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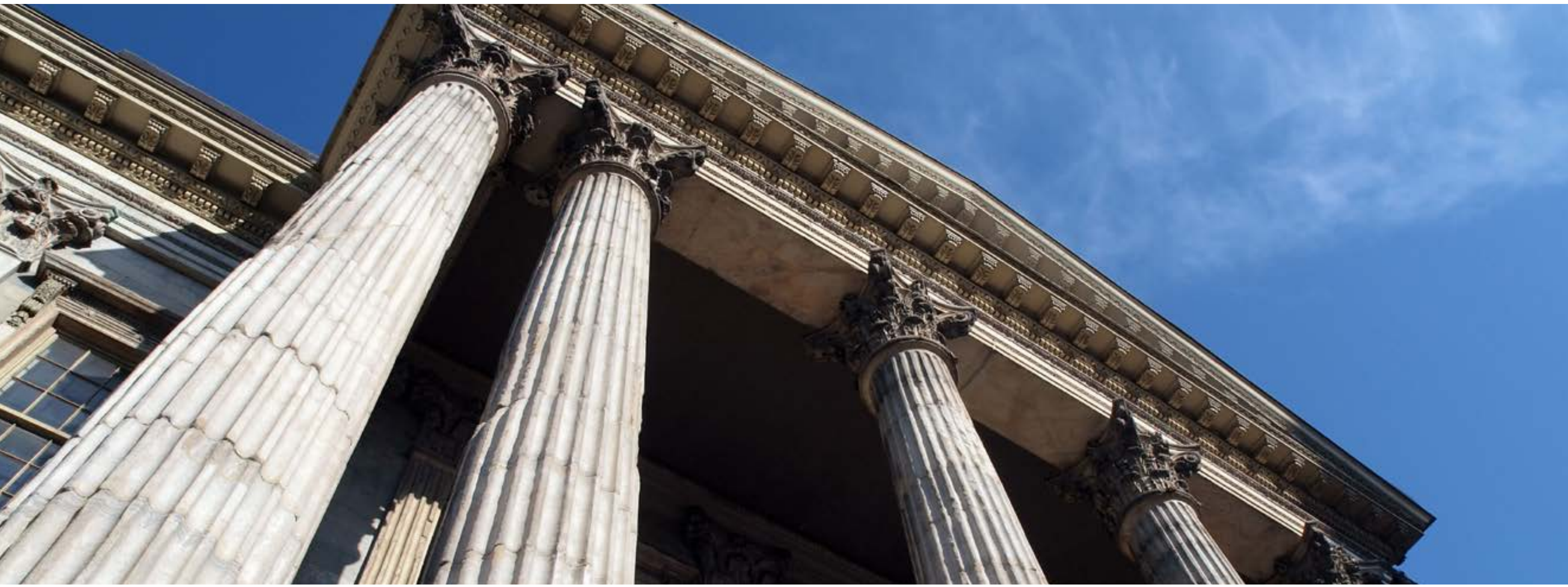

Plan for the worst, hope for the best: PRA policy on solvent exit planning for non-systemic banks and building societies

The PRA has published its final policy on the requirements for non-systemic UK banks and building societies to prepare for a solvent exit. The new rules require all firms in scope to prepare for an orderly solvent exit as part of their business-as-usual activities and, if needed, to be able to execute one.

What do the new rules require?

A new chapter 7 of the Recovery Plans Part of the PRA Rulebook and new supervisory statement (SS2/24) require all non-systemic firms to prepare for a solvent exit as part of their business-as-usual activities and to document the preparations in a solvent exit analysis (SEA).

If solvent exit becomes a 'reasonable prospect' for a firm, that firm is then also required to prepare a solvent exit execution plan (SEEP). The new requirements also contain expectations on how a firm should monitor and manage a solvent exit, should the time come.

Who do the requirements apply to?

The new rules apply to any UK bank or building society that is not part of a global systemically important institution or an other systemically important institution (O-SII) or that is not subject to the Operational Continuity Part of the PRA Rulebook.

In practice, this will broadly capture UK banks and building societies with total assets of less than GBP10 billion, safe custody assets less than GBP10 billion and sight deposits of less than GBP350 million, and those which do not receive critical services supporting critical functions for purposes of the Banking Act 2009.

The PRA do state in SS2/24, however, that firms that are not in scope may also find the expectations helpful in preparing themselves for the cessation of PRA-regulated activities. Of course, firms that are subject to the Operational Continuity Part are subject to greater recovery and resolution planning expectations, and O-SIIs are subject to trading activity wind-down expectations from 2025.

What is meant by a 'solvent exit'?

A solvent exit means the process through which a firm ceases its PRA-regulated activity of deposit-taking while remaining solvent throughout. The firm should transfer and/or repay all deposits and a solvent exit will end with the removal of the firm's Part 4A PRA permission.

It is designed to increase confidence that firms can exit the market with minimal disruption, in an orderly way, and without having to rely on the backstop of an insolvency or resolution process. It sits alongside recovery and resolution as a possible route for non-systemic firms facing stress or wishing to exit from PRA-regulated activity for any reason.

Solvent exit analysis (SEA)

The PRA considers that solvent exit would be more efficient, more cost-effective, and more likely to succeed with improved forward planning by firms.

