



# PRUDENTIAL PRACTICE GUIDE

## CPG 900 Resolution Planning

Integrated version

May 2023

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# Contents

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About this guide	4
Glossary	5
Resolution planning	6
Developing a resolution plan	9
Pre-positioning	14
Review and notification	18

# About this guide

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Prudential practice guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss legal requirements from legislation, regulations or APRA's prudential standards, but do not themselves create enforceable requirements.

*Prudential Standard CPS 900 Resolution Planning (CPS 900)* requires entities that are significant financial institutions (SFIs) and non-SFIs that provide critical functions to support APRA in the development and maintenance of a bespoke resolution plan.

This PPG, *Prudential Practice Guide CPG 900 Resolution Planning (CPG 900)*, provides guidance to support the implementation of CPS 900. It sets out the outcomes that APRA is seeking to achieve at each stage of the resolution planning process, and the factors that APRA will have regard to in developing a bespoke resolution plan for a particular entity.

This integrated version of CPG 900 maps APRA's guidance to the relevant paragraphs in CPS 900. Paragraphs from CPS 900, which are enforceable requirements, have been set out in blue boxes like this; the accompanying guidance follows below, outside the blue boxes.

# Glossary

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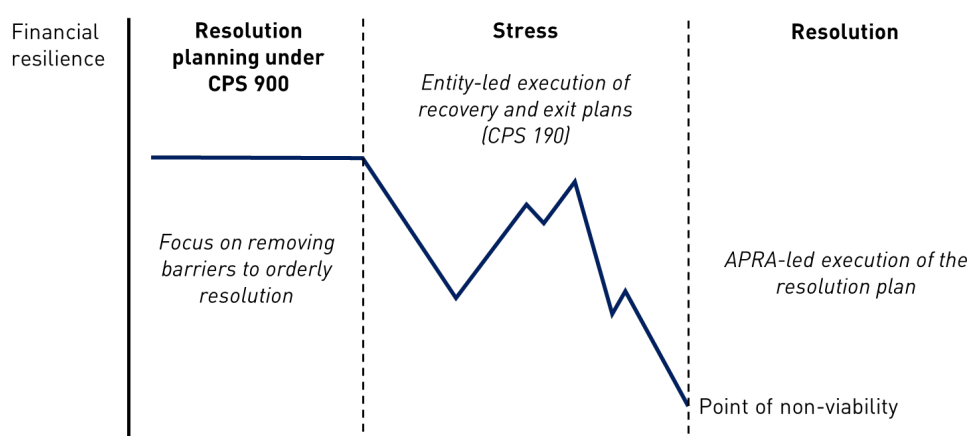
<b>ADI</b>	Authorised deposit-taking institution
<b>APRA</b>	Australian Prudential Regulation Authority
<b>Beneficiaries</b>	Beneficiaries are collectively depositors, insurance policyholders and superannuation fund members of APRA-regulated entities
<b>CPS 190</b>	<i>Prudential Standard CPS 190 Recovery and Exit Planning</i>
<b>CPS 900</b>	<i>Prudential Standard CPS 900 Resolution Planning</i>
<b>FMI</b>	Financial market infrastructure
<b>Non-SFI</b>	Non-significant financial institution
<b>PPG</b>	Prudential practice guide
<b>RSE</b>	Registrable superannuation entity
<b>RSE licensee</b>	Registrable superannuation entity licensee as defined in s10(1) of the <i>Superannuation Industry (Supervision) Act 1993</i>
<b>SFI</b>	Significant financial institution

# Resolution planning

13. APRA may determine a bespoke resolution plan for an APRA-regulated entity or APRA-regulated entities, setting out the steps that APRA may take to protect beneficiaries and maintain critical functions in the event of a resolution. Resolution options may include a wind-down, transfer, or recapitalisation of an entity.
14. An APRA-regulated entity must support APRA in the development and maintenance of a resolution plan.
15. An APRA-regulated entity with overseas operations must support the development and maintenance of cross-border components of the resolution plan.

