

**DECISION**  
**ON DETAILED CONTENT OF RESOLUTION PLANS FOR CREDIT INSTITUTIONS**  
**AND GROUP RESOLUTION PLANS**  
(OGM 116/20 of 4 December 2020, 132/25 of 12 November 2025)

**Subject matter**

**Article 1**

This Decision shall govern in more detail the content of resolution plans for credit institutions having their head offices in Montenegro and resolution plans for a group whose parent credit institution and group members have their head offices in Montenegro.

**Content of the resolution plan for a credit institution  
and group resolution plan**

**Article 2**

In addition to elements required pursuant to Articles 18 and 19 of the Law on Resolution of Credit Institutions (OGM 72/19) – (hereinafter: the Law), the resolution plan for a credit institution and a group resolution plan should contain at least the following elements:

- 1) a summary of the plan, including a description of the credit institution or group and a summary of elements specified in items 2) to 8) under this paragraph;
- 2) a description of the resolution strategy considered in the plan, including:
  - identification of the different resolution actions envisaged under the plan;
  - identification of the entity or entities to which resolution actions would be applied;
  - identification of any critical functions or core business lines which will be maintained and any critical functions or core business lines which are expected to be separated from other functions;
  - an estimation of the timeframe for executing each material aspect of the plan, as required pursuant to Article 19 paragraph (2) item 4) of the Law;
  - a detailed description of any variants of the preferred resolution strategy considered to address circumstances in which the preferred strategy cannot be implemented;
  - a description of the decision-making process for implementing the resolution strategy, including the timeframe required for decisions;
  - for group resolution plans, additionally, arrangements for cooperation and coordination between resolution authorities and relevant authorities of third countries in which group entities are located, in line with the written agreements;

- 3) a description of the information, and arrangements for the provision of this information, necessary in order to effectively implement the resolution strategy, including the following:
  - a description of the information, and processes for ensuring availability, in an appropriate time scale, of the information required for the purposes of valuation, in particular pursuant to Articles 45 and 100 of the Law, and marketability, in particular pursuant to the marketing requirements in the case of application of the sale of business or bridge bank tools;
  - a mapping of critical functions and core business lines to entities which identifies in particular the critical functions and core business lines carried out by entities subject to resolution actions, and the critical functions or core business lines spread across entities which would be separated by the implementation of the resolution strategy;
  - a description of the arrangements for the exchange of information with resolution authorities and other relevant authorities from other countries;
  - a detailed description of arrangements for ensuring that information referred to in Article 20 of the Law is up to date and available to the Central Bank when required;
- 4) a description of arrangements to ensure operational continuity of access to critical functions during resolution, including in particular a description of:
  - critical shared systems and operations which need to be continued to maintain continuity of critical functions and arrangements for ensuring the contractual and operational robustness of their provision in resolution;
  - internal and external interdependencies which are critical to the maintenance of operational continuity;
  - arrangements for ensuring access to payment systems or other financial infrastructure necessary to maintain critical functions, including an assessment of the portability of client positions;
- 5) a description of the financing requirements and financing sources necessary for the implementation of the resolution strategy envisaged in the plan, including in particular:
  - a description of financing, funding and liquidity requirements implied by the resolution strategy;
  - a description of potential sources of resolution funding, including the terms of financing, preconditions for their use, the timing of their availability, the entities to which they may provide financing, and any collateral requirements;
  - where relevant, a description and analysis of how and when a credit institution may apply, under the conditions addressed by the resolution plan, for the use of Central Bank facilities (other than emergency liquidity assistance or other assistance on non-standard terms) in resolution, including the identification of available collateral;

- for a group, additionally, a description of any principles agreed for sharing responsibility for financing between sources of funding in different jurisdictions, including principles for sharing responsibility for financing between sources of funding in different states;
- 6) plans for communication with critical stakeholder groups, including in particular with:
- the management board, owners, and the employees of the credit institution or group, including procedures for consultation with the employees and, where applicable, dialogue with social partners in the resolution process, and an assessment of the impact of the plan on the employees;
  - customers, media and the general public;
  - depositors, shareholders, bondholders, counterparties, financial market infrastructures, and other affected market participants;
  - any administrative or judicial bodies whose actions and decisions may be critical to the implementation of the resolution strategy;
  - any advisors required to implement the resolution strategy;
- 7) the conclusions of the assessment of resolvability, including in particular:
- an assessment of whether or not the credit institution or group is currently resolvable;
  - a summary of the conclusions of the assessment of the feasibility of bankruptcy proceedings carried out in accordance with the Central Bank regulation governing the assessment of resolvability of credit institutions;
  - a detailed description of any impediments to resolvability identified, and of any measures proposed by the credit institution or group or required by the Central Bank to address or remove those impediments;
- 8) a quantified assessment of any change to minimum requirements for eligible liabilities, or the appropriate location of eligible liabilities, that is required to remove or address impediments to resolvability, taking into account the criteria for determining minimum requirements for eligible liabilities specified in Article 29 paragraph (1) of the Law, and the relevant Central Bank regulation;
- 9) any opinion expressed by the credit institution or group in relation to the resolution plan;
- 10) any additional information necessary for the development of resolution strategy.

