OPERATIONAL GUIDANCE ON BAIL-IN PLAYBOOKS

June 2022
This publication compiles the main elements that banks are expected to consider for developing their bail-in playbooks in order to enable the timely and effective execution of the write-down and conversion of capital instruments and eligible liabilities pursuant to Article 21 of Regulation (EU) No 806/2014 ("write-down and conversion powers") and the execution of the bail-in tool in resolution. In a crisis, depending on the specific situation and in line with the applicable legal framework, the Single Resolution Board (SRB) reserves the right to deviate from actions and expectations of this publication.

This publication is not intended to create any legally binding effect and does not substitute the legal requirements laid down in the relevant applicable EU and national laws. It shall not be relied upon for any legal purposes, does not establish any binding interpretation of EU or national laws and does not serve as, or substitute for, legal advice.

The SRB Operational guidance on bail-in playbooks is subject to further revisions, including due to changes in the applicable EU legislation. The SRB reserves the right to amend this publication without notice whenever it deems appropriate, and it shall not be considered as predetermining the position that the SRB may take in specific cases, where the circumstances of each case will also be considered.

The document has been developed by the SRB, in close collaboration with the National Resolution Authorities (NRAs).

2 For the purpose of simplification, when this guidance refers to bail-in, it refers to both write-down and conversion powers and bail-in in the case of resolution.
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Abbreviations

AT1  Additional Tier 1
BRRP  Business Reorganisation Plan
BRRD  Bank Recovery and Resolution Directive
CBL  Clearstream Banking Luxembourg
CCP  Central Counterparty
CET1  Common Equity Tier 1
CRD  Capital Requirements Directive
CRR  Capital Requirements Regulation
CSD  Central Securities Depository
CUSIP  Committee on Uniform Security Identification Procedures
DTAs  Deferred Tax Assets
EB  Euroclear Bank
EBA  European Banking Authority
EFB  SRB Expectations for Banks
EU  European Union
FX  Foreign Exchange
GAAP  Generally Accepted Accounting Principles
IAS  International Accounting Standards
ICSD  International Central Securities Depository
IFRS  International Financial Reporting Standards
IRT  Internal Resolution Team
ISIN  International Securities Identification Number
LDR  Liability Data Report
MAR  Market Abuse Regulation
MIS  Management Information Systems
MPE  Multiple Points of Entry
MRREL  Minimum Requirements for Own Funds and Eligible Liabilities
NCWO  No Creditor Worse Off
NNA  National Numbering Agency
NRA  National Resolution Authority
PoE  Point-of-entry
PRS  Preferred Resolution Strategy
P&L  Profit & Loss Statement
RPC  Resolution Planning Cycle
SPE  Single Point of Entry
SPV  Special Purpose Vehicle
SRB  Single Resolution Board
SRMR  Single Resolution Mechanism Regulation
T2  Tier 2
TCs  Tax Credits
TLCF  Tax loss carry-forward
1. Introduction

1.1. Background and rationale

1. On 1 April 2020 the SRB published its Expectations for Banks (EFB), where it outlines the role of banks in 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 Internal Resolution Teams (IRTs) and individual banks.

2. 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 received on time. 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 (PRS), to contribute to loss-absorption or recapitalisation.

3. To facilitate this, in line with the EFB document, all banks under the remit of the SRB for which resolution is the preferred strategy need to develop their own bail-in playbooks – one per resolution group. A bail-in playbook is an operational document owned by the bank. It supports the execution of the write-down and conversion of capital instruments and eligible liabilities pursuant to Article 21 SRMR and the execution of the bail-in tool in resolution. The bail-in playbook is expected to address all internal and external actions that must be undertaken by or on behalf of the banks to effectively apply the bail-in tool.

4. This updated version of the SRB guidance on banks’ bail-in playbooks expands the original guidance published in August 2020, by providing further details on the expectations related to (i) the loss transfer and recapitalisation mechanisms between the resolution entity and its subsidiaries, and (ii) the testing of bail-in playbooks to be conducted by banks. It further includes specifications resulting from the experiences made by the SRB through its work with banks. Compared to the previous version, the section on operational arrangements for setting up a business reorganisation plan (BRP) has been removed from the scope of the bail-in playbook. For further details, refer to Annex “Summary of changes”.

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1. For the purposes of this document the term “bank” shall be understood as encompassing the scope of the SRMR and not only credit institutions.

2. This guidance does not immediately apply in respect of credit institutions or groups established in the Banking Union, (i) whose ultimate parent entity is established in a third country, (ii) that are covered by a global Single Point of Entry (SPE) resolution strategy instituted at the level of the ultimate parent, and (iii) for which the resolution plan drawn up in accordance with Article 7 para.2 SRMR does not foresee the application of resolution tools as stipulated by the SRMR or the write-down and conversion powers under Article 21 SRMR.

3. Banking groups subject to a Multiple Points of Entry (MPE) strategy are expected to have a separate playbook for each of the resolution groups.

4. This is accompanied by an extension of the SRB minimum bail-in data list to cover the required information for the loss transfer and recapitalisation mechanisms. For further details, see the documents SRB Bail-in Data Set Instructions and SRB Bail-in Data Set Explanatory Note (updated in June 2022) as published on the SRB website.

5. In accordance with Article 27(1)(a) SRMR.
The operationalisation of the bail-in tool also depends on the national legal framework. This guidance defines the SRB minimum expectation for bail-in playbooks. It does not pre-empt or supersede additional national elements provided by the NRAs through the IRTs. If guidance on specific subject matters has already been provided to banks in a given jurisdiction, the banks are expected to take this into account when developing the playbooks.

1.2. General expectations for playbooks

The playbook is expected to cover at a minimum:

- An identification and a description of relevant governance arrangements for the bail-in execution, including an indication of responsibilities, reporting lines, roles of committees and the communication set-up;
- Processes and timelines for the identification of the perimeter of bail-inable instruments and the generation of data points used as input for the SRB resolution scheme, the national implementing act of the NRAs and the bail-in execution itself;
- A detailed description of the procedural steps for the internal and external execution of the bail-in for each type of instrument covered by the playbook;
- A description of Management Information Systems (MIS) that supports the different processes, in line with Principle 5.3 of the EFB requirements.

The playbook is also expected to have an introduction with a description of the playbook validation process and a clear indication of the scope of instruments covered.

The description of processes is an integral part of the playbook. Banks are expected to cover the following elements:

a) An identification and a description of the inputs to and outputs of the different processes: data sheets, specific documents and forms, etc.;

b) A chronology and a description of events and tasks (an illustration of the chronology in a separate table would support clarity); and

c) A description of operational procedures (e.g. in a flowchart).

Banks are expected to test the elements of the bail-in playbook, in particular by means of dry-runs, with special consideration for data provision. Chapter 4 provides the framework for these tests.

The playbook is expected to be in line with the content of this guidance, to be well structured and easy to understand. It should be practical for the banks and resolution authorities, in order to use it in a potential resolution case. The guidance does not prevent IRTs from setting more specific requirements to the playbook’s format or structure, if necessary.

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6 For the ease of reference, the term “instruments” is used hereinafter to describe the entirety of CET1, AT1 and T2 items and any other bail-inable liability – unless a specific reference is made to each of these elements.

7 A separate general overview table/flowchart of the processes and the timeline could be presented as a summary, e.g. at the beginning of the playbook.
11 The playbook is expected to be validated by the senior management of the bank.

12 The playbook is a living document and is expected to be updated at least annually taking into account the feedback from the IRT, lessons learnt from dry-runs, other guidance from the resolution authorities, any material changes within the bank, requirements of the external stakeholders for external execution and legal changes (including changes to relevant national laws, etc.).

13 Material changes compared to the previous version are expected to be clearly indicated. The involved units, departments and committees in the bank should be informed.

14 Banks are expected to list the remaining issues related to the different sections and discuss openly with IRTs the way forward to address them (e.g. concerning the level of data automation, the different steps for the execution of bail-in at a third country Central securities depositaries (CSDs), or legal constraints).
2. Scope of instruments covered

15 The scope of instruments to be covered in the playbook may vary from bank to bank, depending on the bank’s liability structure and the level of progress in the operationalisation of the bail-in.¹ The scope of instruments covered in the next iterations of the playbooks is expected to increase gradually, and could be phased in along the following dimensions until full coverage by year-end 2023:

a) The creditor hierarchy classes covered;
b) The type of instrument covered (e.g. senior unsecured bearer bond, loan-type instrument, commercial paper); and
c) The market(s) where the instrument is listed for trading and the CSD where the instrument has been issued.

The banks are encouraged to include a summary of the instruments covered in the playbook. This summary should indicate the volumes along the dimensions noted above, in order to demonstrate which bail-inable instruments are covered by the present playbook version and the relevance of the different instruments for the bail-in execution (e.g. their share of total bail-inable instruments or total liabilities and own funds). For instruments not yet covered, the playbook should describe the bank’s planning for achieving full coverage by year-end 2023. A reference date must be included for all figures shown.

¹ In the context of the phase-in of the EFSA, the gradual extension of the scope of instruments may be specified by the SRB, in cooperation with NRAs, for all banks in a country. The SRB expects that the fully-fledged version of the bail-in playbooks covers all bail-inable instruments.
3. Content of the playbook

3.1. Governance, communication and disclosure obligations

3.1.1. GOVERNANCE FRAMEWORK

16 Under the EFB, banks are expected to have in place robust governance processes that facilitate the preparation as well as the implementation of the resolution strategy. In line with the EFB, the playbook should contain robust governance arrangements for the implementation of bail-in to ensure (i) a timely and accurate provision of relevant information on a regular and ad-hoc basis, (ii) effective oversight during both resolution planning and a possible crisis scenario and (iii) efficient decision-making at the time of resolution.

17 The governance framework should include the preparatory phase, the resolution weekend and the implementation phase (the bail-in execution), as well as the closing phase. The overall governance framework should allow for a smooth transition from the early intervention and recovery phases into the resolution phase.

