FSB FINANCIAL STABILITY BOARD

Bail-in Execution Practices Paper

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Table of Contents

Executive summary

Bail-in is at the core of resolution strategies for G-SIBs. The write-down and conversion of Minimum Total Loss-absorbing Capacity (TLAC) instruments, such as bail-in bonds, and other debt into equity helps to facilitate a creditor-financed recapitalisation. It is an important resolution tool set out in the Key Attributes[1] to achieve an orderly resolution that minimises any impact on financial stability and ensures the continuity of critical functions, without exposing taxpayers to loss.

Operationalising bail-in is a critical part of resolution planning for G-SIBs and other firms where bail-in is part of the resolution strategy. Since the adoption of the *FSB Principles on Bail-in Execution (Principles)*,[2] resolution planning has progressed, and authorities have developed approaches and practices in accordance with their respective jurisdictions' legal frameworks, securities law and exchange requirements. Certain bail-in mechanisms involve capitalisation of a newly established entity or bridge institution ("closed firm bail-in"), or a recapitalisation of the entity in resolution ("open firm bail-in"). Pre-planning is key, and all process steps need to be well prepared and coordinated given the involvement of many stakeholders across multiple jurisdictions, including resolution authorities, the firm in resolution, market authorities, and financial market infrastructures (including central counterparties, central securities depositories, national numbering agencies, exchanges, and other trading venues).

Drawing on examples and practices across different jurisdictions, this paper provides a generic description of practices and operational processes and arrangements for the suspension of trading and delisting from trading venues (TVs) of securities of the bailed-in firm, the (re-)listing and (re-)admission to trading of new and existing securities as part of the bail-in process, and the cancellation of shares, write-down and/or conversion of eligible instruments and issuance of new shares, as well as resolution approaches that provide for the issuance of interim instruments.

The paper also discusses the role of central securities depositories (CSDs), which have an important role in the execution of bail-in in that they need to reflect in their books the bail-in transaction: for example, the cancellation of shares, write-down and/or conversion of eligible instruments and issuance of new shares and interim instruments.

Where securities are listed on more than one TV (dual listing or secondary listing) across different jurisdictions, or where securities are issued in a market other than the domestic market, the cross-border dimension may introduce additional complexities to the execution of bail-in. The paper discusses some of these issues, which may need to be specifically addressed as part of resolution planning. Those issues include the suspension of trading and settlement across all relevant TVs and CSDs in different jurisdictions; the distribution of the new securities in foreign markets/ to foreign investors, for example investor protection regimes and their accompanying regulatory disclosure and prospectus requirements, or foreign CSD eligibility requirements; and

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1 FSB (2014), *Key Attributes of Effective Resolution Regimes for Financial Institutions* (revised), October.

2 FSB (2018), *Principles on Bail-in Execution*, June.

operational challenges arising for example from time zone differences and the involvement of multiple CSDs when distributing securities resulting from conversion to bailed-in creditors with no direct access to the domestic CSD.

The FSB will continue to facilitate the sharing of practices amongst authorities and efforts to address these issues, including by continuing its engagement with stakeholders as part of the work of its Resolution Steering Group and Bank Cross-Border Crisis Management Working Group.

Introduction

In June 2018, the FSB published *Principles on Bail-in Execution*[3] (*Principles*) to assist authorities as they develop bail-in resolution strategies and make resolution plans operational for global systemically important banks (G-SIBs). Resolution authorities (RAs) of G-SIBs and other firms for which bail-in is part of the resolution strategy are developing their own specific bail-in approaches, building on the framework established by the *Principles* and the FSB Key Attributes and their domestic resolution frameworks in interaction with relevant stakeholders.[4]

This paper describes some of the main operational processes and arrangements that RAs of G-SIBs have established, or are in the process of establishing, to operationalise bail-in in accordance with their jurisdictions' legal frameworks, securities law and requirements of TVs. It is not intended to provide a comprehensive overview of all aspects of bail-in.

The development of the paper benefitted from discussions with RAs and inputs from Market Authorities (MAs), as well as financial market infrastructures (FMIs) including CSDs, TVs, and national numbering agencies (NNAs).[5] The paper is not intended to describe best practices or set any expectations on how bail-in should be carried out. Rather, it should serve to support a continuing engagement amongst authorities and firms in the resolution planning process. It may be of interest to firms for which bail-in is the preferred resolution strategy; shareholders and debt holders of firms that may be subject to bail-in; other creditors of such firms; and infrastructures and other market participants that may be involved in the execution of bail-in. It may also assist authorities that are at an earlier stage of operationalizing the bail-in mechanism or are continuing to enhance their existing arrangements for cross-border resolutions, including through CMGs.

The report offers generic descriptions of approaches to bail-in. References to individual jurisdictions or entities are intended to be illustrative, rather than comprehensive. Examples of actual bail-in cases are rare.[6] Arrangements in individual jurisdictions may well present differences in the order or manner in which specific actions are undertaken compared to the general descriptions provided here. Any actual application of bail-in powers will also depend on the facts and circumstances of the particular case.

The paper is structured as follows:

- Section 1 provides an overview of bail-in approaches;
- Section 2 presents certain preparatory elements for the execution of bail-in;
- Section 3 describes steps relating to suspension of trading, the delisting from TVs, as well as (re-)listing and (re-)admission to trading;

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3 Id.

4 FSB (2014), *Key Attributes of Effective Resolution Regimes for Financial Institutions* (revised), October.

5 Jurisdictions engaged as part of the outreach and reflected in the paper include Banking Union (France, Germany, Luxembourg, the Netherlands, Spain), Hong Kong, Japan, Switzerland, the UK, and the US.

6 FSB (2020) *2020 Resolution Report: Be prepared,* November. Annex 4 lists selected cases of public assistance or resolution since 2016 for banks with assets over USD 10 billion in FSB jurisdictions.

- Section 4 covers write-down and cancellation of existing instruments;
- Section 5 describes direct conversion of bailed-in instruments into new equity instruments;
- Section 6 covers conversion in cases involving interim instruments;
- Section 7 highlights some areas for further development or consideration by RAs, MAs and CMGs in relation to cross-border resolution issues; and
- Section 8 considers ways forward.

A list of selected publications in respect of members' bail-in mechanisms is included at the end of this paper (see Annexes), along with a glossary and with generic and jurisdiction-specific descriptions of bail-in approaches and steps.

1. Overview of bail-in resolution approaches

Bail-in is one of the resolution powers provided for in the FSB Key Attributes. Bail-in should enable a RA to allocate losses to shareholders and creditors, to write down equity and to write down and/or convert into equity certain liabilities, so that the failed firm can be recapitalised and continue to operate, thereby ensuring the continuity of critical functions, pending a reorganisation of the business.

The resolution strategies for most G-SIBs rely on the use of bail-in powers. Bail-in should allow for a firm in resolution to be recapitalised and to maintain the continuity of its critical functions. In the case of G-SIBs, equity and eligible liabilities (TLAC) are intended to provide the principal source of loss absorption, and depending on the bail-in mechanism employed, allow for recapitalisation of the entity in resolution (open firm bail-in) or capitalisation of a bridge institution (closed firm bail-in). In certain jurisdictions, the RA has the flexibility to bail-in other liabilities.

The Key Attributes contemplate two distinct approaches to bail-in: 'closed firm bail-in' and 'open firm bail-in'.[7] The economic effect is largely the same in both approaches. Under each approach the bail-in allows the RA to stabilise a firm and to facilitate an orderly creditor-financed reorganisation of all or part of a firm in resolution. Under each approach, losses are absorbed by equity holders, and TLAC holders and, in certain jurisdictions or depending on the scope of bail-in, other creditors. In an open firm bail-in, the firm is recapitalised through the issuance of equity to TLAC holders and other creditors of the firm in resolution; in a closed firm bail-in, one or more successor entities are capitalised through the issuance of equity in the successor entity or entities to TLAC holders and other creditors of the firm in resolution in accordance with the applicable creditor hierarchy.

Both the open-firm and closed-firm bail-in approaches share similarities and common elements. However, certain elements of the legal and operational processes followed, and the way in which authorities plan for and execute bail-in will differ. There will be differences in implementation of approaches by RAs depending on the overall resolution strategy as well as differences in securities law or other relevant applicable laws (e.g., corporate, property, financial and tax laws). The firm-specific resolution strategy determines the point(s) of entry at which bail-in will be executed. Depending on the organisational structure of the firm and the resolution strategy, such resolution entity(ies) may be the ultimate parent company or an intermediate operating or non-operating holding company, or an operating subsidiary.

The execution of bail-in is illustrated in the stylised timeline below (see Figure 1). The timeline highlights the common and specific elements of bail-in resolution strategies that will be further described below.

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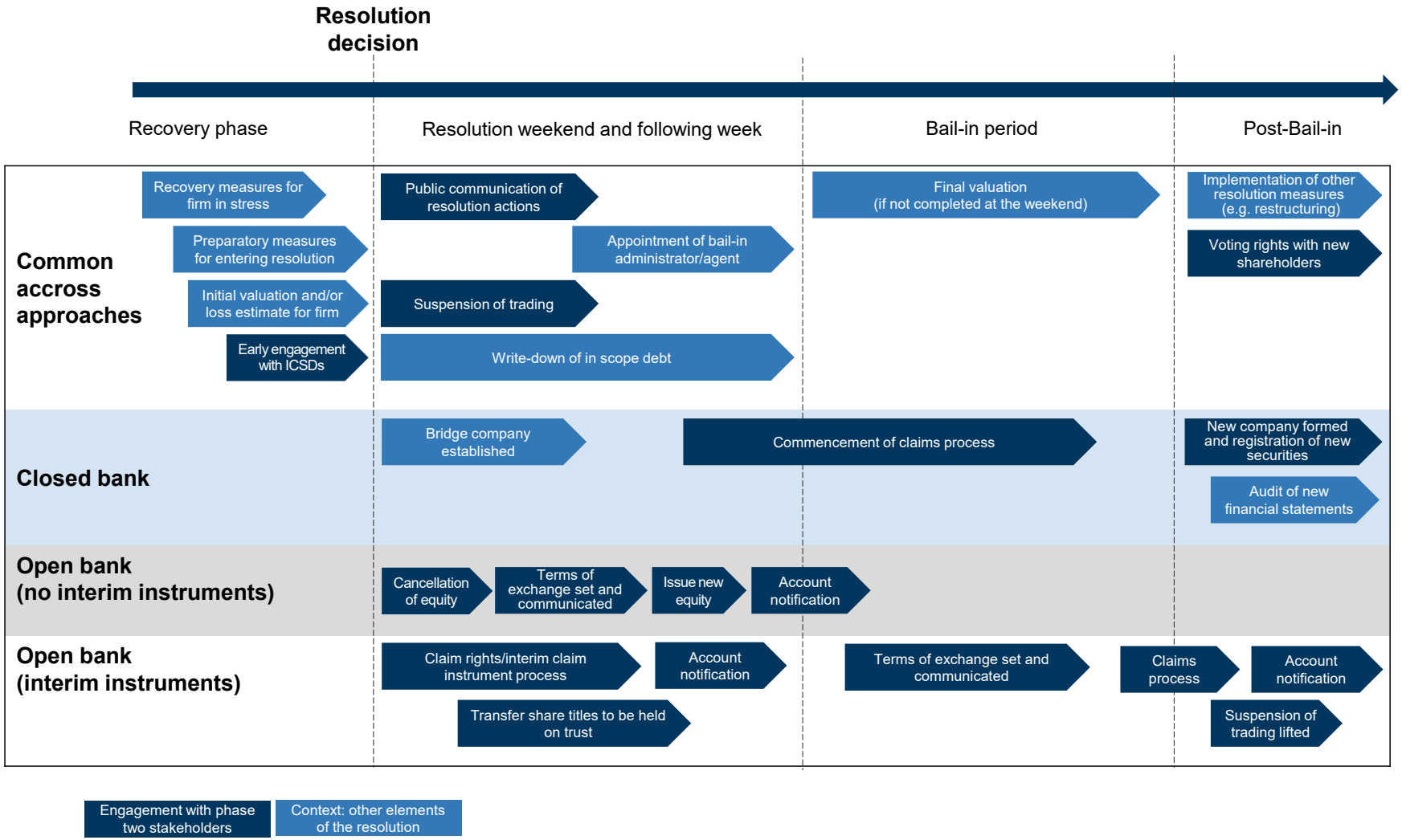
[7] FSB (2014), *Key Attributes of Effective Resolution Regimes for Financial Institutions* (revised), October, and FSB (2018), *Principles on Bail-in Execution*, June.

Stylised timeline of common and specific elements of bail-in execution approaches

Figure 1



Source: FSB bankCBCM (Specificities under French approach for: Step 1 (resolution weekend and following week) - recapitalisation through immediate issuance of new shares after resolution weekend, with parallel distribution of interim rights for valuation gap adjustment purposes; Step 2 (bail-in period) - potential activation of interim rights (conversion of those into equity) in case of bail-in in excess of final valuation upon announcement of terms of exchanges by the RA.)

1.1. Closed-firm bail-in

In a closed firm bail-in, one approach contemplates that the RA would establish a new institution (e.g., a bridge institution) upon the entry into resolution of the resolution entity (e.g., top-tier holding company). The majority of assets and some of the liabilities of the firm in resolution would be transferred to such bridge institution, leaving behind shareholders' equity and liabilities that may be subject to bail-in. The expectation in the case of a G-SIB is that the assets of the ultimate holding company are largely comprised of equity and investments, including investments in operating subsidiaries. Operating entities that carry out critical functions could remain open. The claims (equity interests) of the shareholders and the claims of the subordinated and unsecured debt holders against the firm in resolution would remain in the receivership where they would be subject to the claims process and would absorb losses. This means that the liabilities assumed by the bridge holding company would be materially less than the assets.

The entity in resolution would be wound down, and the shareholders and creditors whose claims are left behind would be able to file claims against the estate of the failed legal entity. There is typically a fixed time-period within which claims must be submitted. After this claims period, the RA assesses the validity of the claims, and, to the extent funds are available, pays approved claims in accordance with the statutory creditor hierarchy and consistent with the applicable no creditor worse off (NCWO) law or rule in effect in such jurisdiction. Payment of allowed claims may include in the claimant's participation in a 'securities-for-claims' exchange. In this case, allowed claims against the failed firm can be satisfied through distribution of securities (which could be equity or debt) in the successor entity or entities, which succeed the bridge institution. The securities-for-claims exchange is one option developed in the US by the FDIC to implement its approach to bail-in. Other jurisdictions that have closed firm bail-in options available to them in their resolution regime include Japan and the UK.

1.2. Open firm bail-in (direct conversion)

Bail-in can also be applied to a firm within the existing legal entity structure, i.e. without or in addition to transferring assets and liabilities to a bridge institution. This approach requires that the write-down and/or conversion into equity of the liabilities subject to bail-in is carried out in a shorter timeframe.

When the failed firm is placed into resolution, the RA may issue an order to suspend trading of relevant securities issued by the firm. The firm's equity is written down and/or cancelled; and the relevant liabilities are written down and/or converted to equity – typically through the creation of new shares in order to recapitalise the firm in resolution. Relevant records at registrars are updated and the new equity is listed for trading. Upon completion of the resolution actions, ownership rights of the firm (including shareholder/ voting rights) can be exercised to the (new) shareholders.

This approach is one of the bail-in options being developed, for example in Germany and Switzerland.

1.3. Open firm bail-in with interim instruments

Some jurisdictions have developed an approach to open firm bail-in that includes the use of interim instruments issued either before the issuance of new equity (or redistribution of existing equity) (Netherlands (NL), United Kingdom (UK)), or in parallel and as a complement to it (France (FR)).

Upon entry into resolution, relevant securities issued by the firm in resolution may be suspended from trading on domestic exchanges. Equity (reserves, shares, capital instruments) is written down/ cancelled or converted (FR, NL). In some jurisdictions, equity is transferred to another entity, such as a depository bank, and later redistributed to the bailed-in creditors instead of the issuance of new shares (UK). Depending on the magnitude of the loss, liabilities eligible for bail-in may also be written down in part or in full (and cancelled). Further valuation work is completed over the weeks or months following entry into resolution to inform the RA's determination of conversion rates for the interim instruments, the level of recapitalisation for the firm in resolution and the application of the no creditor worse off (NCWO) safeguard.

Depending on the open firm bail-in approach applied, the creditors (and in some cases equity holders) would receive interim instruments at, or shortly after, entry into resolution. These instruments represent a potential claim to receive an unknown quantum of shares (or other equity securities) of unknown value in the resolved entity at a future date. The quantity and/or value would depend on the conversion rates determined following completion of definitive valuations.

Alternatively, interim instruments can be used to adjust written down and converted creditors' rights for any valuation gap. They may be issued, in parallel to the issuance of new equity, for the purpose of conversion of liabilities subject to bail-in, on the basis of the provisional valuation. Once the final valuation is completed, the securities resulting from the exchange of interim instruments will compensate for any potential excess bail-in based on the provisional valuation.

In an open firm bail-in, interim instruments allow for valuations to be completed before interim instruments are exchanged or converted, and ensure that an appropriate level of write downs and compensation is determined. They will typically be tradeable, or at least transferrable. In some cases, they may receive a listing on an exchange or other TV. The RA will determine the ratio for interim instruments to be exchanged/converted into equity or other compensation.

The exchange process will take place following announcement of the terms of exchange. The (new) owners of the firm are able to exercise rights (including shareholder/ voting rights) as the RA (or any appointed administrator/special manager) ceases to exercise those voting rights. The interim instruments are cancelled upon exchange.