### **Article 2a**

For the purposes of drawing up resolution plans, and for the purposes of meeting the requirements referred to in Article 2 paragraph (1) items 2) to 7) of this Decision, a credit institution shall develop the Manual for Bail-In Tool Execution (hereinafter: the Manual) in accordance with the guidance referred to in Annex 1 that is attached to this Decision and makes an integral part thereof.

The Manual referred to in paragraph (1) of this Article, to be passed by the supervisory board of the credit institution, shall be submitted to the Central Bank and updated at least once a year, by 15 May of the current year at the latest.

A credit institution shall, when passing and updating the Manual referred to in paragraph (1) of this Article, test elements of the Manual using adequate simulations or dry-runs, in accordance with the scenario referred to in Annex 2 that is attached to this Decision and makes an integral part thereof.

A credit institution shall submit the report to the Central Bank of the results of the updates and dry-runs referred to in paragraph (2) and (3) of this Article, which makes an integral part of this Manual.

### **Entry into force**

#### **Article 3**

This Decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro, and it shall apply from the date of application of the Law on Resolution of Credit Institutions (OGM 72/19).

## **THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO**

## ANNEX 1

### GUIDANCE ON DEVELOPING THE MANUAL FOR BAIL-IN TOOL EXECUTION

#### 1. INTRODUCTION

The Manual for Bail-In Tool Execution (hereinafter: the Manual) shall be developed in accordance with this guidance.

#### 2. DEVELOPMENT OF THE MANUAL

The Manual should at least cover the following areas:

- 1) an identification and a description of relevant governance arrangements of credit institution for the application of the bail-in tool, including the description of lines of responsibilities, reporting channels, roles of involved working bodies of the credit institution and the communication channels;
- 2) processes and time limits for the identification of the balance sheet items of the credit institution for exercising the power to write-down and convert capital instruments and eligible liabilities, and the generation of data used for exercising the write-down and conversion powers;
- 3) a detailed description of the steps to be taken for exercising the powers to write-down and convert capital instruments and eligible liabilities of the credit institution;
- 4) a detailed description of management information systems (hereinafter: MIS) that support the processes from the Manual, i.e. MIS capabilities that provide information and data necessary for the efficient implementation of resolution actions;
- 5) loss absorption amount and recapitalisation amount (hereinafter: MREL capacity);
- 6) third-party inclusion in the execution of bail-in tool;
- 7) potential obstacles for the resolution.

The introductory part of the Manual should contain a description of the activities taken for its adoption, its updating and clear description of the respective capital instruments and eligible liabilities.

A description of processes is an integral part of this Manual and shall include the following elements:

- 1) an identification and a description of the inputs to and outputs of the different processes: data sheets, specific documents and formats, etc.;
- 2) a chronology and a description of events and tasks presented in a table or flowchart; and
- 3) a description of operational procedures (e.g. in a flowchart).

The update of the Manual shall take into account the following: testing results, feedback from the Central Bank, regulatory changes, material changes within the credit institution, requirements of the external stakeholders for external execution of the write-downs and conversions, and the like.

Significant changes of the Manual should be clearly indicated and all involved organisational units and working bodies of the credit institution should be notified thereof.

The Manual should indicate all obstacles and potential impediments to operational execution of the bail-in tool, so that they could be appropriately removed in further communication with the Central Bank (e.g., legal constraints, level of data automation, and the like).

### 3. CONTENT OF THE MANUAL

<b>1. General information and summary</b>	
<b>1.1. Basic information</b>	
Name and head office of the credit institution	
Date of adoption	
Date of revision	
Date of financial information	
Point of contact	
Job title of the point of contact	
Organisational unit	
Telephone and e-mail	
Member of the management board responsible for the content of the Manual	
Contact information of the member of the management board responsible for the content of the Manual	

<b>1.2. Summary of the Manual</b>				
<b>Governance, communication and disclosure requirements</b>				
A brief description of governance arrangements, communication at the level of the credit institution for the purpose of execution of bail-in tool and disclosure requirements				
<b>Testing</b>				
A brief description of testing of the Manual				
<b>Scenario for running the simulation of the bail-in tool</b>				
A brief description of scenario for running the simulation of the bail-in tool				
<b>1.3. Capital instruments and eligible liabilities subject to the write-down and conversion</b>				
<b>Overview of capital instruments and eligible liabilities</b>				
The scope of capital instruments and eligible liabilities to be covered by the Manual shall be identified in accordance with the structure of credit institution's liabilities so that each capital instrument or eligible liabilities has the following description:				
<ol style="list-style-type: none"> <li>1) priority ranking in the case of bankruptcy or winding-up of the credit institution;</li> <li>2) type of instruments (e.g. capital items - CET1, AT1, T2, type of bond, credit-linked instrument, and the like) and the amount of instrument as of cut-off date to which financial information from the Manual relate;</li> <li>3) market where the instrument (or eligible liabilities) has been admitted to trading, and the name of registry where securities are maintained (where applicable).</li> </ol>				
instrument	amount (in EUR 000)	share in total amount	priority ranking	Market where it is admitted to trading/securities registry
Total				
A summary of all instruments covered by the Manual should be prepared in this part, which should contain, based on the characteristics from the description, the amount of each instrument and its share in total amount of all instruments to be used for the write-down and conversion in the application of bail-in tool.				
<b>2.1. Governance arrangements</b>				
<b>2.1.1. Description of governance arrangements and communication process</b>				
Describe the governance arrangements of the credit institution - Credit institutions should have in place robust governance processes that facilitate the preparation and the implementation of the resolution strategy, and the Manual should contain robust governance arrangements for the implementation of the bail-in tool to ensure a timely and accurate provision of relevant information on a regular and ad-hoc basis, effective oversight during both resolution planning and a possible crisis scenario and				

efficient decision-making at the time of resolution of credit institution.