18 Governance should not be understood as an isolated element of the playbook, but as a horizontal element to be addressed throughout the playbook, closely linked to the internal processes for data provision, the identification of the perimeter of bail-inable instruments as well as the internal and external bail-in execution. To this end, the playbook is expected to identify and describe the following:

- Units, departments and committees (pre-existing or specifically designed for bail-in purposes) within the bank that are involved in the different stages of the bail-in implementation;
- At a minimum, a point of contact and an alternate point of contact (with a reference to a job title and contact details) for each of the units, departments, entities (if relevant) and committees responsible for the practical implementation of the bail-in tool;
- Specificities related to the legal structure of the group, if relevant for the bail-in (e.g. existence of a holding company that is different from the point-of-entry (PoE), cooperative network etc.);
- The governance set-up, e.g. processes, decision-making timelines, as well as reporting lines, escalation and formal approval mechanisms, with a clear allocation of responsibilities. The roles and tasks of the different actors and committees

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9 Principles 1.1 and 1.2 of the EFB.
10 According to Article 2(1)(71) BRRD and Article 3(1)(49) SRMR.
11 This is relevant for business continuity.
and the interactions between them are expected to be clearly described.\footnote{Note that a special manager may be appointed by the resolution authority to replace the management body of the bank under resolution in line with Article 35 BRRD.}

The interplay with relevant external stakeholders is also expected to be covered:

- Procedures for (i) identifying the staff to be involved in the operationalisation of the bail-in process; (ii) granting staff and relevant third parties (e.g. valuers) access to premises, IT systems and data; and (iii) ensuring confidentiality from staff and third parties involved in the resolution process (e.g. signing confidentiality agreements or secrecy protocols), in particular in the lead-up to the resolution weekend;
- Banks are encouraged to use flowcharts and diagrams to visualise the process workflows and the interaction between the different actors, departments and committees.

19 Time is a factor of the utmost importance for bail-in execution. Once the resolution authorities request information, it should be reported as soon as possible. The playbooks are expected to:

- Estimate and provide a timeline for the completion of all necessary tasks;
- Map staff to processes to assess if additional resources are needed to prevent bottlenecks or operational constraints, or if synergies could be created by merging procedures.

20 For the external execution of bail-in, external stakeholders (domestic, other EU and third country, as appropriate) need to be clearly identified, such as:

- Other authorities (e.g. market authorities);
- Regulated markets (exchanges) and other trading venues (if appropriate);
- Operational agents such as paying agents, listing agents, issuing agents;\footnote{Any relevant agent necessary for executing the bail-in. Different roles are performed to support the various steps of the bail-in execution process (paying agent for standard corporate actions, issuing agent for the issuance of new equity, exchange agent for a conversion, listing agent for listing on an exchange). These roles may be performed by one or several service providers including the bank itself.}
- CSDs and International CSDs (ICSDs), common depositaries for classical global notes or common service providers and common safekeepers for new global notes (as appropriate);\footnote{Elements that banks should consider for the operationalisation of the bail-in in respect of international bearer debt securities issued by and safekept in the International Central Securities Depositories (ICSDs), Euroclear Bank (EB) and Clearstream Banking Luxembourg (CBL) are described in the SRB note Reflecting bail-in in the books of the International Central Securities Depositories (ICSDs), March 2021.}
- National Numbering Agencies (NNAs) (if different from the local CSDs);
- Central Counterparties (CCP), when the securities are centrally cleared.

21 Banks are expected to identify the preferred operational agent(s) to use in case of a bail-in. When the bank is using:

- An external agent: The bank is expected to explain whether it has already established the necessary relationship (including contractual documentation) and whether it uses the agent under business-as-usual conditions (for corporate actions foreseen in the prospectus). The bank is also expected to explain whether its contractual documentation includes specific provisions ensuring that the agent
would also support the exceptional corporate events stemming from the bail-in\textsuperscript{15} and to which extent the contract is resolution-resilient.

- **An internal agent, i.e. a business unit or another entity of the group:** The bank is expected to describe in detail the processes in place to ensure that it can perform the role of the operational agent in case of resolution. In particular, the playbook is expected to explain:
  
  ▶ Which specific roles the unit or entity within the bank performs in business-as-usual and which markets this covers;
  ▶ How the bank plans to ensure that this entity or unit remains operational in resolution (enhancing resilience of the entity);
  ▶ Whether the bank has established a resolution-proof contract or service level agreement for this purpose;
  ▶ Whether the unit or entity could be realistically replaced by a third party if necessary (within what timeframe and at what cost).

### 3.1.2. COMMUNICATION

Like governance, communication is crucial for all aspects and phases of the bail-in operationalisation. To make sure that the playbook fulfils its purpose as internal document covering all actions by or on behalf of the bank, the following elements related to bail-in execution should be included in the playbook (including cross-references to any relevant document):

1) the guiding communication principles, providing an overview of the communication strategy for bail-in purposes in the preparatory phase, during the resolution weekend and bail-in implementation, and in the closing phase;

2) the main communication steps in the overall chronological display of operational steps, to ensure a comprehensive overview of the process and to identify interdependencies between the steps; and

3) a reference or a link to the bank’s separate stand-alone communication plan, which should provide more detailed information on the bank’s general communication approach and messages in resolution.

For the communication aspects included in the bail-in playbook, in order to cover the expectation regarding the timeline of operational steps on communication, the playbook should describe the related internal process, including the responsible organisation unit(s) or committee(s), the tasks to be conducted (including validation steps), the flow of information, including communication channels and outputs to be prepared. For external execution, it should also include which information needs to be communicated to which internal (when the bank is using an internal agent) or external stakeholder (in particular relevant market authorities, trading venues, agents and the CSDs, including contact details, as appropriate). Banks are encouraged to show this overview in a flowchart.

Regarding the timeliness of the communication, banks are expected to determine which information can be communicated to whom and at what point in time, bearing in mind legal restrictions and requirements, market reactions and potential threats to financial stability or successful resolution.\textsuperscript{16}

\textsuperscript{15} Not foreseen in the prospectus. Agency contracts usually only cover business-as-usual events foreseen in the prospectus.

\textsuperscript{16} Note that, as per Article 35 BRRD, the NRA may appoint a special manager to replace the management body of the bank under resolution. The special manager would therefore control the information (content, timing, audience) the bank would or would not disclose.
The playbook should rely to the extent possible on the communication means and channels used in going concern with the different stakeholders, provided they remain available in crisis.

**3.1.3. DISCLOSURE OBLIGATIONS**

The playbook is expected to assess and reflect on the bank’s disclosure obligations related to bail-in execution under the Market Abuse Regulation (MAR)\(^ {17}\), Prospectus Regulation\(^ {18}\) and national transposition of the Transparency Directive\(^ {19}\) which might arise prior to and during the bail-in period. It is also expected to describe the process to address the disclosure obligations, as well as the operational steps needed to enable the immediate publication of the resolution authority’s resolution order or notice summarising the effects of the resolution action, on the bank’s website in line with Article 83(4)(c) BRRD.

The assessment of disclosure obligations, which might arise prior to and during the bail-in period, should cover all jurisdictions in which the entity has listed securities and which impose disclosure obligations on the resolution group. For banks with instruments listed outside the EU, the role of disclosure requirements under third-country law (e.g. US) should also be assessed.

The assessment should further include an analysis of the steps to be taken by either the bank or the resolution authority in the run up to resolution (e.g. requests for information to support a valuation; appointment of valuers by the resolution authority; on-site visits by the resolution authority’s employees or agents in preparation for resolution) to determine whether such steps might trigger disclosure obligations on the side of the bank.

The assessment should indicate whether the bank plans to request the application of waivers or temporary exemptions from certain disclosure requirements. This assessment should include a consideration of whether and how the bank would seek to make use of potential delayed disclosures under Article 17(5) MAR or the relevant provisions of the applicable third-country law in case of issuances/listings outside the EU, in order to avoid disclosing information prior to publication of the resolution decision, which could prejudice the successful resolution of the bank or could require the resolution decision to be accelerated.

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3.2. Identification of instruments and provision of data

30 The EfB stipulates in Principle 2.3 point (v), that banks have to make arrangements to ensure that the information (on instruments, processes and data) delivered to the resolution authorities for the operationalisation of bail-in is up-to-date, complete, accurate and has been subject to a quality assurance process. Moreover, the banks are expected to demonstrate their MIS capabilities in the playbook. This section therefore provides guidance on the expectations for the playbooks regarding the identification of bail-inable instruments and the gathering and provision of data points for those instruments.

3.2.1. IDENTIFICATION OF INSTRUMENTS

31 Banks are expected to identify the different instruments in order to operationalise the bail-in. This is an important part of the playbook for two reasons:

- It sets out the basis for the provision of data for implementing the bail-in tool based on the resolution decision and the respective national implementing act (see chapter 3.2.2);
- It is a precondition to executing the bail-in (see chapters 3.3 and 3.4).

In this regard, banks are expected to identify two broad categories of liabilities in line with Article 27 SRMR:

- Liabilities mandatorily excluded from the scope of bail-in pursuant to Article 27(3) SRMR;
- Capital instruments and eligible liabilities subject to the write-down and conversion powers under Article 21 SRMR, and bail-inable liabilities as defined in Article 3(49) SRMR, as amended.

32 Banks are expected to identify instruments depending on their type, creditor hierarchy rankings and bank-internal specifics, e.g. bank-internal processes may be different for an Additional Tier 1 (AT1) instrument as compared to a Tier 2 (T2) instrument, or the same instrument may be used in different front-office systems. The sequence of operational steps to identify each type of instrument is expected to be shown in the playbook, including a clear timeline. Banks are also expected to highlight potential challenges and/or obstacles for each step, with the objective of continuously improving readiness and resolvability.