This approach is one of the main options being developed for firm resolutions in the Netherlands, the UK and France.

2. Elements of the bail-in mechanism

Upon entry into resolution, all relevant securities issued by the firm in resolution or only those to be bailed-in are suspended from trading and, in most cases, from settlement. Equity in terms of

shares is written down, and cancelled (in case of write down to zero) or transferred to another entity such as a depository bank (for redistribution). Other capital instruments may be written down and cancelled as well, or converted into shares in case the scale of the loss allows using these instruments for recapitalisation. Other liabilities eligible for bail-in may also be written down at this stage, depending on factors such as the scale of the loss and completeness of the initial valuations.

Executing these steps requires diligent planning and preparation. Several decisions have to be taken and determinations have to be made during execution of bail-in, possibly under high time pressure, and therefore should be carefully prepared in advance.

Box 1: Preparation of bail-in execution

Determinations to be made in preparation of bail-in could, in particular, include the following:

- Determining the liabilities subject (in whole or part) to bail-in and their specifications. For example, in relation to securities, authorities need to gather the relevant information comprising the International Securities Identification Number (ISIN), currency of denomination, whether they are listed/traded and if so on which TVs, relevant CSDs and/or international securities depositories (ICSDs) in which they are held or settled, governing law (e.g., whether they are governed by a foreign law and include contractual recognition clauses), and their ranking in the creditor hierarchy (applies to open firm bail-in).
- Estimating the extent of losses that need to be absorbed through bail-in based on a valuation of assets and liabilities to calibrate the extent of the bail-in and the allocation of new equity to bailed-in creditors (applies to open and closed firm bail-in).
- Determining the treatment of different classes of liabilities (e.g., write-down and/or cancellation of equity instruments; write-down and/or conversion of bailed-in liabilities, such as TLAC instruments) based on the valuation and the applicable creditor hierarchy (applies to open firm bail-in).
- Determining the instruments that will be issued in return (e.g., ordinary shares or equity securities), including the conversion rates and fractional entitlements based on the valuation and applicable creditor hierarchy (applies to open firm bail-in).
- Determining whether securities subject to bail-in, or all securities listed by the entity in resolution will be subject to a trading suspension and/or delisting (applies to open and closed firm bail-in).
- Identifying beneficial ownerships and qualifying holdings that may require approvals to meet relevant anti-money laundering and combating the financing of terrorism (AML/CFT) and securities law requirements (applies to open and closed firm bail-in).
- Determining applicable disclosure and other requirements, such as prospectus requirements, in connection with the bail-in transaction and the issuance of new instruments (applies to open firm bail-in).
- Determining the timing and eventual end of bail-in when a suspension of trading will be lifted and voting rights will be exercisable by the new shareholders (applies to open firm bail-in).

The following sections describe the steps of bail-in execution under the different bail-in approaches in more detail and identify issues that may need to be addressed as part of resolution planning, in particular in relation to the cross-border dimensions of bail-in execution.

3. Operational steps regarding trading and listing

3.1. Suspension of trading from a TV

Entry into resolution as well as the period leading up to resolution are likely to be accompanied by rapid price declines of the distressed firm's securities and extreme volatility in their trading. A suspension of trading in the securities of the firm entering or expected to enter resolution, or a temporary trading halt, may therefore be required in light of potentially disorderly trading or the absence of reliable financial information. The objective of the suspension is to enable the orderly resolution and stabilisation of the firm, as well as to maintain fair and orderly market conditions and to protect investors, so that trading is undertaken on a fully informed basis, and to avoid any uneven information dissemination and opportunities for insider dealing.

In some jurisdictions bail-in requires an immediate suspension of all dealings in the relevant securities affected by the bail-in. In other jurisdictions, there is no such requirement, and the suspension would need justification to be imposed based on other grounds relating to the orderly functioning of the market

3.1.1. Request for suspension

The authorities or entities entitled to request a suspension differ across jurisdictions and several options may coexist in a given jurisdiction. For instance, in some jurisdictions, such as Hong Kong (HK),[8] UK, FR and Germany (DE), the RA has the power to require a suspension, either by requesting the MA or independently. In others, the MA is the sole competent authority for ordering a suspension. Furthermore, the issuer itself can generally also initiate a suspension.

Box 2: Approaches to suspension of trading

There are different approaches to a suspension of trading:

- Suspending instruction of the local MA[9] to the operator of the exchange: executed automatically and immediately. The MA may liaise with the RA in order to coordinate its actions.
- Suspending instruction of the local MA to the operator of the exchange at the request of the RA[10] (FR): the RA specifies the suspension in its resolution decision[11], and notifies the suspension to the MA, which is empowered to impose the trading suspension and sends a request to the relevant TVs.

8 In Hong Kong the RA may, in certain circumstances and before any stabilization option has been applied, direct the HKEX to suspend all dealings in any securities of the relevant entity until notified in writing by the RA that dealings in those securities may recommence. However, where bail-in has been applied and is ongoing, all dealings in any securities of the relevant entity are suspended by force of law until the suspension is lifted by the RA.

9 In the EU, exercising its MiFID II powers which are most easily executed where the TV, issuer, RA and MA operate in the same Member State. *Directive 2014/65/EU of the European Parliament and of the Council*.

10 In the EU, exercising the RA's BRRD powers, only in relation to regulated markets within MiFID II meaning. *Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC*.

11 In the Banking Union, the Implementing Decision of the National RA corresponds to the SRB's resolution scheme.

- Suspension instruction of the RA to the operator of the local exchange (DE): the suspension is directly ordered by the RA in the resolution decision.[12]
- Suspension request of the issuer to the operator of the TV[13]: reasoned request by the issuer directly sent to the relevant TVs, in accordance with the TVs' own rules and procedures. The TV will have to assess the validity of that request by reference to its rules and, if relevant, any applicable jurisdiction-specific rules.
- Decision taken by the securities exchange(s) to be distributed to all market participants (US, some EU countries) on the basis of the rules governing the exchange(s), taking into account the interests of the securities market, interests of the investors and, if applicable, interests of the issuer. In that case, the exchange will fix the date when the suspension will take effect. Some exchanges may request the issuer to publish a press release to this effect.

In some jurisdictions, different approaches may co-exist. For example, in France a suspension requested by the RA allows for a longer period compared to a suspension requested by the MA under the common regime.

For example, generally, a request to suspend trading should be implemented on the same day of the decision to suspend trading. However, depending on the complexity of the case and the timing to decide, the process as well as the date of suspension may vary. Certain exchanges (Switzerland (CH)) consider it quicker and easier to receive the request to suspend trading from the (i) issuer itself, or (ii) persons identified as duly empowered by the issuer (an authorized representative acting on behalf of the issuer). Other exchanges have indicated that such approach would take longer than if the request was received from the RA or the MA due to longer assessment periods for issuer requests. In other jurisdictions (Spain (ES), NL, HK), the process is the same regardless of who makes the request.

Box 3: Suspension of trading in the European Union (EU)

Under the current EU legal framework, a suspension of trading is not automatic in all Member States. However, there are arrangements in place to ensure the swift implementation of a suspension request in the event of bail-in. For instruments listed on several EU trading platforms, one EU MA can launch a European suspension procedure (SARIS) whereby, when that MA decides to suspend from trading, a financial instrument in its jurisdiction, it requests at the same time its EU counterparts to replicate ("recognise") its suspension in respect of their respective TVs. The SARIS suspension procedure requires several data points, such as ISIN code, trading venues, start and end of suspension, and rationales for suspension. The same procedure is used for the communication of delisting decisions among EUs MAs. Recognition is automatic for suspension on certain grounds, e.g., suspected market abuse, take-over bid or the non-disclosure of inside information about the issuer or financial instrument.

The MA initiating the suspension of trading is required to publish its decision and to communicate it to other EU MAs and the European Securities and Markets Authority (ESMA). Those other MAs are generally required to implement a suspension in respect of instruments which are also traded in their jurisdictions (subject to certain discretions of those other MAs). The SARIS procedure, however, may

[12] In Germany, the RA has the power by national resolution law to suspend and discontinue trading on regulated markets as well as on OTF, MTF and at Systematic Internalisers.

[13] In jurisdictions where specific options exist to suspend trading in resolution, further legal considerations have to be given by the relevant stakeholders (MA, RA and operator of relevant exchange(s)) to the articulation between the resolution specific suspension regime and common suspension regime.

not cover all situations of cross-border listings. For example, if a security is only listed in an EU Member State that is not the firm's home Member State (i.e. there is no secondary listing in the firm's home Member State), the MA in that other Member State is competent to require the suspension of trading and not the MA from the home Member State. Also, RA powers to suspend extend only to TVs in the firm's home Member State.

The scope of the SARIS procedure does not extend to cross- border listings involving non-EU jurisdictions.

As part of resolution planning, authorities need to be prepared to swiftly issue a request or instruction to suspend trading. It is therefore important, on an ex-ante basis, to consider the scope and information needed to prepare such instruction. Instructions to TVs typically include a description of each relevant security, including its ISIN or Committee on Uniform Security Identification Procedures code (CUSIP),[14] the TVs where the relevant security is traded, and the effective date and time (crucial information, in particular, where the request for suspension is to be implemented by the TV during market opening hours).

It will be important to identify other relevant stakeholders affected by suspension of trading that need to be informed, such as CSDs or ICSDs. The suspension may be communicated by the MA (FR) and through their website using predetermined formats. The firm in resolution may issue a press release (NL, DE, Luxembourg (LU)). The national numbering agency (NNA) may reflect the deactivation/suspension of the security in its database by adjusting the status of the respective ISIN accordingly.

3.1.2. Scope and duration of suspension

It is also important to consider the scope of the suspension and decide whether it will be applied only to the instruments affected by the bail-in or whether all instruments issued by the firm will be covered. As it would seem unlikely that volatility is just limited to one or certain types of instruments, a suspension covering all instruments issued by the firm may be necessary to avoid volatile trading on instruments that are not directly affected by the bail in, and to help stabilise the firm. The list of relevant ISINs or CUSIPs should be available to the TV before the start of trading on the day the trading suspension becomes effective.

Jurisdictions have differing approaches to determining the duration of a suspension of trading as described above and in some cases different rules exist between RAs and MAs. Besides ensuring an orderly resolution and the stabilisation of the firm, the protection of investors and the stability and the integrity of the financial market are considered by RAs and MAs when determining the duration of the suspension. In some jurisdictions, an MA's authority to suspend trading is subject to limitations provided in national legislation. For a few exchanges the duration of the suspension of trading is specified in the initial instruction to suspend on trading based on the prevailing facts and circumstances (LuxSE, SIX Swiss Exchange).

However, the duration of any trading suspension depends on the time required for the technical implementation of bail-in. In particular, in case of instruments that will not be fully written down, the suspension of trading is required for at least as long as is needed to reflect the (partial) write-

[14] There may also be other types of identifier which may also be relevant.

down in the systems of relevant FMIs. The MA and RA need to estimate the necessary duration in advance as part of resolution planning.

3.1.3. Suspension of trading on other trading platforms than main exchanges

Trading in securities subject to bail-in can also take place on other types of trading platforms or venues, or even over the counter (OTC). Those other types of venues are not discussed here but may nevertheless be relevant in a resolution if a portion of wholesale market bonds (which qualify as TLAC) are traded OTC. In some jurisdictions, the RA does not have a direct power to suspend trading on non-regulated markets, however, in some jurisdictions (e.g., UK, FR, NL), the RA may be able to rely on the MA which may have such power.

In the EU, suspensions ordered to regulated markets by the relevant regulator have to be followed by a suspension on other platforms (MTF, OTF) and systematic internalisers, including non-regulated markets.[15] Where necessary, the suspension can also be extended to the related derivatives, in order to support the objectives of the suspension or the delisting of the underlying financial instrument. In some jurisdictions (e.g., DE) national resolution law confers powers to the RA to order the suspension of trading on the regulated market as well as on OTF, MTF and at systematic internalisers. Most jurisdictions do not provide for legal grounds for the suspension of OTC trading as such.

3.2. Delisting from a TV

The full write-down of an instrument generally leads to the delisting of such instrument (technical delisting). In certain jurisdictions, the delisting may occur automatically, following an extended period of suspension from trading (e.g., in HK, suspension for 18 months continuously). In other jurisdictions (e.g., EU), RAs may specifically be granted the power to order the delisting of financial instruments to give effect to bail-in. [16]

Box 4: Initiation of the delisting process

Generally, delisting a security follows the same process as the suspension of trading and can be initiated:

- Upon request of the local MA;
- Upon request of the RA (in liaison with the MA);
- Upon request of the issuer (US national securities exchanges);
- Upon decision taken by the securities exchange(s) on its own initiative or upon request of either the MA or by the issuer to the securities exchange (LuxSE, Euronext, HKEX, JPX, US national securities exchanges).[17]

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15 A Systematic Internaliser (SI) is a MiFID term, which corresponds to an investment firm, which, on an organised, frequent, and systematic, and substantial basis, deals on its own account (principal trading) by executing client orders outside TVs: Regulated Market (RM), Multilateral Trading Facility (MTF), or Organized Trading Facility (OTF).

16 In Book I of the Euronext Rule Book, resolution actions are not explicitly mentioned as grounds for automatic delisting and should be considered separately unlike the normal insolvency proceedings (liquidation or winding up of the issuer) which leads automatically to delisting following any applicable notice periods.

17 In some jurisdictions, the issuer will have to file an official notice with the exchange (e.g., SIX Swiss Exchange) to delist securities. Detailed information is required such as the reasons for delisting, the ISINs impacted by the delisting decision as well as the

A decision to delist a security typically takes into account factors such as the protection of investors or the maintenance of an orderly market (EU and HK). Also, certain exchange(s) may consider the delisting application from the issuer having regard to whether bail-in arrangements have been included in the terms and conditions of the securities. In a bail-in context, the delisting typically follows the general processes of delisting at a given TV. The duration of such process is different across jurisdictions.

Box 5: Duration of delisting process

The duration of the delisting process depends on several factors and may vary across jurisdictions. The time required for accomplishing delisting is a matter decided by an exchange.

- At some exchanges, once the delisting request is received, the securities will be delisted on the following day, following an automated process (UK).
- In a few jurisdictions, depending on the circumstances of the case and provided that the exchange has all relevant information and all coordination procedures were met (e.g., when securities are listed on multiple venues), a delisting can be accomplished immediately.
- In some jurisdictions (HK, UK, Japan (JP), Euronext markets' jurisdictions), the timeframe for a delisting depends on the circumstances of individual cases and, where applicable, the quality of submissions received from issuers to support their delisting applications.
- In the US, a class of securities will generally be delisted from a national securities exchange 10 calendar days after the national securities exchange, or the issuer files a form with the SEC. The issuer must also follow any delisting rules of the relevant exchange, which may include providing the exchange with notice of an intention to file a form approximately 30 days before doing so. In order to deviate from that 30-day requirement, one has to consult with the national securities exchange where the securities were traded.
- In some jurisdictions, fully written down and cancelled security(ies) will be delisted by the trading venue(s) upon information from the Market Authority (EU (ESMA, ES)).

The delisting will be communicated to market participants by an official notice to be published by the exchange (CH, Ireland (IE), FR, DE, LU) and/or by the MA (ES, FR) and/or by the RA (NL, UK, HK) containing the effective date of the delisting. The impacted entity can also make its own announcement. The CSDs need to be informed of the delisting (e.g., formal communication from the exchange or from the relevant agent) in order to inform holders.

3.3. (Re-)admission to trading and listing of new instruments

After bail-in, execution trading and normal market functioning will resume, which may entail two distinct processes:

- **lifting of trading suspension** of the securities which have been only partially written down, where applicable; and

relevant exchange(s). It is possible that the applicable exchange may impose additional details. In the US, the national securities exchange(s) or the issuer must also file a form with the SEC.

- **listing and admission to trading** of the securities resulting from the conversion in an open firm bail-in or, in the case of a closed firm bail-in, securities of a new entity that are distributed to claimants.

Actors involved at this stage will generally be the same as for trading suspension: RAs, MAs, TVs and issuers. The re-admission to trading of existing instruments that have been only partially written down and temporarily suspended during the bail-in process usually follows the same procedures as the suspension of trading and delisting. In some jurisdictions, such as the EU, RAs have specific powers to facilitate those steps, such as the power to require or complete the re-admission of any debt instruments, that have been partially written down, and the admission of securities resulting from conversion, without the requirement for issuing a prospectus.

In some jurisdictions (DE), a special order for resumption of trading will be provided by the RA to relevant exchanges as soon as the bail-in has been implemented. This order will state that the trading of specific instruments affected by the suspension of trading must be resumed on the next business day. This will not apply to cancelled shares, as they will not exist anymore.

Where new equity instruments issued as a result of the bail-in require listing and admission to trading, additional administrative steps may have to be undertaken to ensure compliance with investor protection regimes and CSD eligibility requirements. In case bailed-in securities were either deposited with non-domestic CSDs or traded on non-domestic TVs, or where those bailed-in securities were issued under the governing law of another jurisdiction, the requirements of those foreign jurisdictions will have to be taken into account in addition to the domestic legal framework.

4. Write-down and cancellation of instruments

The execution of a write-down of equity, other instruments of ownership and, where necessary, liabilities involves actions by a number of stakeholders (RA, firm, agents), including CSDs. CSDs are key players in the execution of bail-in, as they need to reflect in their systems and in the accounts of their participants the actions that RAs have taken in respect of the instruments of a firm in resolution (write-down of debt or equity and cancellation of the instrument, but also conversion of debt into equity, or redistribution of existing shares to the bailed-in creditors).

