FSB FINANCIAL STABILITY BOARD

Principles on Bail-in Execution

Consultative Document

30 November 2017

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The Financial Stability Board (FSB) is seeking comments on its consultative document: *Principles on Bail-in Execution*.

Since the adoption of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the *Key Attributes*) in November 2011, authorities in Crisis Management Groups (CMGs) have been working to develop firm-specific resolution strategies and plans for global systemically important banks (G-SIBs). One set of challenges that became apparent from that work were the legal and operational complexities associated with the implementation of an effective bail-in transaction. While the *Key Attributes* set out general powers that authorities should have for the purposes of bail-in within resolution (KA 3.5), they do not consider the operational aspects of bail-in execution. Unless the operational complexities associated with the implementation of bail-in have been addressed in advance, authorities may not be able to execute bail-in in a timely and effective manner.

This consultative document proposes a set of principles on the execution of bail-in to assist the work of authorities as they operationalise resolution strategies and plans. The principles cover the range of actions and processes required to identify the instruments and liabilities within the scope of bail-in; conduct valuations to inform and support the application of bail-in; develop a bail-in process that meets applicable securities law and securities exchange requirements; transfer governance and control rights and obtain regulatory approvals and authorisations; and communicate effectively with creditors and market participants more broadly in the course of the bail-in process.

The FSB invites comments on the consultative document and the following specific questions:

1. Do the principles in the draft guidance address all relevant aspects of a bail-in transaction, including cross-border aspects? What other aspects, if any, should be considered?
2. Should any of the principles differentiate, or further differentiate, between different (i) resolution strategies (e.g., single point of entry vs. multiple point of entry); (ii) resolution entities (e.g., operating bank vs. holding company); or (iii) approaches to bail-in (e.g., open bank vs. closed bank bail-in)? If so, please describe how.
3. Do you agree with the information and disclosure requirements on the scope of bail-in as identified in principles three and four, respectively? Is the provision or disclosure of certain information likely to present any challenges for firms?
4. Do you agree with the approach for valuations in resolution set out in principles five to eight, including with respect to (i) the valuation process and type of valuations that are necessary to inform a bail-in; and (ii) the methodology and assumptions for the valuations?
5. Does principle 10 identify all relevant challenges to the development of a bail-in exchange mechanic? What other challenges, if any, do you see?
6. Do you agree with the approach to meeting securities law and disclosure requirements set out in principles 11 to 14? Are there other aspects of securities law

or securities exchange requirements that should be considered by resolution authorities as part of resolution planning?

7. Do principles 15 and 17 adequately describe the actions that the home resolution authorities should carry out regarding (i) the management and control of the firm during the bail-in period and (ii) the transfer of control to new owners and management?
8. Does principle 21 adequately identify all relevant types of information that the home resolution authority should communicate at the point of entry into resolution? What other information might creditors and/or market stakeholders require?
9. Are they any other actions that could be taken by firms or authorities to help facilitate the execution of a bail-in transaction and enhance market confidence?

Responses to this consultative document should be sent to fsb@fsb.org by 2 February 2018. Responses will be published on the FSB's website unless respondents expressly request otherwise.

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Principles on Bail-in Execution

Overview

Background

Since the adoption of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the *Key Attributes,* or the KAs) in November 2011,[1] authorities in Crisis Management Groups (CMGs) for Global Systemically Important Banks (G-SIBs) have been working to develop firm-specific resolution strategies and plans. The resolution strategies and plans for some G-SIBs involve the application of bail-in powers.

The *Key Attributes* set out the bail-in powers that authorities should have to achieve or help achieve continuity of critical functions.[2] More specifically, KA 3.5 requires authorities to have powers to carry out bail-in within resolution that should enable resolution authorities to:

(i) write down in a manner that respects the hierarchy of claims in liquidation equity or other instruments of ownership of the firm, unsecured and uninsured creditor claims to the extent necessary to absorb the losses;

(ii) convert into equity or other instruments of ownership of the firm under resolution (or any successor in resolution or the parent company within the same jurisdiction), all or parts of unsecured and uninsured creditor claims in a manner that respects the hierarchy of claims in liquidation; and

(iii) upon entry into resolution, convert or write-down any contingent convertible or contractual bail-in instruments whose terms had not been triggered prior to entry into resolution and treat the resulting instruments in line with (i) or (ii).

The absorption of losses by shareholders and unsecured and uninsured creditors serves to meet the objective of the *Key Attributes* to make feasible the resolution of financial institutions without exposing taxpayers to loss.

Whereas the *Key Attributes* require jurisdictions to provide for the powers and tools to achieve bail-in, the FSB's standard on Total Loss-absorbing Capacity (TLAC) defines a minimum requirement for the instruments and liabilities that should be readily available for bail-in within resolution at G-SIBs.[3] However, neither the *Key Attributes* nor the TLAC standard addresses the operational aspects of executing a bail-in transaction. These include the range of actions and processes required to (i) identify the instruments and liabilities within the scope of bail-in; (ii) conduct valuations to inform and support the application of bail-in; (iii) develop a bail-in process that meets applicable securities laws and exchange requirements; (iv) transfer governance and control rights to new owners and obtain the required regulatory approvals and

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1 See *Key Attributes of Effective Resolution Regimes for Financial Institutions* (http://www.fsb.org/wp-content/uploads/r_141015.pdf), November 2011 (updated in October 2014).

2 See KA 3.2 (ix).

3 See *Principles on Loss-absorbing and Recapitalisation of G-SIBs in Resolution* and *Total Loss-absorbing Capacity (TLAC) Term Sheet* (http://www.fsb.org/wp-content/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf), November 2015.

authorisations; and (v) communicate effectively at all stages of the bail-in transaction with affected parties and the market.

Objectives of principles

This consultative document proposes a set of principles to assist authorities as they develop bail-in resolution strategies and make resolution plans operational for G-SIBs. The principles may also be more broadly applicable to other types of firms where the application of bail-in powers is envisaged under the authorities' resolution strategy. The principles have been written in the context of the "bail-in period" of resolution. The bail-in period refers to the period beginning with entry into resolution, through the valuation process and up to and including the point of exchange following finalisation of the terms of bail-in (or determination of final conversion rates, if the exchange was conducted on the basis of a preliminary valuation).

The operational processes and mechanics developed to execute a bail-in need to be compatible with applicable resolution laws and other legal and regulatory requirements. The proposed principles therefore do not prescribe a particular approach to the execution of a bail-in, as flexibility may be required to design a framework that meets applicable resolution laws while ensuring consistency with the *Key Attributes*. Authorities will need to consider what processes and mechanics are required in the context of their own jurisdiction. The purpose of the principles is to identify actions that authorities should take to ensure that a bail-in can be implemented in a manner that is as credible, timely, consistent across home and host jurisdictions, and transparent to market participants as possible.

The principles are set out in chapters covering six aspects of bail-in execution:

I. Bail-in scope: a prerequisite to a bail-in transaction is an effective resolution regime consistent with the *Key Attributes* that provides the resolution authority with powers to carry out bail-in within resolution as required by KA 3.5. The principles in this section provide guidance on transparency of the scope of the instruments and liabilities subject to the bail-in powers of resolution authorities; the application of discretionary exclusions from bail-in; information requirements to support the application of bail-in powers; and disclosures on the scope of bail-in to enhance transparency and market confidence.