The governance framework should define all phases of credit institution's resolution, and include:

- 1) the preparatory phase for opening resolution proceedings,
- 2) the bail-in execution phase, and
- 3) the closing phase.

The Manual should identify and describe the following:

- 1) organisational units and working bodies of the credit institutions (the existing or specifically designed for the resolution of credit institution) that are involved in different phases of bail-in tool implementation.
- 2) point of contact<sup>1</sup> and an alternate point of contact (with a reference to a job title and other contact details) for each organisational unit and committee authorised and responsible for the practical implementation of the bail-in tool.
- 3) specificities related to the legal structure of the credit institution, if relevant for the bail-in execution;
- 4) the governance set-up, e.g. processes, decision-making time limits, as well as

reporting lines, escalation and formal approval mechanisms, with a clear allocation of responsibilities. The roles and tasks of the different actors and committees and other bodies, as well as the interactions between them should be clearly described, as well as the role of external institutions necessary for the write down and conversion execution;

- 5) procedures for:
  - identifying the employees to be involved in the operationalisation of the bail-in process;
  - granting employee of the credit institution and relevant third parties (e.g. valuers) access to premises, IT systems and data; and
  - ensuring confidentiality from employees of credit institution and third parties involved in the resolution process (e.g. signing confidentiality agreements or secrecy protocols), in particular in the lead-up to the resolution weekend<sup>2</sup>;
- 6) flowcharts and diagrams to visualise the process workflows and the interaction between the different actors, organisational units and committees or other bodies of the credit institution;
- 7) estimation of time limits for the completion of necessary tasks;

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<sup>1</sup>Point of contact means a designated person (or job position) within the bank that is responsible for communication and operational activities related to the bail-in execution. Point of contact must have full functional availability and authority, as well as an alternate in case of unavailability.

<sup>2</sup>Resolution weekend means a period of time, usually from the end of the business day on Friday to the beginning of the business day on Monday, which is planned and used for the implementation of resolution actions for a credit institution. This timeframe was chosen because financial markets, payment systems and most business activities are closed, allowing key decisions and operational steps to be implemented without disrupting the regular functioning of the market and without causing panic among clients and investors.

- 8) map employees to processes to assess if additional resources are needed to prevent□  
bottlenecks and/or operational constraints, or if synergies could be created by merging procedures.

### **2.1.2. External institutions participating in the bail-in tool execution**

Where the execution of the bail-in tool includes external institutions (domestic or foreign), such institutions should be listed in the Manual (e.g. whether these are stock exchanges and other regulated trading venues, and their names; the names of registries; central counterparties when securities are centrally cleared; operational agents for issuing and/or listing securities, and the like)<sup>3</sup>

### **2.1.3. Agents for the bail-in tool execution**

In the process of the execution of the bail-in tool, a credit institution may engage or designate agents responsible for timely and accurate submission of all relevant information to the Central Bank, and for coordination of activities necessary for efficient implementation of resolution action. Those agents may be external, such as specialised institutions or service providers which have a contractual relationship with a credit institution, or internal agents i.e. organisational units of the credit institution or other entities of the group.

Credit institutions shall determine an agent (internal or external) to make sure that they submit to the Central Bank information in the shortest period.

Where a credit institution has:

- 1) external agent - state whether it has already established the necessary relationship (including contractual documentation) or whether it uses the agent under business-as-usual conditions (for actions foreseen in the prospectus). The credit institution is also expected to explain whether its contractual documentation includes specific provisions ensuring that the agent would also support the exceptional corporate events stemming from the bail-in, and to which extent the contract may be applied in the case of the resolution of credit institution;
- 2) an internal agent - a credit institution is expected to describe in detail the processes in place to ensure that it can perform the role of the operational agent in case of resolution of credit institution. In particular, it is expected to explain:
  - which specific roles the organisational unit or entity within the group performs in business-as-usual and which markets this covers;
  - how the credit institution plans to ensure that the organisational unit or entity remains operational in resolution of credit institution;

<sup>3</sup>Operational agents for issuing and/or listing securities mean specialised institutions which, on behalf of the issuer (e.g. credit institution) perform technical and administrative activities necessary for issuing and listing of financial instruments, including the communication with capital market infrastructure (stock exchanges, regulators, central depositories) and ensuring regulatory compliance. Examples include the following: Luxembourg Stock Exchange (LuxSE) – an agent for listing Eurobonds; Euronext – a stock exchange and listing agent for several European markets; Clearstream Banking Luxembourg – for issuing and clearing securities; Deutsche Bank London Branch – as an issuing and paying agent; Monte Titoli (Italy) – central depository and operational agent for securities.