33 Resolution authorities may exclude or partially exclude certain liabilities from the application of bail-in, in accordance with the applicable law (Article 27(5), (12) and (14) SRMR, Article 44(3) BRRD and the Commission Delegated Regulation (EU) 2016/860), where:

a) It is not possible to bail-in that liability in a reasonable time, notwithstanding the good faith efforts of the relevant NRA;

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20 Banks are encouraged to use flowcharts for this purpose.
b) The exclusion is strictly necessary and is proportionate to achieve the continuity of critical functions and core business lines in a manner that maintains the ability of the bank under resolution to continue key operations, services and transactions;

c) The exclusion is strictly necessary and proportionate to avoid giving rise to widespread contagion, in particular as regards eligible deposits held by natural persons and micro, small and medium-sized enterprises, which would severely disrupt the functioning of financial markets, including of financial market infrastructures, in a manner that could cause a serious disturbance to the economy of a Member State or of the EU; or

d) The application of the bail-in tool to those liabilities would cause a destruction in value such that the losses borne by other creditors would be higher than if those liabilities were excluded from bail-in.\(^{21}\)

The identification of liabilities that might possibly be subject to discretionary exclusion shall be done by the resolution authorities at the point of resolution taking into account, inter alia, relevant information provided by the banks and the elements outlined above.

The playbook is expected to document any legal, financial, operational, tax and accounting features that may be relevant to identify the instruments, or to establish the necessary processes. To determine these features, banks are expected to take into account the aspects listed below. The list is indicative and not exhaustive.

a) **Divergence between the hierarchy of creditors in resolution and under national insolvency frameworks:** In some jurisdictions, the sequence for write-down and conversion, established under the BRRD and the SRMR, may diverge from the ranking of priority claims under national insolvency law. As a result, there may be the risk of breaching the No Creditor Worse Off (NCWO) principle, and this divergence is expected to be reflected in the playbook (particularly, when the group is issuing in several jurisdictions, with different insolvency rankings);

b) **Common Equity Tier 1 (CET1) items:** The Capital Requirements Regulation (CRR) makes the distinction between the items and instruments to be counted as own funds. Resolution authorities should cancel or proportionally write down all shares (or other instruments of ownership) and any other a) CET1 item\(^{22}\) or b) instrument qualifying as CET1 item\(^{23}\) (e.g. capital instruments of mutual, cooperative societies or saving institutions). This identification is important because, due to the existence of prudential filters and capital deductions, not all liabilities ranking pari passu with CET1 items would effectively absorb losses – whereas some other liabilities would indeed be able to absorb losses (from an accounting perspective) even if they are not counted towards CET1;

- Treasury shares, for instance, are equity instruments but, since a deduction is in place for these instruments, they are not expected to absorb losses in resolution;
- In contrast, some CET1 items that are filtered out from CET1 due to CRR rules on prudential filters would be able to absorb losses in a bail-in. These could be for example own funds elements resulting from securitised assets, cash flow hedges\(^{24}\), changes in the value of own liabilities or changes in equity due to fair value adjustments.

\(^{21}\) In line with Article 9 Commission Delegated Regulation (EU) 2016/860.

\(^{22}\) As defined in Article 26 CRR.

\(^{23}\) See Article 27 CRR.

\(^{24}\) In line with Article 33(3) CRR.
The playbook is therefore expected to distinguish and describe both CET1 items and any item other than CET1 item but ranking pari passu with CET1 items and to assess their ability to contribute or not to loss-absorption.

c) **AT1 instruments and T2 instruments:** AT1 instruments and T2 instruments are expected to be identified in their entirety as they will be bailed-in in their entirety (if necessary), regardless of whether or not they count as own funds:25

- AT1 instruments grandfathered under Article 52 CRR should be treated in the same way as AT1 instruments which meet all of the conditions of the CRR;
- T2 instruments that are only partially included in the calculation of own funds because they are subject to the amortisation regime of Article 64 CRR should be treated in the same way as those T2 instruments, which are fully included in the calculation of own funds.

d) **Identification of accounting and economic hedges:** The playbook is expected to identify any existing hedges impacting or associated to CET1 instruments (hedge accounting), AT1/T2 instruments and bail-inable liabilities. These hedges could be:

- Accounting hedges, either under International Financial Reporting Standards (IFRS) or national Generally Accepted Accounting Principles (GAAP), applied in order to eliminate excessive volatility in the profit and loss account (P&L), which are expected to be adjusted post-bail-in;
- Economic hedges on the interest rate (e.g. floating – fixed) or on foreign exchange (FX) risk (e.g. currency matching) for bail-inable instruments, which could end up as open positions post-bail-in. Those open positions might generate additional losses.

The playbook is also expected to lay down how the relevant hedges for the instruments covered in the bail-in playbook can be identified at the point of resolution. The need for the identification and mapping results from the bail-in process potentially leading to open hedges.26 This is relevant from a risk management perspective as the bank exposes itself to market risks in both cases. As this can create additional losses the bank will need to react (e.g. close out the hedge).27 See further information in point 44f of the chapter on internal execution.

e) **Funding or guarantees by other group entities:** Banks should identify liabilities held by other group entities (independently of whether they are funded directly or indirectly by the bank), as well as the intra-group liabilities guaranteed by the bank. This identification should consider the prudential treatment of the instruments prior to resolution and in case of conversion. Moreover, Article 27(3)(h)

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25 According to Article 72 CRR, AT1 and T2 instruments may not count as own funds. Nonetheless, all AT1 instruments should rank pari passu with AT1 instruments that are recognised as own funds. The same logic applies to T2 instruments. Please see the EBA guidelines concerning the interrelationship between the BRRD sequence of write-down and conversion and CRR/CRD (EBA/GL/2017/02).

26 There are two cases: (1) The hedge is still in the books but the hedges instrument is written down or converted, and (2) the hedge is subject to bail-in but the underlying instrument is still in the books. The first case is going to apply for all underlyings that have a lower creditor hierarchy rank than the derivatives (say, if the bank hedged its T2 issuance). In practice, this case is therefore expected to be more relevant than the second case. The second case implies that the underlying has a higher rank than the derivative.

27 This is also relevant from an operational continuity perspective, the relevant derivatives desks need to be maintained.
SRMR provides for an exclusion for liabilities to entities “that are part of the same resolution group without being themselves resolution entities, regardless of their maturities, except where those liabilities rank below ordinary unsecured liabilities under the relevant national law governing normal insolvency proceedings applicable on 28 December 2020; in cases where that exception applies, the Board shall assess whether the amount of items complying with Article 12g(2) SRMR is sufficient to support the implementation of the preferred resolution strategy.”;

f) **Contingent liabilities** and **provisions**: The banks are encouraged to identify in the playbook the different types of contingent liabilities and analyse those that may generate a liability when they materialise at the resolution date. Banks are also encouraged to analyse provisions and the national legal and accounting framework regarding those provisions in resolution and insolvency;

h) **Governing law and contractual recognition clauses**: To assess potential impediments to the recognition of bail-in, banks are encouraged to include an analysis of their instruments with regard to governing law, as well as the enforceability of contractual recognition clauses for instruments’ issuances under third-country law that are included for bail-in (Article 55 BRRD);

i) **Counterparties and contagion risks**: Banks are encouraged to include an analysis of the major counterparties and the related sectors, if this counterparty/sector is a significant (e.g. top-50) shareholder, bondholder or (if covered by the scope of the playbook) depositor. While this may not be relevant for the bail-in execution process itself, it contributes to understanding the impact of a bail-in on external counterparties, as well as on the ownership structure of the bank. This will support the resolution authorities in assessing the effect on potential contagion risk.

### 3.2.2. DATA PROVISION

The bail-in playbook is expected to include a list with the data points necessary for the following purposes:

a) Calculation and setting the bail-in perimeter in the context of the entire resolution strategy;

b) Required assessments of resolution authorities (e.g. assessment to (partially) exclude liabilities to achieve the continuity of critical functions or avoid significant adverse effects on financial stability, Article 27(5) SRMR);

c) Implementation of the bail-in.

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28 Note that letter (h) of Article 27(3) SRMR was introduced by Article 1(11)(b) of Regulation (EU) 2019/877.

29 Contingent liabilities are not recorded on the balance sheet and could be, as such, reflected as off-balance sheet items. Not all off-balance sheet items are contingent liabilities.

30 Contingent liabilities should be distinguished from accounting “provisions”. Provisions are defined as liabilities (recorded on the balance sheet) of uncertain timing or amount. A provision may relate to a previously disclosed contingent liability, although this is not always the case.

31 In some jurisdictions, accrued interests may have a different creditor hierarchy ranking than that of the corresponding principal amount. Moreover, in some jurisdictions, accrued interest which is not due and payable as at the date and time of resolution is deemed discharged by operation of law as a consequence of the write-down of the principal amount in relation to which such interest has accrued (i.e. there is no reference to a write-down of such accrued interest in the NRA implementing decision).
Examples for such data points are the ISIN, the name of the CSD, the principal amount in EUR, or the accrued interests in EUR. It is recommended that the playbook includes a table that specifies process details (e.g. information source, responsible area, and if the data point is provided manually) with respect to relevant type of instruments (e.g. ordinary shares, T2 securities, senior non-preferred bonds, etc.).

36 The list of required bail-in data points is generally based on the minimum list of data points defined by the SRB in cooperation with the respective NRA – and might be amended by country-specific data requirements. If the bank includes additional data points that have not been previously defined by the resolution authorities, the bank is expected to explain the reason for the inclusion of a specific data point.

37 In line with Principles 2.3 and 5.3 of the EFB, the playbook is expected to demonstrate the bank’s MIS capabilities to support the gathering and provision of bail-in data. In other words, the banks are expected to demonstrate in the playbook how the different data points will be produced per each type of instrument. It should include a reference to the involved units and interactions between IT systems, the different outputs and output recipients, and the potential committees/units that are necessary to validate the processes. Banks are encouraged to use flowcharts in order to support the description of interactions.

38 In order to demonstrate the MIS capabilities, the playbook is also expected to describe how long it would take to generate the data points per type of instrument, to which extent the generation process is automated, and for which items workarounds would be applied.

39 Banks are expected to report to the IRT the progress on the automation process for timely bail-in data delivery, in line with Principle 2.3 of the EFB.

3.3. Internal execution

40 As a key element of the playbook, banks are expected to include a detailed description of all internal processes related to the decision of the resolution authority to write down instruments and convert them to equity.