II. Valuation: valuation processes or other loss estimate analyses are necessary in resolution to inform the decisions of resolution authorities as they exercise bail-in powers. In particular, they provide the basis for certain resolution actions so that those powers can be exercised such that creditors bear losses consistent with their position in the hierarchy of claims, therefore minimising material risk of successful legal challenges and contributing to public confidence in the resolution process. The principles in this section will assist authorities as they establish a framework for the valuations that are necessary to inform the application of bail-in powers. The principles cover the timing and allocation of responsibilities between authorities for valuations; firms' management information system capability; information requirements to undertake an effective valuation; and valuation methodologies across a resolution group.

III. Exchange mechanics: the development of an exchange mechanic process to facilitate, among other things, (a) the suspension, cancellation or discontinuation from trading of affected securities on relevant securities exchanges and within central securities depositories (if necessary under the mechanic in question); (b) the notification of creditors; and (c) following entry into resolution, the write-down of liabilities and issuance of equity instruments or the

interim issuance of tradeable certificates to those unsecured and uninsured creditors subject to bail-in (the latter to allow for trading during resolution with the subsequent issuance of equity instruments once the final conversion rates are determined). The principles in this section provide guidance to address a number of operational issues, including the mechanism by which losses are absorbed; how creditors will document and track their claims; and the method to determine or adjust compensation to creditors.

IV. Securities law and securities exchange requirements: a bail-in will need to take into account jurisdictions' securities law and securities exchange requirements and the extent to which they apply, or continue to apply, during the bail-in period. These requirements may differ in some important aspects across jurisdictions, in particular as regards the required content and timing of disclosures and with respect to the availability of any exemptions or postponements. The principles in this section provide guidance to address the steps that home resolution authorities should take as part of ex ante resolution planning to: identify securities law and securities exchange requirements relevant to the bail-in period; plan for the firms' compliance with applicable disclosure requirements during the bail-in period and the implications of insufficient or incomplete investor information (including a consideration of temporary exemptions from or postponements to applicable disclosure requirements where appropriate); plan for the listing and trading status of a firm's securities during the bail-in period; and plan for the securities law and securities exchange requirements in connection with a bail-in transaction, including issuance, registration and listing requirements.

V. Governance: during the bail-in period, the powers, rights and privileges of shareholders and creditors of the failed legal entity to vote or give approvals may be terminated or suspended depending on the jurisdiction's approach to bail-in. Following the end of the bail-in period, ownership and control of the firm or newly established financial company is transferred to the new shareholders, including the holders of debt instruments of the failed firm. The change in ownership and control of the firm in resolution is likely to require regulatory approvals and authorisations, including in host jurisdictions. Newly appointed directors and senior managers (including those of subsidiaries and branches) of the firm in resolution may also be required to obtain regulatory approvals, the requirements for which may differ across jurisdictions. The principles in this section seek to provide guidance to home and host authorities on these issues.

VI. Communications: multiple parties and authorities will likely be involved in the bail-in of a firm that has entered resolution, and there may be uncertainty with respect to the impact on creditors and speculation in the market throughout the resolution process. Given the range of stakeholders, ex ante planning and a common understanding of the approach to bail-in communication and the roles and responsibilities of home and host authorities is essential to avoid the risk of delayed or inconsistent communication from authorities that could create creditor confusion and damage market confidence. The principles in this section will assist authorities in the development of a coordinated strategy to manage market and creditor communications during the bail-in period.

Introduction

G-SIB resolution strategies are generally based on two distinct approaches to bail-in within resolution:

(i) a recapitalisation of the entity in resolution ("open bank bail-in"); and

(ii) the capitalisation of a newly established entity or bridge institution to which certain assets and liabilities from the entity in resolution have been transferred ("closed bank bail-in").

Approaches to bail-in also differ depending on the type of entity to which resolution tools would be applied ('resolution entity') under the resolution strategy. Depending on the organisational structure of the firm and the resolution strategy, a resolution entity may be a parent company, an intermediate or ultimate operating or non-operating holding company, or an operating subsidiary. These differences are relevant for many of the issues considered in the context of bail-in execution, including complying with securities law and other regulatory requirements and communicating with creditors and other stakeholders. Resolution authorities will need to consider these differences — which are both jurisdiction and firm specific — when planning to execute a bail-in.

Regardless of which approach to bail-in is taken, or which type of entity resolution tools are applied to, the economic effect of bail-in is the same: a write-down of equity or other instruments of ownership of the firm and a write-down and/or conversion into equity of all or parts of unsecured and uninsured creditor claims. Accordingly, the principles in this consultative document apply to open bank and closed bank bail-in resolution strategies, and to different types of resolution entities. However, the way in which authorities plan for and execute a bail-in will differ substantially depending on the approach taken and the type of resolution entity:

Closed bank bail-in

The use of a bridge institution under a closed bank bail-in, where the liabilities subject to bail-in may be left behind in the failed legal entity along with shareholders' equity (or are converted into equity transferred to the bridge institution) may afford the resolution authority a greater amount of time to conduct valuations and determine the extent of the write-down. However, in the time period leading up to the final equity conversion and exchange, additional work may be involved to, for example, develop financial statements and to register and issue new securities in compliance with applicable securities law and securities exchange requirements.

Open bank bail-in

An open bank bail-in approach, particularly when applied to an operating subsidiary, may require the write-down and/or conversion into equity of the instruments and liabilities subject to bail-in under a shorter timeframe. On the other hand, recapitalising the failed legal entity may simplify the process for issuing securities and obtaining regulatory approvals, as existing documentation could be used as a basis to help satisfy the relevant requirements.

In light of these considerations the principles seek to address the implications of different approaches to bail-in by highlighting, to the extent possible, particular challenges and areas of focus under each approach.

Definition of key terms

Administrator: includes receivers, trustees, conservators, liquidators or other officers appointed by a resolution authority or court, pursuant to a resolution regime, to manage and carry out the resolution of a bank.

Bail-in period: the period beginning with entry into resolution following the failure of a firm, through the valuation process to estimate losses and determine the write-down and conversion rates, and up to and including the point of exchange following finalisation of the terms of bail-in (or determination of final conversion rates, if the exchange was conducted on the basis of a preliminary valuation). In some jurisdictions the end of the bail-in period may not correspond to the timeframe for the firm's exit from resolution. For example, restructuring of the firm to address the causes of failure may continue beyond the conclusion of the bail-in period.

Bail-in within resolution: – restructuring mechanisms (howsoever labelled) that enable loss absorption and the recapitalisation of a bank in resolution or the effective capitalisation of a bridge institution through the cancellation, write-down or termination of equity, debt instruments and other senior or subordinated unsecured liabilities of the bank in resolution, and the conversion or exchange of all or part of such instruments or liabilities (or claims thereon) into or for equity in or other instruments issued by that bank, a successor (including a bridge institution) or a parent company of that bank.

Bridge institution: an entity that is established to temporarily take over and maintain certain assets, liabilities and operations of a failed bank as part of the resolution process.

Exchange mechanic: the mechanism to facilitate at an operational level the write-down and/or conversion into equity of the instruments and liabilities subject to bail-in, including the listing and trading treatment of affected securities following entry into resolution, the notification of affected creditors and the issuance of equity to the creditors subject to bail-in.

Market authority: the authority responsible for the regulation of securities markets including the regulation of securities exchanges and the development and enforcement of the laws and rules that govern securities markets.

Market infrastructures: services or multilateral systems that provide the infrastructure for the transferring, clearing, and settling of payments, securities, and other financial transactions. For example, central securities depositories, common depositories, exchanges, paying agents.

