

**Deloitte.**



ALMA Solvent Exit Masterclass

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# Introductions



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Alastair leads Deloitte's Global Centre of Excellence on Recovery & Resolution Planning. Alastair has over two decades of experience supporting global authorities and financial institutions in BAU and in distress. He heads up our relationship with several national and supra-national resolution authorities, and has led the implementation of multiple resolution cases in the UK and Europe. He also leads Deloitte's holistic wind down planning proposition for FS regulated firms, coordinating and bringing together the broader expertise from across Deloitte including financial considerations and modelling, operational and communications.



Alex Brown  
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Alex is a Partner in the Recovery and Resolution Planning at Deloitte, specialising in providing expert advice to financial services firms on recovery and resolution issues. Alex specifically focuses on wind down planning and more recently the Solvent Exit expectations. Alex previously spent 13 years at the FSA/PRA and was a founding member of the PRA's recovery and resolution team, subsequently going on to lead the team for a number of years.



Henry Basing  
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Henry is a Technical Director within Deloitte's Recovery and Resolution Planning. Henry has advised multiple firms in the Recovery and Resolution Planning space, specialising in developing wind down plans, including banks, investment managers, payment firms, and an insurance broker. Prior to Deloitte, Henry joined from the Prudential Regulation Authority, where he worked in Banking Supervision.



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Cameron is an Assistant Director within Deloitte's Recovery and Resolution Planning team. Cameron specialises in recovery and resolution planning having advised multiple authorities and a range of financial institutions both in BAU and through periods of distress. Cameron has experience working with distressed firms preparing for and executing wind downs and solvent exits. Cameron joined Deloitte from the Resolution Directorate at the BoE, where he delivered work on both resolution planning policy development and practical contingency planning with firms, regulators and advisors.

# 1. Bank of England's evolving approach to contingency options for non-MREL firms

Whilst firms in scope of stabilisation powers ("MREL firms") continue to embed and enhance the Resolvability Assessment Framework ("RAF"), recent publications by the Bank of England ("BoE") point to future priority areas for those firms categorised as mid-tier and smaller.



## Solvent Exit

- BoE Supervisory Statement (SS2/24) Solvent Exit Planning for Non-Systemic Banks and Building Societies sets out the requirement for capabilities to be in place in BAU to support the process of a solvent exit
- Prior experience indicates a lack of BAU preparations will result in a less orderly outcome



## Renewed focus on the ability to preposition collateral with BoE

- The bank runs and outflows observed last year were larger and faster than those observed during the GFC, which can be partially attributed to the rise of digital banking and speed of information dissemination on social media
- The reaction has been a globally coordinated response from authorities, highlighting an increased regulatory focus on funding and liquidity in a crisis
- This has been evidenced by a global push on the eligibility of collateral



## Consultation on enhancing the Special Resolution Regime

- HMT Consultation establishing a mechanism to meet costs that may arise when a small firm ("non-MREL firm") is placed into resolution
- Whilst the SVB UK case was a successful example of a small firm being transferred, a failed firm may need additional capital
- This introduces a question of the required capabilities for non-MREL firms to support a transfer / sale