1. Resolution is the process of managing an APRA-regulated entity that has become non-viable, led by APRA as the resolution authority.<sup>1</sup> In this event, APRA’s objective is to protect depositors, insurance policyholders and superannuation fund members (beneficiaries), minimise disruption to the financial system and maintain critical functions (achieving an ‘orderly resolution’). Resolution plans set out the steps that APRA may take to resolve an entity in the event of non-viability.
2. For significant financial institutions (SFIs) and non-SFIs that provide critical functions, bespoke resolution planning can be required to remove barriers to resolution (see Figure 1). CPS 900 sets out a framework for resolution planning that will be implemented on an entity-by-entity basis.

**Figure 1. Indicative resolution lifecycle – entities subject to CPS 900**



3. The resolution plan is an important complement to an APRA-regulated entity’s recovery and exit plan, required under *Prudential Standard CPS 190 Recovery and Exit*

<sup>1</sup> APRA has powers to resolve banking and insurance entities through various Acts that it administers, including those introduced through the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018*. For superannuation, these powers include powers introduced through the *Treasury Laws Amendment (Your Future, Your Super) Act 2021*.

*Planning* (CPS 190). Recovery and exit plans set out the steps an entity itself would take to manage periods of stress, including actions to restore financial resilience or exit regulated activity in an orderly manner. A strong recovery and exit plan would reduce the likelihood of resolution.

4. While there can be commonalities between exit planning and resolution planning, there are important differences, as shown in Figure 2 below.

**Figure 2. Comparing exit and resolution planning**

Exit planning	Resolution planning
An entity determines how it would exit regulated activity prior to the point of non-viability (as required under CPS 190)	APRA determines how to resolve the entity once it has become non-viable (as required under CPS 900)

5. The requirements in CPS 900 only become relevant to regulated entities when an entity is notified by APRA. Prior to this, there are no requirements under CPS 900 that entities need to meet. Entities are not required to prepare for CPS 900 implementation ahead of APRA's notification.
6. There are six main components to the resolution planning process; the outcomes from each are set out in Table 1 below. Darker shading has been used to highlight key requirements of entities, and lighter shading represents actions taken by APRA.

**Table 1. Components of resolution planning**

Component	Outcome
<b>Critical functions</b>	APRA may require an entity to undertake critical functions analysis. APRA will determine whether an entity has functions that could be important to financial system stability or the availability of essential financial services to a particular industry or community.
<b>Identification of resolution options</b>	APRA identifies options that could be used to support the orderly resolution of an entity and ensure the continuity of its critical functions.
<b>Resolvability assessment</b>	APRA may require an entity to assess the feasibility of resolution options, including identifying potential barriers to implementation.
<b>Determination of resolution plan</b>	APRA determines which options may be used in resolution, and sets out its resolution plan.
<b>Pre-positioning and capabilities</b>	APRA may require an entity to remove barriers to resolution options. An entity must establish and maintain the capabilities necessary to support the resolution plan.
<b>Review and maintenance</b>	Once the resolution plan has been determined, an entity must undertake a regular review of the critical functions analysis and resolvability assessment. An entity must remain ready for the execution of the resolution plan ('resolvable').

7. The development of a bespoke resolution plan may occur over several years. APRA expects that the initial stages would be mainly focused on information gathering and assessment, providing for a gradual implementation of requirements under the standard.
8. The resolution planning process would typically involve frequent engagement between APRA staff and the regulated entity. APRA expects entities to be open, cooperative and constructive, and to provide all relevant information needed for informed assessments.
9. In some instances, addressing barriers to an effective resolution could have impacts for entities within a group that are not directly APRA-regulated, particularly where there are interlinkages across the group.
10. Where an entity has overseas operations, CPS 900 requires the entity to support the development and maintenance of cross-border components of a resolution plan. APRA may establish a working group to facilitate information sharing and cooperation with overseas regulators on cross-border components of the resolution plan.