Disclosure requirements: all continuous ongoing and periodic disclosures required under securities laws or listing requirements, excluding disclosures required in connection with an initial offering of securities.

Resolution group: as set out in section 3 of the TLAC term sheet, a resolution entity and any entities that are owned or controlled by a resolution entity either directly or indirectly through subsidiaries of the resolution entity and that are not themselves resolution entities or subsidiaries of another resolution entity form a resolution group. Each resolution entity and each direct or indirect subsidiary of a resolution entity is part of exactly one resolution group.

I. Bail-in Scope

Principle 1. Ex ante transparency of the scope of bail-in

The jurisdiction's resolution regime should clearly define the scope of instruments and liabilities to which bail-in powers could be applied.

The resolution regime should clearly specify:

- the scope of instruments and liabilities to which bail-in powers may be applied which should include – but is not limited to – those instruments and liabilities that are TLAC eligible;
- any liabilities that are statutorily excluded from the application of bail-in powers;
- the position within the statutory creditor hierarchy of liabilities that fall within the bail-in scope; and
- the "no creditor worse off than in liquidation" (NCWOL) safeguard and the process that would be followed to determine if any creditors and shareholders affected by the resolution are entitled to additional compensation beyond what is being distributed to these parties pursuant to the resolution action.

Ex ante transparency in the resolution regime with regard to the scope of bail-in should enable market participants to assess the risks associated with, and pricing of, liabilities subject to bail-in.

Principle 2. Discretionary exclusions of liabilities from the bail-in scope

Discretionary exclusions from the scope of bail-in and departures from pari passu treatment of similarly situated creditors should be non-discriminatory and applied only where they are necessary to meet the resolution objectives consistent with the *Key Attributes*, contain the potential systemic impact of a firm's failure or to maximise the value for the benefit of all creditors as a whole.

The *Key Attributes* require resolution powers to be exercised in a manner that respects the hierarchy of claims while providing flexibility to depart from the general principle of equal (pari passu) treatment of creditors of the same class, if necessary to contain the potential systemic impact of a firm's failure or to maximise the value for the benefit of all creditors as a whole (KA 5.1). The flexibility of resolution authorities to depart from equal treatment of creditors of the same class may be constrained by the NCWOL safeguard. The NCWOL principle establishes that creditors should have a right to compensation where they do not receive at least what they would have received in a liquidation of the firm under the applicable insolvency regime (KA 5.2).

It may be necessary for resolution authorities to apply discretionary exclusions from bail-in and/or depart from pari passu treatment of similarly situated creditors to meet resolution objectives. However, uncertainty as regards the circumstances that would justify such departure could negatively impact market confidence and could give rise to legal challenge and compensation costs under the NCWOL safeguard.

Consistent with KA 5.1 discretionary exclusions from bail-in and departures from pari passu treatment of similarly situated creditors should be limited to exceptional circumstances that are clearly set out in the resolution regime.

Resolution authorities should evaluate whether to provide additional ex ante communication on how they anticipate applying discretionary exclusions from bail-in or departures from pari passu treatment of similarly situated creditors, including the types of factors that might justify such an action, the criteria for distinguishing between different types of creditors, as well as the applicable safeguards (e.g. NCWOL). The factors and criteria for distinguishing different types of creditors should be objective and non-discriminatory and motivated by the resolution objectives to maintain financial stability and the continuity of critical functions, protect taxpayers from exposure to loss, and maximise value for creditors as a whole.[4]

Discretionary exclusions and departures from pari passu treatment that have been made during the bail-in process should be clearly communicated by resolution authorities as soon as possible.

Principle 3. Information requirements on the scope of bail-in

As part of ex ante resolution planning, authorities should ensure the timely access to the information that would be required to determine which of the firm's instruments and liabilities fall within the scope of bail-in. Information will be required to establish, among other things, the type, characteristics and value of a firm's instruments and liabilities, and to understand any factors that may affect the enforceability or effectiveness of the bail-in transaction. Authorities should ensure that firms have the appropriate technological infrastructure capability to support timely access to this information.

Authorities will require access to a range of information for purposes of resolution planning and at the point of resolution to assess the feasibility and credibility of the resolution strategy; identify liabilities that fall within the bail-in scope including, if appropriate, the liabilities that they may intend to exclude on a discretionary basis; and execute the bail-in transaction. The exact information requirements are likely to differ depending on the jurisdiction, the resolution strategy and whether an open bank or closed bank bail-in approach is followed, but the following baseline information on a firm's instruments and liabilities that are potentially subject to bail-in (with the exception of those that are statutorily excluded from bail-in) is likely to be required at a minimum:

- type of instrument/liability;
- issuing entity and location within the group;
- currency;
- any set off or netting rights, including the amount that can be set off or netted;
- in the case of collateralised liability the nature and amount and terms of enforcement of the collateral (so as to determine any uncollateralised and therefore bail-inable portion of the liability);

[4] Value maximisation for creditors as a whole does not mean that all creditors benefits in the same manner.

- position in the creditor hierarchy under the applicable insolvency law;
- principal value/amount outstanding (and the bail-in able part of the outstanding amount), including any accrued but unpaid interest;
- carrying amount (balance sheet figures) pursuant to both national GAAP and IFRS;
- any hedge accounting, including type of hedge and hedge ID according to national GAAP and IFRS;
- original and residual maturity date including, where applicable, early redemption dates;
- governing law and the presence of any contractual provisions for bail-in where the liability is governed by foreign law;
- domestic and international Central Securities Depositary (CSD)/registrar, paying agent/ trustee, ISIN/CUSIP (as necessary based on the exchange mechanic that is being used); and
- exchange where the instrument/liability is registered (where applicable).

Information on the type and name of holder is also desirable, but on a best efforts basis given the challenges associated with obtaining such information.[5]

Authorities should ensure as part of ex ante resolution planning that firms can produce the required information within a sufficiently short timeframe and on an up-to-date basis. Firms should have the technological infrastructure capability to produce the necessary set of information (for example, based on the items identified above) on a timely basis. Authorities should also consider what expanded or additional sets of information are likely to be required to support alternative resolution strategies or contingencies in the event that the preferred resolution strategy cannot be implemented.

Some information may be necessary from other market participants, such as CSDs, International CSDs (ICSDs) and registrars. Where this is the case, authorities should ensure that there are appropriate powers or gateways in place to obtain the required information on a timely basis.

Principle 4. Ex ante disclosures by firms of instruments within the bail-in scope

Authorities should require G-SIBs and where relevant other firms for which bail-in is the preferred resolution strategy to provide ex ante disclosures to market participants regarding the amount, maturity and composition of instruments and liabilities that could be subject to bail-in. Disclosures for G-SIBs should meet the requirements established under the TLAC standard.

To further enhance market and public confidence in the resolution process, authorities should require G-SIBs and where relevant other firms to disclose on an ex ante basis information regarding the nature and quantum of liabilities that could be subject to bail-in.

[5] Information on the current holders of a firm's liabilities is unlikely to be readily available. The holders of a firm's liabilities may also change rapidly in advance of an expected resolution action.

For G-SIBs, such disclosures should meet the requirements established under the TLAC standard.[6] Under these requirements, and as further specified by the Basel Committee in its consolidated and enhanced framework for Pillar 3 disclosure requirements,[7] as from 1 January 2019 G-SIBs should be required to publicly disclose information including:

- key metrics on TLAC requirements (available TLAC and TLAC ratios);
- composition of a G-SIB's TLAC (amounts of TLAC instruments and liabilities);
- main features of TLAC-eligible instruments (including with respect to, for example, issuing entity, governing law, par value, date of issuance and maturity, position in creditor hierarchy, type of subordination and the presence of other features such as coupons/dividends and conversion and write-down features); and
- creditor rankings at the legal entity level (including information on the amount and residual maturity of TLAC and on instruments that rank pari passu with, or junior to, TLAC instruments).

