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Secretariat to the Financial Stability Board
Bank for International Settlements
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Barclays response to the FSB's Consultative Document, *Recovery and Resolution Planning: Making the Key Attributes Requirements Operational*

Barclays welcomes the FSB guidance on 'Making the Key Attributes Operational' for Recovery and Resolution Planning (RRP), which we believe will help both firms and their regulators with the development of recovery and resolution plans, and promote a globally consistent approach within a broadly harmonised RRP framework .

We have sought to answer all 19 questions within the attached appendix and, as the FSB has encouraged respondents to do, to set out where we think further guidance and clarity would be beneficial. In summary:

Recovery planning: we are in favour of a number of the approaches discussed in the guidance, but we believe it would be helpful to focus guidance on the principles around, and features of, the recovery framework rather than proposing specific metrics or stress scenarios to be implemented by firms. We would welcome further detail to promote a consistency of approach, including expanding on the principles to be adopted by supervisors in implementing recovery & resolution requirements, expected supervisory responses during the development of crisis situations, expectations for disclosure processes and common definitions.

We believe the guidance should clearly distinguish pre-emptive actions from recovery actions. Pre-emptive actions are part of business-as-usual risk management activity and should not be subject to recovery and resolution requirements.

We agree it is important that a firm performs both quantitative modelling of the impact of stress scenarios and also uses stress scenarios in a more qualitative way. It is unlikely that a purely quantitative approach would be efficient and at times an informed qualitative assessment would be of most value. Quantitative assessments are also more reliant on detailed assumptions and invariably the actual stress scenario may play out quite differently.

We suggest the FSB Guidance provides further clarity on the difference alluded to between the internal triggers set by the firm to begin recovery plan escalation procedures and the triggers which lead to the regulatory authorities enforcing recovery measures.

Resolution planning: we are pleased that the FSB is encouraging measures to ensure cross-border cooperation among resolution authorities. We suggest a few key areas for clarification in our response to question 12, including on the powers of home and host resolution authorities, especially around the resolution of branches of foreign firms.

We request further guidance from the FSB on the appropriate level of public disclosure of a presumptive path that would allow for greater certainty for investors, helping them to assess and price the risk associated with such a path, and more broadly to help market participants, customers and stakeholders generally to gain a degree of comfort with the process.

Identification of Critical Functions and Critical Shared Services: we agree that the differentiation between 'critical functions' and 'critical shared services' is a useful distinction to make. The taxonomy of critical functions is in line with previous definitions of 'critical economic functions' adopted by the UK authorities, and 'core businesses' or 'critical operations' adopted by the US authorities. The concept of 'critical shared services' in the context of recovery and resolution planning has not been directly addressed to date and in our view would be a positive addition for applying the *Key Attributes*.

We propose a change in the categories identifying relevant G-SIFI activities from 'payments, clearing and settlement' to 'payments, clearing and settlement, and custody' to provide more clarity in each category. We believe it is important to be clear in the definitions that both payment and clearing and settlement activities can be considered services to the economy to the extent they are offered as an explicit service to third parties, and also critical shared services to the extent that they are utilised to facilitate one of the other critical functions.

Yours sincerely,

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Financial Stability Board Recovery and Resolution Planning:

Making the Key Attributes Operational

Consultation response submitted by: Barclays

Annex 1: Guidance on Recovery Triggers and Stress Scenarios

1. ***Does Annex 1 appropriately identify key emerging practices regarding recovery triggers and stress scenarios? What additional triggers of an institution-specific or general nature may be useful?***

The guidance clearly outlines that there is a range of practices emerging across firms and supervisors in respect of recovery triggers and stress scenarios. We prefer the term metrics to the term triggers in describing the framework for escalation of potential issues throughout the development of a stress. The term triggers implies a level of automaticity (to commit a firm to action) which may not be appropriate.

In general we believe specific metrics should not be prescribed across the industry but instead should be determined by the firm and reviewed by the supervisor. Particular metrics may be more or less important to different firms given their risk profiles and business models. Quantitative and qualitative metrics should cover both capital and liquidity aspects and - to the extent leverage ratios are introduced into prudential regulation - these should also be considered in recovery plans.