# Developing a resolution plan

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## Role of the Board

16. The Board of an APRA-regulated entity must support APRA in resolution planning and is ultimately responsible for ensuring that the entity meets the requirements of this Prudential Standard. The Board must ensure that there are clear roles and responsibilities at a senior executive level for the purpose of meeting the requirements in this Prudential Standard.
17. The Board must provide oversight of and approve, where applicable:
  - a) a resolvability assessment; and
  - b) a pre-positioning plan.
11. Once an APRA-regulated entity has been subject to CPS 900, the Board of the entity must ensure that the entity meets the requirements of this Prudential Standard. In practice, this would mean that the entity is ready for the execution of the resolution plan ('resolvable'). It would involve the Board overseeing the steps in preparing for resolution, including the implementation of pre-positioning actions and maintenance of capabilities necessary for resolution.
12. A prudent Board would ensure that the resolvability assessment and pre-positioning plan have been subject to rigorous review and challenge, including when these are updated over time. This could include an independent review, where considerations are complex or require specialist skills. In some circumstances, APRA may seek further assurance on the accuracy or completeness of an entity's resolvability assessment, by requiring an independent review.

## Critical functions

18. An APRA-regulated entity must support APRA in the determination of whether it provides any critical functions, if required by APRA.
19. APRA may require an APRA-regulated entity to undertake critical functions analysis, taking into account the systemic impact, customer impact and the substitutability by other providers if functions were to cease. An APRA-regulated entity may also be required to identify shared services, including those provided by third parties, upon which critical functions depend.
13. The early stages of bespoke resolution planning would typically involve APRA determining whether an entity provides critical functions. Critical functions refer to any functions that an individual entity provides that are important to financial system

stability or the availability of essential financial services to a particular industry or community.<sup>2</sup>

14. This is a foundational step in resolution planning; an orderly resolution would protect depositors, insurance policyholders and superannuation fund members, and avoid significant disruption to financial stability and the provision of critical functions.
15. Identifying critical functions is a complex judgement, which relies on a range of quantitative and qualitative information. To inform its determination, APRA may require entities to complete a critical functions analysis against key criteria. Good practice would be to provide supporting information to explain any justifications against the criteria, where appropriate.
16. Table 2 below sets out APRA's key areas of focus in determining critical functions; this would form the basis of APRA's information requests. Functions that do not have a material impact on financial stability, industries or communities, or those that can be substituted with a minimum of time and cost would be unlikely to be considered critical.

**Table 2. Indicators of critical functions**

Factor	Example considerations
<b>Systemic impact</b>	<ul style="list-style-type: none"> <li>• The function is highly interconnected with other participants.</li> <li>• There would be a significant impact on market confidence or operation if the function ceased.</li> <li>• There is potential for contagion to other market participants if the function ceased.</li> </ul>
<b>Industry or community impact</b>	<ul style="list-style-type: none"> <li>• The entity provides essential services to a large proportion of customers in a particular geographical region or community.</li> <li>• The entity provides specialised or unique services critical to a particular industry.</li> </ul>
<b>Substitutability</b>	<ul style="list-style-type: none"> <li>• The market is highly concentrated.</li> <li>• There are no clear substitutes, either alternative providers or different products.</li> <li>• The function cannot be quickly substituted with minimal disruption.</li> <li>• There are barriers to entry for new providers, such as contractual arrangements, infrastructure or expertise.</li> </ul>

17. APRA's approach to determining critical functions includes a focus on specific industry and community impacts. This is important since some industries or communities may be particularly reliant on the financial services of individual entities. For example, the non-viability of an insurer that provides public liability insurance could have significant

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<sup>2</sup> Critical functions are distinct from critical operations. Critical operations are defined in *Prudential Standard CPS 230 Operational Risk* (CPS 230) as processes undertaken by an APRA-regulated entity or its service provider which, if disrupted beyond tolerance levels, would have a material adverse impact on its beneficiaries or other customers, or its role in the financial system.

industry impacts, if new construction projects were unable to proceed due to lack of insurance cover. In contrast, a small residential mortgage portfolio with a high degree of substitutability is unlikely to be considered a critical function.

18. Entities may also be required to identify any shared services that are vital to the provision of critical functions. In simple terms, these are services which, if they were to cease, would prevent an entity from providing its critical functions.<sup>3</sup> Where required, entities would be expected to undertake a comprehensive mapping of critical functions to shared services (provided within a regulated entity, from a group service provider or a third-party provider).<sup>4</sup> Some common examples of shared services include IT systems, legal services or administrative services.
19. Ahead of finalising its critical functions determination, APRA would communicate its findings to an entity. This provides an opportunity for entities to clarify conclusions or provide further information, where appropriate.