Authorities should consider requiring an appropriate level of ex ante disclosures in respect of liabilities within the bail-in scope for firms other than G-SIBs where the application of bail-in powers is envisaged under the authorities' resolution strategy. Such disclosures should be made at regular intervals and cover, as judged necessary by the relevant authorities, the composition of liabilities within the bail-in scope as envisaged under the resolution strategy, their amount, maturity, location within the group as well as their position in the creditor hierarchy.

II. Valuation

Introduction

Several different valuations or other loss estimate analyses are likely to be necessary to plan and execute a bail-in transaction. In particular, valuations are likely to be required to:

(i) estimate losses, which may inform the resolution strategy and actions to be taken in resolution and/or the determination of whether the conditions for resolution or the conditions for the contractual write-down and/or conversion into equity of regulatory capital instruments are met ('pre-resolution valuation' or 'loss estimate');

(ii) determine the write-down and conversion rates, e.g. the value of the securities that creditors will receive in exchange for their claims ('bail-in valuation'). Depending on the approach to bail-in this could involve:

- a valuation of assets and liabilities to inform the extent of losses (and hence the extent of bail-in) and a valuation to determine the market value of the new equity to inform the rates of conversion into equity or other instruments of ownership and any allocation(s) to bailed-in creditors and shareholders (for example, in an open bank bail-in).

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[6] See Section 20 of the TLAC term sheet in relation to public disclosures by G-SIBs of their eligible TLAC.

[7] See *Pillar 3 disclosure requirements – consolidated and enhanced framework* (http://www.bis.org/bcbs/publ/d400.pdf), March 2017.

- a valuation of assets and business lines in order to finalise the financial statements of a successor entity/ entities to the bridge institution, and an enterprise valuation of the new financial company or companies to serve as the basis for distributions to bailed-in creditors (for example, in a closed bank bail-in).

(iii) assess for purposes of the application of the NCWOL safeguard the value that creditors and shareholders would recover in a counterfactual insolvency as compared to the value received by creditors and shareholders (e.g., the securities together with any other distributions) in resolution ('counterfactual valuation').

Principle 5. Roles of home and host authorities and the appointment of a valuer

Home and host authorities within CMGs should establish a clear understanding of the overall valuation approach and their respective roles and responsibilities, including with respect to their coordination and consultation in the course of the valuation process, the appointment of a valuer, and the valuation methodology, taking into account the resolution strategy and requirements under the relevant resolution regime.

The valuation process needs to be completed in a timeframe that maintains market confidence and ensures that resolution actions can be undertaken in a timely manner. Accordingly, there should be a clear understanding of home and host authorities' respective responsibilities.

Home authorities' responsibilities

The home authority of the resolution entity has the responsibility for assessing the estimated losses across the whole resolution group and should therefore coordinate the group-wide valuations on a consolidated basis. This includes the appointment of the valuer for the resolution group as a whole, the scope of the valuer's work, types of valuation required, overall valuation framework, and cross-border coordination and sharing of valuation information.

Host authorities' responsibilities

The host authorities of subsidiaries of the resolution group should consider assessing the estimated losses in the subsidiaries in their jurisdiction, and should support the provision of information pertaining to those entities (e.g. with respect to local requirements) to the home authority or the valuer). Host authorities should also have the opportunity, through the CMG, to discuss the group-wide valuations, including the methodology and conclusions of the valuer.

Consistency with the TLAC standard

In the case of G-SIBs in particular, the roles and responsibilities of home and host authorities should be consistent with the process for the write-down and/or conversion into equity of internal and external TLAC.[8] Host authorities should determine the capital shortfall and recapitalisation level of a material sub-group in their jurisdiction that has reached the point of non-viability, and communicate this information to the home authority. The home authority is responsible for the overall assessment of the loss absorption and recapitalisation needs of the

[8] See Guiding Principle 18 of *Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC')* (http://www.fsb.org/wp-content/uploads/P060717-1.pdf), July 2017.

resolution group and the determination of a write-down and/or conversion into equity of external TLAC, and should factor the host authority's information into its own assessment.

Appointment of a valuer

In the case of a single point of entry resolution strategy, authorities should seek to appoint, where possible, a single valuer who has the capacity to produce the group-wide valuations. In the case of a multiple point of entry resolution strategy, valuers may be appointed for each resolution group. If there is a requirement for a separate valuer in a host jurisdiction, authorities within the CMG should to the extent possible seek to coordinate general valuation approaches to be followed by all valuers to reduce the risk of disparate valuation results.

The relevant authority should establish criteria regarding the appointment of the valuer that foster public confidence in the valuation process. The relevant authority should communicate these criteria to CMG authorities and disclose them to the extent appropriate to the market. The valuer should have the necessary expertise, capacity and resources to conduct the set of valuations necessary for a large cross-border firm. If an independent valuer is required, there should be no actual or perceived conflict of interest that is not adequately managed by the introduction of appropriate safeguards. Such conflicts of interest could include a business relationship with the firm in question which might impact the independence of the valuer's advice.

The appointment of the valuer for the pre-resolution (if necessary and appropriate) and bail-in valuations should be made expeditiously by resolution authorities. To facilitate this, resolution authorities should have in place a transparent and well-defined appointment and tender process, and should consider establishing a shortlist of pre-qualified valuers that are judged to have the necessary expertise, capacity and resources to conduct the necessary valuations.

Principle 6. Management information systems and capabilities of firms to support timely and robust valuations

Authorities should ensure that firms have the appropriate management information system (MIS) and technological infrastructure capability to support the timely provision of valuation data at a sufficient level of granularity and to enable valuations to be performed within a suitable timeframe. This capability should be assessed as part of ex ante resolution planning.

Firms should be responsible for generating the relevant information and data required by the valuer, and providing such information directly to the valuer and the relevant home and host authorities. Authorities should ensure that firms have the appropriate technological infrastructure (which may include valuation models for use in resolution) and capabilities that will be available to the valuer in resolution to enable valuations to be performed within a suitable timeframe. The authorities should ensure that firms have the appropriate technological infrastructure and MIS to support the provision of data at a sufficient level of granularity and on a timely basis. This capability should be assessed as part of ex ante resolution planning (e.g. assessment of key assumptions, development and testing of valuation models), as gaps in valuation capabilities cannot credibly be addressed in resolution. Addressing gaps in valuation capabilities may require authorities to exercise powers to require changes to improve the firm's resolvability (as per KA 10.5).

Authorities should consider setting out their expectations regarding firms' MIS capabilities and defining a common set of minimum information that would be required for the different valuations. The exact requirements are likely to differ across jurisdictions, depending on the approach to bail-in and the timing and methodology for each valuation. Where possible, the authorities should leverage information collected for valuations that are conducted on a going concern basis, with additional information needs for the purposes of resolution identified on an incremental basis.

Principle 7. Valuation methodology and assumptions

The valuation methodology and underlying base assumptions should be consistent with the authorities' resolution strategy for the firm and, to the extent possible, also be consistent across home and host jurisdictions as well as among different resolution cases. Valuations should be based on realistic and credible assumptions, which consider relevant market conditions and the expected actions of stakeholders.