We believe the guidance should clearly distinguish pre-emptive actions from recovery actions. Pre-emptive actions are part of business-as-usual risk management activity and should not be subject to recovery and resolution requirements.

With regard to stress scenarios, we believe the guidance should outline the various ways in which stress scenarios may be used in recovery plan activities. These include for example:

- Stress scenarios may be used in assessing recoverability quantitatively, for example providing an indication of the estimated financial impact of executing recovery options in an adverse scenario.
- Stress scenarios may be used in performing a qualitative assessment of the likely ability of the firm to execute recovery options.

It is important that a firm performs both quantitative modelling of the impact of stress scenarios and also uses stress scenarios in a more qualitative way. The balance between these approaches should be determined by the firm and reviewed by supervisory authorities. It is unlikely that a purely quantitative approach would be efficient as it would focus organisational efforts on producing multiple sets of numbers when an informed qualitative assessment would be of most value. Quantitative assessments are also more reliant on detailed assumptions and invariably the actual stress scenario may play out quite differently.

We agree that firms should develop their own stress scenarios to be used in recovery plan activities. We also agree that reverse stress test scenarios are not appropriate to use in quantifying financial impacts of recovery options as these scenarios are calibrated to ensure failure of the firm. A reverse stress scenario may nonetheless be useful in terms of understanding which recovery options might still be available to the firm should that stress scenario arise.

2. *Are there certain quantitative recovery triggers that are likely to be more effective than others across different types of financial institutions?*

Yes, however we believe the most effective early warning indicators and metrics that prompt a discussion may well differ across firms and therefore should be determined by the firm and reviewed by the supervisor, not prescribed across the industry.

3. *What kind of qualitative recovery triggers are likely to be most helpful to decision makers within the banking group?*

We believe qualitative early warning indicators and metrics that prompt a discussion should be determined by individual firms and reviewed by the supervisor, not prescribed. It is important that qualitative early warning indicators and review points only be selected if they can be clearly associated with particular risks and are believed to provide a good indication of either an increase in risk exposure, or development of an adverse scenario which may require consideration of action to restore capital, liquidity, and leverage (when this is introduced in prudential regulation).

4. *How can financial institutions achieve the goal of early and effective internal triggers, while avoiding negative market reaction to recovery actions taken?*

Early warning indicators are critical to ensure the escalation of issues and to allow for appropriate action to be taken (which may include commencing the recovery plan options). In particular, it is essential that the firm identifies the need to take action before the market identifies the need to take action.

Avoiding negative market reaction is key to the firm's ability to continue trading during its recovery process and avoid a 'death spiral' effect. It is therefore critical that the details of the firm's early warning indicators, metrics framework and any invocation of its recovery plan must be kept secret and not disclosed externally.

Communication plans should be developed as a mitigant to negative market reaction. During a crisis, the role of the supervisor in executing the communication plan should be agreed as far as possible in advance. Communication plans are likely to be more effective if they are executed in a coordinated way with the supervisor. It is important that a firm does not need to disclose it has invoked its recovery plan (as this could exacerbate the situation), only the actions taken from the plan, once executed.

5. *Are there certain triggers that are more suitable as early warning indicators for pre-emptive recovery actions versus trigger events that are more suitable for particular recovery actions?*

Pre-emptive action should be distinguished from the execution of recovery actions. The nature of the actions executed may overlap, but we interpret the term recovery action as those actions executed by the firm during a recovery phase.

Pre-emptive action should be determined based on the firm's existing monitoring of early warning indicators and risk metrics within the context of its risk appetite framework, and the performance of its stress testing and reverse stress testing processes. Pre-emptive actions should reduce the likelihood that the firm may need to execute its recovery plan.