- whether the credit institution has established a resolution-proof contract or service level agreement for this purpose (if it is another entity within the group);
- whether the organisational unit or entity could be realistically replaced by a third party if necessary (within what timeframe and at what cost).

## **2.2. Communication**

A credit institution shall determine which information can be communicated to whom and at what point in time, bearing in mind legal restrictions and requirements, market reactions and potential threats to financial stability or successful resolution.

The following elements related to bail-in execution are included in the Manual (including cross-references to any relevant document):

- 1) the guiding communication principles, providing an overview of the communication strategy for bail-in purposes:
  - in the preparatory phase for opening the resolution proceedings;
  - in the bail-in execution phase; and
  - in the closing phase;
- 2) the main communication steps in the overall chronological display of operational steps, to ensure a comprehensive overview of the process and to identify interdependencies between the steps;
- 3) a reference or a link to the bank's separate stand-alone communication plan, which should provide more detailed information on the credit institution's general communication approach and messages in resolution of the credit institution.

In order to cover the expectation regarding the time limits of operational steps on communication, the Manual should describe the related internal process, including:

- 1) the responsible organisation unit(s) or committee(s);
- 2) the tasks to be conducted, including validation steps; and
- 3) the flow of information, including communication channels and potential outputs.

For external execution, it should also include which information needs to be communicated with:

- 1) internal stakeholder (when the credit institution is using an internal agent), or
- 2) external stakeholder (in particular relevant market authorities, trading venues, agents and registries of securities, which may include their contact details).

The Manual should display the information in the form of a flowchart, where applicable.

## **2.3. Disclosure obligation**

The Manual should cover all jurisdictions in which the credit institution has listed securities and which impose disclosure obligations, or whether the credit institution plans to request the application of waivers from certain disclosure requirements for the purpose on undisturbed application of bail-in tool.

## **3. Identification of capital instruments and eligible liabilities**

The Manual should identify two categories of obligations, as follows:

<p>1) liabilities excluded from the scope of bail-in pursuant to Article 94 paragraph (3) of the Law; and</p> <p>2) capital instruments and eligible liabilities subject to the write-down and conversion pursuant to the provisions of Articles 49 and 93 of the Law<sup>4</sup>.</p> <p>Capital instruments and eligible liabilities are identified depending on their type, priority ranking in the case of credit institution's bankruptcy/winding-up.</p>
<p><b>3.1. Additional requirements in identifying capital instruments and eligible liabilities</b></p>
<p>Any legal, financial, operational, tax and accounting features that may be relevant to identify capital instruments and eligible liabilities when applying bail-in or when establishing necessary processes should be documented.</p>
<p><b>3.1.1. Common Equity Tier 1 (CET 1) items</b></p>
<p>The Manual should make the distinction between the CET 1 items and items not qualifying as CET 1 items, but are ranking pari passu with CET 1 items, including the possibility of their contribution to absorb losses.</p>
<p><b>3.1.2. Identification of Additional Tier 1 (AT1) and Tier 2 (T2)</b></p>
<p>Additional Tier 1 (AT1) and Tier 2 (T2) instruments are identified as if they will be fully written down or converted (if necessary), regardless of whether or not they count as capital:</p> <ol style="list-style-type: none"> <li>1) AT1 instruments recognised in accordance with the regulation on the calculation of capital;</li> <li>2) T2 instruments that are only partially included in the calculation of the capital □ due to the amortisation regime should be treated in the same way as those T2 instruments, which are fully included.</li> </ol>
<p><b>3.1.3. Identification of accounting and economic hedges</b></p>
<p>If any hedges impacting CET1 instruments (hedge accounting), AT1/T2 instruments and eligible liabilities exist, for instance:</p> <ol style="list-style-type: none"> <li>1) accounting hedges, under International Financial Reporting Standards (IFRS), in order to eliminate excessive volatility in the profit and loss account of the credit institution, which are expected to be adjusted post-bail-in;</li> <li>2) economic hedges on the interest rate (e.g. floating – fixed) or on foreign exchange (FX) risk for capital instruments and eligible liabilities covered by bail-in tool, which could end up as open positions post-bail-in. Those open positions might generate additional losses.</li> </ol> <p>The Manual should also describe how the relevant hedges for the instruments can be identified at the point of resolution of credit institution.</p>
<p><b>3.1.4. Funding or guarantees by other group entities</b></p>
<p>The Manual should state liabilities to members of the group (independently of whether they are funded directly or indirectly by the credit institution), as well as the intra-group liabilities guaranteed by the credit institution. The prudential treatment of the</p>

instruments prior to the resolution of credit institution and in case of conversion should be considered.

### **3.1.5. Contingent liabilities and provisions**

The Manual should identify different types of contingent liabilities and analyse those that may generate a liability when they materialise at the resolution date.

### **3.1.6. Treatment of accrued interests**

It is expected that the accrued interest will be written down or converted together with the principal, unless the accrued amount has a different priority ranking in the case of bankruptcy/winding-up of credit institution.