This description is expected to be in line with the sequence of write-down and conversion events envisaged in Article 48 BRRD, to be presented in a sequential view, and to be presented in graphic and/or tabular forms. The description is expected to name the responsibilities (including the relevant contact points) and tasks per unit (and entities, if relevant), as well as the relevant IT systems, the interaction between IT systems, associated information outputs (e.g. specific data report) and the output recipient for each operational step. The description is expected to be done separately per type of instrument.

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32 Banks are not required to populate any table with figures in the playbook though.
33 See the documents SRB Bail-in Data Set Instructions and SRB Bail-in Data Set Explanatory Note.
34 National law might lead to different conversion procedures (e.g. conversion into interim instruments).
35 Banks are encouraged to use flowcharts for this purpose.
36 This should not lead to a duplication of process descriptions. If the processes for some instruments (e.g. certain senior preferred and senior non-preferred instruments) are the same, it is sufficient for the banks to briefly point this out.
A clear and detailed timeline is expected to be set for each individual step (also in a calendar view as deemed relevant), assuming that the resolution scheme and the national implementing act will be published, for example, on Sunday evening or Monday morning, prior to the opening of the markets.\textsuperscript{37}

Banks are expected to highlight manual steps per type of instrument (including the impact of those steps on the time schedule and use of resources). It is also expected to highlight potential challenges and/or impediments for each step, with the objective of continuously improving bail-in readiness and resolvability.

The process description should be based on the assumption that the implementation of the bail-in decision will be based on a provisional valuation. It is important for banks to ensure that the economic losses predetermined on the basis of that provisional valuation can be recognised in the accounts during the resolution weekend.

Banks are therefore expected to describe the process to update their accounting balance sheet following Valuation 1 and Valuation 2.\textsuperscript{38} These valuations will produce an aggregated amount of economic losses to be absorbed by the economic value of the bank's liabilities. The accounting value of assets will have to be adjusted to take into account the losses identified in the provisional valuation. The accounting value of liabilities will have to be adjusted accordingly under the relevant accounting standards (IFRS or GAAP) on a consolidated and on an individual basis. Based on the adjusted accounting balance sheet, own funds will have to be calculated on a prudential basis.

Banks are expected to describe the capabilities and processes to produce financial information (according to Article 36(6) BRRD), including estimations of own funds requirements, taking into account the available inputs (e.g. determination of post-resolution capital requirements set by the authorities) and including the provisional valuation results. Although not exhaustive, the following aspects are expected to be envisaged by banks while drafting their playbook:

\textbf{a) Legal impediments:} The playbook is expected to provide further detail on the impact, if any, of a bail-in on the by-laws/articles of association and to clearly state if there are obstacles to the application of the bail-in related to the legal form of the bank. In particular, banks affiliated to a cooperative network and state-owned banks are expected to assess these obstacles. Furthermore, the playbook is expected to consider the impact that a change of ownership due to the application of the bail-in can have on:

\begin{itemize}
  \item authorisations to operate in non-Banking Union countries, within and beyond the EU;
  \item triggers of specific notifications (e.g. state aid/regulatory notifications);
  \item qualifying holding assessments;
\end{itemize}

\textsuperscript{37} The reference to the “weekend” should be made just for illustration purposes. The adoption and publication of the resolution scheme or subsequent implementing act may take place on a weekday.

\textsuperscript{38} Either provisional or definitive, as the case may require.
memberships in group/sectoral contracts and trade associations;\(^{39}\)
compliance with the relevant national legislation,\(^{40}\) by-laws or articles of associations;\(^{41}\)
approvals of issuances of capital instruments as CET1 instruments under Article 26(3) CRR. In particular, banks should be able to provide the relevant information to the competent authorities as soon as possible after bail-in;
any other approvals that authorities may require for the new shareholders.

b) **Accounting impediments:** Some legal and statutory reserves might pose a challenge during bail-in, either because they cannot be written down below a defined minimum level or because they would require specific treatments, which are expected to be presented in the playbooks in accordance with applicable laws;
c) **Tax impact:** The bail-in execution might have several tax impacts that are expected to be assessed in the playbook to the extent possible for each operational step. The following elements provide an indication of what is expected:

- In accordance with IFRS 9 paragraph 3.3.3 and International Accounting Standards (IAS) 32, the write-down of shares and other CET1 should in principle be tax neutral\(^{42}\) whereas the write-down of other instruments can generate a taxable ‘profit’ depending on national tax law.\(^{43}\) The conversion of own funds and/or liabilities should be tax neutral for the resolved bank only when the conversion rate is 100%. But, in case the conversion rate is lower than 100%, then it could generate a taxable ‘profit’ or a deductible ‘loss’, according to the conversion factors (differences between the carrying amount of the instrument written down and the value of corresponding new shares) depending on national tax law;
- The tax loss carry-forward (TLCF), which could offset the taxable item stemming from the bail-in execution, might either increase or be cancelled according to applicable law. Besides, some losses might not be deductible in the year they occur\(^{44}\), reducing the offsetting impact of the TLCF. The playbook should include:
  i. information on the bank’s ability to generally determine whether any losses could be turned into TLCF under applicable law and the potential size thereof;

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\(^{39}\) Especially for banks affiliated to a cooperative sector or other network of financial institutions, the membership in a specific trade association may be a requirement. If the membership ends, other contracts between the members of that cooperative network may be void. For other banks, the membership in a trade association is not expected to be of any relevance. More broadly, Article 68(3) BRRD generally excludes termination of related rights based on resolution or directly linked events per se. The change of ownership should be considered an event directly linked to write-down and conversion in resolution.

\(^{40}\) For instance, in some countries the law states that cooperative shares can only be owned by certain categories of natural persons.

\(^{41}\) For instance, if the creditor that received the shares has a limitation to hold the shares under its by-laws or articles of associations.

\(^{42}\) Exceptions according to national law may apply, e.g. in cases when share capital has been increased in the past by including certain specific reserves which are subject to tax in case of any use (including, therefore, a scenario where the ordinary shares are cancelled to absorb losses), the cancellation of the ordinary shares may give rise to tax implications which have to be evaluated on a case-by-case basis and depending national specificities.

\(^{43}\) In line with IAS 32, according to the nature of the instrument (either own funds elements or debts), the taxable profit will be recorded either in the other comprehensive income (OCI) or in the P&L.

\(^{44}\) In some jurisdictions, expenses may not be deductible in the same fiscal year they are generated (long-term incentive plans, depreciation of certain assets) or not deductible at all (deferred tax assets, losses related to shareholdings in subsidiaries, unless liquidated). Hence, as they materialise only in the following year, they cannot be used to offset the TLCF impact.
ii. a general view on whether authorities accept/grant such TLCF;
iii. information on the impact of such TLCF on the accounting and prudential balance sheets.

► Economic hedges for bail-inable instruments, which could end up as open positions post-bail-in. Those open positions might generate additional losses;
► Tax effects might stem from the conversion of liabilities from a foreign currency to the domestic currency (see ‘Instrument-specific features’);
► Clear references to applicable tax law(s) are expected to be made in the playbook to illustrate the tax effects. Even when the overall tax effect is assumed to be neutral due to offsetting effects, the process is expected to include a tax assessment and tax booking in the ledger and highlight manual input;
► In some countries certain deferred tax assets (DTAs) can be converted into directly enforceable claims – tax credits (TCs) – against the state. In some cases this conversion may trigger the creation of a special equity reserve. On the basis of the above, banks are expected to provide:

i. background information explaining the country specificities (i.e. tax law applicable to the PoE and subsidiaries, the accounting sequence in resolution and information on how DTAs can be converted into TCs); and
ii. based on balance sheet data, detailed information of the amount of DTAs which can be converted into enforceable claims against the state (i.e. tax credits), if any.

d) **Instrument-specific features:** Specific features might trigger additional considerations. For example, liabilities issued in foreign currencies might have to undergo an FX conversion before being written down or converted. Any ensuing tax effect is expected to be assessed in accordance with the previous point. Another example of specific features might be the structured nature of the liability (e.g. a structured note). Additional expertise might be required in order to write down/convert such a liability and apply the correct impact on the ledger. Unlisted instruments might also imply different execution steps;

e) **Special Purpose Vehicles (SPVs):** Depending on the importance of the SPV, in case of write-down or conversion of the liabilities of the bank held by the SPV, the bank should consider to mirror the economic effects of the bail-in in the SPV’s book. In this case, the bank is expected to demonstrate how this will be done;

f) **Hedges:** Following up on point 34d, new accounting and economic hedges might be considered after bail-in in order to limit the volatility of the P&L after resolution and to deal with the risks weighing on the new capital position. The playbook is expected to consider re-hedging as an operational step for the relevant instruments and the update of the related required hedge documentation;

g) **Accrued interests:** Banks are not only expected to explain the processes related to the bail-in of the instrument itself (i.e. the principal) but also to the (partial or full) decrease of the value of the corresponding accrued interest. This may involve processes, units and IT systems that are different from those for the principal amount (see also point 34g for further information);

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45 Loss transfer mechanisms (as referred to in point 46) are expected to be taken into account in this assessment.
46 Some Member States have introduced a transitional regime on corporate income tax applicable to DTAs giving right to beneficiaries to a conversion of the DTAs into cash proceedings.
47 Please take into account additional mandatory exclusions according to Article 44(2)(h) BRRD.
48 To provide a complete picture, effects on the asset side of the bank should also be described, as they are usually linked to the liabilities.
h) **Liabilities held by the bank itself:** Banks might hold instruments issued by themselves that fall into bail-inable classes (e.g., treasury shares; subordinated liabilities kept for market making and funding strategy purposes). Those instruments are expected to be clearly identified; an assessment of any impact on legal risk, tax or balance sheet reduction following bail-in is expected;\(^{49}\)

i) **Adjustment of assumptions:** In line with Article 10(4) Commission Delegated Regulation (EU) 2018/345, the bank is expected to be able to apply adjustments to assumptions and accounting policies (i.e., the specific principles, bases, conventions, rules and practices applied by the bank to prepare its financial statements) necessary for the preparation of the updated balance sheet in a way that is consistent with the applicable accounting framework as much as possible.\(^{50}\) This includes production of an updated balance sheet (post-resolution) as well as an explanation of the necessary steps to be done for the adjustments of the systems to produce the balance sheet taking into account assumptions and adjustments arising from the valuation.