## Resolution options

20. Under CPS 900, APRA would identify credible resolution options to support the orderly resolution of an entity. There are a range of potential options, depending on the industry an entity operates in and its particular risk characteristics. Some key examples are set out in Table 3 below.

**Table 3. Example resolution options**

Option	Likely application	Desired outcome
<b>Recapitalisation</b>	The largest and/or most complex entities, with significant critical functions.	The conversion of hybrid capital instruments into equity, to restore viability using private, rather than public, funds.
<b>Transfer</b>	Small to medium-sized entities, typically with limited critical functions.	The transfer of all, or part, of an APRA-regulated entity to another party.
<b>Wind-down or run-off</b>	Entities with no critical functions.	Ceasing certain business activities with minimal adverse impact on customers, counterparties or the wider financial system.

<sup>3</sup> Internationally, these services are commonly referred to as 'critical shared services'. See, for example, [Recovery and resolution planning for SIFI \(fsb.org\)](https://www.fsb.org/2015/04/29/recovery-and-resolution-planning-for-sifi/).

<sup>4</sup> Some of these shared services may be provided by material service providers. Material service providers are defined in CPS 230.

## Resolvability assessment

20. APRA may require an APRA-regulated entity to conduct a resolvability assessment to assess the feasibility of resolution options. The resolvability assessment must be conducted by personnel with appropriate skills and experience.
21. Once APRA has identified potential resolution options, APRA would typically request an entity to assess their feasibility. This provides an opportunity for entities to provide feedback to APRA on the potential costs, risks and impacts of these options and associated pre-positioning measures. In requesting a resolvability assessment, APRA would typically provide a detailed outline of the key areas it expects entities to focus on.
22. APRA would typically provide an entity with 3-6 months to complete the resolvability assessment, although this may vary. APRA may hold several engagements with entities throughout this period to assess progress.
21. For each resolution option, the resolvability assessment must assess:
  - a) any legal, structural, operational or regulatory barriers to implementation;
23. Barriers could arise from a range of sources, including contracts that do not allow for transferability of functions or prevent recapitalisation objectives; they could also be due to organisational structures that may not facilitate partial transfers. Some entities may encounter barriers due to a reliance on shared services and key staff, or a dependence on financial market infrastructure (FMI) service providers. Prudent entities would assess the risks associated with insufficient financial resources or a need for regulatory approvals or exemptions to execute the option.
  - b) timelines for implementation;
24. It is important that the resolution option can be implemented in a timely manner. A prudent entity would assess the relevant steps needed to implement the option, clearly indicating where timeframes may be uncertain, including where there may be a reliance on external parties.
  - c) any execution risks; and
25. Execution risks could arise from a range of sources, including reliance on external parties or weaknesses in systems and processes for producing timely and accurate data, including for valuations. There could also be potential risks to the effective conversion or write-down of capital instruments.
  - d) pre-positioning measures required to effectively execute the option.

26. Where barriers to implementation and execution risks have been assessed as low, and timelines for implementation are within acceptable ranges, APRA expects that pre-positioning measures would be fairly limited.
  27. In other instances, entities will need to identify appropriate pre-positioning actions. An example may be where the resolvability assessment identifies certain clauses in contracts with third-party service providers that would inhibit access to these services in resolution. A prudent entity would clearly demonstrate how pre-positioning measures would mitigate the risks identified.
  28. In assessing pre-positioning measures, an entity would identify the capabilities required to support APRA in effecting the resolution options. This might include systems and expertise needed to ensure operational continuity during resolution.
22. APRA may require an APRA-regulated entity to have the resolvability assessment independently reviewed.