6. *Are there any other issues in relation to the implementation of the Key Attributes requirements for recovery planning that it would be helpful for the FSB to clarify in further guidance?*

We believe it would be helpful to focus the guidance on the features of the recovery framework, including a principle that firms agree to appropriate metrics and stress scenarios with their supervisors, rather than proposing specific metrics or stress scenarios expected to be implemented by firms.

We would welcome clarification in further updates on the nature of supervisor enforced recovery measures that is mentioned in Appendix 1 (General Guidance) and where this fits in the Recovery-Resolution continuum. It would also be helpful if updated guidance clearly distinguish pre-emptive actions from recovery actions.

We suggest updates to the guidance include a discussion of the expected role of the supervisor in the recovery planning and recovery process. We also suggest a discussion on the appropriate disclosure process to be followed in a recovery situation.

Annex 2: Guidance on Developing Resolution Strategies and Operational Resolution Plans

7. *Does Annex 2 adequately capture the key elements of a resolution strategy and operational resolution plan? If not, what aspects are missing or need to be changed?*

We agree that the elements identified in Annex 2 are key aspects of a resolution strategy.

For the sake of clarity, within the approach that is likely to be used (in broad terms), we expect this would include the resolution tool(s) expected to be used, but this could be made more explicit in the Guidance.

In addition to the elements in Annex 2, we believe that an overall strategy for provision of liquidity in resolution is a particularly important element, including the role that home and host central banks will play (more detail suggested below for operational resolution plans).

For the SPE approach (by definition, a single resolution proceeding), it would be important to be clear in the resolution strategy that host resolution authorities should not institute separate resolution proceedings for local subsidiaries or branches, and set out the sort of assurances they would need in order to agree to the strategy.

Any potential barriers to the resolution strategy should be set out at a high level, and broadly how these risks are being / would be mitigated.

In addition to the list in Annex 2, we believe that a clear timeline and process plan is needed, setting out the detailed activities required to operationalise the plan, who would be responsible for each workstream, the anticipated timing and highlighting any dependencies. For example, for 'Valuation requirements' this should include the valuation basis, the steps needed to value both fair value and amortised cost assets, which systems would be used, which teams would be needed within the firm, and how long the valuation would be expected to take.

Details of potential liquidity provision mechanics (eg central bank discount window facilities, eligible collateral and haircuts); how currency mismatches could be addressed (eg via central bank swap lines); how any losses will be allocated between home and host central banks, or/and how losses (eg for liquidity provided through a resolution fund) would be recouped from the industry, where applicable.

We would welcome an FSB-endorsed sample clause to include in third-party contracts and intra-group Service Level Agreements that provides for the continuity of services in resolution (provided suppliers are still being paid). This would help with the renegotiation of contracts, and promote consistency.

8. ***What are potential obstacles to the effective implementation of either the 'multiple point of entry' (MPE) or 'single point of entry' (SPE) approaches that could arise from national legal frameworks (e.g., insolvency law)? How could they be addressed?***

For the SPE approach, as noted above one potential obstacle would be a lack of home-host co-operation. This could manifest in terms of separate resolution proceedings for local subsidiaries or branches, or/and a lack of agreement on international liquidity provision or the allocation of losses should any arise. It is even conceivable that an attempt by home resolution authorities to bail-in all unsecured debt governed by (home) domestic law issued by the parent, could lead to host authorities ring-fencing assets within their jurisdiction (perhaps on the direction of a local court), if creditors of the local entity happen to be holders of the debt subject to bail-in (ie even though it is not a liability of the local entity).

NCWO is an important safeguard for creditors, but could give rise to compensation claims if resolution authorities depart from insolvency rankings. For example, if authorities chose to exclude uninsured depositors from bail-in, then the losses would fall more narrowly on other general unsecured creditors, who may find they have a valid NCWO claim (depending on the degree of value destruction that insolvency would be expected to have).

If DGS bail-in is to be effected, there is a question about whether that would be applicable to host DGS schemes as well as the home DGS. If the source of the problem is in one particular jurisdiction, this could present challenges in cross-border co-operation, an issue that could be compounded if depositor preference exists in one country but not another.