While many solvent exits have concluded without issue, the PRA has found that some exits of non-systemic firms have been challenging and protracted. Often, potential barriers to an orderly exit are only identified once detailed solvent exit execution planning is already underway. In some cases, these issues have taken many months to address.

The new rules, therefore, require all firms in scope to prepare for solvent exit so that, if the need arises, they can effect a solvent exit in an orderly manner. Where appropriate, firms may use their work under existing recovery planning policy to meet, or begin to meet, the new expectations. Indeed, the PRA expects solvent exit preparations to be viewed as complementary to a firm's work in other areas such as recovery and resolution planning.

Firms should take account of 'plausible circumstances' that could lead to them needing to execute a solvent exit in both stressed and non-stressed circumstances.

What must be included in an SEA?

Chapter 2 of the new supervisory statement 2/24 sets out the PRA's expectations in relation to the SEA. At a minimum, the PRA expect solvent exit analysis to include:

- Solvent exit actions – actions that would be needed to cease PRA-regulated activities while remaining solvent, including the timeline over which the actions could be executed.
- Solvent exit indicators – indicators to inform the firm about when it may need to initiate a solvent exit and whether a solvent exit is likely to be successful.
- Potential barriers and risks – potential obstacles and risks to the execution of a solvent exit, including those that are market wide or firm specific, together with any dependencies that a decision to execute a solvent exit may rely upon.
- Resources and costs – financial resources, including capital, funding, and liquidity, needed to execute a solvent exit, taking into account potential costs, together with non-financial resources needed, including the costs of maintaining those resources throughout the solvent exit.
- Communication – which internal and external stakeholders may be impacted by a solvent exit, how and when it would communicate to such stakeholders before and during the execution of a solvent exit and how different stakeholders may react.
- Governance and decision-making – clear governance arrangements are expected, including a named executive accountable for the firm's preparations for a solvent exit, including the SEA, escalation and decision-making regarding a solvent exit and monitoring the execution of a solvent exit
- Assurance –internal or external activities to ensure compliance with the expectations, such as internal audit or challenge from the firm's governance body on the SEA.

The level of detail should be 'proportionate' to the nature, scale, and complexity of the firm. A firm should also take 'reasonable steps' to mitigate or remove any material barriers or risks to solvent exit that it identifies.

When must the SEA be prepared?

The new rules come into effect on 1 October 2025. Firms will be expected to have produced their solvent exit analysis by then and must be able to provide it to the PRA on request. Firms must also update their SEA whenever a material change has taken place that may affect its preparations for a solvent exit and at least once every three years.

When must a solvent exit execution plan (SEEP) be prepared?

Where there is a 'reasonable prospect' that the firm may need to execute a solvent exit (which could be informed by its solvent exit indicators and other relevant information), or when the firm is otherwise requested by the PRA, it must produce a solvent execution plan. The firm should meet commitments it makes to the PRA to provide its solvent exit execution plan to the PRA in 'an appropriate timescale'.

What must be included in a SEEP?

The PRA expects a firm to include in its solvent exit execution plan sufficient detail to inform itself and the PRA of how it will complete the cessation of its PRA-regulated activities. A firm should use its solvent exit analysis as the starting point for its solvent exit execution plan.

SS 2/24 includes the following non-exhaustive list of matters to address in a SEEP.

- Actions and timelines for the solvent exit
- Updated barriers and risks and how the firm will identify, monitor, and respond to emerging barriers and risks throughout the execution of the solvent exit
- Communication plan for stakeholders and anticipated reactions and the firm's intended response
- Assessment of financial and non-financial resources needed to complete the execution of the solvent exit and how the firm will monitor and maintain access to these
- Governance arrangements, including roles and responsibilities in making the formal decision to initiate the solvent exit, as well as in managing and monitoring the execution of the solvent exit
- Organisational structure, operating model, and internal processes.

A firm should support any assumptions underpinning its solvent exit execution plan (such as the timeline for repaying depositors) with appropriate evidence.

A firm's board or other appropriate senior governance committee or group, is expected to provide sufficient challenge on the firm's solvent exit execution plan, and review and approve it. It should be appropriate for its business model, structure, operations, risk strategy, and the circumstances leading to the initiation of a solvent exit.

What should non-systemic banks be doing now?

Firms in scope of the new rule should:

1. Set up internal governance arrangements for these new expectations. Which executive will be named as accountable?
2. Prepare a solvent exit analysis.
3. Consider carefully what barriers and risks may apply to the execution of a solvent exit and take reasonable steps to mitigate such barriers or risks.
4. Ensure that they have the capabilities to produce the necessary information to inform decisions regarding a solvent exit. If a firm anticipates using external specialists, it should be prepared to procure them within a reasonable amount of time.
5. Ensure appropriate assurance activities to challenge the solvent exit analysis.
6. Operationalise a process to trigger updates of the SEA when relevant 'material changes' occur and at least every three years.

Whilst the new rules are short and simple on paper, their simplicity raises questions for firms in relation to concepts such as the appropriate proportionality of an SEA, how 'plausible' circumstances which may lead to a solvent exit should be, what 'reasonable steps' may be expected to mitigate potential barriers and risks and when a solvent exit becomes a 'reasonable prospect'. Firms will remember the work involved in implementing recovery planning expectations and understand the benefits of starting to implement these new requirements sooner rather than later.

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