4.1. CSD processes supporting write-down

CSDs assume different roles to facilitate investors' access to a given market. They can act as issuer CSD or as investor CSD.

- An **issuer CSD** is a CSD in which securities are issued (or immobilised): it is thus the primary place of deposit for the given securities. The issuer CSD opens accounts allowing investors (in a direct holding system) and/or intermediaries (including investor CSDs) to hold these securities. In each market, there is at least one domestic (local market) issuer CSD. In some cases, several issuer CSDs coexist at the national level, specialising per product class (e.g., equity vs. fixed income (bonds); or equity and commercial bonds vs. sovereign bonds). In many jurisdictions, the issuer CSD is responsible for ensuring the integrity of the issuance, i.e. that the number of securities initially created equals the total number of securities in circulation (booked in investors'

accounts) at any time. The issuer CSD takes the lead in reflecting the write-down and/or conversion on its books and any cancellation of instruments.

- An **investor CSD** – or a third party acting on behalf of the investor CSD – opens an account at the issuer CSD to enable the cross-system settlement of securities transactions. The activity of investor CSDs is facilitated by direct and indirect (through a third party, usually a custodian bank) links amongst CSDs. Domestic CSDs or ICSDs may act as investor CSDs in respect of securities issued in other markets. Investor CSDs usually follow the local market issuer CSD and only credit the proceed securities[18] after having received information that these securities have been credited to their account at the local CSD of issue. A cross-border context therefore entails a longer and more complex cross-border custody chain between the issuer and the end investor (Figure 2) which may pose challenges to swift communication (see section 9.3.1).

For a new security to be credited to the accounts of holders in a given CSD and for supporting the transfer of instruments across holders, the relevant CSD must either be the issuer CSD or have an active link with the issuer CSD for the new security and act as investor CSD. In the absence of inter-CSD links (or when the proceed security does not meet the eligibility criteria of the foreign CSD) the usual market practice is for the agent to gather from the participants in the foreign CSD the delivery details for the proceed security.

The ICSDs Euroclear Bank and Clearstream Banking Luxembourg act as issuer CSDs for international bearer debt securities (Eurobonds).[19] However, they also act as investor CSDs by accepting other securities on their platforms (equities, warrants, national fixed income securities, structured products, etc.) that have been issued in numerous local markets.[20]

Figure 2: Securities issuance and holding chain (simplified)

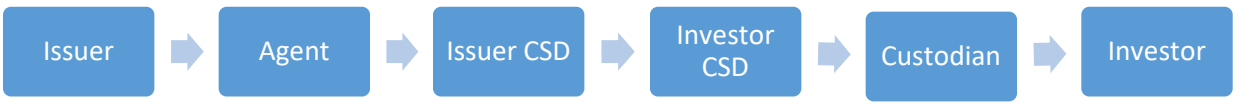

Figure 2 represents the holding chain in a simplified manner. On the one hand, an issuer uses an issuing agent for the purposes of facilitating the issuance of securities in an issuer CSD. On the other hand, an investor purchases the securities. The investor CSD facilitates access to the given local market to investors without access to such markets. The relationship between the investor and the investor CSD may be direct or indirect through a custodian. The investor CSD itself may access the given local issuer market either directly or indirectly through a custodian with an account at the issuer CSD (this is not represented in the figure, for the sake of simplicity).

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18 For the purposes of this paper, the exercise security is the "old" security subject to the conversion, while the proceed security is the "new" security issued as part of the conversion. Usually, in a bail-in, the exercise securities are bail-inable bonds (debt), while the proceed securities are shares or other instruments of ownership, or interim instruments representing contingent entitlements.

19 A bearer security is a security whose owner's name is not recorded (registered) in the register of the issuer, and which is payable to its holder or presenter. Ownership (title) of such securities is transferable merely by handing over or delivery.

20 See Annex 5 for a more detailed description of bail-in at the ICSDs Euroclear Bank and Clearstream Banking Luxembourg.

CSDs are key players in the execution of bail-in, as they need to reflect in their systems and in the accounts of their participants the actions that RAs have taken in respect of the instruments of a firm in resolution, including:

- The **write-down** of the relevant instruments to absorb losses: shares, other instruments of ownership, but also debt securities if the amount of losses so requires;
- The **cancellation** of the relevant debt and/or equity instruments used to absorb losses to render the instruments legally non-existent.
- The **conversion** of the relevant debt instruments into new shares or other instruments of ownership or the redistribution of existing shares to recapitalise the firm in resolution in an open bank bail-in (please refer to Section 5 for a description) or the **issuance** of new securities of a new entity in a closed bank bail-in.

Under CSD procedures, a bail-in scenario is generally treated as a corporate reorganisation event. [21] However, given that it is an action imposed by a RA, it does not require any approvals by the holders of instruments held in CSDs.

An open firm bail-in entails the full or partial write-down of debt and equity instruments, as well as full or partial conversion (whereby the converted portion of the exercise securities[22] is also written down). In both cases, the write-down of the securities may take place through the adjustment of the nominal value or of a pool factor in the books of the CSD. A pool factor is used to calculate the value of the outstanding principal of the financial instrument applicable until the next redemption (factor) date, or after the redemption (factor) date. At the time of an open firm bail-in, some instruments may already have a pool factor below 100%, because their value would already have been reduced, e.g., by a partial redemption or a reorganization, while others may have a pool factor above 100%, e.g., when interest has been capitalized.

Box 6: Steps of execution of write-down

In an open-bank bail-in, the steps in a write down are generally the following: (see Figure 3):

- The firm subject to bail-in notifies its agent[23] of the resolution decision determining the bail-in.
- The agent forwards the notification to the CSD (and the NNA, where it is different from the CSD[24]), together with technical instructions.[25]

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21 No specific corporate action standards (ISO 20022) exist to date for a bail-in event. Such an event must therefore be captured by existing corporate action events, with specific information in free text in the standard corporate action instruction template where possible and/or accompanied by a separate communication.

22 A security subject to a corporate action event. In a bail-in a security that is written down or converted.

23 Usually the paying agent for the issuance. The agent represents the issuer (here the firm in resolution). The firm subject to bail-in can perform the role of an agent itself in case it is acting as an agent in the market (i.e. it has an entity or business unit that performs this role for other issuers). Firms usually work with the same small set of issuing and paying agents for their bail-inable securities. In the case of G-SIBs, some of these agents are part of the GSIB's own group. However, the contracts and agreements established with those agents usually only cover the standard corporate actions included in the securities' documentation. Bail-in is an extraordinary event and resolution planning may require establishing new agency relationships or amending existing ones. Firms may gain time and support a smooth process by determining ex ante which agent(s) they would use in the event of resolution and by including in their contracts (or in their service level agreements) provisions covering the execution of corporate actions supporting a bail-in.

24 The role of the NNA is often fulfilled by the CSDs.

25 Some CSDs would expect to also receive instructions from the RA (UK). The ICSDs will also expect to receive an instruction letter from the RA.

- The CSD performs the write down, by setting up an “event” per affected ISIN and releasing a notice to participants. The write-down may need a night-time processing cycle to be effected.
- The CSD confirms the execution of write-down to the agent (by e.g., SWIFT).
- The CSD sends a notice to investors via (CSD) participants.
- The agent matches instructions from the CSD with those from the firm subject to bail-in (reconciliation).

4.2. Instructions to CSDs and information needs

CSDs need clear instructions from the RA as to the operations they need to perform. Several CSDs expect to receive a formal communication from the RA on the details regarding the write-down and cancellation of securities. To kick-off the process the initial instruction could be limited to providing generic information about the resolution and bail-in event, including a request for settlement to be suspended, as necessary. The actual details of the bail-in could be provided in a second instruction which could also contain instructions regarding the treatment of related open transactions, where applicable, as well as other elements included in table 1 below.[26]

CSDs generally express a preference for the use of standard corporate actions processes (e.g., issuance or cancellation of securities) to implement the bail-in order of the RA given that these allow for fully automated processing.

CSDs need an exact and accurate list of ISINs, CUSIPs or other relevant codes for the securities to which the bail-in is applied (or the name of the issuance in the absence of such a code), as well as detailed instructions with regard to the actions to be performed. Firms and RAs will need to work with agents (including registrars performing that role), CSDs and, where appropriate, depositaries and reference data providers[27] to match and validate such information.

Table 1: Examples of information requested by certain CSDs to support bail-in execution (write-down)

Information item	Definition
Name	Name of the firm in resolution/issuer.
LEI	Legal Entity identifier, a unique global identifier for legal entities participating in financial transactions.
Company Registration Number*	Unique identification number assigned to a company or entity, usually included in certificate of incorporation.
Affected instrument (ISIN, CUSIP or other code)	Listing of all codes for instruments subject to bail-in.

[26] The firm in resolution can perform the role of an agent itself in case the firm is itself acting as an agent in the market (i.e. it has an entity or business unit that performs this role for other issuers.

[27] The transmission of these details could be supported by an agent. In some jurisdictions, specific reference data providers are closely involved in the registration and storage of securities information.

Information item	Definition
Scenarios applicable to the affected instrument codes*	Description of the event. The operational instruction (usually a SWIFT message) will be based on existing corporate action standards, accompanied by a description that would make clear the exceptional nature of the event.
Outstanding Aggregate Principal Amount, e. g. according to Global Certificate/Global Note*	Total outstanding amount available on the market at the time of bail-in, in original currency, i.e. the currency in which the instrument has been issued.
Denomination (old)	Smallest outstanding amount per bond in original currency before the write-down/ conversion.[28]
Denomination (new, as applicable)	Denomination after application of the nominal reduction (write-down and/or conversion), as booked into the systems of the CSD, in original currency.
Currency of denomination (old)*	The original currency, i.e. the currency in which the instrument has been issued.
Pool factor (old)* (as applicable)	Listing of old (pre-resolution) pool factors per instrument (if applicable).
Pool factor (new) (as applicable)	Listing of new pool factors per instrument (if applicable).
Reduction ratio (due to write-down)[29]	List of ratios per instrument, with explanatory comments as necessary.
Effective date of suspension of trading*	Date on which trading in the instrument is due to be suspended.
Effective date of settlement blocking*	Date on which settlement in the instrument is due to be suspended, in particular if different from the effective date of suspension of trading as per above.
Treatment of interests	Information on treatment of accrued interest and principal payments/redemptions.[30]
Publication	Relevant web pages of issuer/firm, RA and any additional websites.
Effective date of the write-down / cancellation*	Date on which the instrument was due to be effectively written down in the books of the issuer and cancelled, as applicable. This information is usually part of the resolution order issued by the RA.
Record date	Date/time at which positions are struck at the end of the day to note which parties will be subject to write-down and possibly receive the relevant amount of entitlement, due to be distributed on payment date.

[28] In some cases, several denominations of the same ISIN may exist. This is why the *International Securities Operational Market Practice Book, January 2012*, uses the following definition for denomination (multiple): smallest amount of the security that can be transferred, in original currency. This is different from the minimum denomination that can be transferred.

[29] "Conversion rate" in case of conversion, see Sections 5 and 6.

[30] The treatment of accrued interests depends on the jurisdiction (and insolvency hierarchy). ICSDs need to be informed of any expectation to postpone, cancel or otherwise modify any payment events stemming from the security's documentation.

Information item	Definition
Treatment of open transactions*	Information on how transactions entered into the system, matched but not yet settled should be treated, in particular if any deviation from standard CSD rules is expected.
Effective date of resumption of trading, for all relevant instruments*	Date on which trading in the instrument is due to resume.
Effective date of resumption of settlement, for all relevant instruments	Date on which settlement of transactions in the instrument is due to resume.

(*) denotes market- or CSD-specific fields that may not always be necessary.

CSDs generally release a notification to their participants that are holding the securities.[31] This communication is expected to be passed on along the chain of custody to the clients of the CSDs' participants, and all the way down to the ultimate investors.

4.3. Determination of record date and treatment of payment events

4.3.1. Determination of record date

The record date is the relevant date on which the CSD takes a snapshot of its books for the purpose of capturing the names of the legal owners that will be affected by the bail-in (CSDs can in some cases input an event with a past record date into their systems).

In some jurisdictions, the RA will determine a general record date that it applies in all resolution cases. This may be, for example, on T+2, after completing the settlement of on-exchange trades executed on the day before resolution.[32] In other jurisdictions a RA may set the record date on a case-by-case basis, at the time of resolution. As a consequence, there may be different approaches in respect of the record date applied upon the resolution of different entities. In resolution planning, RAs and firms therefore need to pay attention to these differences and their implications in case of a firm with multiple issuances in different TVs and CSDs across different jurisdictions/time zones and/or issuances under different governing laws.

For bail-in to be reflected in the books of the CSDs by the date of the publication of the resolution order the settlement of transactions involving the relevant securities may have to be temporarily suspended ex ante. Informing CSDs of the resolution decision before it is published and takes effect would enable a CSD to have the time to make all necessary preparations. However, statutory confidentiality provisions in some jurisdictions might prevent RAs from providing such communications with CSDs prior to publication of the resolution order.

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31 See box 6.

32 In cases where the resolution of the firm would be decided over the weekend: the bail-in would be applied after the settlement of Friday-traded securities.

4.3.2. *Treatment of accrued interests and other payment events included in securities' documentation*

The instructions to CSDs should contain information on the payment of accrued interest as well as the treatment of other payment events (e.g., redemption) stemming from the security's documentation. Depending on whether the securities will continue to exist following the bail-in or be cancelled, the payments may be cancelled or suspended. CSDs need to be informed as to any expectation to postpone, cancel or otherwise modify any such payment events planned to take place after the publication of the resolution order.

4.4. Suspension of settlement

4.4.1. *Request for suspension*

Where trading is suspended as from the publication of the resolution order as described in section 3, new trades should not take place from that moment onwards, for all the securities in scope of the trading suspension. Trades in the given securities are unlikely to occur in case of a trading suspension, though they cannot fully be excluded from over-the-counter trading. Suspending settlement thus provides an additional safeguard preventing changes in ownership after the resolution decision, or after a specific point in time defined by the resolution authority. It also eases the implementation of the corporate event by the CSD.

Box 7: Interactions between trading and settlement, and settlement finality

The market standard for the settlement of (secondary market) trades in securities executed on an exchange is T+2. In some jurisdictions, such as the EU, this approach is supported by legislative provisions. For debt securities traded OTC, counterparties can agree on the settlement date bilaterally, though it is common practice for settlement to occur no later than four business days after the trade.

CSDs receive trades for settlement processing from the central counterparty (for cleared transactions) or from the counterparties to the transaction (for uncleared trades). These trades are matched and put in the queue for future settlement. These processes are fully automated and the CSD does not usually intervene. Finality[33], however, is only achieved at the moment of settlement.

Where requests to CSDs involve temporary suspensions[34] of settlement, CSDs need to receive an explicit request sufficiently early in order to be able to appropriately validate and process the instruction. CSDs may themselves decide to temporarily prevent the settlement of new trades in the relevant securities, if necessary, to execute the bail-in, in line with their rules. Once settlement is suspended, transactions regarding the notified ISINs would no longer be allowed in the CSD's systems.[35] Participants would therefore be precluded from entering new settlement instructions for these securities during the suspension period. This would affect normal settlement operations, as well as related services (collateral management, securities lending and borrowing). CSDs would need at least a few hours, sometimes days, to implement such a freeze.

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33 The irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of an obligation by the FMI or its participants in accordance with the terms of the underlying contract. Final settlement is a legally defined moment. See (2016) *CPMI glossary*.

34 Depending on the CSD, this is called "suspension", "blocking", "freezing" or "temporary disablement".

35 It would be a different situation than bankruptcy, as securities continue to be traded in bankruptcy, even if in default.

CSDs would typically only suspend settlement of securities, including the ones for which a suspension of trading has been implemented, upon formal instruction from some or any of the following actors (upon validation of the authenticity of the request): an insolvency practitioner, a court (through an order imposing a restriction on the security), the regulator of the CSD, another relevant regulator or the RA of the firm. Some CSDs would also suspend settlement upon the issuance of an order for the halt or suspension of trading of the relevant security by an authority.

For example, DTC would impose a "Global Lock" upon receipt of an order from certain US regulators, e.g., the Financial Industry Regulatory Authority, Inc. (FINRA), or the U.S. SEC. CSDs may also suspend settlement of the securities if continued settlement of those securities would threaten the integrity or otherwise put at risk their settlement system or their participants. Some CSDs report that, in respect of securities accessed through international links (in their role as investor CSDs), they would follow the actions of the primary issuer CSD (EUI, ICSDs). If the firm in resolution were to request the suspension, further clarification would be sought.

4.4.2. Treatment of open transactions

Open transactions (transactions entered into the systems of the CSDs and duly matched but not yet settled) may be treated as follows, depending on the operational processes of the CSD and the domestic legal framework:

- for transactions due to settle before the "record date": no settlement would take place between the "record date" and the "payment date" or "settlement date" of the event;
- for transactions due to settle after the "payment date" or "settlement date": these might settle if the underlying securities continue to exist, such as following partial write-down;
- for transactions of underlying securities, that would be cancelled and cease to exist as from the moment of bail-in, these would not settle and eventually be reversed by the CSD. This would be the result of a full write-down.

Open transactions may also be treated according to the compensation rules of the CSDs described in their Compensation Handbooks (e.g., DE).