In terms of solutions, perhaps the best approach is to address such potential issues in normal times through a firm-specific cross-border co-operation agreement, which would need to be signed off at the highest level in each country, in order to best ensure adherence to the agreement at the point of resolution (even where the agreement is not legally binding).

Firm-specific cross-border co-operation agreements would be very helpful in mitigating the identified obstacle of a lack of home-host co-operation in resolution, by securing agreement in advance on the principles that would guide co-operation, and practical issues such as which authorities would provide any necessary liquidity. We seek further guidance from the FSB on how co-operation agreements would be best achieved in practice, in line with the approach identified in *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

9. ***What are the implications of the MPE and SPE approaches for the way financial institutions are structured, and what are the likely benefits and costs of any consequential changes in structure?***

We believe it is important for each firm to agree on a presumptive path with their regulators, as a minimum whether the SPE or MPE approach is the more likely. Knowing the presumptive path is necessary for planning purposes, at both the firm and for the authorities, and also has a material bearing on decisions that need to be taken by the firm ex ante, which would affect the feasibility of an SPE versus an MPE approach. These would include decisions on corporate structure, location of debt issuance, and whether or not to provide parental guarantees to subsidiaries. Indeed some choices, for example to provide parental guarantees, would enhance resolvability under one approach (in this case SPE) but hinder resolvability under the alternative broad resolution strategy (MPE).

A corporate structure that supports SPE, for example a holding company or top-level operating company with all branches and subsidiaries sitting underneath, and where debt is issued for the group by the top company and downstreamed, should have diversification benefits in normal times, and may make resolution a more straightforward process, at least conceptually, in that resolution powers only need to be applied by one (home) authority, but that also may require a greater degree of understanding and trust between home and host authorities. Notwithstanding these points, we would also contend that group structure, and in particular any structural change, should be subservient to the need to prove resolvability - i.e., there should be no *a priori* view on what structure is "best", and if a bank can demonstrate it is resolvable under its current group structure, the resolution plan should be built around that.

10. ***Does the Guidance adequately draw out the key commonalities and differences between the MPE and SPE approaches to resolution?***

Yes, the guidance does adequately draw out the key commonalities and differences between the MPE and SPE approaches to resolution.

11. Does the Guidance adequately accommodate the needs and perspectives of host authorities that are not members of the CMGs for G-SIFIs, especially in those jurisdictions where a G-SIFI may be systemic?

CMGs need to balance the desire to be as inclusive as possible in accommodating host authorities, against the desire for the CMG to be an effective discussion and decision forum (where dialogue is best encouraged within a smaller group). It may be possible to have a small group of core jurisdictions represented in a CMG, and others accommodated by either bilateral outreach by the home authorities, or by having a 'global college' in addition to the CMG, to facilitate information exchange and debate on resolution matters, including the proposed strategy. Bilateral outreach to relevant host authorities may be particularly important where a G-SIFI performs functions which are deemed critical in host jurisdictions.

For the SPE approach, host authorities may be encouraged to co-operate if the plan is essentially to absorb losses at the parent company, for example where host entities would be supported as needed by downstreaming capital from bail-in.

12. Are there any additional issues in relation to the development of resolution strategies and plans that it would be helpful for the FSB to clarify in further guidance?

We are pleased that the FSB is publishing this guidance, and encouraging measures to ensure cross-border cooperation among resolution authorities. One area we think is particularly important is to encourage legal recognition of the actions of home resolution authorities by host jurisdictions. In this context we have some concern about FSB KA 7.3, which recommends that host resolution authorities should ultimately have resolution powers over local branches of foreign firms (outside the EU, where the European Winding Up Directive requires branches to be resolved by the home authority). This would imply a host authority taking measures on its own initiative where the host takes the view that the home jurisdiction is not acting in a manner that will help to preserve the host jurisdiction's financial stability. Instead, and consistent with the FSB guidance for the SPE approach, we believe host authorities should cooperate with home resolution authorities, allowing them to execute a resolution of the group without initiating separate resolution proceedings for branches, and should only take action on subsidiaries following consultation with the home authorities. To this end, the FSB could clarify whether it still views resolution powers over branches as appropriate, and if so in what circumstances.