## **4. Data to be submitted to the Central Bank**

A list with the data<sup>5</sup> should be identified, which are necessary for:

- 1) calculating and setting the size of write-down and conversion powers for resolution strategy;
- 2) assessments of the Central Bank, such as assessment to exclude fully or partially liabilities to achieve the continuity of critical functions or avoid significant adverse effects on market;
- 3) implementation of the bail-in.

The list of data necessary for the implementation of bail-in tool is based on minimum data for the purposes of write-down and conversion as established by the regulation governing the reporting to the Central Bank of Montenegro for the purpose of pursuing resolution function.

It should also describe credit institution's MIS capabilities to gather data for the implementation of bail-in tool i.e. to provide different data for different types of instruments. The description should include competent or responsible organisational units of the credit institution, and the interactions<sup>6</sup> between IT systems, the outputs and output recipients, and the potential committees/organisational units that should validate the processes. In order to demonstrate the MIS capabilities, it should be described how long it would take to generate the data per type of instrument, to which extent the generation process is automated, and for which items workarounds would be applied.

## **5. Execution of the bail-in tool**

### **5.1. Internal execution**

The Manual sets out a detailed description of all internal processes related to the decision of the Central Bank to write-down and convert capital instruments and eligible liabilities.

This description should be in line with the sequence of write-down events envisaged in Article 49 of the Law, and to be presented in graphic and/or table.

The responsibilities and tasks per organisational unit (and entities, if relevant) should be listed, as well as the relevant IT systems, the interaction between IT systems, associated information outputs (e.g. specific data report) and the output recipient for

<sup>5</sup>Examples of such data include: International Securities Identification Numbering system (ISIN), (Central Securities Depository (CSD), principal amount, accrued interest, and the like.

<sup>6</sup>Credit institutions are encouraged to use flowcharts in order to support the description of interactions.

each operational step. The description should be done separately per type of instrument.

A clear and detailed timeframe should be set for each individual step (also in a calendar view as deemed relevant), taking into consideration the possibility of publishing administrative decision on opening the resolution proceedings of credit institution on Sunday evening or Monday morning.

Each step per type of instrument should be listed, including the impact of those steps on the time schedule and use of resources. In addition, it should be highlighted the potential challenges and/or impediments for each step, with the objective of continuously improving credit institution's readiness for the write-down and conversion and resolvability.

The process description should be based on the assumption that the implementation of the administrative decision on the resolution of credit institution using the bail-in tool will be based on a provisional valuation of assets and liabilities of the credit institution. All losses must be recognised in the accounts of the credit institution during the resolution proceedings.

The Manual therefore should describe the process of accounting balance sheet following the valuation of assets and liabilities. These valuations will produce an amount of losses to be absorbed. The accounting value of assets should take into account the losses identified in the provisional valuation and must be adjusted accordingly under the relevant accounting standards on a consolidated and on an individual basis. Based on the balance sheet, capital of the credit institution is calculated on a prudential basis.

The Manual should describe the capabilities and processes to produce financial information, including estimations of capital requirements based on the available information (e.g. determination of post-resolution capital requirements set by the Central Bank) and including the provisional valuation results.

In addition, the Manual should include the following

- 1) legal impediments: details on the impact of a bail-in on the articles of association or articles of incorporation of the credit institution, and clear indication if there are obstacles to the application of the bail-in. The Manual should consider the impact that a change of ownership due to the application of the bail-in can have on:

- authorisations to operate other countries;
- specific notifications (e.g. state aid/regulatory notifications);
- qualifying holding assessments;
- memberships in group/sectoral contracts and trade associations;
- compliance with the relevant regulations<sup>7</sup>;
- approvals of issuances of capital instruments (e.g. CET1 instruments).

The Manual should enable the credit institution to provide the relevant

<sup>7</sup>For instance, where a creditor has limitations regarding ownership of other entities;

information to the Central Bank as soon as possible after the application of write-down and conversion powers.

- any other authorisations that competent authorities may require for the new shareholders
- 2) accounting impediments<sup>8</sup>;
- 3) tax impact<sup>9</sup>;
- 4) instrument-specific features<sup>10</sup>;
- 5) special purpose vehicles (SPVs): depending on the importance of the SPV, in case of write-down or conversion of the liabilities of the credit institution held by the SPV, the credit institution should consider to mirror the economic effects of the write-down or conversion in the SPV's book and demonstrate how this will be done;
- 6) hedges: accounting and economic hedges might be considered after application of write-down and conversion in order to limit the volatility of the P&L after resolution and to deal with the risks weighing after application of bail-in tool. Re-hedging should be also considered in the Manual as an operational step for the relevant instruments and the update of the related required hedge documentation;
- 7) accrued interests: the Manual should contain the explanation of the processes related to the write-down and conversion of the instrument itself (i.e. principal) and also an explanation of the decrease (partial or full) of the value of the corresponding accrued interest<sup>11</sup>;
- 8) liabilities held by the credit institution: credit institution might hold instruments issued by themselves that fall into write-down and conversion (e.g. treasury shares; subordinated debt kept for market making and funding strategy purposes). Those instruments should be clearly identified and an assessment should be made of any impact on legal risk, tax or balance sheet reduction in the case of application of write-down and conversion.
- 9) adjustment of assumptions: the credit institution is expected to be able to apply adjustments to assumptions and accounting policies (i.e. the specific principles, bases, conventions, rules and practices applied by the credit institution to prepare its financial statements) necessary for the preparation of the updated balance sheet in a way that is consistent with the applicable accounting framework as much as possible. This includes production of an updated balance

<sup>8</sup>Legal and statutory reserves might pose a challenge during application of the write-down and conversion, either because they cannot be written down below a defined minimum level or because they would require specific treatments; Therefore, they should be included in the Manual in accordance with the accounting framework.