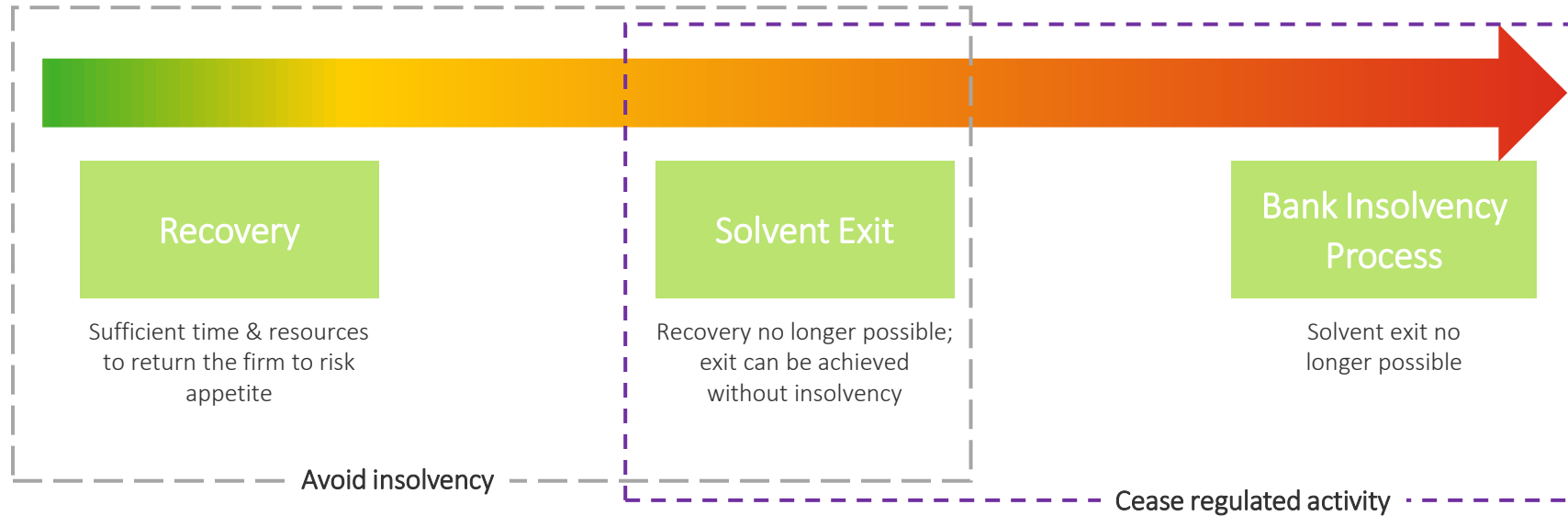


## PRA fine following "serious failings" to protect customer deposits

- Second largest ever fine over serious failings around deposit protection identification and notification (SCV files)
- The PRA noted that the issues were "so significant... It materially undermined the firm's readiness for resolution"
- Timely and robust SCV files will enhance a firm's solvent exit preparations while also linking directly into HMT's transfer consultation

## 2. What is 'Solvent Exit'?

A Solvent Exit is defined as the process through which a firm ceases its PRA-regulated activities while remaining solvent. Solvency in this context is defined as meeting liabilities as they fall due. During this period, the firm will transfer or repay all deposits, with the period of solvent exit ending with the removal of deposit taking activity from the firm's Part 4A permission.



*"We therefore intend to do more in the coming years to increase our confidence that firms can exit the market without disturbing it, in an orderly way and without having to rely on the backstop of an insolvency or resolution process"*