45 **Bail-in adjustments:** Assuming that the bail-in execution will be performed following the provisional valuation, any discrepancy between the definitive and provisional Valuation 2 could lead to a revision of the amount to be written down and/or converted. The playbook is expected to present the process through which the correction ensuing the definitive Valuation 2 will be undertaken and how the ledger will be updated. The bank should be ready to adjust the accounts once the definitive valuation is available.

46 **Loss transfer mechanisms:**

a) The SPE strategy is premised on the concept that the resolution entity will be the only target subject to a resolution action, keeping the subsidiaries within the resolution group in going concern. Under an MPE strategy, bail-in could be applied separately at the level of several resolution entities. Under both strategies, resolution entities identified as a PoE will have to absorb losses from and potentially recapitalise the subsidiaries within the relevant resolution group;

b) In line with Principle 2.6 of EfB, banks are expected to ensure that an effective internal loss transfer and recapitalisation mechanism is implemented between the subsidiaries and the resolution entity within a resolution group, taking into account the nature of the holder of the instruments and the need for appropriate subordination;

c) The implementation of the bail-in tool aims to address the group's losses at the level of the PoE and to recapitalise the PoE only. It is therefore essential to document how the loss transfer mechanism would work and assess the mechanisms in place enabling the transfer of losses from the group's non-resolution entities up to the PoE and potential transfers of capital from the PoE down to the rest of the resolution group;

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\(^{49}\) Once the loss has been absorbed, liabilities held by the bank itself could be written down generating a taxable profit, or converted. If converted, these liabilities will not count towards the capital requirements (Article 28 CRR). Nonetheless, they could become treasury shares and support the remaining stock options for instance.

\(^{50}\) For example, in line with IAS 8, the bank is expected to address prior period errors identified by the valuer (such as omissions from financial statements for one or more prior periods arising from a failure to use reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements, due to mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, etc.).
d) Against this background, the bail-in playbook should:

i. detail the units in charge, processes, timelines and the internal decision-making process of the bank that underpin the execution of the write-down and conversion powers at the level of the subsidiaries. At a first stage, banks should focus on the processes at the level of the PoE, to be expanded gradually to the processes at the level of the subsidiaries;

ii. map and describe the functioning of existing financial support arrangements to conclude whether, and if so how these could be used where resolution action is taken (considering also financial arrangements available as early intervention measures that might be also available in resolution, under different scenarios of failing or likely to fail (FOLTФ) declarations).

e) The documentation on the loss transfer mechanism should at least include the following entities:

i. entities for which internal MREL has been set (excluding liquidation entities for which internal MREL has been limited to the loss-absorption amount);

ii. entities for which internal MREL has been waived.

f) By the end of the phase-in of the EfB (end-2023), bail-in playbooks are expected to detail:

i. the sequence of events (step-by-step process) for the loss transfer mechanism operationalisation, including IT systems, time, units involved in resolution covering the subsidiaries, any parent company which is not a resolution entity (i.e., relevant intermediate holding company in the case of daisy chain structures) and the resolution entity;

ii. the operational, accounting, prudential and tax treatment of the loss transfer;

iii. the legal, operational, and regulatory obstacles that hinder capital transferability across the group, including entity-specific considerations and the assessment of the potential legal risks related to the duty of care of the management of the bank vis-à-vis its shareholders;

iv. to what extent the mechanisms already in place to upstream losses and downstream capital can be effectively relied upon by the relevant NRAs in resolution;

v. in case of subsidiaries for which internal MREL waivers are in place or for which the internal MREL requirement is met with guarantees, the sequence of events to trigger the applicable guarantees. The bail-in playbook is expected to consider whether the timing conditions for triggering the guarantee are equivalent to those allowing the write-down or conversion of eligible liabilities;

vi. the governance arrangements both at level of the resolution entity and of the relevant subsidiary, as well as potential communication requirements and disclosure obligations (both internal and with third parties and relevant authorities);

vii. more generally, the underlying MIS capabilities for the transfer of losses, ensuring capital transferability and data provision.

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51 Although under the SPE approach the resolution action is expected to focus on the resolution entity, while subsidiaries would remain in going concern, several other scenarios (including a FOLTФ declaration at the level of the parent and of the subsidiary, or FOLTФ declaration at group level) cannot be excluded and require the readiness of the group to execute write-down and conversion powers at the level of relevant subsidiaries.

52 See also section 4 on bank’s testing of the respective MIS capabilities.
g) Instruments in scope for write-down and conversion powers at the level of a non-resolution entity are defined in Article 21 SRMR.

h) With respect to intra-group financial support,\textsuperscript{53} in order to be considered for the implementation of the bail-in tool, transfer mechanisms should be legally enforceable at any time, and although they can vary between jurisdictions due to differing regulatory, legal or tax regimes, they are based either on contractual agreements or on applicable national regulation;

i) Some of these transfer mechanisms might not be enforceable in resolution. For example, based on the local legal framework or on specific contractual clauses, the conditions of resolution might render a loss transfer mechanism void.\textsuperscript{54} Therefore, the bank is expected to develop, in cooperation with the IRT, a different transfer mechanism that is enforceable at any time;

j) The bail-in playbook is expected to identify and describe whether and if so, how those arrangements ensure that funds are available and that these can be transferred in case of resolution, by assessing existing or potential material practical or legal impediments to the prompt transfer of funds or repayment of liabilities in resolution or in the run-up to resolution, and alternatives to deal with them. To this aim, banks could leverage on their work performed in recovery planning, and refer to existing documents (e.g., recovery plans) to avoid overlaps between the bail-in playbook and other existing internal guidance;

k) The expected description should include, as a minimum, the identification of the parties to the arrangement, the provisions supporting the transfer mechanism and the potential termination clauses, if any. In addition, (potential) obstacles regarding the effectiveness of execution and/or enforceability of the loss transfer mechanisms and potential remedial actions are expected to be presented in the playbook.

3.4. External execution

According to EfB Principle 2.3 point (3), bail-in playbooks should contain information on arrangements for the external execution of write-downs and conversions. It is also noted that banks need to have systems and resources in place to generate rapidly the necessary information, including ISIN or other relevant information code and CSDs in which the securities are issued and are subject to safekeeping. It is also expected that playbooks identify the agents that would need to be involved in executing the write-down and conversion.

\textsuperscript{53} Intra-group support arrangements may consist of various types of support measures, in particular capital and liquidity support measures, extended between entities within a group, especially in times of stress or unexpected loss. These measures usually consist of legally enforceable commitments for financial assistance or assurance made by one group entity upon which another group entity can call in certain circumstances, or commitments, which supervisors would regard as reliable means of support. Such support can take various forms, such as investments in capital, provision of collateral, guarantees, loans, and asset transfers.

\textsuperscript{54} This could be the case when contracts setting loss transfer mechanisms mention a list of conditions under which the loss transfer cannot operate and resolution or the resolution trigger might correspond to, at least, one of these conditions.
48 The bank is expected to describe the process to execute\textsuperscript{55} a write-down and conversion of relevant securities (including related timelines) for each security\textsuperscript{56} in scope, and, as noted in chapter 1.2, to identify potential obstacles to the execution of each necessary step. Securities may be aggregated where meaningful per country or market (of issuance/listing, governing law, etc.) and/or per type of security. The expectations for internal execution listed in point 40 and 41 will also apply for external execution.

49 This process for external execution will differ depending on, amongst others:

- Whether the securities are listed and traded\textsuperscript{57} on a regulated market;
- Whether the securities to be written down and converted and the new securities to be issued are held within one or several CSDs;
- The location (the country) of cross-border issuances, if any;
- Whether the national legal framework and/or the NRA communicated through the IRT foresee the issuance of interim securities\textsuperscript{58} (including e.g. warrants distributed together with the shares resulting from the conversion in order to manage possible discrepancies between provisional and definitive valuation);\textsuperscript{59}
- Any other relevant national specificities (e.g. related to the implementation of the BRRD, to national securities law, to exchanges’ or CSD’s rulebooks, or to the stakeholders to be involved).

50 If the need for a particular action rests on a decision by the resolution authority, this is expected to appear clearly in the playbook, and the bank is expected to mention on what assumptions this is based.

a. Trading suspension and delisting [exchange]

51 The bank is expected to identify and/or describe:

- Whether the security is listed and traded on a regulated market (and/or other trading venues), and, if yes, on which one, and, for each market, which is the relevant market authority;
- Whether the security would be cancelled and/or subsequently delisted from the exchange;
- The different steps involved in ensuring a trading suspension and delisting (in particular for countries outside of the Banking Union);
- Which information may be needed by the market operators, and by which time they would need to receive this information.

\textsuperscript{55} For the sake of simplicity, the expression “external bail-in execution” is used throughout the document to indicate the actions needed to be taken by stakeholders to give effect to the resolution decision, and in particular by CSDs to reflect the write-down and/or conversion on their books.

\textsuperscript{56} As the elements on external execution in this guidance refer to securities only, the term “security” is used throughout, or in some cases “instrument”, but not “item” (CET1 instrument, not CET1 item).

\textsuperscript{57} Please refer to the glossary in Annex 1 for a definition of these and other terms.

\textsuperscript{58} Certain jurisdictions intend to require banks to issue interim instruments, such as warrants or certificates of entitlement, pending definitive valuation. These are then exchanged for equity once such valuation has been completed.