<sup>9</sup>The application of the write-down and conversion might have tax impact and credit institutions should be assessed in the Manual to the extent possible for each operational step.

<sup>10</sup>Specific features might trigger additional considerations, for example, liabilities issued in foreign currencies might have to undergo an FX conversion before being written down or converted and in that respect, any tax effect should be considered. Another example of specific features might be the structured nature of the liability (e.g. a structured security tied to a specific asset, indices, currencies, and the like). Additional expertise might be required in order to write down/convert such liabilities and apply the correct impact on the ledger. Unlisted instruments might also imply different execution steps.

<sup>11</sup>This may involve processes, organisational units and IT systems that are different from those for the principal amount.

sheet (post-resolution) as well as an explanation of the necessary steps to be done for the adjustments of the systems to produce the balance sheet taking into account assumptions and adjustments arising from the valuation.

- 10) adjustments of write-down and conversion: assuming that the application of write-down and conversion will be performed following the provisional valuation of assets and liabilities of credit institution, any discrepancy between the definitive and provisional valuation could lead to a revision of the amount to be written down and converted. The process through which the correction ensuing the definitive valuation will be undertaken and how the ledger will be updated should be presented in the Manual. The credit institution should be ready to adjust the accounts once the definitive valuation is available.

## **5.2. External execution**

Credit institutions should have systems and resources in place to generate rapidly the necessary information, including ISIN or other relevant information code and depositories in which the securities are issued and are subject to safekeeping. Agents should be identified that the credit institution would involve in executing the write-down and conversion.

The Manual should also describe the process to apply a write-down and conversion of relevant securities (including related time limits) for each security in scope, and, potential obstacles to the execution of each necessary step. Securities may be aggregated, for example, per market of involvement/listing, and/or governing law or per type of security. The expectations for internal execution of the write-down and conversion listed in Chapter 5.1 of this Instruction should also apply for external execution.

This process for external execution will differ depending on, amongst others:

- 1) whether the securities are listed and traded on a regulated market;
- 2) whether the securities to be written down and converted and the new securities to be issued are held within one or several registries;
- 3) location (the country) of issuances, if any;
- 4) any other relevant national specificities that may arise from the law governing securities, rules of the exchanges or registries, and the like. If the need for a particular action rests on a decision of the Central Bank, this is clearly stated in the Manual, including the assumptions on what this is based.

### **5.2.1. Trading suspension and delisting - exchanges**

The following shall be determined in the Manual:

- 1) whether the security is listed and traded on a regulated market (and/or other trading venues), and, if yes, on which one, and, for each market, which is the relevant market authority;
- 2) whether the security would be cancelled and/or subsequently delisted from the exchange;
- 3) the different steps necessary for suspension and delisting;
- 4) which information may be needed by the market operators, and time limits for the submission.

### 5.2.2. Write-down and cancellation - registries

The following shall be determined in the Manual:

- 1) the ISIN or other codes and the name of the issuances;
- 2) the internal and external stakeholders involved, and in particular the registries where the securities have been issued and are being safekept;
- 3) the different steps involved in the write-down of the different securities with, to the extent possible, the time it would take to execute each step;
- 4) the information necessary for the registry to execute the write-down on its books;
- 5) the different agent(s) that the credit institution would use to ensure that operational information is adequately transmitted to the relevant common registries and common service providers;
- 6) the governing law;
- 7) If the securities are meant to be cancelled, how cancellation would be ensured, i.e.:
  - roles and responsibilities with regard to ensuring that the registry cancels the securities in its books;
  - under what circumstances the registry would record the cancellation according to its internal rules;
  - steps and duration of the process.
- 8) the expected treatment of forthcoming payment events taking into account the priority ranking in the collection of claims, the steps to be taken to operationalise such treatment and the information it would provide to the relevant registries.

### 5.2.3. Conversion of securities and issuance of new shares or other instruments of ownership - registries

The following shall be determined in the Manual:

- 1) the registry/registries where the new equity securities or other instruments of ownership will be issued and kept in book-entry form. If this registry is different from the registry in which the converted securities have been issued, this is expected to be clearly mentioned;
- 2) how the security will be structured with a view to meeting the eligibility requirements of the relevant registries, including the international registries, if appropriate;
- 3) where appropriate, the steps that would be followed (including information to be prepared, forms to be filled etc.) and time needed to prepare the (new) public invitation or similar document for registration with the registry and obtain ISIN or other codes for the new shares or other instruments of ownership;
- 4) the different steps involved in the write-down of the different securities with, to the extent possible, the time it would take to execute each step.