## Resolution plan

29. Using the findings from an entity's resolvability assessment, APRA would then determine an entity's bespoke resolution plan. The resolution plan sets out the steps that APRA may take to resolve the APRA-regulated entity, to protect beneficiaries and maintain the continuity of identified critical functions.
30. In determining the resolution plan, APRA will weigh up a range of considerations, such as implementation costs. APRA will seek to achieve its objectives – the financial safety of institutions and the stability of the Australian financial system – in a manner that balances efficiency, competition, contestability and competitive neutrality. APRA will also seek to leverage any work that has already been done to improve resolvability under an entity's recovery and exit plan.

# Pre-positioning

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## Pre-positioning plan

23. APRA may require an APRA-regulated entity to develop and implement a pre-positioning plan to remove barriers to the execution of resolution options and mitigate execution risks.
  24. The pre-positioning plan must include, where applicable:
    - a) changes to organisational or legal structure, including the location of any shared services within a group;
    - b) renegotiation of contracts, including with third-party service providers;
    - c) development of wind-down or run-off plans for particular businesses or assets;
    - d) measures to ensure the operational continuity of key functions and services during resolution;
    - e) capabilities necessary to support APRA in effecting the resolution options; and
    - f) any other actions required to remove barriers to the execution of resolution options or mitigate execution risks.
  25. APRA may require an APRA-regulated entity to implement additional pre-positioning actions if necessary to support the resolution plan.
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31. APRA-regulated entities will typically be required to develop and implement a pre-positioning plan for the measures identified in the resolvability assessment. APRA expects that these plans would set out clear timeframes and accountabilities for the completion of pre-positioning actions. Prudent entities would also set out the risks to effective implementation, making sure that appropriate mitigants are in place.
  32. Renegotiation of contracts may be relevant for some entities. For example, some existing contracts may include termination clauses that could undermine the continued provision of critical functions in resolution. It is important that entities explore prudent ways of addressing these impediments to resolvability.
  33. APRA will engage with entities regularly to assess progress in developing and implementing pre-positioning actions. Where APRA is not satisfied with the actions planned or taken, APRA may require additional pre-positioning actions to be taken.

## Financial resources and loss-absorbing capacity

26. An APRA-regulated entity must maintain the financial resources required to support the resolution plan.
27. APRA may require an APRA-regulated entity that is not an RSE licensee to maintain an amount of loss-absorbing capacity to support the resolution plan:
  - a) for an ADI, APRA may adjust its Total Capital prudential capital requirement under *Prudential Standard APS 110 Capital Adequacy*; and
  - b) for a general insurer, life company or private health insurer, APRA may adjust its prudential capital requirement under *Prudential Standard GPS 110 Capital Adequacy* or *Prudential Standard LPS 110 Capital Adequacy*, or a capital adequacy supervisory adjustment under *Prudential Standard HPS 110 Capital Adequacy*.
34. APRA expects entities to maintain the financial resources required to support the resolution plan, including sufficient capital to absorb losses and liquidity to continue meeting financial obligations.
35. Under CPS 900 entities may be required to maintain additional loss-absorbing capacity for resolution. APRA's objective is to ensure that, in the event of non-viability, financial resilience can be rebuilt and critical functions maintained, using private rather than public funds. Where entities are required to build additional loss-absorbing capacity, APRA will determine an appropriate timeframe for implementation, taking into account circumstances at the time. Additional loss-absorbing capacity requirements can be met with any form of regulatory capital.

## Capabilities for resolution

28. An APRA-regulated entity must establish and maintain the capabilities required to support the resolution plan. These include:
- resolution governance arrangements;
  - operational capabilities;
  - financial management;
  - data and systems; and
  - where appropriate, a restructuring plan.
29. APRA may require an APRA-regulated entity to establish and maintain additional capabilities if necessary to support the resolution plan.
30. APRA may adjust the prudential requirements of an APRA-regulated entity where barriers to resolution are not addressed or where capabilities to support the resolution plan are insufficient, including changes to capital requirements where relevant.