In some cases, RAs may consider that it would be desirable to prevent the settlement of all open transactions. Some considerations in this respect are:

- **the moment at which transfer of ownership takes place.** This is defined in the national legal framework. Different jurisdictions may have different points in time when the transfer of ownership from the seller to the purchaser of securities takes place (e.g., the date of the settlement, the date of the transfer agreement, or the date of registration). There may also be a difference as to whether the effects of the transfer are considered only among the parties (*inter partes*), or also vis-à-vis the issuer and any third party (*erga omnes*). For example, the former may take place at the moment of the trade, while the latter occurs at the moment of that all administrative procedures have been completed, including settlement across different types of securities, whereby for exchange-traded securities the transfer of ownership may take place at the moment of the trade. Where the transfer of ownership takes place at the date of the transfer agreement, only new trades might need to be prevented during the bail-in period. If it

takes place upon settlement, then it might need to be considered to what extent the risk of incomplete transfer of ownership may require the suspension of settlement of these open transactions. Differences between jurisdictions require a planning effort to achieve mutual understanding of the legal framework and advance planning of coordination between authorities in relevant jurisdictions during execution of bail-in.

- **the prerogatives of RAs.** In most jurisdictions, RAs do not have the power to instruct the CSDs to cancel pending settlement instructions or freeze settlement. In only a few jurisdictions do RAs have this prerogative or the ability to ask MAs to do so. Resolution planning should take this into account.

4.5. Cancellation

Equity instruments (shares and other ownership instruments) that have been fully written down are usually cancelled. Cancellation renders instruments legally inexistent as from the date of their cancellation. In the case of shares, this means that shareholders' rights, including voting rights and any prospect to participate in future decisions of the bailed-in firm, are extinguished. Such cancellation may be included in the resolution order and occur at the moment when this order is issued. RAs in the EU, for example, have the power to cancel equity securities issued by the firm in resolution. If shares or ownership instruments are written down and cancelled, new shares or ownership instruments need to be issued to bailed-in creditors to recapitalise the firm in resolution.

While cancellation appears to be the practice in most jurisdictions, in some jurisdictions (e.g., UK) bailed-in equity instruments are not cancelled. In these cases, the equity instruments continue to exist and will be redistributed to the bailed-in creditors at the end of the bail-in process.

Fully written down debt instruments are usually also cancelled. If such cancellation is not enacted by the RA, it may be a step taken by the issuer and its agent following a full write-down, in accordance with the applicable national legal framework and CSD rules.

In the US, where the closed bank bail-in involves a claims process, the termination of creditor rights for instruments held in the receivership estate and not transferred to a bridge institution occurs as a matter of law, and creditors are left with claims against the receivership estate.

For securities that are fully written-down, the normal end-of-life processing for a security would, in a number of CSDs including the ICSDs, cause the security to be cancelled and deleted from the system within a couple of weeks. To that end, cancellation would in practice generally require the issuer or its agent to send a specific notice to the CSD and in certain cases, for shares, to the registrar. [36]

However, not all CSDs will remove fully written-down debt and equity instruments from their systems. To facilitate ongoing actions during the resolution event, some CSDs may postpone the normal expiry of the security leaving balances frozen and visible from the moment settlement

[36] CSDs would cancel the securities in line with the disposal process as agreed with the issuer. The issuer is the legal owner of the global certificate, and the CSD has no right to alter it unilaterally.

of the security was suspended. Other CSDs will remove the security from their "live" balances, as they have the obligation to maintain the records of securities and transactions in their archives for a certain amount of time (typically five years).

Debt (and equity) instruments, that have only partially been written down continue to exist, with a lower nominal value or pool factor.

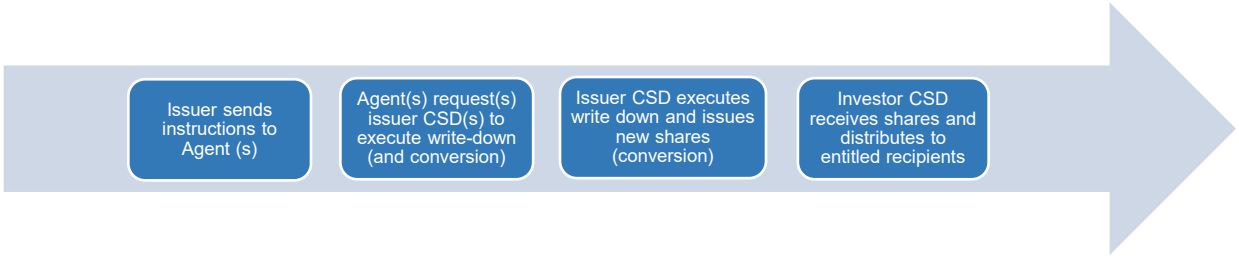
5. Conversion of instruments into new equity

5.1. CSD processes supporting a direct conversion

Once instruments are written down and cancelled where applicable, new shares or ownership instruments are issued to bailed-in creditors to recapitalise the firm in resolution.[37] The conversion rates used for this purpose are determined by the RA in accordance with the creditor hierarchy (this may be zero for some classes). This report refers to this process interchangeably as exchange or conversion. The descriptions in this section focus on exchange or conversion processes by which new shares are issued. However, in some jurisdictions, the shares are not cancelled and continue to exist. Instead, they are redistributed to bailed-in creditors once the conversion rate has been determined.

The operational steps involved in conversion are similar irrespective of whether interim instruments[38] or final securities, or both, are issued. In jurisdictions where instruments are converted into interim securities in a first step, a second conversion will take place later in the process (following final valuation), by which the interim instruments are converted into new equity. In some jurisdictions interim instruments are issued in combination with equity (see section 6 for more details).

Figure 3: Steps involved in write-down and conversion (simplified)



The firm subject to bail-in needs to take preparatory steps before issuance of new securities. This includes preparing documentation and liaising with relevant authorities (e.g., depending on the jurisdiction and depending on whether the new securities are expected to be listed and/or admitted to trading on-exchange, market authorities or listing authorities). The issuer may need to prepare the global note or other certificate for registration with the CSD and obtain the ISIN

37 In the United States, the legal process does not involve a conversion.

38 Interim securities representing contingent entitlements, e.g. "certificates of entitlement". The details of such interim securities are country-specific, see section 6.

or other codes for the new shares or other instruments of ownership. Assuming compliance with applicable securities registration requirements, CSDs normally expect the issuance of new securities in the CSD to follow the relevant standard process, irrespective of whether this concerns a regular issuance or an open firm or a closed firm bail-in.

Even if the securities affected by bail-in had been issued via foreign CSDs or via the ICSDs, the new securities or shares that result from the conversion will generally be issued by the domestic CSD and delivered to investors through the relevant foreign CSDs or the ICSDs, where possible.[39] The domestic CSD will hold the Global Certificate for new equity securities, where applicable. Hence, the role of the foreign CSDs or ICSDs would usually change from issuer CSD to investor CSD.

Box 8: Steps of execution of conversion

The steps involved in the conversion will generally be the following (see Figure 3 for both write-down and conversion):

- The issuer (firm subject to bail-in) provides instructions and a Global Certificate to the Operational Agent[40].
- The Operational Agent forwards instructions and Global Share Certificate to the Issuer CSD (and the NNA, as necessary).
- The Issuer CSD (with the National Numbering Agency, as necessary) creates the new securities (the proceed securities), including ISINs.
- If relevant, Issuer CSD delivers or credits proceed securities to accounts of Investor CSDs.
- Investor CSD executes the exchange or conversion and delivers or credits proceed securities to participants, and participants distribute them to former debt holders. The Investor CSD issues a notification to the participant's accounts, informing them of the exchange/conversion.

In addition to any information deemed necessary as described above in table 1, CSDs are likely to need the information set out in Table 2 to perform the conversion into new instruments.

Table 2: Examples of information requested by certain CSDs to perform the conversion

Information item	Definition
Code (ISIN, CUSIP or other code) for new security	Code for new security created by conversion (proceeds ISIN/CUSIP/other code)[41].
Scenarios applicable to the affected instrument	Description of the event. The operational instruction (usually a SWIFT message) will be based on existing corporate action standards, accompanied by a description that would indicate the exceptional nature of the event.

[39] Where there is an active link between the CSDs, and the newly issued securities fulfil the eligibility criteria of the foreign CSD.

[40] Any entity that acts on behalf and upon request of the issuer and supporting the issuer throughout the lifecycle of the securities issued by the issuer. Operational agents are involved in the issuance of securities, the preparation and performance of corporate actions, conversions, etc.

[41] This security may be an interim instrument reflecting a contingent entitlement and subject to conversion in shares or other instruments of ownership at a later date, such as "claim rights". It is expected to be created in the local market and the ISIN code is provided by the relevant NNA.

Information item	Definition
Conversion rate	Conversion rate for each new instruments and explanatory comments regarding the calculation.
Code (ISIN, CUSIP or other code) for contingent entitlements (optional)*	Code for interim instruments (representing contingent entitlements) created simultaneously to the conversion (if applicable).
Conversion rate (2) (optional)	List of ratios according to detailed list of ISIN related to interim instruments (**contingent entitlements)** and explanatory comments regarding the calculation.
Settlement date (booking)	The date at which entitlements are due to be paid to investors (booking of proceed securities to CSD participants).
Record date	Date/time at which positions are struck at the end of the day to note which parties will be subject to write-down and possibly receive the relevant amount of entitlement, due to be distributed on payment date.
Treatment of fractional entitlements	(example: rounding down, e.g., on the level of each participants' account, or description of the applicable domestic market process[42])
Effective date of resumption of trading, for all relevant instruments*	Date on which trading in the instrument is due to resume. For new instruments: date from which trading will be possible.
Effective date of resumption of settlement, for all relevant instruments	Date on which settlement of transactions in the instrument is due to resume. For new instruments: date from which trades will settle.

(*) denotes market- or CSD-specific fields that may not always be necessary.
Greyed cells: information related to interim instruments (contingent entitlements).

5.2. Ownership and voting rights

During the bail-in period, the rights of shareholders and creditors of the failed legal entity to vote or give approvals (respectively, e.g. on concerning corporate actions or the restructuring of the liability) may be terminated or suspended depending on the jurisdiction's approach to bail-in. In some jurisdictions, for example in the EU, the RA can temporarily exercise the voting rights of the shareholders, including those of the new owners.

Following the end of the bail-in period, ownership and control of the firm or newly established financial company are transferred to the new shareholders, including the bailed-in creditors. In general, upon direct conversion, previous debt holders would receive the new shares or other instruments of ownership and thus have the voting rights associated with the ownership of these securities. Once sufficient equity has been returned to private control[43], the trading suspension

[42] As per section 3, optional proceeds in Euroclear, Clearstream, International Securities Operational Market Practice Book, January 2012.

[43] The duration of the suspension of trading is still under consideration in some jurisdictions.

is lifted and the (new) owners of the firm are able to exercise shareholder rights including voting rights. The suspension of voting rights will be lifted once the entire bail-in procedure is formally concluded, for example in the first general assembly after resolution (CH), or once a threshold of returned equity has been reached (NL). The specificities of a case will have to be taken into account where authorities have discretion, as for the determination of the end of the trading suspension.

Jurisdictions have different practices. In the Netherlands, for example, a firm's shares may be held by a foundation rather than directly by investors. Instead, investors receive depositary receipts. A similar structure to the existing structure for the firm would be considered post-bail-in. In the UK, the shares are transferred to a depositary bank and are only allocated to the beneficial owners after the definitive valuation.

The change in ownership and control of the firm in resolution is likely to require regulatory approvals and authorisations. For example, if the bail-in results in a shareholding above a certain percentage of total shares or change of control, the qualifying holding or change of control might require supervisory approval and public disclosure. RAs might be required to publish *ad hoc* announcements and/or official notices in case of material change in the ownership of the entity in resolution. The process of obtaining supervisory approval may cause delays in some jurisdictions while in others it can be undertaken immediately post-resolution (EU). Newly appointed directors and senior managers of the firm in resolution (replacing the old management or any appointed administrator or special manager acting during resolution) may also require regulatory approvals, the requirements for which may differ across jurisdictions. MAs and RAs may therefore consider as part of resolution planning how the required regulatory approvals can be obtained quickly.

5.3. Determination of conversion rate and adjustments after definitive valuation (open bank bail-in)

5.3.1. Conversion rate and adjustments

In many jurisdictions where open firm bail-in is the preferred approach, the conversion rate determined at the moment of the adoption of the resolution decision and reflected in the books of the CSDs and other stakeholders during resolution, is based on a preliminary valuation.[44] A final and definitive valuation may need to be established afterwards. Such final valuation may result in a difference compared to the preliminary valuation and require adjustments to the conversion rate and consequently to the write-down and conversion performed during bail-in. For example, if further losses are identified by the definitive valuation, a write-down of additional liabilities may occur. Alternatively, a 'write- up' may occur, if the preliminary valuation was too conservative, and so in theory part of the original debt instruments could be returned or reinstated at their original terms and conditions; or new economically equivalent debt instruments issued in their place.

[44] In the EU, this refers to the provisional valuation 2 (resolution valuation). Valuation 2 informs, among others, the decisions on the extent of the cancellation, transfer or dilution of shares, the extent of write-down or conversion of relevant capital instruments and eligible liabilities. Please refer to the SRB's *Framework for valuation*, February 2019.

RAs are developing their preferred approach to address potential valuation adjustments based on the national legal framework and, where relevant, the operational processes of their domestic CSD(s). Where CSDs are involved in the adjustment, possible avenues for performing the adjustment are:

- **Re-valuation of bonds:** the nominal value of the bond is increased or decreased after the initial write-down. This is not possible in all cases. Indeed, some CSDs (e.g., the ICSDs) cannot restore and re-value a bond following a full write-down, as they would have cancelled that security once it had been marked down to zero. In other markets (e.g., DE), previously written-down securities could be maintained in the systems of the CSD for a certain period of time and written up, if necessary.

- **Adjustment of the pool factor** (as relevant for the given security and/or CSD) if the securities are (partially) written down by way of a pool factor, this pool factor could be increased or decreased at a later point in time if necessary.[45] Some CSDs (e.g., the ICSDs) report that this is not possible following a full reduction of the instrument, therefore this option is to be applied in case of partial write-down only.

- **Allocation of additional shares (or cash)** based on historic records: historic records of security holders in the systems of the CSD at a given record date can be retrieved. How long they remain in the active directory or in the archive depends per CSD. For example, the ICSDs typically keep such records in the active directory up to three months, and in the archive, up to five years. Nevertheless, the longer the time period between the bail-in date and the date of the bail-in adjustment, the less reliable such records would be and the more difficult it would be for the CSDs to reach out to former debt holders (some could have closed their accounts). This applies also at sub-custodian levels.

- **Interim instruments representing contingent entitlements:** Some jurisdictions issue interim instruments before the issuance of new equity (or in parallel and as a complement). These interim instruments represent contingent entitlements the amount of which will only be determined once the valuation is final. Therefore, the interim instruments reserve the entitlements of the bailed-in creditors to new equity securities for the time needed to perform a definitive valuation and any final adjustments needed can be made at the end of the bail-in process when interim instruments are exchanged for the new equity securities. The specificities of a conversion with the use of interim instruments are explained in detail in section 6.

5.3.2. Treatment of fractions resulting from proceed securities

The instructions to CSDs should also determine the treatment of fractions resulting from proceed securities. CSDs need to know how to treat fractions resulting from proceed securities vis-à-vis their participants, e.g., rounding down or up, cash compensation or other approaches. Fractional

[45] Not all CSDs have the functionality to manage valuation write down by way of pool factor (Euroclear).

shares[46] may lead to potential different treatment of pari passu creditors (though the impact is expected to be minimal).

5.4. Distribution of new shares to bailed-in creditors

Depending on the jurisdiction, new shares are automatically issued to the accounts of those entitled to them on the resolution date, based on the records of the CSDs, common safekeepers or custodians, or on information on registers.

When converting exercise instruments, the relevant CSD(s) usually issue the new equity instruments directly into the relevant accounts of their participants, in such a way that they are allocated to those entitled to such instruments via the custody chain. Whereas this would operate automatically within a single domestic CSD or across appropriate CSD links in a cross-border context, in other instances, it may require the collection of delivery details from bailed-in creditors with instruments deposited at foreign CSDs.

Once the proceed securities have been distributed to the new holders, any adjustments to the conversion rate and consequently the converted instrument as a consequence of an administrative process supporting a final valuation would be made directly to the holdings of securities at the issuer CSD (see section 5.3 above). For example, this would be the issuer CSD of any partially written down bonds that would need to be re-valued or whose pool factor would need to be adjusted upwards or downwards. This would be the issuer CSD for shares whenever additional shares would need to be allocated, for example based on historic records. Nevertheless, in the latter case, complications may arise if the issuer CSD of the bailed-in security is different from the issuer CSD of the new shares.

Some firms may have bail-inable instruments that are not issued via a CSD. In some cases, e.g., in case of private placements (or most mutual shares of cooperative groups) the firm itself (or another third party) acts as a registrar. In this case, relevant liability holders will be known, though this may cause a delay in recording ownership changes and the register may thus not be fully up-to-date at the time of bail-in. In the case of paper bearer bonds, identifying the owners could be more complex. Firms need to establish to what extent they have issued securities in bearer form without any involvement of a CSD and work with RAs in ensuring that investors can be informed of the bail-in of such securities. Firms and RAs may want to address this as part of resolution planning.