When the issuing registry differs from the registry executing the write-down and/or conversion - CET1 instruments are usually foreseen to be issued in the relevant domestic registry. Some of the instruments that would be written down or converted

are safekept in registries or other countries. In that case, the credit institution is expected to describe how an alignment can be ensured at the different registries.

#### **5.2.4. Listing and (re-)admission to trading and to clearing - exchanges and central counterparties**

The Manual should identify which type of security that was admitted to trading, but is temporarily suspended, the credit institution expects to be re-admitted to trading. The difference should be made between:

- 1) new CET1 instruments included admitted to trading for the first time;
- 2) partially converted debt instruments re-admitted to trading or for which the suspension of trading would be lifted.

In cases where new instruments are foreseen to be admitted to trading on a regulated market, the Manual shall determine:

- 1) how it would be described in the information notice, prospectus or other documentation, as appropriate;
- 2) how the new instrument would be structured with a view to meeting (if applicable) the listing requirements of the relevant regulated market and the eligibility requirements of the relevant central counterparties.

In all cases, the Manual should determine:

- 1) the operational time limits for ensuring re-admission to trading, and the target date for submitting the request;
- 2) the process for re-admission for trading;
- 3) information needed by the exchange (besides the content of the information notice mentioned above), including consequential obligations of being listed.

#### **5.2.5. Bail-in adjustments - registry of securities**

Where the write-down and conversion were executed on the basis of provisional valuation of assets and liabilities, and a definitive valuation is established later in the process, this may have consequences for the extent of the cancellation, transfer or dilution of shares, and of the write-down or conversion of relevant instruments. The Manual should describe the steps a credit institution would take to ensure that the outcome of a possible definitive valuation is adequately reflected in the books of the relevant registry. This may happen, for example, through:

- 1) revaluation of bonds by increasing or decreasing the nominal value of the bond after the initial write-down;
- 2) adjustment of pool factor<sup>12</sup> and the like.

<sup>12</sup>The pool factor is a ratio of how much of nominal value of debt instrument (e.g. bonds) remains unpaid, i.e. active after the part of the instrument is written off, written down or partially paid off. It is expressed as a number between 0 and 1, and is used in the calculation of the outstanding value of interest-bearing principal and may be subject to future payments. In the resolution context, pool factor may be adjusted after the definitive valuation of assets and liabilities to ensure accuracy of records in the registries and bank's ledgers. Example: if a bonds is issued at nominal value of EUR 1,000, and pool factor amounts to 0.65, the outstanding amount of bond is EUR 650.

When the issuing securities registry differs from the registry executing the write-down and/or conversion, CET1 instruments are usually foreseen to be issued in the domestic registry, and in that case the Manual should include the description of any discrepancies that could be caused by de-synchronised operations at these different registries and how alignment can be ensured. Elements that could support alignment are:

- 1) the use of a single operational agent<sup>13</sup> across markets;
- 2) strict compliance with the decision on the resolution of the credit institution, e.g. the date of application of the write-down or conversion;
- 3) timely information flow to all relevant registries.

## **6. Testing**

### **6.1. Objectives and testing scope**

Credit institution perform regular simulations i.e. dry-runs of the Manual. No bail-inable liability should be included in the testing.

### **6.2. Testing methodology**

Dry-runs intend to test the operationalisation of the Manual and the MIS capabilities for providing up-to-date and complete information and data for the application of the write-down and conversion, and for testing all processes explained in the Manual.

Credit institutions should include all sections of the Manual and MIS capabilities for the write-down and conversion data in the scope of dry-runs, with a particular focus on the areas that are essential for achieving resolvability (e.g. the implementation of the preferred resolution strategy).

A staggered approach is to be taken, starting with a dry-run focused on data and a critical review of the internal execution process while other elements of the

Manual shall be reflected in further, subsequent tests.

Credit institutions should perform the regular testing of the write-down and conversion based on the guidance communicated by the Central Bank.

Credit institutions should identify open questions/issues in their dry-runs and in particular technical/operational and legal obstacles for the implementation of the bail-in tool. In addition, the credit institution should provide a report of the dry-run comprising lessons learnt and a gap analysis.

### **6.3. Dry-run components**

#### **6.3.1. Governance and crisis management**

Credit institutions must test the governance arrangements in place for the operationalisation of the write-down and conversion in order to evaluate the roles and responsibilities and to practise crisis preparedness, escalation procedures and decision-making process.

<sup>13</sup>It involves the engagement of an operational agent (whether internal or external) who will, on behalf of the bank, coordinate the implementation of activities related to the write-down and/or conversion of instruments in all relevant markets (e.g. domestic and international), in order to avoid operational inconsistencies, simplify the process and ensure consistent and accurate implementation of resolution decisions.

Credit institutions should test the processes for the preparation of the communication for the operationalisation of the bail-in tool including preparedness and awareness

of need for alignment with communication of the Central Bank and test the availability of quickly available and reliable communication.

Credit institutions should test the approval modalities and the robustness of quality assurance processes for the operationalisation of the bail-in tool.

### **6.3.2. Internal execution**

Credit institutions should test the processes/workflows with associated time limits, which data points will need to be generated and specifically how processes are linked to them.