36. Table 4 below sets out some example considerations for resolution capabilities.

**Table 4. Key resolution capabilities**

Capabilities	Example considerations
<b>Resolution governance arrangements</b>	It is important that appropriate governance arrangements can be put in place to support an orderly resolution, and maintain effective oversight of risks. A prudent entity would consider the need for engagement with key stakeholders, including regulators, and key risk indicators that would need to be monitored.
<b>Operational capabilities</b>	Good practice would be to consider how to retain staff in key roles that are necessary for operational continuity, taking into account incentives or transferability of roles. A prudent entity would also consider its reliance on third-party service providers and FMI, where appropriate.
<b>Financial management</b>	Where the resolution plan involves loss-absorbing capacity, a prudent entity would establish processes to support the effective conversion of this capacity, at the point of non-viability. Some entities can be susceptible to liquidity risk in resolution. It is important that entities maintain the capabilities to estimate and monitor funding needs.
<b>Data and systems</b>	It is important that management information systems can produce timely and accurate information, including accounting, position keeping and risk systems.
<b>Restructuring plan</b>	Where the resolution plan involves an entity continuing to operate following resolution, a prudent entity would have an established plan for returning to a sustainable and resilient long-term financial position. These plans would be underpinned by prudent assumptions.



## External advisors

31. APRA may require an APRA-regulated entity to:
- a) engage, at the expense of the APRA-regulated entity, expert external advisors approved by APRA, to support with any aspect of this Prudential Standard. An APRA-regulated entity must consult with APRA before finalising the terms of engagement, and must ensure that external advisors are available to meet with APRA on request. Reports prepared by external advisors must be provided to APRA and the APRA-regulated entity, including any interim or draft reports; or
  - b) support external advisors engaged by APRA to assist in the exercise of APRA's powers and functions under this Prudential Standard as it relates to the APRA-regulated entity.
37. Under CPS 900, APRA may require entities to engage an expert external advisor directly, or support external advisors engaged by APRA for the purposes of this Prudential Standard. External advisors can provide necessary skills and relevant specialist knowledge to assist in resolution planning.
38. Where APRA has required an entity to engage an expert external advisor, the entity must consult with APRA prior to finalising the terms of engagement. This provides an opportunity for APRA to assess the skills and relevant specialised knowledge of advisors, as well as any potential conflicts of interest. APRA will pay particular attention to the objectives, scope and format of a report, as well as the information that may need to be collected, and timelines for completion. APRA expects that expert external advisors will provide APRA with identical copies of any draft or interim report at the same time they are issued to the APRA-regulated entity.
39. APRA expects that entities will be open, cooperative and constructive in their engagements with external advisors, including with advisors engaged by APRA. It is important that advisors are provided access to relevant information, as appropriate.

# Review and notification

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32. An APRA-regulated entity that is subject to resolution planning under this Prudential Standard must review and update the critical functions analysis and resolvability assessment at least every three years, or as otherwise determined by APRA. The review must be conducted by operationally independent, appropriately experienced and competent persons. The APRA-regulated entity must submit to APRA a report of the review as soon as practicable after the report is finalised.
  33. Where appropriate, the review must recommend changes to the pre-positioning plan to reflect any changes in organisational structure, strategy, risk profile or the external environment that could affect the APRA-regulated entity's resolvability. The review must also recommend any changes to resources and capabilities necessary to support the resolution plan.
  34. An APRA-regulated entity must notify APRA of material changes to its business or operations that may create a barrier to resolution.
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40. It is important that the resolution plan remains effective and is updated, where appropriate. In addition to periodic reviews of the critical functions analysis and resolvability assessment, CPS 900 requires an entity to notify APRA of material changes to its business or operations that may create a barrier to resolution.
  41. Strategic decisions can have significant impacts on the effectiveness of resolution planning. Decisions to enter new contracts, expand into new markets or restructure business lines may introduce new risks to the resolution plan, and prompt the need for additional pre-positioning actions. A prudent entity would engage with APRA prior to making changes to its business or operations where there are potential implications for resolvability.
  42. Changes in the external environment can also impact a resolution plan. For example, legal or regulatory changes could have implications for the execution of the resolution plan, particularly where this involves changes to contracts. This risk could be more acute where entities have cross-border arrangements.
  43. Reviews of the resolvability assessment may be undertaken by internal staff or external parties. Where internal staff conduct the review, a prudent entity would gain assurance that they are operationally independent and are able to provide an objective review, with the requisite skills, experience and expertise.



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