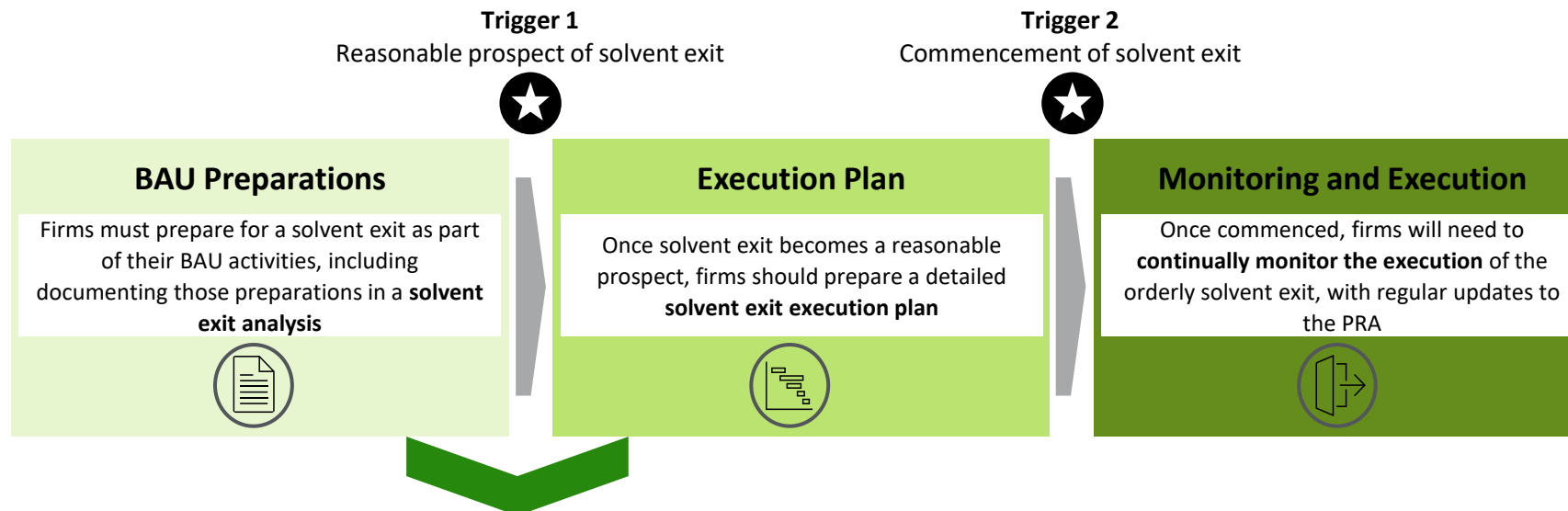
*Sam Woods, CEO PRA, September 2021*

### Why has Solvent Exit been introduced?

- As seen in 2023, failing firms defined as **"non-systemic"** can have a big impact and can lead to a contagion effect
- There are potential **risks to continuity for depositors** in these firms if allowed to go into an insolvency
- In recent years, **solvent exit has been used effectively**. In some cases, issues during the execution phase led to the process being more expensive, risky and protracted
- Having a level of preparedness in BAU could have supported a more orderly process
- To support **optionality of executing orderly and robust solvent exits**, the PRA published policy expectations for non-MREL firms
- The expectations introduce a **Solvent Exit Analysis in BAU**, to inform decision to execute and the **development of an execution plan**
- The **obvious scenario for solvent exit is financial distress**, with firms encouraged to **consider interlinkages with recovery planning**
- Important to appreciate and **work through other scenarios whereby it would be invoked** (e.g. strategic decisions, non-financial issues)

### 3. The Three Stages of a Solvent Exit

The Solvent Exit expectations introduce the need for firms to have a “**Solvent Exit Analysis**” (“SEA”) in place in BAU. Once there is a reasonable prospect of solvent exit, firms are then asked to produce a more detailed “**Solvent Exit Execution Plan**” (“SEEP”). Once Solvent Exit is commenced, there is an expectation for firms continually monitor the execution.



- A lack of BAU preparations is likely to bring forward the timings of “Trigger 1” and “Trigger 2” meaning less time for firms to recover
- With that in mind, it is important to align on the **level of detail and work required in BAU as part of the SEA to allow to produce the SEEP**

Indicative examples below...

|   | Solvent Exit Analysis  | Solvent Exit Execution Plan   |
|---|--|---|
| <b>Strategy</b>                           | High level views on timelines, asset realisation strategies, liability repayment approach, and understanding of steps needed to develop execution plan | Specific situation, much more detailed planning and options, views on haircuts and approach, advisers appointed where necessary, etc  |
| <b>HR</b>                                 | Analysis of resource requirements, rough redundancy costings, retention payments over the exit period  | A detailed HR plan by individual, including approach to redundancies, retention, communications. HR / legal experts appointed, scripts drafted etc,                             |
| <b>Property and Third party contracts</b> | Awareness of property and third party contract terms, notice period and break costs to inform high level approach                                      | Detailed plan with determination of when to communicate with third parties, scripts, and plan to mitigate break costs and inclusion in financial modelling contract by contract |

## 4. Key Elements of Solvent Exit Analysis

Practically, this means firms must maintain an up-to-date 'solvent exit analysis' in BAU, which can then be enhanced into a 'solvent exit execution plan' when solvent exit becomes a "reasonable prospect".

To ensure the timely and robust planning and execution, we note three key outcomes of the BAU SEA



To conduct a gap analysis of capabilities required



To identify, and take reasonable steps to remediate any material risks and blockers



To ensure firms have sensible and proportionate foundations (e.g. skeletons, playbooks)

The Solvent Exit supervisory statement outlines the minimum areas the SEA should cover

### Solvent Exit Actions



- Actions to cease regulated activities while remaining solvent
- Assets & liabilities exit strategies
- Focus on the sale / transfer of deposits and return of permissions
- Timelines over which actions could be executed to inform execution plan

### Solvent Exit Indicators



- Trigger framework to i) initiate development of SEEP; ii) initiative beginning of solvent exit; and iii) mark end of solvent exit
- Current and projected levels to inform decision making

### Potential Barriers and Risks



- Identify potential barriers and risks to successful Solvent Exit and take reasonable BAU remediation actions
- Identification of any dependencies which are prerequisites



### Resources and Costs

- Financial resources to execute (inc. capital, funding, liquidity)
- Consideration given to costs (e.g. advisors) and losses (e.g. haircuts on asset disposals)



### Communications

- Identify the internal and external stakeholders, inc. an indicative plan for how and when it would communicate to stakeholders both before and during solvent exit.
- Leverage existing comms from Resolution Planning, Recovery Plan and business continuity plans etc.