In some jurisdictions, a claims verification and validation procedure is performed. The new instruments may hence sit with an issuing agent and transferred shares may sit in a depositary bank until such procedure is completed. The claims verification procedure is the administrative process by which shareholders and creditors are able to file claims against (the estate of) the firm in resolution. There is typically a fixed time-period within which claims can be submitted. After this claims period, the RA or resolution administrator assesses the claims to establish their validity. Approved claims will be serviced in accordance with the statutory creditor hierarchy and consistent with applicable no creditor worse off (NCWO) law/regulation in effect in a given

[46] Less than one full share of equity is called a fractional share. Such shares may be the result of stock splits, dividend reinvestment plans (DRIPs), or similar corporate actions and could also result from a conversion resulting from a bail-in event.

jurisdiction. Where applicable, proceed securities will be distributed in satisfaction of these claims.

The set-up of the claims verification procedure differs across jurisdictions and depends among others on whether it is an open or closed firm bail-in, or whether interim instruments are used or not. Such administrative process may serve the purpose of verifying and validating claims, and additionally help to identify former liability holders for the delivery of equity to bailed-in creditors. Such claims verification procedure is distinct from dispute mechanisms or court procedures providing legal protection for creditors who seek to claim an entitlement to rights affected by the bail-in or dispute the allocation of claim rights.

6. Conversion involving interim instruments (open bank bail-in)

6.1. The role of interim instruments

Interim instruments represent contingent entitlements and may be issued instead or in addition to the issuance of new equity (or other instruments of ownership) or reallocation of existing equity to bailed-in creditors.

- **Contingent entitlements instead of issuance of new equity:** In some jurisdictions (NL, UK) interim instruments are issued instead of the immediate issuance of new equity or immediate redistribution of shares to bailed-in creditors. The bailed-in creditors and potentially equity holders[47] will receive interim instruments at, or shortly after, entry into resolution. These instruments represent a future claim to an unknown quantum of equity securities (or other possible compensation, such as cash or other securities). The definitive value of the claim in the resolved entity is not yet known and subject to the conversion rates determined following completion of final valuations.[48] These types of interim instruments allow the bail-in process to be kept open and the distribution of equity to be deferred until the final valuation and determination of conversion rates.

  For example, in the UK, 'certificates of entitlement' are issued to bailed-in creditors at the start of resolution corresponding to different classes of instrument that have been or may be bailed in, such as AT1 and Tier 2 capital instruments, eligible liabilities, and bail-inable debt. The existing ordinary shares are not cancelled but are transferred to a depositary bank and redistributed at the end of the bail-in process to the bailed-in creditors after final valuations, according to the insolvency hierarchy (the final valuation may be zero for some classes).

  In the Netherlands, liabilities are transformed into claim rights[49]. The claim rights are later exchanged for new shares or other instruments of ownership (depository receipts) after final valuation, according to the creditor hierarchy. The exchange rate may be zero for some creditor classes.

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47 UK mechanism.

48 It is possible that creditors could be compensated with other securities, but the text describes the case of equity for simplicity.

49 A potential right to a CET1 instrument in the resolved firm.

- **Contingent entitlements in combination with the issuance of new equity at the beginning of the bail-in process:** In other jurisdictions (FR), interim instruments are issued at the beginning of the bail-in process in parallel and in combination with new equity on the basis of a provisional valuation. Interim instruments will be exchanged at the end of bail-in once the final valuation has been performed, which will allow and reflect any potential adjustments to the initial conversion rate. The mechanism of these parallel interim instruments allow for sufficient time to complete a robust valuation.

The interim instrument approach allows for additional time following entry into resolution for a RA (or an independent valuer) to complete or update resolution valuations before definitively determining the appropriate percentage of write down and conversion and related compensation that is due to different classes of creditors in the bailed-in firm.

Where the RA uses interim instruments as part of its bail-in mechanism, the same questions as described for the bail-in without interim instruments require attention for resolution planning: setting of a record date, settlement freeze, open transactions and settlement finality rules, planning with a view to multiple CSDs for the delivery or crediting of new securities to the former bond holders, identification of persons entitled to compensation, and compliance with investor protection statutes and regulations or other applicable securities laws.

6.2. Nature of interim instruments

Depending on the jurisdiction and legal regime, a number of different classes of interim instruments may be issued for a particular resolution, for example, representing different types of affected securities, ranking in the creditor hierarchy, currency or governing law of the original instrument, etc. In the UK, a global certificate will be issued for each bailed-in class of instrument. Since creditor hierarchies in insolvency proceedings as well as the legal framework differ between jurisdictions, the exact number of classes, and method of allocation of interim instruments to bailed-in creditors or method of conversion/exchange from the bailed-in instrument to the interim instrument, may vary by jurisdiction and by firm.

Interim instruments will be transferrable and, in some jurisdictions, tradeable on a TV. Where tradeable, the interim instruments can be sold by holders, for example if they do not wish to wait for the end of the bail-in period to receive compensation, or do not wish to receive shares in the resolved firm. The transferability feature is usually a pre-condition for eligibility for admission to CSDs and ICSDs.

From an accounting/ balance sheet and prudential perspective, consideration will need to be given to how the interim instruments are held and valued during the bail-in period in books and records of the firm.

6.3. Issuance of interim instrument

The interim instruments are expected to be delivered via existing custody chains. The interim instruments may be deposited with the same issuer CSD(s)/ICSDs as bailed-in instruments; alternatively, they may only be deposited with the domestic CSD, which will also be the CSD for the new equity securities. The instruments are issued in the name of the firm in resolution, though

their creation and issuance may be achieved through a statutory instrument or other legal power of the RA.

As part of this, the RA (or the firm in resolution upon instruction by the RA) will need to provide relevant information to the CSD/ICSD, comparable to the information requirements set out in Table 1 above, such as terms and conditions of the interim instruments and any other issuance documentation, and formal instructions. The instruments will need to meet any standard operational, legal and fiscal (tax) eligibility requirements to be accepted by the CSD/ICSD where they are issued (issuer CSDs) or via which they are distributed (investor CSD). The CSD will issue relevant operational bulletins or equivalent.

Assuming the relevant eligibility and operational criteria are met, this issuance could be executed in accordance with standard corporate action procedures of the CSDs/ICSD. Depending on the particular securities law(s) relevant to the firm in resolution or bailed-in creditors, the distribution of interim instruments may be treated as a securities offering or rights issue.

6.4. Trading of interim instruments

Interim instruments will typically be issued with a securities number in accordance with standard procedures in the relevant jurisdiction. In some instances, a RA may already have liaised with their relevant NNA in order to ‘reserve’ or ‘pre-allocate’ some ISINs should they be needed for a resolution scenario.

These interim instruments will be tradeable on an exchange or OTC. Trading and consequently settlement of the original instruments is therefore likely to be suspended for a given period. They are expected to be cancelled, or (in the case of shares in some jurisdictions) transferred to a depositary bank for redistribution at a later point in time. In some cases, trading and settlement of interim instruments are only allowed during a certain time window once the final conversion rate is determined.

In jurisdictions where the interim instruments may receive a listing on an exchange or other trading venue, depending on the local jurisdiction the full requirements for listings of this type, or amended or expedited forms of them, may need to be met by the firm in resolution.

The ability to trade, whether OTC or on an exchange or other trading venue, will allow, for example, holders of interim instruments who are unable to hold equities (due to legal restrictions or investment mandates, for example) or who do not wish to acquire qualifying holding or claim their potential rights to equity in the firm in resolution upon final valuation, to sell those instruments.

Where interim instruments are transferable or tradable, the holders of those instruments may change during the bail-in period and thus be different at the time when the exchange rate is announced from those at the beginning of the resolution period. Therefore, the RA would need to have appropriate arrangements for identifying holders at the end of the bail-in period, when final valuations and the exchange rate have been confirmed and interim instruments are to be exchanged.

6.5. Ownership and voting rights

In the UK, the legal title of the shares may be transferred to a third party, either a commercial bank appointed as a depository bank or a trust.[50] In these cases, the shares are not cancelled and will be redistributed to bailed-in creditors after the final conversion rate and consequently the value of the contingent entitlement represented by the interim instrument has been determined. The voting rights will be exercised by the bail-in administrator during the period in which the shares are held at a depository bank ahead of redistribution to bailed-in creditors (UK). Conversely, interim instruments have no voting rights and are not ownership instruments.

Where the interim instruments are issued in combination with new equity, the rights and powers conferred upon the shares received upon conversion will be exercised by the RA or, as the case may be, the special manager appointed by the RA under its control, for the resolution period.

6.6. Determination of conversion rate and adjustments after definitive valuation

After the RA (or independent valuer) has completed the definitive resolution valuations, it will announce the final conversion rates. This will set out the definitive amount of equity, or other proceed securities, that the holders of each class of interim instrument are entitled to in exchange for those instruments, depending on their rank in the creditor hierarchy.

The conversion rates will represent the 'final' bail-in of capital and other instruments, including adjustments to any initial write down or conversion rate upon entry into resolution in case the interim instruments have been issued in combination with new equity and to reflect adjustments to the valuation. In some circumstances, the announcement at this time may also include changes to the amount of the initial bail-in.

6.7. Distribution of new shares to bailed-in creditors

The conversion/exchange of interim instruments for new equity instruments follows the same procedure as the one described for direct conversion in section 5. The interim instruments are issued into the accounts of bailed-in creditors based on records at the relevant issuer CSDs and at the relevant intermediaries in the custody chain. In some jurisdictions, the new shares are automatically issued to the accounts of interim instrument holders based on information on registers, which should be accurate and up to date (NL). In other jurisdictions newly issued shares may be held by an issuing agent (or transferred shares may sit in a depositary bank) until the claims verification procedure is completed.

Alongside the announcement of the definitive conversion rates, the RA will also confirm the validation mechanism by which proceed securities or other compensation for valuation gap will

[50] Bail-in mechanisms in common law jurisdictions would need to take account of the way in which CSDs recognise and treat beneficial ownership and holding of securities in their systems. Similar considerations are also likely to be relevant in civil law systems. It is possible that equitable trust concepts found in common law systems could have some limited application in a resolution, for example in relation to arrangements for the holding of proceeds of sale of unclaimed securities of bailed-in creditors. However, the core rules and principles of resolution in a common-law system, such as the UK, are established by statute.

be distributed to the holders of the interim instruments (though this may have already been announced at the start of the resolution).

During the claims verification procedure, the holders of interim instruments are expected to come forward to the RA (or its agent) and register their claim in order to receive the proceed security to which the interim instrument has been converted or other compensation represented by the interim instrument. To that end, the holder is requested to provide relevant information such as proof of their ownership of the interim instruments; quantum of holdings; fitness and propriety to hold shares, or a certain proportion of shares, in the resolved firm (if appropriate); and delivery location. The holders may have received the interim instruments through the bail-in process, or because they purchased the interim instruments during the trading period.

After a certain period, the RA will, based upon the information it has received, issue instructions to the relevant CSD(s)[51] to distribute equity into the relevant accounts of those entitled to such instruments. New equity will need to comply with applicable registration and listing requirements.

Where an authority is redistributing existing shares, rather than issuing new ones (in the UK for example), registration and listing is already in place (though suspensions to trading and settlement will need to be lifted). The RA (or the firm as directed by the RA) will issue instructions so that the shares are transferred from the depository that has been holding them, to the accounts of relevant creditors identified by the claims procedure described above. This may occur at a single point in time, or there may be a number of 'tranches' of such compensation actions, depending on the size and complexity of the task, and speed or period of time over which holders of interim instruments come forward and their claims are validated by the RA or its agent.

The exchange of these interim instruments, where relevant, would also need to be reflected in the relevant books and accounts of the firm, CSD and/or registrar. Alternatively, the exchange may take place automatically by decision of the RA through the existing chain where exercise securities and interim instruments are eligible in the same CSDs, or in the accounts specified, for those holders whose securities are not admitted in CSDs.[52] The interim instruments are cancelled upon exchange.

In cases where interim instruments are used to reflect the valuation adjustments (FR), they may be distributed alongside the new equity to all bailed-in creditors at the beginning of the bail-in process. Following the definitive valuation, only interim instruments of those creditor classes for which the definitive valuation indicated a need for adjustment are exchanged. New shares (or proceed securities or other compensation) will therefore be issued only to those creditors who have been affected by an excess bail-in. The interim instruments are cancelled upon conversion. Interim instruments held by creditor classes without rights to adjustment will lapse.

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51 For Euroclear UK and Euroclear International this communication would be done via a registrar.

52 For French interim instruments, once the final valuation is performed, the RA concludes whether the condition under the Terms & Conditions which governs the interim instruments is met or not, meaning whether the final valuation shows that an excess of write down or conversion has taken place which leads to the necessity of an adjustment through allocation of new shares based on formula contained in the terms and conditions. If the condition is met, the allocation of shares should be done within the defined timeframe (2 months). In any event, the RA should take a decision following the results of the final valuation and publish it. The shares are issued in the national CSD and allocated to the affected investors through the usual chains.

7. Cross-border challenges to the execution of bail-in

Some of the elements of the bail-in process described in this paper are relevant in a situation involving only one jurisdiction and may become more complex in a cross-border context. This section describes issues and challenges that are inherent to a cross-border context.

Some of the steps are more pertinent in the case of an open bank bail-in, because the need to accomplish the bail-in within a very short time-span gives less time to prepare the necessary corporate actions (e.g., write-down and issuance of new shares) or other measures (e.g. listing of shares) than would be the case in a closed bank bail-in in which these steps may be performed within a timeline that is closer to a business-as-usual scenario.

7.1. Suspension of trading and settlement

7.1.1. Suspension of trading in foreign jurisdictions

Regarding the suspension of trading by the domestic MA or RA of an instrument in a domestic market, that is also traded on an exchange in a foreign jurisdiction, MAs and RAs have to take into account:

- local legislation in the country of the TV (including its suspension and delisting procedures); together with
- the assessment of the reason(s) provided for suspension or delisting, including any local market disruption that could happen following bail-in[53].

The bailed-in firm as issuer (or an authorised representative acting on behalf of it) may directly file for the suspension of trading in each foreign exchange or TV. The greater the number of jurisdictions involved, however, the greater the need for coordination of the suspension process. The coordination of the suspension of trading and delisting from TVs in foreign jurisdictions therefore deserves particular attention from firms and relevant authorities as part of resolution planning both in terms of coordination and communication between domestic RAs and MAs and between RAs and MAs of different jurisdictions.

7.1.2. Suspension of settlement in foreign jurisdictions

In case CSDs are requested to temporarily suspend settlement, they need to receive explicit instructions sufficiently early to be able to validate and process the instructions appropriately. Many CSDs usually only act to suspend settlement of securities, including the ones for which a suspension of trading has been implemented, upon formal instruction from an insolvency practitioner, a court, the competent regulator of the CSD, another relevant regulator or the RA of the firm, depending on the jurisdiction. In some cases, the bank can also request a suspension of settlement for instruments affected by the bail-in. The coordination of the suspension of

[53] See the US Exchange Act, which provides a mechanism for a foreign private issuer to deregister its equity securities and terminate reporting obligations if certain specified conditions are met.

settlement in foreign jurisdictions therefore deserves particular attention from firms and relevant authorities as part of resolution planning (i.e. *ex ante* coordination and communication between relevant authorities).

7.2. Admission of new instruments to TVs and CSDs

7.2.1. Admission to trading and listing of proceed securities (investor protection regime)

To admit proceed securities (or interim instruments) to trading, it is necessary to ensure that the new securities comply with the requirements of the TV where they are to be listed/traded. RAs may consider using measures such as expedited registration or listing procedures or exemptions from prospectus or other registration requirements, where available, to facilitate the execution of bail-in. In case of instruments traded on non-domestic TVs; or where the bailed-in securities were issued under the governing law, or to investors, of another jurisdiction, RAs need to pay attention to the requirements set out in the relevant foreign jurisdictions in addition to the domestic legal framework and TV requirements and integrate these considerations into resolution planning.[54]

For example, in a closed firm bail-in, admission to trading and listing of securities occurs in a manner that is not dissimilar to what would occur with an issuer emerging from bankruptcy. An open firm bail-in may create time exigency that creates a need to consider, and account for, how compliance with investor protection laws can be achieved under exigent circumstances. Also, there may be different approaches across jurisdictions for all securities or for foreign securities whether the distribution of new securities following bail-in is considered a consequence of a mandatory action in respect of existing securities or a voluntary new offering. In the latter case admission to trading that includes the issuance of securities to foreign investors will likely entail prospectus or other disclosure requirements under the applicable investor-protection regime. In the EU, the Prospectus Regulation[55] specifically exempts newly issued securities resulting from bail-in[56] from the requirement to publish a prospectus in order to be admitted to trading on a stock exchange.

In the U.S. the conversion of eligible liabilities into equity as part of bail-in may constitute the offer or sale of a new security under federal securities laws. The bailed-in firm may therefore need either to file a SEC-approved registration statement with the SEC (prior to the issue of the new securities) or obtain an exemption from registration. Further, if a firm's resolution strategy calls for its securities to be traded and listed on a U.S. TV, the securities would need to be registered under the Securities Exchange Act of 1934 as well admitted for trading on the applicable TV, and the U.S. federal securities laws would require, among other things, that the issuer provide current and periodic reports to announce major events that shareholders should know about and provide investors material financial and other disclosures, including audited

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54 This is true irrespectively of whether the new security would be a "final" or an interim instrument,

55 Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71 (Prospectus Regulation).

