Bank of England

Response to proposal to simplify banks' solvency and resolution requirements

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***** The views expressed here are my own, and do not reflect those of my Bank of England colleagues.*

Four comments

1. Resolution as *ex ante* discipline
2. Saurina simplifies a layered EU framework in the right direction, but two design questions remain
3. LAC is necessary but not sufficient: liquidity, operations, senior buy-in
4. Credible resolution preserves options, and improves sale terms

Resolution is more than ex post loss allocation

Ex ante discipline:

- creditors price risk
- boards act before franchise value is lost
- supervisors can escalate earlier

2023 lesson:

- SVB and Credit Suisse met capital requirements
- failures were driven by confidence, liquidity, governance, business model, speed

Policy implication:

- credible resolution reduces forbearance and improves options

Saurina simplifies, without dropping all risk sensitivity

Proposal: fewer capital buffers; one 8% TLOF subordinated LAC requirement

Advantages: less hidden complexity, clearer usability, clearer loss-taking layer

Two design questions:

1. **CET1 in TLOF:** usable buffer or preserved resolution resource?
2. **Simple TLOF:** enough risk sensitivity for complexity, saleability, liquidity, readiness?

LAC is necessary; credible executability disciplines ex ante

Liquidity in resolution

- LAC absorbs losses; it does not fund the bank on Monday morning
- EU liquidity channels remain layered: Eurosystem, ELA, SRF, ESM backstop

Operational readiness

- valuation, MIS/data, FMI access
- continuity of critical functions
- separability, restructuring, communications

Authority readiness

- legal powers and plans are not enough: SVB and Credit Suisse
- senior official and political buy-in before stress
- tested playbooks, not just legal powers
- UK RAF is a useful benchmark: firms must show they can remain open in resolution

Final thoughts: Credible resolution preserves options, and improves the terms of sale

- **Sale may often be preferred, but open-bank bail-in and bridge-bank tools must remain credible options**

SVB UK:

- resolution powers used to transfer the business to HSBC
- continuity preserved without public funds

Credit Suisse:

- sale to UBS preserved stability
- but required public liquidity support and guarantees

Core points:

- weak fallback to sale gives the buyer bargaining power
- credible resolution improves price, terms, and public risk exposure
- 8% TLOF is a strong LAC simplification
- credible resolution also needs liquidity, operational readiness, and senior buy-in