least a slow- and fast-moving scenario.

The liquidity and funding expectations under EfB dimension 3 to provide and refresh a liquidity analysis on a timely basis for each KLE also applies to measuring the liquidity impact of trading books and their wind-down for each KLE. When assessing KLDs, banks are expected to include KLDs linked to the trading activities and/or the wind-down if relevant. Such estimates can include estimates based on the current balance sheet and on estimates of future balance sheets, including the expected wind-down of trading books.

To support this analysis, the collateral funding framework under derivatives trades may constitute an additional analytical tool to quantify outflows. The framework (as per ISDA or CSA agreements) allows to gauge the expected outflows in terms of OTC derivatives and derivatives cleared via CCPs. The expected collateral impact and movements need to be estimated under adverse conditions. This can for example be a rating downgrade by one or multiple notches impacting margin calls or close-amount to be delivered as a result of a termination event under ISDA documentation.

3.4. Regular update of the SWD plan

Banks are expected to review their SWD plans on a yearly basis and submit an update as necessary, unless indicated otherwise by the IRT. After a material restructuring of their trading activities an updated plan would be expected within two months.

In resolution planning, banks are expected be able to update the SWD strategy on a regular basis with the latest available data based on the AVA variables (described in section 3.2). Banks are expected to be able to produce costs, capital and liquidity forecasts across the two-year SWD period, with at least quarterly milestones, except at a shorter term where maturity bucketing should match EfB 3.1 and the reporting of the liquidity guidance expectations.

4. Supporting the solvent wind-down execution

4.1. Solvent wind-down playbook

Principle

Banks[16] are expected to develop a SWD playbook to formalise the steps, procedures and actions of the SWD strategy. In line with the FSB discussion paper, the SWD playbook is a handbook developed by banks, which provides clarity on the internal steps and actions to execute the SWD strategy. This includes, but is not limited to, the identification of key sign-off and escalation points, parties involved in the decision-making as well as their responsibilities in the execution of a SWD and communication with stakeholders.

The SWD playbook is a process-focused operational document covering governance, stakeholders and communications. In this way it differs from the more analytical SWD plan, which describes the different segments in the trading books, associated exit strategies and financial implications. The content of the playbook[17] should be consistent with other recovery and resolution playbooks or operational documents and include cross-references to these, where relevant. In particular, banks are invited to:

a) Update strategic and operational documents on a regular basis. These should contain clear descriptions of the procedures, systems and infrastructure. Senior management and/or committees are expected to be fully involved in the decision-making and related delivery of tasks;

b) Keep the communication plan (for business continuity or resolution purposes) aligned with the steps described in the SWD plan and playbook (where applicable);

c) Ensure adequate cross-references and synergies with other playbooks.

Minimum content

The main objective of the playbook is to cover governance arrangements and steps for executing the SWD plan. It should at least cover the following areas in dedicated sections:

- Executive summary and purposes;
- Governance of the activation and execution of the SWD plan;

[16] Please refer to section 1.3 for the scope of banks concerned. IRTs exercise discretion to set the expectations for their banks, including the submission of the SWD playbook. In some cases, compliance can be fulfilled with the SWD plan alone.

[17] Or chapter, if a bank would prefer for the playbook to be a specific chapter of the SWD plan.

  - Governance framework describing the bodies (e.g., boards and/or committees, including their composition and mandate) and high-level stakeholders taking key management decisions. This should allow the identification of bodies and/or stakeholders taking decisions and monitoring the SWD execution. It should include the escalation procedures, reporting lines, roles, etc.;
  - Phases including targets and timing (with flowcharts describing the process);
  - HR risks such as those related to staff retention and mitigants;
  - Organigrammes of the teams, services, business units, as well as dependencies and mitigants, also highlighting differences with business as usual;
  - Links with external stakeholders including resolution and supervision authorities, FMIs, other third parties, and so on.
- Internal and external communication: identification of steps, target audience (teams, media, regulators, FMIs, counterparties etc.) and key messages;
- Key roles and up-to-date contact list;
- Processes or procedures to execute the SWD plan;
- [At banks' discretion] Lessons learned from previous wind-down of core and non-core activities related to governance and execution.

Banks are expected to describe governance and processes for the SWD planning. In a dedicated section, clearly labelled and separated from execution aspects, banks are invited to cover following aspects of the SWD planning governance:

- Senior management, boards, committees and high-level stakeholders involved in acknowledging and approving SWD plans (including their composition and mandate)
- Main stakeholders (with mandate/responsibilities, units/divisions) preparing the SWD plan, interactions and interdependencies (when several units/divisions are involved and/or interactions with other dimensions of resolution), risks and mitigants;
- Granular processes with flowcharts, processes/triggers for escalation, approvals and controls. This should help demonstrate that the bank can quickly update its plan to reflect current circumstances in the event of resolution;
- Operational testing, if any.

4.2. Information provision and timing

To ensure crisis preparedness, banks are invited to provide information in a timely and accurate manner. This information is essential for the smooth execution of the SWD strategy and also enables the Resolution Authority to inform its decision-making.

The content of the SWD plan can be broken down into two components:

1. A description of the trading activities, interdependencies, exit strategies per segment, with a narrative explaining the foreseen reorganisation, sequencing etc. This part is expected to be mostly stable over time and constitutes the core of the plan;

2. The underlying analysis with supporting metrics and quantitative information such as the book value, RWAs, LRE, timing of the execution, exit and operational costs, risk metrics, staff estimates. It should also include, together with the time horizon and products involved in a given strategy, the capital and liquidity impact. This part is expected to be more volatile depending on underlying input data and the latest state of the portfolio (e.g., considering the remaining time-to-maturity, new or amended and cancelled trades).

Banks are expected to be able to refresh these two components in a timely manner to reflect latest market conditions and balance sheet. In practice, this means developing a capacity to perform a *quick refresh* (within a maximum of five working days) of the second component to inform actions to be taken after the resolution weekend[18]. On a best-effort basis, banks should provide Resolution Authorities with data that is as up-to-date as possible (even if all information does not have the same cut-off-date). This latest available data should be as close to the resolution event as possible (compared to the latest available plan that would likely be dated as of the end of the previous year). The *full and accurate refresh* should be provided within two months to the Resolution Authority to confirm post-resolution actions. The objective should be to obtain data that is complete and accurate with a single cut-off date.

In the future and in line with the SRB's shift to bank-led testing, banks may be invited to test their capacity to refresh these two components. At the point of failure or in the run-up to a crisis, banks are expected to be able to perform a *quick refresh* within a maximum of five business days and a *full and accurate refresh* within two months. To demonstrate their operational readiness, banks are invited to rely on testing methods such as dry-runs to confirm that they can deliver this information. The principle of proportionality will be factored into any resolvability testing for the banks in scope. In an actual crisis case, these updates on the SWD execution could be expected from banks on a monthly basis.

[18] This does not prejudge of the need for the bank to be able to monitor and manage its positions in real time. In addition, although the five days relate to the ability to update the data in the SWD plan, the bank may also consider that a shorter timeline would be preferable for certain metrics, to optimise decision-making in case the SWD plan needs to be executed.

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