Valuation methodology

Consistent with its role of coordinating the resolution group's valuations and the scope of work, the home authority should set the overall valuation approach to be used by the valuer for the bail-in valuation. They should do so in coordination with host authorities, to ensure that local specificities are taken into account. The valuer should, however, have discretion to determine the exact methodology consistent with the overall criteria established by the home authority. The valuation methodology for the bail-in valuation should be appropriate to the firm in question and be consistent with the authorities' resolution strategy. For example, it should reflect the intended use of assets and liabilities as envisaged in the resolution plan (e.g. hold vs. dispose), the planned or anticipated restructuring, and any estimated resultant franchise value.

Valuation assumptions

Certain base assumptions (e.g. the macroeconomic scenario and valuation reference date) should to the extent possible aim to be consistent across each type of valuation. Some assumptions may however vary in accordance with the purpose and objectives of the valuation, and should be subject to review and adjusted, for example if new information becomes available (with the exception of the counterfactual valuation, which should not benefit from the use of hindsight).

The assumptions underpinning the valuer's analysis should be clear to the respective authorities and should take a forward looking view on future losses. Where different assumptions are used across the valuations, these should be clearly explained by the valuer or the relevant authority, as appropriate. Due to the nature of the types of assets of the firm in resolution and the likelihood of market uncertainty regarding asset values, the bail-in valuation would likely yield a range of values. The authorities should work with the valuer to establish an appropriate valuation within that range, including by using sensitivity analysis to flex the key assumptions, particularly in the case where those assumptions are subject to uncertainty and/or significantly affect the valuation range.

The valuer will need information from relevant stakeholders (e.g., the firm's management, counterparties, trustees) to ensure that the assumptions are realistic and credible. Limitations on access may affect the quality of the valuations and increase the valuation range estimates. Home and host authorities should therefore ensure that the valuer is granted access to the firm's management and other relevant stakeholders as required.

Principle 8. Transparency of the valuation process

Authorities should disclose ex ante information to the market on the overall valuation framework and process. Ex post information on the actual valuation of a firm in resolution should also be disclosed where possible and appropriate, including information relating to the appointment of the valuer, the basis of the valuations and summary information on valuation outcomes. Ex post information should not be disclosed if it risks jeopardising resolution objectives.

The bail-in valuation ultimately informs the extent of the bail-in and, as a consequence, the calculation of creditor and shareholder losses. Market participants will therefore need to have confidence in the valuation process (including the choice of valuer) and the valuation outcomes. Such confidence will help ensure credibility in the proposed resolution action and reduce potential litigation risk.

The ex ante public disclosure of information should include:

- the general valuation framework and valuer appointment process.

The ex post disclosure of information should include:

- firm-specific valuation information where possible and appropriate, including information relating to the appointment of the valuer, the overall basis and methodology of the valuations and, to the extent possible, summary information on valuation outcomes.

While ex post disclosures on the valuation of a firm in resolution may increase confidence in the valuation process, home authorities should also be mindful of the risk of setting a precedent and in certain circumstances there will be a need for confidentiality, particularly where ex post disclosure of summary information on valuation outcomes could jeopardise resolution objectives.

III. Exchange Mechanics

Principle 9. Development of the bail-in exchange mechanic

As part of ex ante resolution planning the home authority for the resolution group should develop a credible exchange mechanic in consultation with the CMG and engage with relevant market infrastructures, where the involvement of such providers is required.

The home authority should consult the CMG on the design of the exchange mechanic. In particular, the CMG should have the opportunity to discuss the objectives and key elements of the planned bail-in exchange process, as this will inform CMG members' overall review of the feasibility and credibility of the operational plans for the implementation of the resolution

strategy. The roles of home and host authorities in the bail-in exchange process should be determined ex ante through the CMG, particularly where the involvement of host authorities is required during the process.

The home authority should engage with relevant market infrastructures (e.g. paying agents, (I)CSDs, common depositories) during the design stage of the exchange mechanic. To ensure the credibility of the bail-in exchange mechanic, the home authority should set expectations with the relevant market infrastructures on the process to be followed and the actions to be taken by each party. Any agreed process could also be incorporated in the operating procedures of the relevant market infrastructures, and the use of testing exercises should be considered to further enhance preparedness. The home authority should also consider what processes could begin in advance of a potential resolution action. Although the home authority may not be able to share information regarding the potential resolution action, certain steps could be taken in advance (e.g. opening of communication channels).

Principle 10. Disclosure and specification of bail-in exchange mechanics

The home authority for the resolution group should disclose ex ante the anticipated exchange mechanic to the market in order to enhance the credibility and predictability of actions to execute the exchange. The exchange mechanic should operationalise the write-down and conversion of liabilities and the issuance of securities or tradeable certificates, or transfer of securities, using existing market technology and conventions where possible and respecting the relevant market and regulatory requirements. If necessary the authorities should also address the timely delisting, suspension, cancellation, discontinuation from trading, or other treatment of affected securities as well as the listing or relisting, and admission to trading of new securities or tradeable certificates or interim rights.

In designing the exchange mechanic the home authority should consider the following aspects, as necessary to facilitate the bail-in exchange:

- Discontinuation, cancellation or suspension from listing or trading of securities. In certain open bank bail-in approaches, a discontinuation, cancellation or suspension from listing or admission to trading of securities may need to take place immediately following entry into resolution. Authorities should therefore seek to leverage existing market networks and procedures to effect a timely discontinuation or suspension from listing or trading, and will need to engage with the relevant market infrastructures (e.g. exchanges, paying agents, (I)CSDs) to understand the relevant processes and requirements.
- Non-settled ("in-flight") transactions. Where possible, the resolution action should be announced outside of market hours to limit the market impact and to provide the authorities with as much time as possible to stabilise the firm. However, regardless of when the resolution action is announced, it is likely that there will be in-flight (i.e. non-settled) transactions of affected securities. In designing the exchange mechanic, authorities should consider how to do address this issue (for example by setting a record date).

- Trading of claims. The valuations that inform the final terms of the bail-in may take several months to complete. In some jurisdictions, continued tradability of affected instruments and liabilities during the period before the final bail-in terms are set may be desirable, for example to allow creditors to trade out of their positions. Appropriate mechanisms may include: issuing tradable certificates or interim shares to affected creditors, or permitting existing securities to continue trading. If the legal exchange takes place shortly after entry into resolution (e.g., based on the results of a preliminary valuation), tradability of affected instruments and liabilities is already ensured and other mechanisms to provide continued tradability would not be necessary.
- Delivery of equity. The delivery of equity to bailed-in creditors may require identification of former liability holders, for example through an administrative process where creditors file a claim or come forward to evidence ownership. If, on the other hand, the exchange is to take place shortly after entry into resolution, equity could be delivered directly to the affected creditors via the market network of paying agents and (I)CSDs, provided that such equity is eligible in the relevant systems.
- Adjustment mechanism. If the exchange is to take place shortly after entry into resolution, an adjustment may be required once the full extent of losses is known (e.g. based on the outcome of the final valuation). For example, it may be necessary to adjust write-down or conversion rates to ensure that losses are allocated in a manner consistent with the NCWOL safeguard and/or the applicable creditor hierarchy. Depending on the outcome of the bail-in valuation, the mechanism may need to provide compensation to bailed-in creditors, e.g. via a write-up of liabilities.
- Unclaimed equity. If the distribution of equity requires the identification of affected creditors, it is possible that not all creditors are identified when the exchange takes place, leaving a residual amount of unclaimed equity. The exchange mechanic may therefore need to provide a mechanism to allow for such residual equity to be claimed beyond the initial exchange period.[9]

Given the nature of the challenges described above, market participants are likely to require transparent information at a suitable level of detail to understand the intended exchange mechanic. Such transparency would support market confidence in the credibility of bail-in. Home authorities should therefore disclose the specification and expected operation of the exchange mechanic, taking into account the elements identified above, as appropriate.