### Governance and Decision making

- Governance and accountability for BAU preparations and execution (inc. MI to support decision making)
- Clear approach to oversee monitoring and execution of Solvent Exit, with regular senior management and regulatory touchpoints

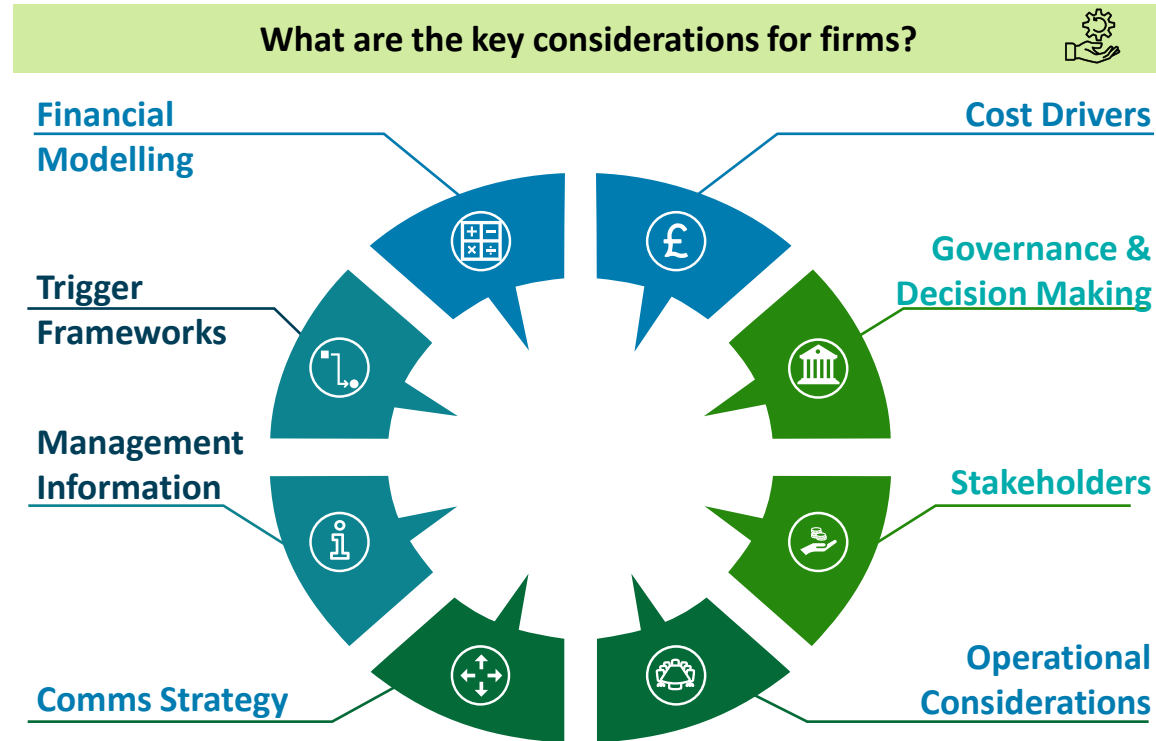


### Assurance

- Reviews and engagement across the 3LoDs, including senior level approval and relevant governance
- Proportionate use of external support and review

# 5. Key Considerations of Solvent Exit

Based on our experience of supporting firms in both the planning and actual execution of solvent exit, we have drawn together indicative key considerations for firms to consider as part of designing, implementing and maintaining solvent exit capabilities.