56 Resolution under the BRRD (2014/59) per A.1(5)(c) of the Prospectus Regulation.

financial statements, on a regular basis. Events requiring a current report include bankruptcy or receivership, results of operations and financial condition, and failure to satisfy a continued listing rule or standard of a TV. The U.S. federal securities laws do not provide exceptions related to resolution.

7.2.2. Admission of proceed securities to the CSD's systems (eligibility)

To effect the admission of proceed securities to CSDs, RAs need to ensure that new securities are eligible for admission to the CSDs/ICSDs into which they will be issued (and possibly distributed). Where bailed-in instruments were originally issued into non-domestic CSDs, RAs and firms would need to pay attention to the requirements set out in relevant foreign jurisdictions in addition to the domestic legal framework and integrate these considerations into resolution planning.

Where RAs plan for the issuance of interim instruments, it needs to be ensured that the interim instruments are eligible for admission to the CSDs into which they will be issued and to CSDs into which they will be possibly distributed. Interim instruments may not be easily classified as 'typical' equity or debt instruments and require more careful consideration with the relevant CSD regarding admissibility to settlement. In particular, there may be challenges where instruments are issued into or distributed via CSDs outside the home jurisdiction of the issuer/ firm in resolution. Under the current approaches using interim instruments (UK, FR, NL) the interim instruments will be issued through the domestic CSD.

7.3. Operational challenges

7.3.1. Distributing new shares to bailed-in creditors (including via multiple CSDs)

In some cases, the CSD holding the bailed-in debt instruments is different from the CSD holding the proceed securities. Though this may be the case within the same jurisdiction where two CSDs specialise in different products (e.g., an "equity" CSD and a "fixed income" CSD), it is almost always true in cross-border contexts and is therefore a key issue for cross-border bail-in.

A complicating factor is that the direct participants in foreign CSDs (holders of the exercise security) may not be participants in the domestic CSD (where the proceed security will be distributed). Where (direct or indirect) links exist between relevant CSDs, these links will ensure that proceed securities can be credited to the accounts of holders of exercise securities. In the EU, the ICSDs, with their established links with the many domestic markets, are able to support cross-border bail-in across a range of securities. However, not all CSDs have established links supporting delivery of equity(-like) instruments. Moreover, CSD links may not always support servicing securities denominated in foreign currencies.

In such cases, the usual market practice regarding a conversion into a proceed security issued in a different market is for the agent to gather from the participants in the foreign CSD the delivery details for the proceed security (whereby the participants in the foreign CSD tell the agent where they would wish to receive the proceed securities). This may be:

- in their account or the account of an affiliate at the domestic CSD (global custodians, for example, have multiple direct memberships);

- in the account of a custodian at the domestic CSD. This would be the case if the holder of the exercise security was a client of a custodian with direct access to the domestic CSD (e.g., a client of a global custodian).

Therefore, obtaining applicable delivery details in case of bail-in would build on regular market practices, as long as the "exercise" liability is a security issued in a CSD.[57]

Generally, communication with bailed-in creditors in a cross-border custody chain (from the issuer to the end investor) in relation to a corporate event, including bail-in, presents a number of challenges. The complexity of the chain is determined by the law(s) and legal and practical arrangements applicable to each link of the custody chain and requires attention and preparation as part of resolution planning.

RAs may also need to consider what would happen to the securities in case the former liability holders do not provide any delivery details or do not come forward within the set timeline. Proceed securities would usually remain on account with the issuing agent until they can be allocated to their rightful owners. They might also come back to the agent at the issuing CSD if they remain unclaimed in the books of an investor ICSD.

7.3.2. Other operational challenges (time zones, languages)

If the resolution scheme is published early in the morning, the domestic market may still be closed, while other markets would already be open (e.g., Asian markets in case of the resolution of a European firm). Without informing CSDs in those markets in advance, performing a bail-in based on the ownership of the firm's securities the evening before resolution may pose challenges. Trading and settlement might already have taken place in the meantime. Other elements may complicate the cross-border execution of bail-in, such as language differences and notice requirements. CSDs are likely to need more time to verify the legality of bail-in requests referencing resolution decisions drafted in a foreign language. For firms for which these considerations are relevant, detailed planning and precise timing are even more important.

8. Going forward

The technical and cross-border dimensions of many of the issues identified in this report will continue to require attention from relevant authorities (RAs, MAs, etc.) and discussion within CMGs and with stakeholders. These include in particular issues relating to:

- The suspension of trading and settlement across all relevant TVs and CSDs;
- The distribution of the new securities in foreign markets/ to foreign investors, for example in relation to investor protection regimes and their accompanying regulatory disclosure and prospectus requirements, or foreign CSD eligibility requirements; and

[57] In the EU, liabilities eligible for bail-in may cover other items than securities only. If losses are such that senior liabilities need to be bailed in, this would cover senior bonds, but also other senior liabilities ranking *pari passu* with them, for example liabilities to service providers. In that case, the distribution of proceed securities would not be supported by standardised market practices in respect of securities.

- Operational aspects, such as time zone and language, and the involvement of multiple CSDs when distributing proceed securities to bailed-in creditors with no direct access to the domestic CSD.

The FSB will continue to facilitate the sharing of practices amongst authorities and efforts to address these issues, including by continuing its engagement with stakeholders as part of the work of its Resolution Steering Group and Bank Cross-Border Crisis Management Working Group.

Annex 1: Rules, regulations and guidance relevant to bail-in execution

Non-comprehensive examples of regulation and guidance in select jurisdictions

Jurisdiction / Organisation	General rules, regulations, guidance
FSB	• FSB (2014) *Key Attributes of Effective Resolution Regimes for Financial Institutions* • FSB (2018) *Principles on Bail-in Execution*
Canada	• CDIC: Canadian bail-in regime – Overview • CDIC: Canadian bail-in execution - Illustrative Timeline
Germany	• BaFin: (2021) Guidance Notice on External Bail-in Execution • BaFin: (2021) *Guidance Notice on the Suspension of Trading on Non-Stock Exchanges in the Context of Resolution* • BaFin: (2021) Circular regarding the Minimum Requirements for Implementing a Bail-in (see MaBail-in)
Hong Kong	• HKMA: Approach to Resolution Planning published in July 2017 • HKMA: Resolution Standards (see Code of Practice "Resolution Planning - LAC Requirements (LAC-1)")
Japan	• JFSA: (2018) *Approach to introduce the TLAC framework* • JFSA (2014): Comprehensive Guidelines for Supervision of Major banks, etc.
Netherlands	• DNB: *Operation of the bail-in tool*
SRB	• SRB: (2020) *Expectations for Banks* • SRB: (2021) *Operational guidance on Bail-in implementation* • SRB: (2021) *Guidance on bail-in for international debt securities*
Switzerland	• FINMA: (2013) *Resolution of global systemically important banks* • FINMA: (2021) *Resolution Report*
United Kingdom	• Bank of England: (2017) *The Bank of England's approach to resolution* • Bank of England: (2019/20) Resolvability Assessment Framework • Bank of England: (2021) *Executing bail-in – an operational guide from the Bank of England*
United States	• Title II of the Dodd-Frank Act (Orderly Liquidation Authority), 12 U.S.C. § 5381 et seq.; Federal Deposit Insurance Act, 12 U.S.C. § 1811 et. seq.

Annex 2: Bail-in approaches: common elements and differences

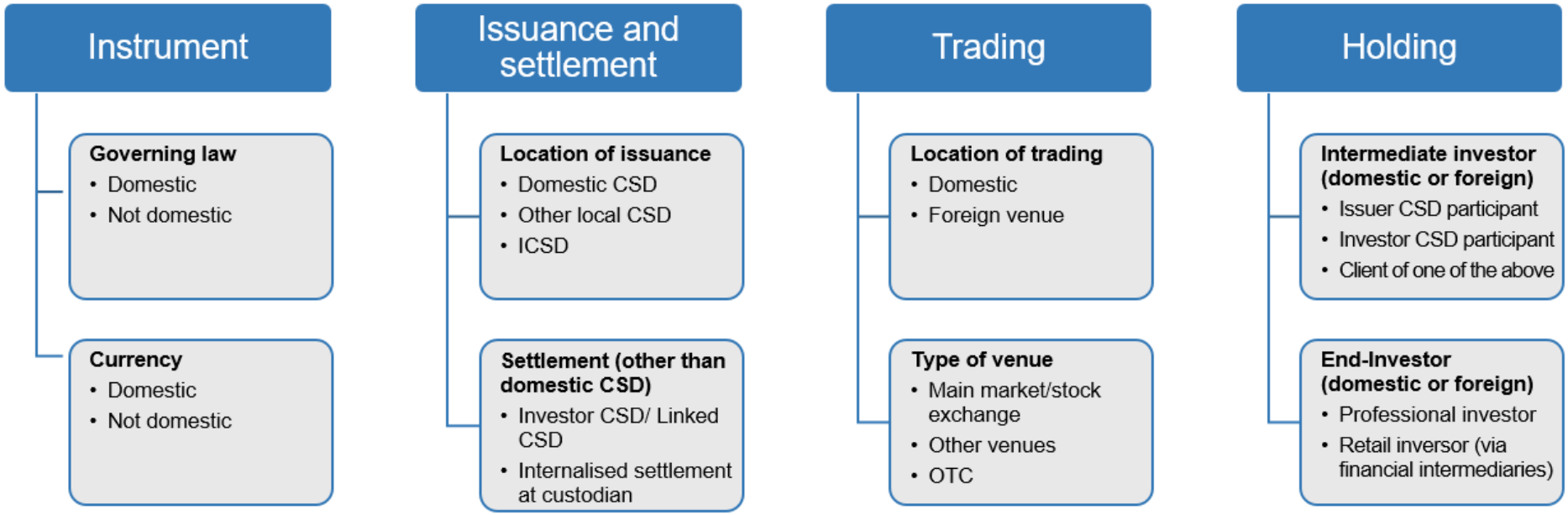
Bail-in approaches - common elements and differences

Bail-in execution process milestones	Closed firm bail-in (bridge institution)	Open firm bail-in with share cancellation and issuance	Open firm bail-in with interim instruments
Initial communication of resolution actions	x	x	x
Suspension of trading of relevant securities	x (some jurisdictions)	x	x
Write down and/or cancellation of equity and/or debt	x	x	x
Issuance and trading of interim instruments			x
Issuance of new equity	x (some jurisdictions)	x	x (some jurisdictions)
Listing/ trading new equity	x (some jurisdictions)	x	x (some jurisdictions)
Redemption/exercise of interim instruments			x
Lifting of trading suspensions[58]	x (some jurisdictions)	x	x (some jurisdictions)
Compensation after final valuation[59]	x (some jurisdictions)	x	x (some jurisdictions)

[58] In the United States, the closed bank bail-in involves issuance of new instruments in a new entity, and not a conversion; and as such the process does not involve lifting of trading suspensions.

[59] In the United States, the value (cash or stock in the new entity) to approved claimants completed in accordance with the statutory creditor hierarchy is predicated on the final enterprise valuation of the emerging entity.

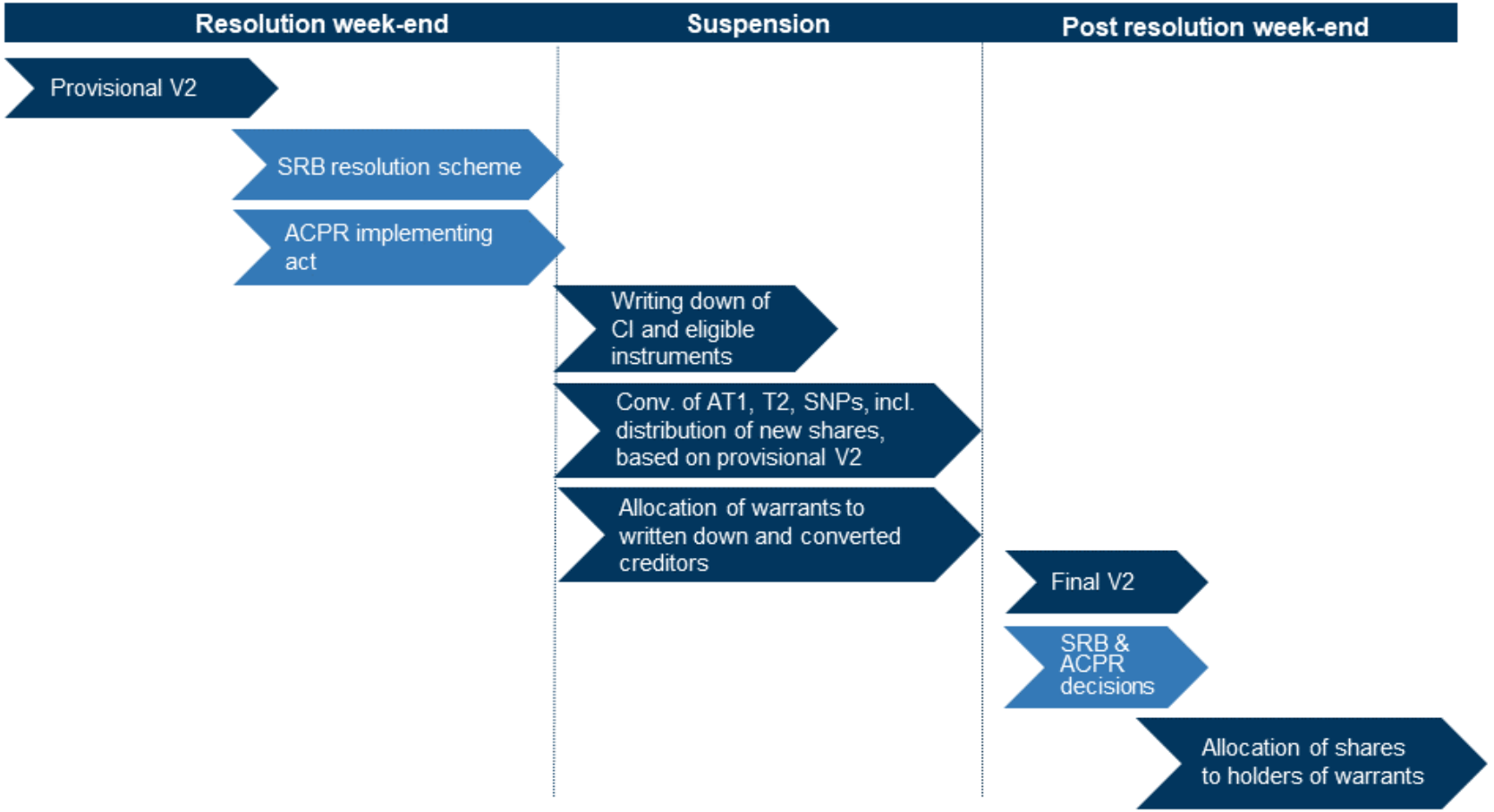
Annex 3: Generic overview of main CSD and TV considerations of bail-in execution