IV. Securities Law and Securities Exchange Requirements

Principle 11. Ex ante identification of securities law and securities exchange requirements

Home resolution authorities should identify securities law and securities exchange requirements, including disclosure and listing requirements, that may apply during the bail-in period to a firm in resolution or any party involved in a bail-in transaction. Home

[9] In this context, a consideration of how the mechanic would treat creditors that are unable to hold equity (e.g. mandate-bound institutional investors) may also be relevant.

resolution authorities should identify these requirements in cooperation and consultation with the relevant market authorities, resolution authorities, and securities exchanges.

As part of resolution planning and the development of a bail-in exchange mechanic, resolution authorities need to gain a clear understanding of the securities law and securities exchange requirements that may apply during the bail-in period to a firm, or any party (e.g., market intermediaries) involved in a bail-in transaction. In particular, as part of resolution planning home resolution authorities should identify, in consultation with the relevant market authorities, resolution authorities and securities exchanges:

(i) the jurisdictions in which a firm's securities are registered, listed or traded;

(ii) the applicable ongoing disclosure requirements that may apply to a firm during the bail-in period in jurisdictions where the firm is subject to such requirements;

(iii) the expected registration, listing and trading status of a firm's securities in jurisdictions where the firm's securities are registered, listed or traded;

(iv) the securities law and securities exchange requirements of the home and other jurisdictions that may apply to any party involved in a bail-in transaction; and

(v) options and approaches for coordinated disclosures (or exemption or postponement of disclosures, where available) across all relevant jurisdictions.

Home resolution authorities should also, in consultation with market authorities and securities exchanges, understand the:

(i) circumstances in which these requirements generally apply;

(ii) conditions for any exemptions to or postponements of these requirements (where available); and

(iii) consequences (including indirect market reaction) for failure to comply with these requirements.

The applicability of requirements may depend upon the approach to bail-in taken, and home resolution authorities should consider these requirements (including the conditions for any exemptions or postponements, where available) when developing a bail-in exchange mechanic.

For example, in certain open bank bail-in approaches the failed legal entity is itself recapitalised through the bail-in process. Accordingly, the entity in resolution, which continues as a going concern, will remain the registrant of outstanding securities, and equity shares may be transferred to the bailed-in creditors instead of being issued anew.

In contrast, certain closed bank bail-in approaches result in the failed legal entity being closed and placed into a receivership process or insolvency proceeding, with assets transferred to a newly-formed bridge institution. Relief from ongoing reporting requirements may be available, in which case the failed legal entity may be able to cease issuing public reports under applicable securities laws since holders of the resolution entity's instruments become claimants in the estate of a liquidating entity.

Principle 12. Compliance with disclosure requirements during the bail-in period

During the bail-in period, firms should be expected to continue to comply with applicable securities law and listing disclosure requirements. As part of the development of a bail-in exchange mechanic, home resolution authorities, in consultation with the relevant market authorities, resolution authorities and securities exchanges, should consider how firms will comply with those requirements.

Home resolution authorities should also consider the implications of disclosure requirements directly related to a potential impending bail-in that may arise prior to entry into resolution. Where such an obligation may be relevant to the resolution action, the relevant home authority should coordinate with firms or the relevant market authority or securities exchange.

Home resolution authorities should consult market authorities about the availability of temporary exemptions from disclosure requirements or the possibility of postponements of disclosure that could be relied on in circumstances where compliance with disclosure requirements could affect the successful implementation of the bail-in mechanic.

Adequate disclosure is important for investor protection, to maintain fair, orderly, and efficient markets, and to foster confidence in the resolution process. In recognition of this, authorities should consider ex ante how firms will continue to comply with applicable disclosure requirements during the bail-in period. This may include reliance on the use of a temporary exemption from or postponement of certain disclosures requirements, where available and necessary to preserve market confidence.

During the bail-in period, firms should be expected to continue to comply with disclosure requirements pursuant to applicable law. Whether firms should achieve compliance by relying on a temporary exemption or postponement may depend on the nature of the bail-in exchange mechanic and the relevant disclosure requirements. For example, in certain open bank bail-in approaches, the disclosure requirements of the failed legal entity that is recapitalised will need to be considered. In certain closed bank bail-in approaches, the disclosure requirements of the failed legal entity in liquidation and of the newly formed entity (or entities) would need to be considered.

KA 5.6 provides that, in circumstances where disclosure could affect the successful implementation of resolution measures, jurisdictions should, in order to preserve market confidence, provide for flexibility that allows for temporary exemptions from disclosure requirements or the postponement of disclosures required by the firm, for example, under market reporting, takeover, and listing rules. The relevant resolution authorities, market authorities and securities exchanges should identify any temporary exemptions from or postponements of the firm's otherwise applicable disclosure requirements that may be available in relevant jurisdictions. If disclosure requirements are temporarily exempted or postponed, in cases where the temporary exemption or postponement granted does not expire by its own terms (such as a specific date or upon the occurrence of a specified event); the resolution authority should, in consultation with the relevant market authorities and securities exchanges, review this position at regular intervals to assess whether the temporary exemption or postponement remains consistent with resolution objectives.

The granting of such relief by the relevant home authority may have no effect in foreign markets where the firm is also subject to disclosure requirements during the bail-in period. To mitigate the risk of asymmetric information being disseminated in different jurisdictions, home authorities should ensure that firms, to the maximum extent possible, take a consistent approach to disclosures across jurisdictions and the use of any temporary exemptions or postponements.

The relevant home authority should also review the implications of disclosure requirements directly related to a potential bail-in that may arise prior to entry into resolution. For example, in the run-up to a resolution, the firm's directors and management may become aware of a potential or actual resolution action prior to the firm's entry into resolution. This may give rise to a disclosure requirement. The home authority should coordinate with firms or the relevant market authorities and securities exchanges during resolution planning with respect to disclosure requirements related to a bail-in. Where appropriate and consistent with applicable law, firms could proactively inform the relevant home authority of their impending disclosure requirements.

Principle 13. Listing and trading status of securities during the bail-in period

In designing and applying bail-in exchange mechanics, home resolution authorities should coordinate ex ante with the relevant market authorities, resolution authorities, securities exchanges, and market infrastructures to determine the expected listing and trading status of a firm's securities during the bail-in period.

If the home authority's exchange mechanic requires the discontinuation, cancellation or suspension from listing or admission to trading of a firm's securities in the home jurisdiction, the home resolution authority should have the necessary powers, or the home jurisdiction should have legal mechanisms that permit the home resolution authority, to effect such actions on a timely basis.

Where the firm is listed in other jurisdictions, the use of such powers should be coordinated with host authorities and the relevant market authorities, securities exchanges, and market infrastructures in those other jurisdictions.

Irrespective of whether a bail-in exchange mechanic requires the discontinuation or suspension from listing or trading of a firm's securities, the listing or trading status of a firm's securities may be affected by the firm's entry into resolution, or otherwise change during the bail-in period. The home resolution authorities should therefore coordinate with the relevant market authorities, resolution authorities, securities exchanges and market infrastructures to determine how entry into resolution will affect the expected listing and trading status of a firm's securities in the home jurisdiction during the bail-in period as part of the development of a bail-in exchange mechanic.