**Financial Modelling** inc. identification of asset realisation strategies, likely haircuts and forecasted impact on capital, liquidity and the cash position

Development of **conservative trigger frameworks** for initiating development and actual implementation of solvent exit plans

Identification of likely Board touch points and development of **supporting MI**

Identification of key **communications touchpoints, stakeholders and likely risks**, with objective to support retention of staff and market confidence

Important to consider **likely drivers of costs** during a solvent exit which are sometimes overlooked, including advisors and expected redundancy costs

Development of **governance arrangements** to invoke and oversee solvent exit, including management of key stakeholders, regulators etc.

Considering the interests of other stakeholders, inc. i) the **FCA** and ensuring **good customer outcomes**; and ii) the interests of **3<sup>rd</sup> party purchasers** and **the role they may play in a Solvent Exit**

**Operational considerations** to factor into planning, including operational steps to support bring about a solvent exit inc. **HR / people plans and exiting leases**



- The Solvent Exit PS and the BoE’s recent thematic review on recovery planning for non-MREL firms both refer to firms thinking through **the interlinkages of Solvent Exit and Recovery Planning**. This is consistent with **leveraging existing BAU capabilities** as starting point to aid familiarity and increase robustness.
- Whilst it is important for firms to appreciate the potential for different objectives between the two, there are important areas which should act as a useful starting point for firms (e.g. trigger frameworks, comms plans etc).
- Firms may wish to prepare the SEA as part of Recovery Planning. This supports efficient maintenance of documentation, leveraging of materials, and can also act to align the correct ownership and SME involvement.

## 6. Overview and Timeline

On 12 March 2024, the PRA published its **Policy Statement (PS5/24) on Solvent Exit Planning for Non-Systemic Banks and Building Societies**.

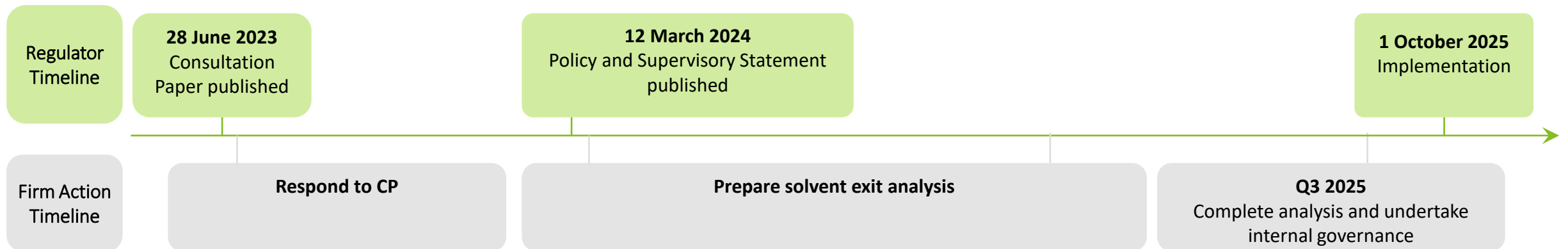
The concept of “wind-down” and solvent exit is not new within the regulatory landscape, but the requirement for capabilities to be in place in BAU is new for most non-systemic deposit takers.

The PRA has also published:

- The amended [PRA Rulebook chapter](#) on preparations for solvent exit
- A new [Supervisory Statement \(SS2/24\)](#) on solvent exit planning for non-systemic banks and building societies
- An amended [SS3/21](#) on non-systemic UK banks

Firms in scope remain unchanged i.e. firms not subject to the Operational Continuity Part of the PRA Rulebook and that do not belong to G-SIIs or to O-SIIs groups.

The amended PRA Rulebook chapter enters into force on 1 October 2025 - the PRA expects firms in scope to meet the expectation in SS2/24 by the same date.





## 7. Next Steps

Based on our experience and with final regulatory requirements now available, there are certain key factors to consider in starting to mobilise next steps

### Ownership & Governance



Establish clear ownership and senior level sponsorship to oversee implementation

### Business involvement



Identification of required SME input from across business, inc. operational, financial, legal etc.

### Target Output



Consider desired output e.g. i) a helpful skeleton / playbook; ii) whether it is a supplementary document to recovery planning

### Gap Analysis



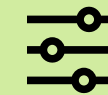
Conduct gap analysis on BAU to target state to inform key priorities and focus areas and what resources can be leveraged

### Resources



Estimate the resources required to prepare the SEA and understand the important functions under stress (e.g. HR)

### Alignment with RRP



The ability to support an orderly exit from the market and could be positioned as a recovery option



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