Annex 4: Overview of main steps of bail-in execution in select jurisdictions

Overview of main steps of bail-in execution

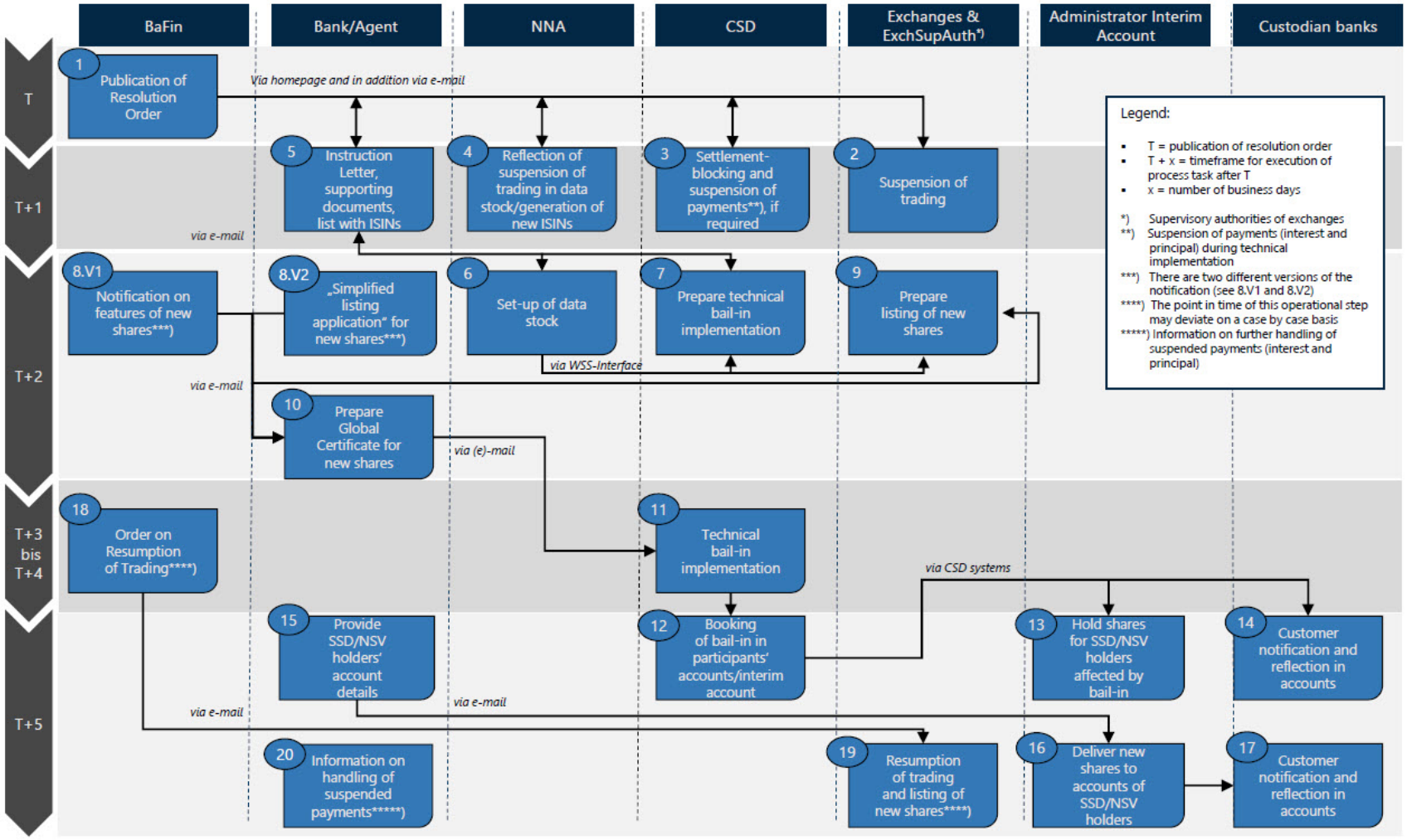
FRANCE



Source: ACPR

Overview of main steps of bail-in execution

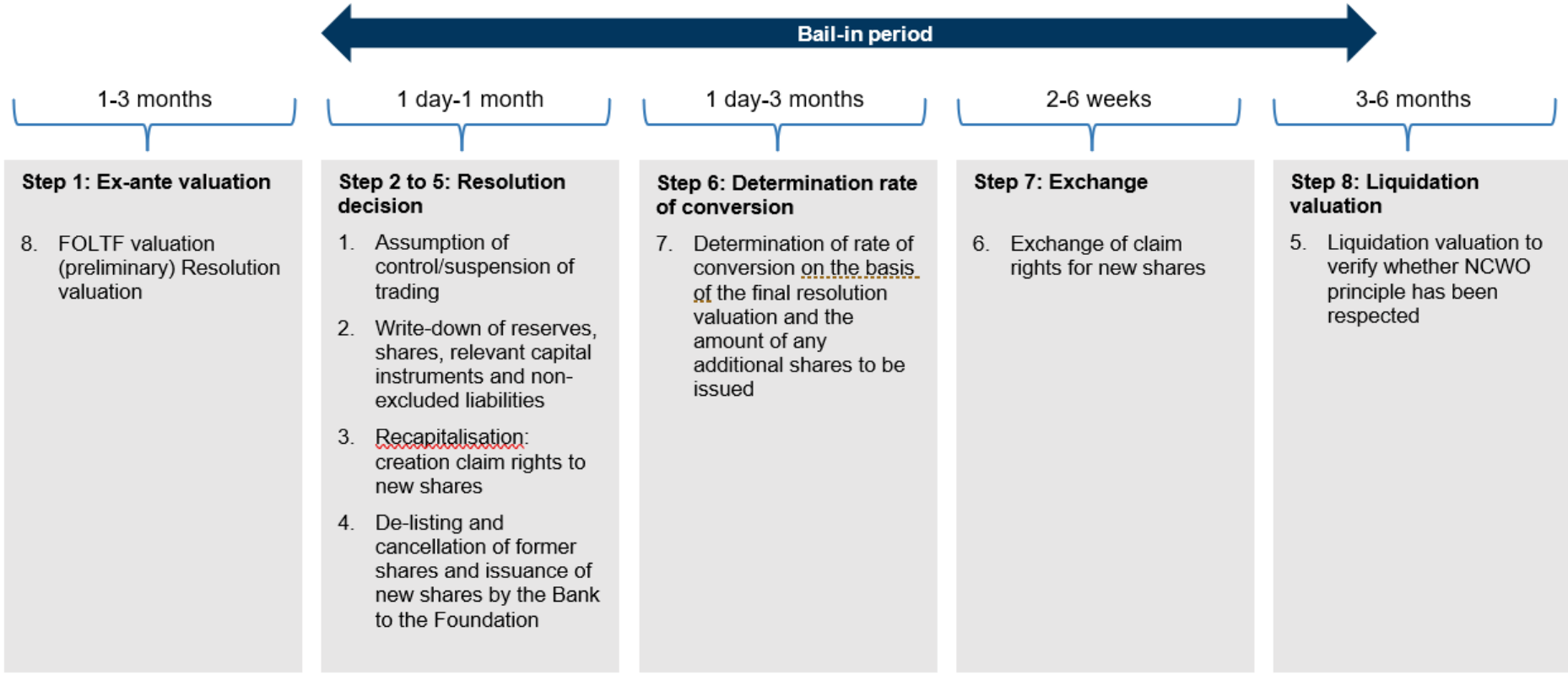
GERMANY



Source: BaFin

Overview of main steps of bail-in execution

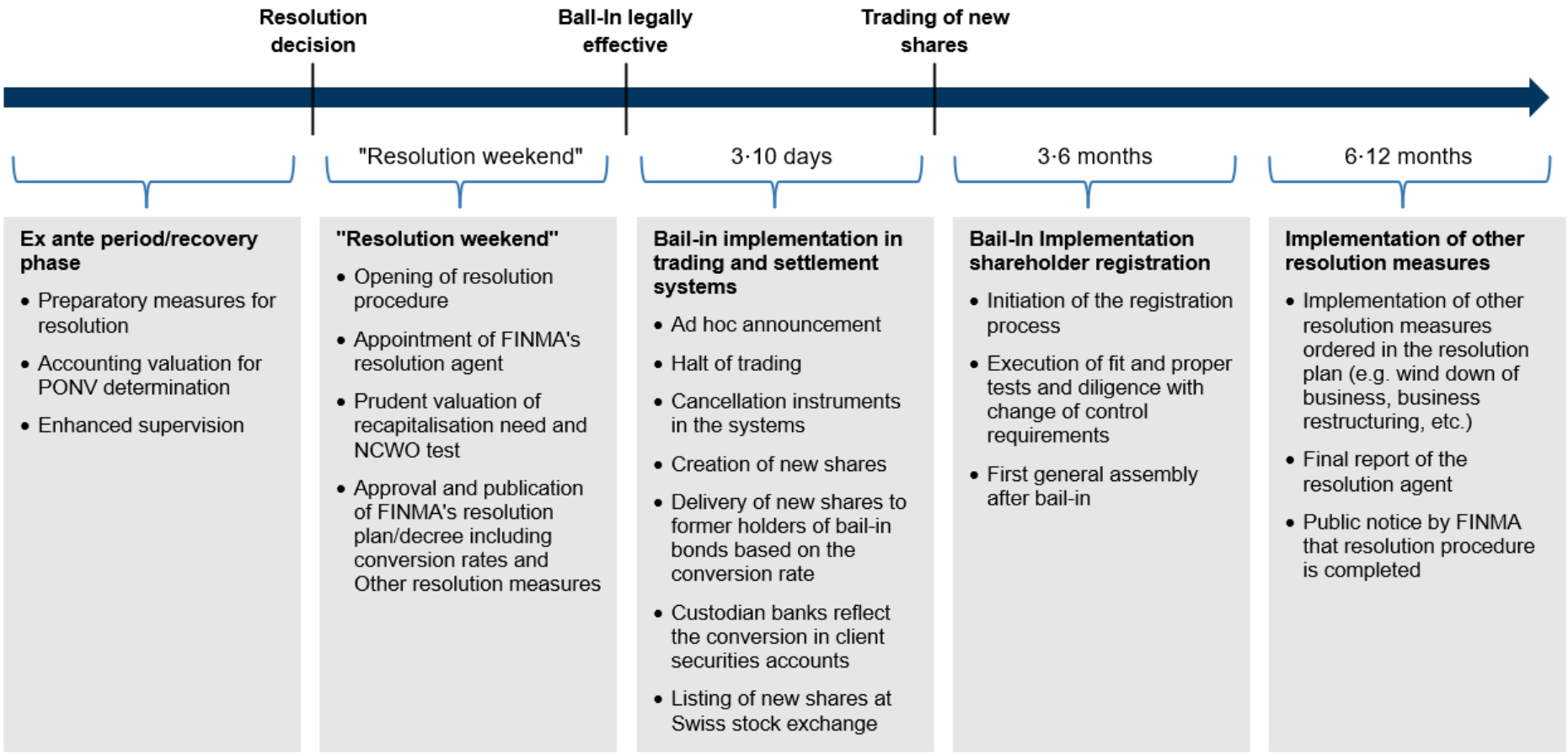
THE NETHERLANDS



Source: DNB

Overview of main steps of bail-in execution

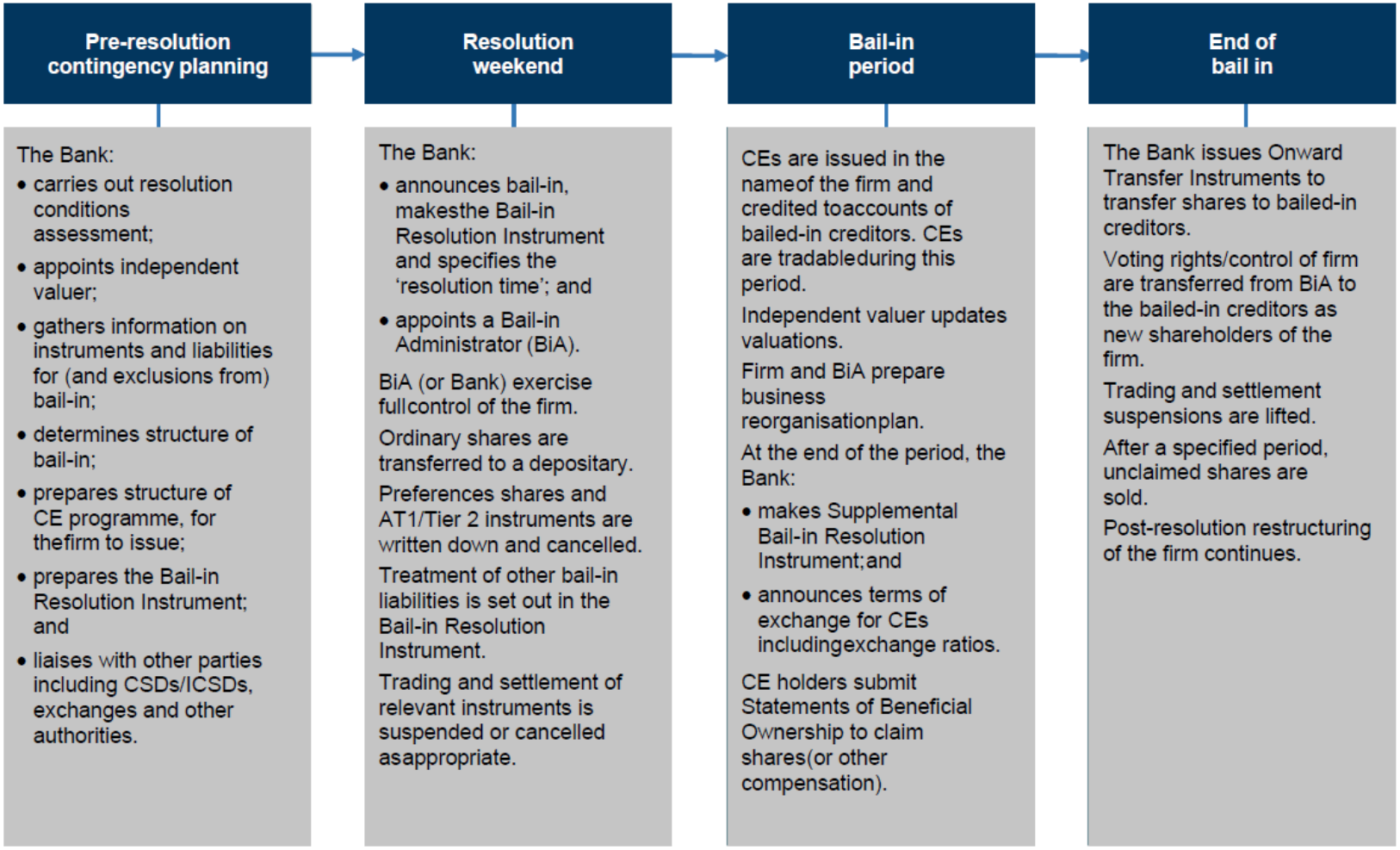
Switzerland



Source: FINMA

Overview of main steps of bail-in execution

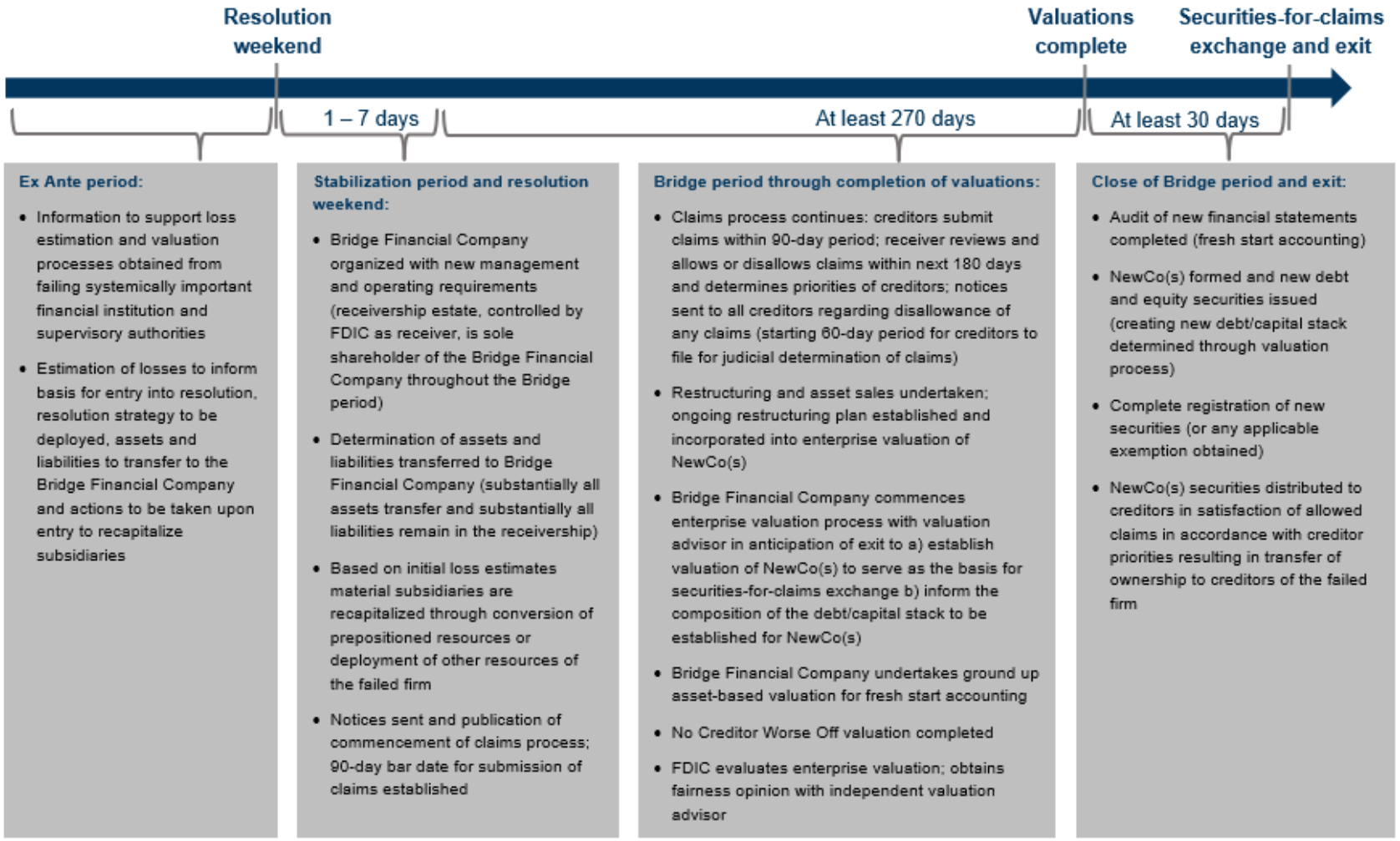
UK



Source: BoE

Overview of main steps of bail-in execution

US



Source: FDIC Staff; *for illustrative purposes only*

Annex 5: Role of market authorities in the EU and bail-in at the ICSDs

This annex outlines operational arrangements related to bail-in execution applicable in the European Union (and thereby the Banking Union). With regard to the role of market authorities, it includes generic, EU-wide references that are valid for all Member States. The role of the ICSDs is relevant because of the international character of their activities.

Role of market authorities in case of a trading suspension

Legal basis

At EU level, the legal basis for suspension and removal from trading by the relevant authorities can be found in the MiFID II[60] / MiFIR framework. In particular, art. 69.2.m and art. 69.2.n of MiFID II give the right to competent authorities (national market authorities[61]) to suspend and remove from trading a financial instrument traded in their jurisdiction on a regulated market or under other trading arrangements.

A decision to suspend or remove an instrument from trading can have immediate effect[62] and can, where necessary, also be extended to the related derivatives "to support the objectives of the suspension or removal of the underlying financial instrument"[63]. MiFID II (Articles 32.2 and 52.2) also provides for a notification procedure whereby a competent authority that decides to suspend or remove from trading a financial instrument in its jurisdiction has to "immediately make public and communicate to ESMA (i.e. the EU level authority) and the competent authorities of the other Member States such a decision". Those notifications are being handled through the ESMA notification protocol[64]. The receiving competent authorities can then decide to follow the decision and suspend or remove from trading the concerned financial instruments as deemed appropriate.