Powers or mechanisms to effect a delisting or suspension from listing or trading in a home jurisdiction, if necessary under the bail-in exchange mechanic, could include:

- a statutory power allowing the home resolution authority to require the relevant home market authority to discontinue or suspend the listing or trading of a firm's securities;
- powers to direct securities exchanges in the home jurisdiction to discontinue or suspend the listing or admission to trading of a firm's securities;

- powers to instruct a firm to delist the firm's securities; or
- the ability of the home resolution authority to seek a delisting or suspension from listing or trading by virtue of its control of a firm (issuer) in resolution.

Any such powers or legal mechanisms available to the home resolution authority may have no effect in foreign markets where the firm in resolution is listed. In such cases, the home resolution authority should coordinate with the relevant market authorities, resolution authorities, securities exchanges and market infrastructures to develop, to the extent possible, a coordinated approach to the listing and trading status of the firm's securities.

Principle 14. Issuance, registration and listing requirements

As part of resolution planning, home resolution authorities, in consultation with the relevant market authorities, resolution authorities and securities exchanges, should consider how firms and parties involved in a bail-in transaction will comply with applicable securities law and securities exchange requirements, which may involve the issuance, registration or listing of new securities, or the listing of previously delisted securities. Home resolution authorities should consider the use of measures such as expedited registration or listing procedures or exemptions from prospectus or other registration requirements, where available, to facilitate the execution of a bail-in transaction. The use of any such expedited procedures or exemptions should not detract from the need to provide comprehensive disclosure on the financial condition and prospects of the firm at the end of the bail-in period.

Depending on the approach to bail-in, additional securities law and securities exchange requirements may apply to a bail-in transaction. For example, in certain closed bank bail-in approaches, the bridge institution - at the time it is formed - does not have any registered or listed equity, and will therefore have to undergo an offer, sale or exchange which, unless the conditions of any applicable exemptions are satisfied, may require registration and preparation of a prospectus upon exit from its status as a bridge institution. Similar requirements may also apply with respect to any interim rights or tradable certificates that are issued during the bail-in period. Home resolution authorities should consider how firms and parties involved in a bail-in transaction will comply with such requirements. This should be done in cooperation with the resolution authorities, market authorities and securities exchanges in the relevant jurisdictions for the bail-in transaction.

Home resolution authorities should consider the use of measures, such as expedited registration or listing procedures or exemptions from securities law or securities exchange requirements, including registration exemptions, where available, to facilitate the execution of a bail-in transaction. For example, exemptions may be available in relation to the readmission to trading of previously suspended securities or, under other certain circumstances, the issuance of securities may not trigger a registration requirement. The use of any expedited procedures or exemptions should not detract from the need to provide comprehensive disclosure on the financial condition and prospects of the firm at the end of the bail-in period or to foster confidence in the resolution process. Comprehensive disclosures will also support an efficient market for the securities following resolution.

V. Resolution Governance

Principle 15. Management and control of the firm during the bail-in period

As part of ex ante resolution planning, resolution authorities should clarify (i) the responsibilities in the management of the firm and the powers and governance rights that may be exercised by the resolution authority, resolution administrator, and the firm's management during the bail-in period; and (ii) the control of the firm during the bail-in period.

The home resolution authority should set out clearly how and by whom the firm in resolution will be managed and controlled during the bail-in period, for example whether control would be exercised directly by the resolution authority or indirectly through a resolution administrator operating under the direction of the resolution authority.

For example, in a closed bank bail-in, the bridge institution is generally controlled by the resolution authority, which would include exercising shareholder-type rights during the bail-in period. In an open bank bail-in, ownership of the firm may ultimately reside with the firm's shareholders and/or bailed-in creditors, but with the exercise of shareholder governance rights temporarily suspended and exercised by the resolution administrator (though the resolution authority may itself exercise direct control).

There should be clarity with respect to the scope of the powers and governance rights that may be exercised by the resolution authority and/or the administrator, and their respective roles and responsibilities in relation to the management of the firm during the bail-in period, including whether managerial decisions during this period will be made by public sector officials, an administrator or management and directors, in particular as regards actions that are provided for in the resolution framework or that ordinarily require shareholder approval. As part of this, resolution authorities should consider the potential liability of management and directors.

In the context of a closed-bank bail-in, this may entail establishing various agreements to direct key activities of the operating bridge institution, in addition to employing ad-hoc shareholder-type authority over the bridge institution.

To support transparency during resolution, resolution authorities should consider communicating the framework for control and management during the bail-in period to the market at the time of resolution.

Principle 16. Removal and appointment of management

Resolution authorities should specify in advance how candidates for new management will be identified, selected and appointed as part of live contingency planning. Resolution authorities and competent authorities involved with the removal of management and the selection, approval and appointment of new management should closely cooperate and establish procedures to effect such a removal or replacement.

The scope for management to be removed and new management to be appointed will depend on the circumstances of the firm's failure and any actions already taken by the firm or supervisory authorities in the recovery phase. The failure of a firm should generally result in

the removal of management responsible for its failure. In some cases, the responsible management may not be readily identifiable at the time of entry into resolution, and may need to be identified at a later stage during the resolution process. In removing management, consideration may be given to (i) the impact on inter-locking board memberships and fit and proper applications that may be needed, particularly at subsidiaries in host jurisdictions; and (ii) management with specific knowledge of the firm that may need to be retained during resolution.

While it may not be possible to maintain a list of replacement management candidates as part of ordinary resolution planning, resolution authorities in cooperation with competent authorities should consider the criteria new management would be expected to meet and seek to identify such candidates or methods to identify such candidates (for instance by establishing arrangements with specialised companies) as part of live contingency planning for the potential failure of a firm. In some cases, succession planning practices of the firm could be leveraged to replace management. Resolution authorities should also consider what information, direction (with respect to the resolution strategy), authorities, and documentation (e.g. with respect to employment documents and indemnification) new management may need.

Principle 17. Transfer of control to new owners and management

Home resolution authorities should develop a clear mechanism for (i) establishing the new ownership of the firm as a result of the bail-in exchange; and (ii) transitioning to a state where all governance and control rights are exercised by the new owners.

The mechanism, including the general terms and timeframes for the exercise of control by the resolution authority and/or resolution administrator, should be disclosed to the market to provide transparency to market participants.

Following the bail-in exchange, ownership and control of the firm in resolution will be transferred to new shareholders in an open bank bail-in, while a closed-bank bail-in requires the issuance of shares to new shareholders. Where necessary, home resolution authorities should establish a mechanism to identify the new ownership of the firm as a result of the bail-in exchange and vest governance and control rights with the new shareholders at the end of the bail-in period. This mechanism should be publicly disclosed ex ante (as appropriate) and emphasised in communications at the time of resolution to the market to ensure that new shareholders understand the process by which they will gain control of the firm in resolution, including the timeframe and any procedural steps. Many jurisdictions have existing requirements with respect to large shareholders who could be deemed to be affiliated with or exert direct or indirect control over a company and its subsidiaries due to their ownership. In such cases, shareholders may already be obligated to provide disclosure as to their holdings in an institution (and any future intention to increase that holding) once they reach certain thresholds.

The timeframe for the exercise of control by the resolution authority should be sufficient to ensure an effective implementation of the bail-in and to form governance arrangements such that new shareholders are able to effectively exercise their rights.

Principle 18. Coordination of regulatory approvals and authorisations

As part of resolution planning, home and host authorities in CMGs should identify the relevant supervisory and regulatory approvals and authorisations that are required in home and host jurisdictions to implement the bail-in transaction.