Furthermore, credit institutions should test the processes for:

- 1) identifying liabilities which are excluded from the write-down and conversion in accordance with the law;
- 2) indicating certain liabilities that might require the Central Bank's assessment concerning discretionary exclusions from the write-down and conversion;
- 3) flagging in the banks internal systems of liabilities subject to netting settings and identifying secured liabilities subject to collateral agreements.

The testing exercise of the internal execution should cover in particular:

- 1) sequence of events and operational considerations - credit institutions should test the sequence of events for the internal execution of the bail-in tool.
- 2) accounting and balance sheet considerations - credit institutions should test all relevant accounting/balance sheet considerations necessary to administer and implement the bail-in, as well as the following aspects:
  - the loss recognition in the accounts/records of the credit institution;
  - the approvals and the time scales for the recognition of the losses in the accounts (e.g. role of the management and supervisory board, internal and external auditors, etc.);
  - the impact of a write-down on any related hedging arrangements;
  - the production of a new balance sheet/material line items (post-resolution) in line with the applicable accounting standards,
- 3) legal considerations - credit institutions should test all legal considerations that might occur in the context of the internal execution of the bail-in tool (e.g. amendment of the articles of association of the credit institution in resolution proceedings, etc.).
- 4) tax considerations - credit institutions should test/simulate (or, at least, critically reflect on) all fiscal considerations with regard to the credit institution in resolution proceedings,
- 5) communication and other considerations - credit institutions should test the communication to management bodies that has to be prepared with regard to the internal execution, as well as any other considerations that have to be taken

into account with regard to the write-down and conversion of capital instruments and eligible liabilities.

### **6.3.3. External execution**

The purpose of dry-runs conducted by the credit institutions is to test and evaluate the operational readiness for bail-in execution of a credit institution itself, not the readiness of external parties or their processes (e.g. registries of securities).

Preparatory steps to facilitate external execution and ensure certainty of the bail-in process are expected to be confirmed during dry-runs, while readiness of external parties or their processes should remain out of the scope of the dry-run. Preparatory steps that the credit institutions can take up until the point where data is received by the registry include, among others:

- 1) the responsibility for sending instructions;
- 2) the availability of data points required;
- 3) the time, tools, templates and responsibilities for preparing instructions; and
- 4) the data generation responsibilities and tools used by contributing organisational units in the credit institution.

### **6.3.4. MIS capabilities**

Successful implementation of the bail-in tool depends fundamentally on the capabilities of the credit institutions to deliver, upon request from the Central Bank, timely, complete and high-quality data at short notice.

Credit institutions should prepare their data infrastructure for bail-in and initiate necessary IT projects, i.e. the credit institutions should conduct testing of their MIS capabilities for the ad-hoc provision of data for the application of write-down and conversion.

The main elements of the testing exercise should cover:

- 1) the availability of the data;
- 2) time needed to produce the data in a going concern and a failing or likely to fail situation;
- 3) internal or external processes relevant for the data;
- 4) MIS system(s) involved, level of automation, sources as well as any obstacles encountered.

Credit institutions should be able to produce the data for the execution of the write-down and conversion within 24 hours. Where additional manual input is required to provide data, credit institutions should provide clear evidence on the credibility of these adjustments.

Credit institutions should provide a report, which is an integral part of the Manual, summarising the outcome and lessons learnt from the write-down and conversion dry-run and elaborating on the main elements of the testing exercise referred to in paragraph 3 of this part.

Based on the results of the testing and the follow-up discussions with the Central Bank, if needed, credit institutions should adjust their resolvability programmes to address the main shortcomings. In addition, the Manual might be updated following lessons learnt from the testing. The work programmes should enable the increase of the efficiency of MIS capabilities progressively, but they also should include remedial actions that address shortcomings regarding the availability, quality, accuracy, completeness and timely delivery of the data.

## ANNEX 2

### SIMULATION SCENARIO

For initiating the regular testing of the write-down and conversion, upon request by the Central Bank, credit institutions should conduct a testing based on the following assumptions

- the order of the write-down and conversion will first be applied to outstanding capital instruments on a pro-rata basis in each capital class (CET1, AT1 and T2) and then follow, as a general rule, the priority ranking order of creditors;
- losses occur at the level of the credit institution, if it is a part of the group;
- reference date shall be the closest date to the testing;
- the total amount of losses to be absorbed should at least equal the overall capital requirement, and the recapitalisation should lead to meeting the credit institution's capital requirement on a consolidated and on an individual basis. The credit institution is expected to consider a larger amount of losses in order to make the outcome of the testing more relevant;
- CET1 items other than capital instruments and share premium accounts, such as retained earnings, accumulated other comprehensive income; other reserves and risk provisions, should unrestrictedly absorb losses before write-down and conversion powers are applied to capital instruments and share premium accounts;
- for the purpose of this simulation, the credit institution and the Central Bank will agree on the potential application of a balance sheet depletion effect;
- to the extent that losses cannot be absorbed by outstanding ownership instruments, these instruments are cancelled and new ownership instruments pertaining only to a single hierarchy class (e.g. ordinary shares) will be issued to creditors covered by the write-down and conversion, i.e. no need to consider issuance of new AT1 or T2 instruments.