The Resolvability Assessment Framework (RAF) - The First Public Disclosures

10 June 2022

Today, for the first time, the eight largest UK Banks and Building Societies ("firms") publicly disclosed a summary of their preparations for resolution.

Alongside these, the Bank of England ("BoE") simultaneously published its view on individual firms' preparations together with industry-wide themes for enhancement which will inform firms' focus and work for the coming months and years.

"***The findings show that today a major UK bank could enter resolution safely: remaining open and continuing to provide vital banking services to the economy. With shareholders and investors, not taxpayers, first in line to bear the costs. This overcomes the "too big to fail" problem of the past*** "

The disclosures represent the culmination of over a decade of hard work by both firms and resolution authorities and promote greater transparency and public understanding by providing a comprehensive and transparent appraisal of resolvability work to date.

Moving on from the Financial Crisis…

The financial crisis emphasised the importance of both firms and resolution authorities being able to respond effectively to failing banks and building societies, without having to resort to taxpayers' funds for bail-outs. In the UK, the Banking Act 2009 was swiftly introduced to form the current resolution regime and provide the BoE with the appropriate resolution powers to deal with failing firms.

The BoE made a commitment to Parliament that major UK firms would be resolvable by 2022. In July 2019, as part of that commitment, the BoE published the Resolvability Assessment Framework (RAF), which identified three outcomes which firms need to be able to achieve so they are prepared for a resolution. The RAF builds on the extensive amount of work from both firms and resolution authorities since the financial crisis, to ensure that - should the need arise - firms can be resolved in an orderly manner.

The resulting requirement for public disclosures makes resolution more transparent and understandable, thus completing the final piece of this regulatory jigsaw.

Resolvability is here to stay…

Given the substantial amount of progress since the financial crisis, both firms and regulators are much better positioned to deal with failure now than in 2008/09. However, there is still work to do to ensure that resolvability is fully embedded and as robust as possible.

The BoE assessment has identified issues that could prevent firms from achieving the three resolvability outcomes, including enhancements to Funding in Resolution and Restructuring capabilities. The assessment has also identified the need for more extensive testing of capabilities, to ensure they are maintained, enhanced, and would likely work as intended in a resolution scenario.

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Deloitte will publish a further blog in due course, looking at the thematic issues coming through as part of the public disclosures, given these priority areas are expected to drive future work for firms over the coming months and years.

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