\textsuperscript{59} Banks are only expected to take this into account to the extent that this is applicable and/or has been outlined by the relevant NRAs.
b. Write-down and cancellation [CSD, in some cases NNA]

The bank is expected to identify and/or describe:

- The ISIN or other codes (e.g. CUSIP in the US) and the name of the issuances;
- The internal and external stakeholders involved (see Section 3.1), and in particular the CSDs where the securities have been issued and are being safekept;
- The different steps involved in the write-down of the different securities with, to the extent possible, the time it would take to execute each step;
- The information necessary for the CSD to execute the write-down on its books;
- The different agent(s) that the bank would use to ensure that operational information is adequately transmitted to the relevant common depositories, common service providers and/or CSDs if and when it fails (see also chapter 3.1.1);
- The relevant governing law;
- If the securities are meant to be cancelled, how cancellation would be ensured, i.e.:
  - Roles and responsibilities with regard to ensuring that the CSD cancels the securities in its books;
  - Under what circumstances the CSD would record the cancellation according to its internal rules;
  - Steps and duration of the process.
- The expected treatment of forthcoming payment events (e.g. suspension and/or cancellation of coupons and/or redemptions), taking into account the creditor hierarchy, the steps that the bank would take to operationalise such treatment and the information it would provide to the relevant CSDs.

C. Conversion of securities and issuance of new shares or other instruments of ownership [CSD, NNA]

The bank is expected to identify and/or describe, in addition to the items listed above:

- The CSD(s) where the new equity securities or other instruments of ownership will be issued and kept in book-entry form. If this CSD is different from the CSD in which the converted securities have been issued (e.g. in the relevant country, the CSDs for equities and bonds are different; or the converted securities have been issued abroad), this is expected to be clearly mentioned;
- How the security will be structured with a view to meeting the eligibility requirements of the relevant CSD(s), including the ICSDs, if appropriate;
- Where appropriate, the steps that would be followed (including information to be prepared, forms to be filled etc.) and time needed to prepare the (new) global note or similar document for registration with the CSDs and obtain ISIN or other codes from the NNA for the new shares or other instruments of ownership;
- The different steps involved in the conversion and issuance with, to the extent possible, the time it would take to execute each step.

Pursuant to Article 47(1) BRRD for the cancellation of shares.

For the purpose of the playbook, banks may assume that only one type of CET1 instrument will be issued and that it will be issued in the domestic market, except if specified otherwise, for example, under the national bail-in approach.

Banks are expected to take into account any guidance provided by the relevant NRA on this matter. In the absence of such guidance, banks should assume that the new instruments are issued in the relevant domestic CSD.
54 **When the issuing CSD differs from the CSD executing the write-down and/or conversion.** CET1 instruments (including interim instruments) are usually foreseen to be issued in the relevant domestic CSD.\(^{63}\) Some of the instruments that would be written down and/or converted are safekept in other CSDs, either in the same country or in a different country (e.g. bonds in a foreign country or in an ICSD converted into shares issued in the domestic CSD). In that case, the bank is expected to describe how an alignment can be ensured in spite of any de-synchronised operations at the different CSDs.

d. **Listing and (re-)admission to trading and to clearing [exchange, CCP]**

55 Per country and per type of securities that would be listed/admitted to trading (or re-listed/re-admitted to trading in case the security is not cancelled but merely temporarily suspended from trading),\(^{64}\) the bank is expected to identify and/or describe what type of securities it expects the instrument (re-)admitted to trading to be. This is expected to be based on the approach to bail-in adopted in the relevant jurisdiction. The bank should for example distinguish between:

a) In cases where the national bail-in approach foresees that existing shares would be distributed to the new shareholders: CET1 instruments re-listed/re-admitted to trading;
b) New CET1 instruments listed and admitted to trading for the first time;
c) Partially converted debt instruments re-listed/re-admitted to trading or for which the suspension of trading would be lifted.

56 In cases where new instruments (including interim instruments) are foreseen to be listed and traded on a regulated market, the bank is expected to identify and/or describe:

- How it would be described in the information notice, prospectus\(^{65}\) or other documentation (in broad lines), as appropriate;
- How it would be structured with a view to meeting (if applicable) the listing requirements\(^{66}\) of the relevant regulated market and the eligibility requirements of the relevant CCPs.

57 In all cases, the bank is expected to identify and/or describe:

- The operational timeline for ensuring (re-)listing and (re-)admission to trading, and the target date for submitting the request;
- The process for (re-)listing and (re-)admission for trading;
- Information needed by the exchange (besides the content of the information notice mentioned above), including consequential obligations of being listed.

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63 Located in the same country as the PoE of the group.

64 In most cases, existing shares would be expected to be cancelled and new shares issued. However, in some cases, the national bail-in approach foresees that existing shares would be distributed to the new shareholders. This is the approach foreseen in the UK. For the sake of simplicity, this is designated as “re-listing/re-admission to trading” in the present document.

65 Securities issued in the event of bail-in and resulting from the conversion or exchange of other securities, own funds or eligible liabilities by a resolution authority are exempted from prospectus requirements in the EU, as per BRRD Article 53(2)(d) BRRD (debt instruments only) and Article 1(5) (c) of the Prospectus Regulation (Regulation 2017/1129). However, there is uncertainty as to requirements that may apply if such securities are distributed to investors in a third country.

66 Note that Article 53(2)(c) BRRD empowers resolution authorities to give effect to the listing or admission to trading of new shares or other instruments of ownerships. Nevertheless, banks are expected to design instruments in a way that meets these requirements.
e. Bail-in adjustments [CSD]

Where an initial bail-in is based on a provisional valuation and a definitive valuation is established later in the process, this may have consequences for the extent of the cancellation, transfer or dilution of shares, and of the write-down or conversion of relevant instruments. The bank is expected to describe the steps it would take to ensure that the outcome of a possible definitive valuation is adequately reflected in the books of the relevant CSDs.\(^{67}\) This may happen, for example, through:

- Revaluation of bonds by increasing or decreasing the nominal value of the bond after the initial write-down;
- Adjustment of pool factor;
- The use of interim instruments representing contingent entitlements, depending on the relevant jurisdictions;
- Allocation of additional proceed securities based on the CSD’s historic records.

When the issuing CSD differs from the CSD executing the write-down and/or conversion, CET1 instruments (including interim instruments) are usually foreseen to be issued in the domestic CSD,\(^{68}\) rather than in the CSDs in other markets in which securities would be written down and/or converted. If the issuing CSD differs from the CSD executing the write-down and/or conversion, the bank is expected to describe any discrepancies that could be caused by de-synchronised operations at these different CSDs and how alignment can be ensured. Elements that could support alignment are:

- The use of a single operational agent across markets;
- The information provided in the resolution order with regard to, e.g. the record date;
- Timely information flow to all relevant CSDs, in accordance with their cut-off times. This is mainly of importance for the Asian market, as the markets would already have started operating for the day.

\(^{67}\) Taking into account the approach defined by the NRA in this respect, where available.

\(^{68}\) Located in the same country as the PoE of the bank.
4. Testing of the playbook

4.1. Objectives and testing scope

60 In order to meet the requirements set in the Efb, banks under the SRB remit are expected to perform regular dry-runs. The scope of the testing exercise is expected to cover:

i) resolution entities/resolution groups under the SRB remit, which will be subject to the bail-in tool as preferred or variant resolution strategy independently or in combination with other resolution tools,

ii) resolution entities/resolution groups under the SRB remit, which will be subject to the exercise of the powers to write down and convert relevant capital instruments, and eligible liabilities in accordance with Articles 21 and 22(1) SRMR immediately before or together with the application of transfer strategies,

iii) non-resolution entities part of the same resolution group, which will be subject to the exercise of the powers to write down and convert relevant capital instruments and eligible liabilities in accordance with Articles 21 and 22(1) SRMR, as part of the internal loss transfer and recapitalisation mechanism (and to the extent that the bail-in playbook already covers this element in a sufficient manner).

61 No bail-inable liability should be excluded by default from the dry-run exercise. IRTs may phase-in the coverage of instruments when setting the specific scenarios in line with the EFB.

69 Principle 1.4 of the Efb requires banks to test the relevant steps for the operationalisation of the PRS in the context of resolution planning and to organise dry-runs to test and evaluate the operational readiness of the banks to implement the PRS. With regard to the operationalisation of bail-in, this is more specifically documented in Principle 2.3 of the Efb, which expects banks to regularly evaluate and test the effectiveness of the operationalisation of write-down and conversion of instruments. Furthermore, according to section 2.5.3. of the Efb, 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 (Section C (10) of the Annex to the BRRD). Finally, Principle 5.1 of the Efb requires banks to produce information with regard to the MIS capabilities in the course of ad-hoc dry-run exercises for the information under Principle 5.3 of the Efb referring to MIS capabilities to produce the information for the implementation of the resolution tools.

70 Principle 1.4 ‘Testing and operationalisation of the strategy’, Principle 5.1 ‘MIS capabilities to provide information necessary for the preparation and update of resolution plans’ and Principle 5.3 ‘MIS capabilities to produce necessary information for the effective application of resolution actions’.

71 In addition to capital instruments and MREL-eligible liabilities, the banks should consider also “bail-inable liabilities” other than “MREL-eligible liabilities”, as per the definition provided in Article 1(1)(49) SRMR.
4.2. Testing methodology

62 Dry-runs intend to test the operationalisation of the bail-in playbook and the MIS capabilities for bail-in data thereof in order to assess the availability of accurate and relevant information in a timely and complete manner and in order to test the processes explained in the bail-in playbook. Furthermore, practicability and execution-focus of the bail-in playbook and MIS capabilities can be assessed in dry-runs.

63 Banks are expected to include all sections of the bail-in playbook and MIS capabilities for bail-in data in the scope of dry-runs, with a particular focus on the areas that are essential for achieving resolvability (e.g. the implementation of the PRS). A staggered approach is to be taken, starting with a dry-run focused on data and a critical review of the internal execution process while other elements of the playbook shall be reflected in further, subsequent tests.

64 Banks are expected to perform the regular bail-in testing based on the guidance communicated by the IRT.72

65 Bail-in implementation depends on national law, administrative and business practice. For national implementation aspects, banks should therefore also refer to policies published by NRAs, to the extent available.