CMG authorities should identify the relevant information and procedures that will be required and, to the extent possible, establish expedited procedures or pre-vetting arrangements. This includes, inter alia, that resolution authorities and other relevant authorities cooperate closely and establish procedures in order to ensure the timely issuance of necessary approvals and authorisations.

The successful implementation of a bail-in requires various regulatory approvals and authorisations to be obtained, which may include the following:

- newly established financial companies will need to apply for authorisations to perform regulated activities,
- prospective new managers and directors will need to obtain supervisory fit and proper approvals; and
- the transfer of control to new shareholders may trigger change of control requirements where qualifying shareholding thresholds that require regulatory approval are met.

Such requirements apply across the various jurisdictions and entities through which the firm operates. Home and host authorities in CMGs should identify the different approvals and authorisations that will need to be obtained across home and host jurisdictions, the relevant approval processes, timing and the information that will be required. In this case, authorities should have in place the flexibility to provide relief or expedited approvals, where appropriate, to facilitate the implementation of a resolution plan by a home resolution authority.

To the extent possible and necessary, expedited procedures or pre-vetting arrangements should be established in consultation with the competent authorities in home and relevant host jurisdictions to streamline the application process and reduce the potential for disruption and the administrative burden during the bail-in period.

VI. Resolution Communications

Principle 19. Communication strategy and CMG coordination

As part of resolution planning, resolution authorities should develop a comprehensive creditor and market communication strategy for the bail-in period with the objective of promoting confidence, informing creditors and the market of the implications of the resolution, limiting contagion, and avoiding uncertainty. The development of the communication strategy should be led by the home resolution authority and coordinated with CMG authorities to ensure consistent creditor and market communications across jurisdictions.

The home resolution authority should develop a comprehensive creditor and market communication strategy for the bail-in period, which should include, as appropriate:

- the development of template documents, frequently asked questions and answers and other tools to be used at key stages of the bail-in period (for example, communications regarding the announcement of the resolution action, the initial range of losses and the final terms of the bail-in); and
- identification of home and host authority roles, with host authorities for example having a role to play in communicating relevant information about local subsidiaries of the firm in resolution and in supporting communications to local creditors.

The development of the home authority's communication strategy and the release of information during the bail-in period should be coordinated with CMG authorities, and a clear understanding should be established on the respective roles and responsibilities of the home and host authorities.

To the extent that the involvement of other authorities outside of the CMG is required for market communications during the bail-in period, home resolution authorities should establish arrangements to facilitate information sharing and coordination with those authorities.

Clear communication of relevant information to creditors and market participants should promote certainty and predictability. Market stakeholders such as institutional investors and financial institutions are likely to have valuable input regarding the information they would expect to receive during the bail-in period and the timing and channels of communications. Resolution authorities should therefore consider testing, vetting, or otherwise discussing the communication strategy and messaging content with these stakeholders on a regular basis, to strengthen planning and resolution readiness.

Principle 20. Delivery of communications

Resolution authorities should leverage the communication infrastructure of the firm in resolution to deliver communications, and consider the resources that will be needed to support the creditor and market communications processes and the delivery of communications during the bail-in period.

Given the number of creditors and range of other stakeholders and affected market participants, communication regarding the execution of a bail-in for a firm in resolution will be resource intensive, likely extending beyond the level of resources and infrastructure typically maintained by the resolution authority. Resolution authorities should to the extent possible and appropriate leverage the communication infrastructure of the firm in resolution, as the use of established communication channels may be the most effective and efficient way to disseminate information to affected parties.

Resolution authorities may involve the communication function of a firm in resolution in the development of communications plans ex ante and the management of creditor communications through the relevant market infrastructures during a resolution. While initial market communication during the stabilisation period following entry into resolution will be led by the authorities, the firm in resolution could be increasingly expected to assume responsibility for market communications as the bail-in progresses, in particular as they relate to the day-to-day operations of the firm. This capability could be tested as part of resolution planning.

Resolution authorities should also consider the full set of resources and infrastructure that will be needed to deliver communications during the bail-in period. This may include maintaining relationships with third party specialists (e.g. public relations firms) whose services could be employed during a resolution, having due regard to the confidentiality of the information disclosed to them. Further, resolution authorities may consider the use of different channels for communications such as websites, call centres, press, and the use of specialised channels for different stakeholder groups.

Principle 21. Communication at point of entry into resolution

The home resolution authority, in coordination with other relevant authorities, should make a public announcement of the resolution action to the market as soon as reasonably practicable following entry into resolution. The home resolution authority's initial communication to the market should provide clear and robust information to mitigate the risk of inconsistent communications and limit the need for subsequent additional announcements. Host resolution authorities should consider making a corresponding announcement alongside the announcement made by the home resolution authority, and home and host authorities should coordinate the timing and content of their respective announcements in line with their responsibilities.

Communication by resolution authorities at the point of entry into resolution will be important for the orderly execution of the bail-in transaction. Unclear or incomplete communication at the point of entry into resolution could result in multiple queries from unaffected creditors and stakeholders.

The home resolution authority, in coordination with other relevant authorities, should therefore make a public announcement as soon as reasonably practicable following entry into resolution.

A timely announcement and the provision of robust information by the home resolution authority could form a useful basis for other parties to refer or draw on in preparing their own communications, and help limit the risk of inconsistent communications by other authorities or parties at the point of entry into resolution. However, the need to promptly provide robust information should be balanced against the risk of providing inaccurate or unreliable information at the point of resolution, as this could materially impact market confidence in the resolution action. The home resolution authority should seek to communicate the following information, on a best efforts basis:

- that the firm has met the conditions for entry into resolution, including an explanation of the cause(s) of failure and, to the extent possible, initial loss estimates/valuations and, where applicable, the amounts of remaining TLAC across the group;
- the nature of the resolution strategy and the actions being taken by the authorities to stabilise the firm and ensure continuity of its critical functions;
- the recapitalisation and expected financial strength of the firm (to the extent possible);
- the scope of the liabilities subject to the resolution action, any limitations placed upon those liabilities (e.g. listing suspension, suspension of regulated markets, exclusion of liabilities from bail-in) and any discretionary exclusions and departures from pari passu treatment that have been made;

- the exercise of resolution powers and their impact on creditors and counterparties, including the timely performance of payment and delivery obligations, treatment of insured deposits, client access to assets and the exercise of early termination rights and close-out rights;
- an outline of the bail-in process, including the nature of the exchange mechanic, how creditors will be engaged (including as regards any procedural steps to be taken by affected creditors), the valuation approach, the expected timing of the announcement of the final terms of bail-in (if applicable and to the extent possible) and creditor safeguards, including application of the no creditor worse off safeguard;
- the continued management and governance of the firm in resolution including, where relevant, the appointment of a resolution administrator and the replacement of key management;
- an overview of the medium term steps to address the cause(s) of failure (e.g. restructuring); and
- points of contact for affected parties and Q&As.

Host resolution authorities may choose to make an announcement confirming their support for the resolution strategy and the actions of the home authority. There could be specific messages or information that the home resolution authority seeks support from host authorities in propagating locally, such as for instance the scope of the liabilities subject to bail-in and the process by which remaining value will be returned to creditors.

The announcement by the host resolution authority may include additional information relevant to the host jurisdiction, for example that host subsidiaries have been recapitalised outside of resolution and will continue to operate, as well as details of any local safeguards that may apply. The timing and content of such announcements should be coordinated with the home authority.