Annex 3: Guidance on Identification of Critical Functions and Critical Shared Services

13. Is the two-part definition of 'critical' and the distinction between 'critical functions' and 'critical shared services' a useful taxonomy?

We would agree that the differentiation between 'critical functions' and 'critical shared services' is a useful distinction to make. The taxonomy of critical functions is in line with previous definitions of 'critical economic functions' adopted by the UK authorities and 'core businesses' or 'critical operations' adopted by the US authorities. The concept of 'critical shared services' in the context of recovery and resolution planning has not been directly addressed to date and in our view would be a positive addition for applying the *Key Attributes*.

14. *Is the framework for determining 'critical functions' appropriate? If not, what aspects are missing or need to be changed?*

We are broadly in agreement with the framework for determining 'critical functions' and agree that there should not be a definitive list of critical products so as to allow for differences in business, organisational and service models between different institutions.

15. *Do the five broad categories of activities outlined in the Appendix - that is, deposit taking, lending, payments, clearing and settlement, wholesale activities and capital market activities - cover all relevant and potentially critical G-SIFI activities? What additional categories of activities should be added?*

The categories listed appear to cover all relevant and critical G-SIFI activities, however the activities listed under 'payments, clearing and settlement' are not intuitive and the category seems to encompass too broad a range of activities.

We suggest that the category is split in three as follows:

1. Payments
2. Clearing and Settlement
3. Custody

While there are a number of activities that could be considered to fall under the first two categories, we feel this can be addressed appropriately through clear definitions. We would suggest the following definitions:

1. Payments
   - Retail Payments Services
   - Wholesale Payments Services
     - … both single currency and FX
   - Treasury/Cash Management Services
   - Instances where the above activities are undertaken on behalf of FMIs
   - Instances where the above activities are undertaken on behalf of other financial institutions to provide access to FMIs

2. Clearing and settlement
   - Clearing Services
   - … for all relevant asset classes eg securities, futures, OTC derivatives, etc
   - Settlement Services
     - … for all relevant asset classes eg securities, futures, OTC derivatives, etc
   - Instances where the above activities are undertaken on behalf of FMIs
   - Instances where the above activities are undertaken on behalf of other financial institutions to provide access to FMIs
   - Collateral management / transformation for third parties

3. Custody
    - Custody Services
    - Asset Servicing

In addition, it is important to be clear in the definitions that both payment and clearing and settlement activities can be considered services to the economy to the extent they are offered as an explicit service to third parties, and also critical shared services to the extent that they are utilised to facilitate one of the other critical functions. We do not believe that an approach to addressing this fact should be mandated but rather the distinction should be explained and firms should be asked to be specific as to how they have addressed this fact.

16. Is the framework flexible enough to cover the different types of business undertaken by G-SIFIs?

Given the way in which the framework is drawn, with broad categories proposed for critical functions and indicative lists of critical shared services, we believe it is flexible enough to take account of the various different activities and types of business undertaken by G-SIFIs.

17. Is the framework flexible enough to take account of the external environment in which failure is occurring, for example, an idiosyncratic event or in the context of more severe distress in the financial system?

We believe the framework is external environment agnostic and therefore flexible enough to take account of the different events leading to a firm entering resolution and the different external market conditions.

18. Is the definition and framework for determining 'critical shared services' appropriate? If not, what aspects are missing or need to be changed?

We broadly agree with the definition and framework for 'critical shared services'. We do, however, suggest that an amendment be made in 3.1 to the part of the definition that states "for one or more business units or legal entities of the group" to replace this with "for one or more critical functions, business units or legal entities of the group". We believe it is important to recognise the critical shared services that are provided to one or more critical functions in resolution planning.

19. Are there any other issues in relation to the identification of critical functions and critical shared services that it would be helpful for the FSB to clarify in further guidance?

No, there are no other issues in relation to the identification of critical functions and critical shared services that require further guidance at this time.