66 Banks are expected to identify open questions/issues in their dry-runs and in particular technical/operational and legal obstacles for the implementation of the bail-in tool. Banks are expected to provide a report of the dry-run comprising lessons learnt and a gap analysis.

4.3. Dry-run components

4.3.1. GOVERNANCE AND CRISIS MANAGEMENT

67 Banks are expected to test the governance in place for the operationalisation of the bail-in tool in order to evaluate the roles and responsibilities and to practise crisis preparedness, escalation procedures and decision-making process.

68 Banks are expected to test the processes for the preparation of the communication for the operationalisation of the bail-in tool including preparedness and awareness of need for alignment with communication of authorities and test the availability of quickly available and reliable communication.

69 Banks are expected to test the approval modalities and the robustness of quality assurance processes for the operationalisation of the bail-in tool.

4.3.2. INTERNAL EXECUTION

70 With regard to internal execution, banks are expected to test the operationalisation of the write-down and conversion of capital instruments and bail-in liable liabilities.73 Based on the aspects outlined above, banks are expected to test the processes/workflows with associated timelines, which data points will need to be generated and specifically how processes are linked to them.

72 For illustrative purposes, Annex 2 shows an assumption setting used to initiate banks testing through dry-runs.

73 The banks should consider also “bail-in liable liabilities” other than “eligible liabilities”, as per the definition provided in Article 1(1)(49) SRMR.
Furthermore, banks are expected to test the processes for (i) the identification of liabilities mandatorily excluded from bail-in as stated in Article 27(3) SRMR; (ii) indicating certain liabilities that might require the resolution authority's assessment concerning a potential need for discretionary exclusions in resolution under Article 27(5) SRMR; (iii) flagging in the banks' internal systems of liabilities subject to netting settings and (iv) identifying secured liabilities subject to collateral agreements.

The testing exercise of the internal execution should cover the following key elements:

- **Sequence of events and operational considerations**: banks are expected to test the sequence of events for the internal execution of the bail-in tool.
- **Accounting and balance sheet considerations**: banks are expected to test all relevant accounting/balance sheet considerations necessary to administer and implement the bail-in. In addition, the bank should test the following aspects:
  - test the loss recognition in the accounts/records of the bank;
  - test the loss recognition at subsidiary level and the up-streaming through the group's internal systems to be reflected in the balance sheet of the resolution entity;
  - test the approvals and the time scales for the recognition of the losses in the accounts (e.g. role of the Board of Directors, internal and external auditors, etc.);
  - test the impact of a write-down on any related hedging arrangements;
  - test the production of a new balance sheet/material line items (post-resolution) in line with the applicable accounting standards.
- **Legal considerations**: banks are expected to test all legal considerations that might occur in the context of the internal execution of the bail-in tool (e.g. treatment of employee stock option arrangements, amendment of the resolution entity's articles of association, etc.).
- **Tax considerations**: banks are expected to test/simulate (or, at least, critically reflect on) all fiscal considerations with regard to both the resolution entity and its subsidiaries.
- **Communication and other considerations**: banks are expected to test the communication to management bodies that has to be prepared with regard to the internal execution of the bail-in tool, as well as any other considerations that have to be taken into account with regard to the write-down and conversion of capital instruments and eligible liabilities.

**4.3.3. EXTERNAL EXECUTION**

The purpose of dry-runs conducted by banks is to test and evaluate the operational readiness for bail-in execution of a bank itself, not the readiness of external parties or their processes (e.g. national CSDs or ICSDs).

Preparatory steps to facilitate external execution and ensure certainty of the bail-in process are expected to be confirmed during dry-runs, while readiness of external parties or their processes (e.g. national CSDs or ICSDs) shall remain out of the scope of the banks' dry-run. Preparatory steps that banks can take up until the point where data is received by the (I)CSD include, among others: (i) the responsibility for sending instructions, (ii) the availability of data points required, (iii) the time, tools, templates and responsibilities for preparing instructions and (iv) the data generation responsibilities and tools used by contributing divisions/units in the bank.
4.3.4. MIS CAPABILITIES

Successful implementation of the bail-in tool depends fundamentally on the capabilities of the banks to deliver, upon request from the resolution authorities, timely, complete and high-quality data at short notice. Banks’ ability to provide bail-in data should be considered in the context of the Efb setting out the capabilities that banks have to demonstrate their resolvability. One of these components addresses “Information systems and data requirements” and therefore directly refers to the appropriateness of banks’ MIS to extract in a timely and complete fashion the liability data for bail-in implementation.74

Banks under the SRB’s remit should prepare their data infrastructure for bail-in and initiate necessary IT projects as part of their updated and budgeted multi-annual resolvability work programmes in order to become compliant with the Efb. In principle, banks’ MIS should be able to extract the required bail-in data at short notice. This data is not part of the regular reporting for resolution planning purposes and deviates from the SRB Liability Data Report (LDR) serving as a regular standard data report that is harmonised across all Member States for resolution planning purposes.

Banks are requested to conduct testing of their MIS capabilities for the ad-hoc provision of bail-in data, as indicated in the SRB Bail-in Minimum Bail-in Data expectations,75 or in the country-specific bail-in data guidance, if applicable.

The main elements of the testing exercise (and report thereof) should cover the availability of the data point, time needed to produce the data point in a going concern and a FOLTF situation, internal or external processes relevant for the data point, MIS system(s) involved, level of automation, sources as well as any obstacles encountered. In principle, banks are expected to be able to produce the bail-in data points list and all other supporting data (including an update of the LDR with a reference date to be agreed with the IRT, if requested) within 24 hours. Where applicable, banks are expected to provide clear evidence on the credibility of workarounds/manual adjustments.

Banks are expected to provide a report summarising the outcome and lessons learnt from the bail-in dry-run and elaborating on the main elements of the testing exercise as outlined above. If a bank considers a data point from the bail-in list not relevant for bail-in execution, the bank is expected to immediately inform the IRT and provide a justification before the dry-run. The IRTs will decide on a case-by-case basis if there may or may not be a need to include this data point in any relevant MIS automation project at the level of the bank.

Banks can liaise with the IRT to determine if and which bank reports (e.g. supervisory reporting, LDRs, Balance Sheet financial information, Valuation Reports) may be used and which respective controls will be executed. At this stage, the SRB does not require a specific data format for the submission of the bail-in data (e.g. CSV, XBRL, etc.) to evidence the required MIS capabilities. However, the SRB may reassess the need for such requirement in the future, following the experiences gathered during banks’ first dry-runs and any potential developments at horizontal level. In cases where a country-specific bail-in data list and guidance exist, a specific submission format might be requested by the IRT.

74 The final Efb document published on 1 April 2020 specifies on page 47 that all banks under the remit of the SRB are expected to establish adequate MIS capabilities to deliver the bail-in data by the end of 2022.

75 See SRB Bail-in Data Set Instructions and SRB Bail-in Data Set Explanatory Note.
81 Based on the results of the testing exercise (as included in the relevant report and collected bail-in data as at reference date\textsuperscript{76}) and the follow-up discussions with the IRT, the banks should, if need be, refine their multi-annual resolvability work programme to address the main shortcomings. In addition, the bail-in playbook might be updated following lessons learnt from the testing. The banks’ work programme should enable the banks to increase the efficiency of their MIS capabilities progressively. Specifically, the said work programme should include remedial actions that address shortcomings regarding the availability, quality, accuracy, completeness and timely delivery of the bail-in data.

\textsuperscript{76} In relation to data provision in the context of dry-runs and testing exercises, for some classes of liabilities (e.g. deposits), banks might be requested to report aggregated amounts rather than granular transaction-by-transaction data, unless requested otherwise.
### ANNEX 1 – Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admission to trading</td>
<td>The decision for a financial instrument to be traded in an organised way, notably on the systems of a trading venue.(^{78})</td>
</tr>
<tr>
<td>Beneficial owner</td>
<td>Entity that enjoys the possession and/or benefits of ownership (such as receipt of income) of a property even though its ownership (title) is in the name of another entity (called a ‘nominee’ or ‘registered owner’). Use of a nominee (who may be an agent, custodian, or a trustee) does not change the position regarding tax reporting and tax liability, and the beneficial owner remains responsible. Also called actual owner.</td>
</tr>
<tr>
<td>Book-entry transaction</td>
<td>In the field of securities, it refers to a transaction, which is processed without the movement of physical certificates, being effected instead by means of credit and debit entries.(^{79})</td>
</tr>
<tr>
<td>Central counterparty (CCP)</td>
<td>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.(^{80})</td>
</tr>
<tr>
<td>Central Securities Depository (CSD)</td>
<td>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.(^{81})</td>
</tr>
<tr>
<td>Classical global note (CGN)</td>
<td>A form of global certificate which requires physical annotation on the attached schedule to reflect changes in the issue outstanding amount.(^{82})</td>
</tr>
<tr>
<td>Clearing</td>
<td>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 used (imprecisely) to cover settlement. For the clearing of futures and options, this term refers to the daily balancing of profits and losses and the daily calculation of collateral requirements.(^{83})</td>
</tr>
<tr>
<td>Conversion agent or Exchange agent</td>
<td>An agent appointed by the Issuer to instruct the execution of conversion or exchanges of securities.(^{84})</td>
</tr>
<tr>
<td>Common depository</td>
<td>An entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide safekeeping and asset servicing for securities in Classical Global Note form.(^{85})</td>
</tr>
<tr>
<td>Common safekeeper</td>
<td>An entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide safekeeping for New Global Notes.(^{86}) Note that the Common Safekeeper will be either Euroclear Bank or Clearstream Banking Luxembourg if the security is ESCB eligible, or the entity acting as Common Service Provider if it is not.</td>
</tr>
<tr>
<td>Common service provider</td>
<td>An entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide asset servicing for New Global Notes.(^{87})</td>
</tr>
</tbody>
</table>

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\(^{77}\) Various sources, including online resources.  
\(^{79}\) ECB, Payments and markets glossary (including terms related to Financial Market Infrastructures from the Glossary of terms related to payment, clearing and settlement systems, December 2009).  
\(^{80}\) ECB, Ibid.  
\(^{81}\) ECB, Ibid.  
\(^{82}\) ECB, Ibid.  
\(^{83}\) ECB, Ibid.  
\(^{84}\) ECB, Ibid.  
\(^{85}\) Euroclear, Clearstream, Ibid.  
\(^{86}\) Euroclear, Clearstream, Ibid.  
\(^{87}\) Euroclear, Clearstream, Ibid.
Corporate action  An action or event decided by the issuer of a security which has an impact on the holders of that security. This may be optional, in which case those holders have a choice (for example, they may have the right to purchase more shares, subject to conditions specified by the issuer). Alternatively, it may be mandatory, whereby those holders have no choice (e.g. in the case of a dividend payment or stock split). Corporate actions can relate to cash payments (e.g. dividends or bonuses) or the registration of rights (subscription rights, partial rights, splits, mergers, etc.).