Description of the process

Upon entry of the bank into resolution, the SRB will issue a Resolution Scheme. The National Resolution Authority (NRA) will then implement the Scheme by way of a national implementing act. In case of bail-in, the NRA will execute the write-down and conversion of liabilities and instruments indicated in the SRB Resolution Scheme[65], through the national implementing act.

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60 See (2014) *Directive 2014/65/EU of the European Parliament and of the Council*, May.

61 Article 67.1 of MiFID II requires each Member State to designate the competent authorities, which are to carry out each of the duties provided for under the different provisions of MiFID II / MiFIR. The designated competent authorities are typically the national market supervisors.

62 Cf. Article 18.2 of MiFID II with respect to multilateral trading facility (MTF) or Organised Trading Facility (OTF)

63 Articles 32.2 and 52.2of MiFID II.

64 MiFID, Markets in Financial Instruments Directive, 2014/65/EU. An example of a suspension notification format can be found at the *ESMA website*.

65 In accordance with SRMR (article 21.8) and powers conferred to it under BRRD as transposed into national law.

For the MA, the most important action will be the suspension of trading for any listed ISINs. The way to communicate this will be a request or notification from the NRA to the MA to inform of the resolution and/or intended bail-in process. The MA will then immediately inform the regulated markets and request them to suspend trading of these ISINs. The MA will also inform international colleague supervisors of the suspended ISINs using the ESMA communication protocol. It is important to highlight that, under the current EU legal framework, the suspension of trading in other Member States is not automatic.

When equity is cancelled, the affected securities shall be delisted by the TV, upon information from the MA. Regarding securities traded on multiple venues within the EU, the ESMA communication mechanism is used for communication of de-listings among MAs.

Bail-in of international debt securities involving the ICSDs Euroclear Bank and Clearstream Banking Luxembourg

Euroclear Bank (EB) and Clearstream Banking Luxembourg (CBL) are International Central Securities Depositories (ICSDs). They act as issuer CSDs and places of primary deposit[66] for Eurobonds.[67] Eurobonds are usually identifiable by a securities ISIN starting by "XS", rather than the standard 2-digit country code used for securities issued via a domestic CSD. The two ICSDs are themselves also designated National Numbering Agencies (NNA) for the purposes of XS ISINs.

A particularity of the ICSD model compared to the CSD model, where the CSD also holds the global certificate of the dematerialised securities, is that the two ICSDs use common depositories[68] for that purpose in case of classical global notes (CGN)[69]. A common depository is a service provider and safe keeper of assets on behalf of EB and CBL combined. In case of new global notes (NGN)[70], the ICSDs rely on a common safekeeper and a specialised service provider. The common safekeeper is one of the ICSDs if the security is intended to be European System of Central Banks (ESCB) eligible, or the entity acting as common service provider if it is not.

The ICSDs also accept other securities on their platforms (equities, warrants, debt etc.) that have been issued in numerous local markets. They act as investor CSDs in respect of these securities. This enables them to provide access to their clients to these markets. The write-down of XS bonds entails marking the bond as worthless. The security continues to exist in the ICSDs' systems, which then proceed to cancellation. In normal circumstances, there is usually a 3-week period between marking down and cancellation, which occurs via a "disposal notice". In a bail-

[66] A deposit on account with the issuer CSD. Primary clearing and settlement occurs when there is a change in the position of a securities account held with the issuer CSD.

[67] International securities issued outside the country in whose currency their value is stated. Eurobonds are usually identifiable by a securities ISIN starting by 'XS' rather than the standard 2-digit country code used for securities issued via an NNA appointed for that jurisdiction. In contrast to Euro MTN, for example, which can also be issued outside the country in whose currency its value is stated, Eurobonds are issued all at once and not under a programme.

[68] A common depositary is an entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide safekeeping and asset servicing for certain securities.

[69] A classical global note is a form of global certificate which requires physical annotation on the attached schedule to reflect changes in the issue outstanding amount.

[70] A new global note is a form of Global Certificate which refers to the records of the ICSDs to determine the issue outstanding amount.

in context, cancellation would follow from the national implementing act and from the write-down instruction sent to the ICSDs. ICSDs usually apply partial write-down through a pool factor (though they can also support a reduction of nominal).

The process for write-down and conversion corresponds to what is described in this note, with the following differences:

- The Operational Agent[71] would need to also notify the Common Depositary (for CGNs) or the common service provider and the ICSDs (for NGN). An instruction letter template has been designed for that purpose, together with the ICSDs.

- The CD (or the common safekeeper, i.e. an ICSD or the CSP) would write down the CGN (or NGN) as required. ICSDs receive write down instructions via SWIFT from CD or CSP.

- ICSDs would confirm the execution of write-down to the agent, but also to the CD/CSP.

In the event of conversion, XS bonds are converted in full or partially into instruments issued in the domestic CSD. These may be new equity or interim instruments representing contingent entitlements: the same process applies for the ICSDs. ICSDs will only be able to credit the proceed securities if they act as an investor CSD for the specific local market of issuance, i.e. if they hold directly an account with the local CSD or an indirect access via an agent bank/custodian.

The situation may arise whereby the proceed security is not eligible in the ICSDs (in case of markets with which the ICSDs have not established links, or for very bespoke securities). This is unlikely to occur for securities issued in the EU and in major international markets (provided they are issued in a CSD), as the ICSDs have established links with most domestic CSDs servicing equities in such markets. [72] If such a case occurs, the ICSDs will collect delivery details from clients and send these details to the agent.

The additional steps involved in the exchange or conversion (where the conversion takes place in an ICSD and the issuance of new equity or interim instruments representing contingent entitlements in a domestic CSD) would be the following:

- The Issuer/Agent provides information to the ICSDs on the new shares. The ICSDs verify they are eligible on their platforms.

- Following the creation of the new shares in the domestic issuer CSD, ICSDs agree settlement with the Issuer/Agent: this entails exchange of account details and agreement on settlement instruction details.

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[71] Any entity that acts on behalf and upon request of the issuer and supporting the issuer throughout the lifecycle of the securities issued by the issuer. Operational agents are involved in the issuance of securities, the preparation and performance of corporate actions, conversions, etc.

[72] At 31 December 2020, links were in place between the ICSDs with all EU G20 countries, as well as Argentina, Australia, Canada, Indonesia, Japan, Mexico, Russia, South Africa, Switzerland, the United Kingdom and the United States; and between one of the ICSDs and Brazil, Korea and Turkey. For more details on links established with other EU countries, please refer to SRB, *Reflecting bail-in in the books of the International Central Securities Depositories (ICSDs)*. This list may be subject to change.

- The Issuer CSD delivers the shares in accounts of the ICSDs (acting as investor CSDs). This requires that the ICSDs either have an account at the local CSD or have indirect access to the local CSD through a custodian.

Abbreviations

AML	Anti-Money Laundering
bankCBCM	FSB Cross-Border Crisis Management Group for banks
BRRD	Bank Recovery and Resolution Directive (EU)
CCPs	Central Counterparties
CFT	Counter-Terrorism Financing
CMG	Crisis Management Group
CoAgs	Cross-border Cooperation Agreements
CPMI	Committee on Payments and Market Infrastructures
CSD	Central Securities Depository
CUSIP	Committee on Uniform Securities Identification Procedures
EU	European Union
ESMA	European Securities and Markets Authority
FINRA	Financial Industry Regulatory Authority
FMIs	Financial Market Infrastructures
FSB	Financial Stability Board
G-SIBs	Global Systemically Important Banks
ICSD	International Central Securities Depository
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
KA	Key Attributes
LEI	Legal Entity Identifier
MA	Market Authority
MTF	Multilateral Trading Facility
NCWOL	No Creditor Worse Off than in Liquidation
NNA	National Numbering Agency

OTC	Over The Counter
OTF	Organised Trading Facility
RAP	Resolvability Assessment Process
ReSG	FSB Resolution Steering Group
SEC	Securities and Exchange Commission
SIBs	Systemically Important Banks
SIFIs	Systemically Important Financial Institutions
SRB	Single Resolution Board
TLAC	Total Loss-Absorbing Capacity
TV	Trading Venue

Glossary[73]

Admission to trading	The decision for a financial instrument to be traded in an organised way, notably on the systems of a trading venue.
Beneficial Owner	The entitlement to receive some or all of the benefits of ownership of a security or other financial instrument (e.g., income, voting rights, power to transfer). Beneficial ownership is usually distinguished from 'legal ownership' of a security or financial instrument. See also legal ownership. (Common-law jurisdictions)[74]
Cancellation of shares	When shares are cancelled, they cease to exist in an economic and legal sense. Consequently, shareholders cease to have any rights of ownership or other economic rights.
Central Securities Depository (CSD)	A facility (or an institution) for holding securities, which enables securities transactions to be processed by book entry. Physical securities may be immobilised by the depository or securities may be dematerialised (i.e., so that they exist only as electronic records). In addition to safekeeping, a central securities depository may incorporate comparison, clearing and settlement functions.[75]
Conversion Agent	An agent appointed by the issuer to instruct the execution of conversion or exchanges of securities (also called Exchange Agent).
Conversion of securities	An exchange of securities, in bail-in situation usually debt instruments (bonds), into another form of securities, in a bail-in situation usually equity instruments (shares or other instruments of ownership) at a given ratio.
Conversion Rate	Number of proceed securities to be received per notional or nominal exchanged (taking the pool factor into account, if applicable). In a bail-in: usually the number of shares (or other instruments of ownership) to be received per bailed-in bond.
Corporate Action	An action or event decided by the issuer of a security which has an impact on the holders of that security. This may be optional, in which case those holders have a choice (for example, they may have the right to purchase more shares, subject to conditions specified by the

[73] The definitions below are illustrative, not exhaustive, and apply only in the context in which the terms are used within this document.

[74] Source: https://www.bis.org/cpmi/glossary_030301.pdf

[75] Source: https://www.bis.org/cpmi/glossary_030301.pdf

	issuer). Alternatively, it may be mandatory, whereby those holders have no choice (e.g., in the case of a dividend payment or stock split). Corporate actions can relate to cash payments (e.g., dividends or bonuses) or the registration of rights (subscription rights, partial rights, splits, mergers, etc.).
CUSIP	A unique nine-character alphanumeric code often used with the standard security description to identify report and transfer a specific securities issue. The CUSIP root is the first five or six digits of the number. The remaining numbers identify the specific issue of the security. CUSIP (Committee on Uniform Security Identification Procedures) is part of the American Bankers Association.[76]
Custodian	An entity, often a credit institution, which provides securities custody services to its customers. A number of different actors provide custody services in different roles: the investor's main custodian (e.g., house bank), the sub-custody network and the CSDs. It should be noted that it is for the investor to choose the main custodian to hold the assets.
Delisting of instruments	Delisting involves voluntary or involuntary removal of a security registered with a national securities exchange from listing on an exchange, in accordance with the rules of the exchange, and upon such terms as the market authority may deem necessary. A delisting alone may not absolve an issuer from meeting securities laws reporting requirements and other obligations under applicable securities laws.
Depository	An agent with the primary role of recording (direct or indirect) holdings of securities. A depository may also act as a registrar. The depository may be a CSD, or a different entity (such as a custodian bank).
Exchange of securities	Please refer to conversion of securities. In contrast to a conversion, an exchange can also be against cash, though this would not be the case in a bail-in.
Exercise security	A security subject to a corporate action event. In a bail-in: a security that is written down or converted.
Financial Market Infrastructures	A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.

[76] Source: https://www.frbservices.org/resources/financial-services/securities/glossary.html

Fractional share	Less than one full share of equity is called a fractional share. Such shares may be the result of stock splits, dividend reinvestment plans (DRIPs), or similar corporate actions and could also result from a conversion resulting from a bail-in event.
Global Certificate or Global note	Certificate representing an entire issue of securities. This may be a temporary global certificate or a permanent global certificate, and in CGN or NGN form.
Interim instrument (representing contingent entitlements)	A security (usually of a type related to equity) that is issued for the purpose of allowing a conversion from bail-inable liabilities into that instrument, as a first step in the bail-in process. The interim instrument is meant to be converted/ exchanged after definitive ex post valuation into a definitive instrument, most likely an equity security.
International Central Securities Depository (ICSD)	A central securities depository that settles trades in international securities and in various domestic securities, usually through direct or indirect (through local agents) links to local CSDs.[77]
Investor CSD	A term used in the context of central securities depository (CSD) links. An investor CSD – or a third party acting on behalf of the investor CSD – opens an account in another CSD (the issuer CSD) to allow the cross-system settlement of securities transactions.
ISIN	The International Securities Identification Number (ISIN, ISO 6166) is the recognised global standard for unique identification of financial instruments. ISINs are used to identify most types of financial instruments, including equity, debt and derivatives
Issuer	Legal entity that issues and sells securities to finance its operations. Issuers may be corporations, investment trusts, or domestic or foreign governments. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions
Issuing agent	Legal entity assisting the issuer in its relation with the CSD, for the purpose of issuing the securities: it creates the ISIN in the system through the initial deposit to create the security.
Issuer CSD	A central securities depository (CSD) in which securities are issued (or immobilised). The issuer CSD opens accounts allowing investors

[77] Source: https://www.bis.org/cpmi/glossary_030301.pdf

	(in a direct holding system) and/or intermediaries (including investor CSDs) to hold these securities.
Legal owner	The person or entity holding title to the security (or any other possession). In the case of registered securities, the registered owner. If the legal owner is not the beneficial owner, it may be described as a 'nominee'. (Common-law jurisdictions)
Listing	The admission to trading of a financial instrument on an exchange. (In some cases, e.g., when the exchange does not offer trading facilities in a given jurisdiction, listing can take place without trading being possible on the exchange's trading platform). Delisting thus refers to the removal of the instrument from trading
National Numbering Agency (NNA)	The organisation in each country responsible for issuing International Securities Identification Numbers (ISIN), as described by the ISO 6166 standard and the Classification of Financial Instruments code, as described by the ISO 10962 standard. The role of a National Numbering Agency is typically assigned to the national stock exchange, CSD, central bank or financial regulator.
Paying agent	An agent appointed by the issuer to process the cash payments to be made by the issuer (collection of coupon, redemption or other monies) related to a security.
Pay(ment) date	The date on which entitlements (such as a dividend, mutual fund distribution or bond interest payment, but also any cash proceeds relating to a bail-in event) are scheduled to be paid to eligible investors. Also called distribution date.
Pool factor	Factor used to calculate the value of the outstanding principal of the financial instrument applicable until the next redemption (factor) date, or after the redemption (factor) date. Can also be defined as: ratio of outstanding principal to original face value.
Proceed security	A security resulting from a conversion/exchange event applied to an exercise security. In an open firm bail-in: following the conversion of equity or debt instruments.
Record date	In general, this refers to the date upon which the issuer or the relevant agent (CSD, registrar) closes its books for the purpose of capturing the names of the legal owners to whom the distribution will be paid. All legal owners will participate in the distribution or exchange, whether or not they are the beneficial owner. In the context of the topic of this note, it specifically refers to the date/time at which positions are struck at the end of the day to note which parties will be subject to write-down

	and possibly receive the relevant amount of entitlement, due to be distributed on the settlement date.
Registrar	An entity that records the ownership of securities on behalf of the issuer.
Regulated market	Definition as used in this paper only applies to the EU. The EU legislation which harmonizes securities law between EU member states introduced the concept of a "regulated market" for securities. The majority of the harmonized regulations apply only to securities traded on a regulated market. A regulated market is a multilateral system, defined by Article 4 MiFID, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in a way that results in a contract. Examples: the traditional stock exchanges such as the Frankfurt Stock Exchange.
Resolution Authority	Depending on the framework of a given jurisdiction Resolution Authority may refer in this report to an actual resolution authority, an appointed administrator or to an authority (other than a resolution authority) with relevant functions for resolution.
Settlement Date	The date on which the parties to a securities transaction agree that settlement is to take place (the intended date is sometimes referred to as the contractual settlement date[78]). In the context of a conversion (table 2 of this note) the settlement date refers to the date at which entitlements are due to be paid to investors (booking of proceed securities to CSD participants/investors).
Suspension of settlement	Settlement freeze
Suspension of trading	A temporary halt in the trading of a particular financial instrument as a consequence of a regulatory intervention or an intervention by the exchange operator, following serious concerns about the relevant company's assets, operations, or any other financial information. Usually, the issuer may also ask for a suspension of trading in advance of important announcements. As opposed to suspensions, which can last several days or weeks, trading halts and delays are shorter interruptions to trading at one or across numerous exchanges.

[78] Source: https://www.bis.org/cpmi/glossary_030301.pdf

Systematic Internaliser	A Systematic Internaliser (SI) is a MiFID term which corresponds to an investment firm which, on an organised, frequent and systematic, and substantial basis, deals on its own account (principal trading) by executing client orders outside TVs: Regulated Market (RM), Multilateral Trading Facility (MTF), or Organized Trading Facility (OTF).
Trading venue	A trading venue is either a regulated market (a stock exchange), a multilateral trading facility (i.e. a multilateral trading system operated by an investment firm or a market operator) or an organised trading facility (i.e. a multilateral system which is not a regulated market or an MTF).
Write-down of equity and debt instruments	Reduction of the value of the principal of a security, or reduction in the pool factor applicable to that security.