CUSIP  Committee on Uniform Security Identification Procedures. Refers to the nine-character alphanumeric CUSIP code which identifies any North American security for the purposes of facilitating clearing and settlement of trades.

Custodian  An entity, often a credit institution, which provides securities custody services to its customers. A number of different actors provide custody services in different roles: the investor’s main custodian (e.g. house bank), the sub-custody network and the CSDs. It should be noted that it is for the investor to choose the main custodian to hold the assets.

Delisting  See listing.

Depository  An agent with the primary role of recording (direct or indirect) holdings of securities. A depository may also act as a registrar. The depository may be a CSD, or a different entity (such as a custodian bank).

Exchange agent  An agent appointed by the issuer to instruct the execution of conversion or exchanges of securities (also called conversion agent).

Global certificate or Global note  Certificate representing an entire issue of securities. These may be temporary global certificates or permanent global certificates and in classical global note or new global note form.

Interim instrument  A security (usually of a type related to equity) that is issued for the purposes of allowing a conversion from bail-inable liabilities into that instrument, as a first step in the bail-in process. The interim instrument is meant to be converted after definitive valuation into a definitive instrument, most likely equity.

International Central Securities Depository (ICSD)  A CSD which was originally set up to settle Eurobond trades and is now active in the settlement of internationally traded securities from various domestic markets, typically across currency areas. At present, there are two ICSDs located in the EU: Clearstream Banking in Luxembourg and Euroclear Bank in Belgium.

ISIN  The International Securities Identification Number (ISIN, ISO 6166) is the recognised global standard for unique identification of financial instruments. ISINs are used to identify most types of financial instruments, including equity, debt and derivatives.

Issuer  Legal entity that issues sells securities to finance its operations. Issuers may be corporations, investment trusts, or domestic or foreign governments. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

Issuing agent  Legal entity assisting the issuer in its relation with the CSD, for the purposes of issuing the securities: it creates the ISIN in the system through the initial deposit to create the security.

Listing  The admission to trading of a financial instrument on an exchange. (In some cases, e.g. when the exchange does not offer trading facilities in a given jurisdiction, listing can take place without trading being possible on the exchange’s trading platform). Delisting thus refers to the removal of the instrument from trading.

Listing agent  Legal entity assisting the issuer with the application for admission (with a view to having the issuer’s securities listed and admitted to trading on a regulated market/stock exchange).

Market operator  A firm responsible for setting up and maintaining a trading venue such a regulated market or a multilateral trading facility.

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88 ECB, Ibid.
89 ECB, Ibid.
90 ECB, Ibid.
91 Euroclear, Clearstream, Ibid.
92 European Commission, Ibid.
### National Numbering Agency (NNA)

The organisation in each country responsible for issuing International Securities Identification Numbers (ISIN) as described by the ISO 6166 standard and the Classification of Financial Instruments code as described by the ISO 10962 standard. The role of National Numbering Agency is typically assigned to the national stock exchange, CSD, central bank, or financial regulator.

### New global note

A form of global certificate which refers to the records of the ICSDs to determine the issue outstanding amount.\(^3\)

### Non-resolution entity

An entity in respect of which the resolution plan provides no resolution action but which is classified as part of a Banking Union resolution group, or as a subsidiary (in the meaning of Article 4(1) no. 16 CRR) of a parent undertaking established in a third country.

### Operational agent

Any entity that acts on behalf and upon request of the issuer and supporting the issuer throughout the lifecycle of the securities issued by the issuer. Operational agents are involved in the issuance of securities, the preparation and performance of corporate actions, conversions, etc.

### OTC (over-the-counter) trading

A method of trading that does not involve a regulated market. In over-the-counter markets, participants trade directly with each other, typically through telephone or computer links.\(^4\)

### Paying agent

An agent appointed by the issuer to process the cash payments to be made by the issuer (collection of coupon, redemption or other monies) related to a security.\(^5\)

### Regulated market

A regulated market is a multilateral system, defined by MiFID (article 4), which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in a way that results in a contract. Examples: the traditional stock exchanges such as the Frankfurt and London Stock Exchanges.\(^6\)

### Suspension of trading

A temporary halt in the trading of a particular financial instrument as a consequence of a regulatory intervention or an intervention by the exchange operator, following serious concerns about the relevant company's assets, operations, or any other financial information. In addition, MiFID foresees the possibility to suspend for market abuse reasons (Article 52). Trading halts may also follow excessive movements in the market value of the instrument; under MiFID, these are treated more as mechanisms to manage volatility rather than suspensions. Usually, the issuer may also ask for a trading halt in advance of important announcements.

### Trading venue

A trading venue is either a regulated market (a stock exchange), a multilateral trading facility (MTF, i.e. a multilateral trading system operated by an investment firm or a market operator), or an organised trading facility (i.e. a multilateral system which is not a regulated market or an MTF).

### Valuation 1

Valuation aimed at informing the determination of whether or not the conditions for resolution or the write-down or conversion of capital instruments are met, in line with Article 20(5)(a) SRMR.

### Valuation 2

Where the resolution authorities determine that an entity meets the conditions for resolution, valuation aimed at informing the decision about the implementation of resolution tools, in line with Article 20(5)(b) to 20(5)(g) SRMR.

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\(^3\) Euroclear, Clearstream, Ibid.

\(^4\) ECB, Ibid.

\(^5\) Euroclear, Clearstream, Ibid.

\(^6\) European Commission, Ibid.
ANNEX 2 – Bail-in dry-run scenario

For initiating the regular bail-in testing, upon request by the SRB, banks are expected to conduct a dry-run based on the following assumption setting:

- The order of the write-down and conversion will first be applied to outstanding own funds instruments on a pro-rata basis in each own fund class (CET1, AT1 and T2) and then follow, as a general rule, the order of the creditor hierarchy under the insolvency law applicable (for the resolution-entity level, as well as at the level of the subsidiaries in the resolution group);
- Losses occur at the level of the resolution entity(ies) or in a subsidiary/subsidiaries, which is/are part of the resolution group;
- Reference date shall be the closest date to the dry-run;  
- In principle, the total amount of losses to be absorbed should at least equal the overall capital requirement of the resolution entity, and the recapitalisation action should lead to meeting the bank’s own funds requirement before resolution, both on a consolidated and on an individual basis.  
- The bank is expected to consider a larger amount of losses in order to make the outcome of the dry-run more relevant;
- CET1 items other than capital instruments and share premium accounts (i.e. CET1 items defined in Article 26(1)(c), (d), (e) and (f) CRR) would unrestrictedly absorb losses before write-down and conversion powers are applied to capital instruments and share premium accounts;
- For the purpose of this exercise, the bank and IRT will agree on the potential application of a balance sheet depletion effect as applicable;
- To the extent that losses cannot be absorbed by outstanding ownership instruments, these instruments are cancelled and new ownership instruments pertaining only to a single hierarchy class (e.g. ordinary shares of the resolution entity) will be issued to bailed-in creditors (i.e. no need to consider issuance of new AT1 or T2 instruments).

97 For instance, if it is assumed that a hypothetical resolution takes place during the weekend, a substantial part of the required bail-in data should be based on the reference date Friday close of business before the ‘resolution weekend’. This also applies for the dry-run, in alignment with the IRT.

98 Overall capital requirement = Supervisory Pillar 1 + Supervisory Pillar 2 + Combined Buffer Requirement.

99 The IRT might adjust the assumption, if required, in order to ensure a reasonable FOLTIF scenario.
ANNEX 3 – Summary of changes

The table below summarises the main changes to this operational guidance compared to the 2020 version of the operational guidance, as published on 10 August 2020.

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Summary of main changes in the 2022 version</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Background and rationale</td>
<td>Footnote added to clarify the applicability of the guidance to credit institutions and groups whose ultimate parent entity is established in a third country, amongst others.</td>
</tr>
<tr>
<td>3.1.2 Communication</td>
<td>Clarification on aspects related to communication in resolution that need to be included directly in the bail-in playbook.</td>
</tr>
<tr>
<td>3.1.4 Business reorganisation plan</td>
<td>References and sections related to the process description for developing the BRP as part of the open bank bail-in strategy removed; IRTs will provide additional instructions to relevant banks.</td>
</tr>
<tr>
<td>3.3 Internal execution</td>
<td>Expansion of the section on internal execution to address the loss transfer and recapitalisation mechanisms between the resolution entity and its subsidiaries.</td>
</tr>
<tr>
<td>3.4 External execution</td>
<td>Addition of sub-section on ‘Bail-in adjustments’.</td>
</tr>
<tr>
<td>4. Testing of the playbook</td>
<td>New chapter on bail-in testing to be conducted by banks, including objectives and scope, methodology, dry-run components.</td>
</tr>
<tr>
<td>Annex 1 Impact of the Banking Reform Package</td>
<td>Removed</td>
</tr>
<tr>
<td>Annex 2 Bail-in dry-run scenario</td>
<td>New Annex</td>
</tr>
<tr>
<td>Across document</td>
<td>Improved wording with regard to Valuation 1 and 2, amongst others.</td>
</tr>
<tr>
<td>Across document</td>
<td>Simplification and streamlining</td>
</tr>
</tbody>
</table>
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